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This is what was mailed to the Secretary
○ New York, but delivery was delayed.
As a result, on 6/2 the Secretary asked
that it be transmitted to him via teletype.

draft II 2

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

June 1, 1943

TO Secretary Morgenthau
FROM Randolph Paul

This is a redraft of the statement for the President on the Revenue bill. This puts less emphasis on criticism of the pay-as-you-go bill, and more emphasis on the need for additional taxes.

We are holding the letter to the President until we hear from you.



June 1, 1943

STATEMENT FOR THE PRESIDENT ON THE REVENUE BILL

I have received today from the Congress H.R. 2570. This bill provides a system of current payment for the individual income tax and as a transition measure cancels 75 percent of a year's tax or the whole tax if it is not more than \$50. In order that the collection at source provided in the bill may go into effect July 1, 1943, it is important that the bill become law as quickly as possible. Accordingly, I have signed the bill although it contains features which, in my opinion, are undesirable.

You will recall that in my January Budget Message I asked that the income tax be placed as nearly as possible on a pay-as-you-go basis. The bill carries into effect that request. The method of collection at source of the great bulk of the individual income tax through the withholding of tax on wages and salaries -- a method which has been advocated by the Treasury ever since November 1941 -- is most important. Without increasing anyone's tax, it provides for more convenient and earlier payment. The methods for payment of taxes

- 2 -

on income not subject to collection at the source are also desirable modifications of our present system, since they provide current collection of taxes on such income.

So that there will be no misunderstanding of my position, I must point out that the method by which transition to current collection is achieved will result in a grossly inequitable distribution of the war tax burden. In the distribution of cancellation the bill resembles the Senate bill, about which on May 7, 1943 I addressed identical letters to the Chairman of the Senate Finance Committee and the Chairman of the Committee on Ways and Means, stating that the "cancellation would result in a highly inequitable distribution of the cost of the war and in an unjust and discriminatory enrichment of thousands of taxpayers in the higher income groups." However, I am informed that the bill which I have signed is the only one on which the two Houses of Congress could agree.

It is to be regretted that the formulation and passage of this bill have involved so great an amount of time and energy. Even more regrettable is the fact

- 3 -

that numerous taxpayers must have gained the impression that this year of war, 1943--when we must spend approximately \$100 billion to bring victory closer--when existing taxes will yield only one-third as much as our expenditures--when more money is pouring into our pockets than ever before in history--that now is a time when taxes can be cancelled rather than immensely increased.

This is a tax remission bill, not a revenue bill. For two years Treasury receipts will be increased by collection of a fraction of the 1942 tax already owed to the Government, but this is a small amount compared to our needs. And these increased receipts are merely collection of an existing debt, by far the greatest part of which is cancelled.

These increased payments over the next two years cannot be accepted as a substitute for tax increases. This point needs special emphasis, since statements have been made that the collection of the uncanceled portion of the 1942 tax will take the place of rate increases and that there will be no rate increases until these back taxes have been paid. I cannot accept such an assumption. The collection of uncanceled 1942 taxes is not the

- 4 -

same thing as rate increases. Rate increases must look to current income, and there must be substantial rate increases in the individual income tax.

In my Budget Message of January 1943, I asked Congress for an additional \$16 billion. A new revenue bill of this magnitude is even more important today than it was then. Much time has elapsed since then; tax increases cannot be put into operation overnight though the need increases hour by hour. Moreover, excess purchasing power has continued to expand sharply, threatening prices, orderly markets, the fair distribution of scarce goods, and full war production. In January the threat may have seemed distant and speculative to some people. Today the immediate danger must be apparent to all.

Accordingly, the important thing now is for us to proceed at once, without delay, to the consideration and passage of a measure to raise the largest amount of new revenue ever raised by any Congress in our history. Failure to do so would have serious results for both the war and the post-war periods. Annual expenditures of \$100 billion are not adequately financed when only one-third is covered by current tax revenues.

- 5 -

I most strongly urge that all personal and partisan interest be laid aside and that the appropriate Committees of Congress begin consideration immediately of a wartime revenue measure suited to the critical needs of these times.

War Finance Committee

Washington Office

- (a) Secretary
- (b) Under Secretary
- (c) Director of Sales
 - (1) Planning, Publicity & Advertising Section
 - (2) Field Agents Section (Women, Labor, Farm, Etc)
 - (3) Administrative Section (Budget, Etc)

F. Field Headquarters (Federal Reserve Banks)

- (a) President of Fed. Res. Bk.
- (b) Executive Manager
 - (1) Publicity & Advertising Section
 - (2) Administrative Section
 - (3) State Administrators
 - (a) Publicity & Advertising
 - (b) Women, Labor, Farm, Etc.
 - (c) County Chairmen
 - (1) Local Chairmen
 - (a) Committees Soleman.

6/1/43

VICTORY FUND

G. S. Young P.	Chicago
F. F. Patton P.	Chicago
Dwight Peterson P.	Indiana
Mr. Pulliam P.	Indiana
Grover Helm	Illinois
Mr. Clark ?	Iowa

Ches group in
New York
6/11/43

WAR SAVINGS

Harold Swift P	Chicago
Norman Collins P.	Chicago
Mr. Sherer P	Chicago
Mr. Iseby P	Detroit

Exp. of Loans-War Finance
Committee

June 1, 1943

To Presidents, Federal Reserve Banks:

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio
Richmond, Va.
Atlanta, Ga.Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas
San Francisco, Calif.

Will you please send the following telegram to all members of your district committee, to regional chairmen, regional managers and county chairmen of the Victory Fund Organization QUOTE After full consideration and acting upon the advice of leaders and workers throughout the country I have announced the merger of the Victory Fund Committee and the War Savings Staff into a single organization to be called the War Finance Committee.

It will operate under state chairmen and on a state basis. It is my earnest hope that the active members of both the merged groups will accept an active part in the new State War Finance Committees. I am now helping put this new arrangement into effect in several states and on the basis of this experience we expect to perfect reorganizations in the remaining states. I can tell you now that we believe the functions of the new War Finance Committee fall normally into three divisions: First, working with the customers of banks and other financial institutions; second, payroll savings; third, general community promotions. Of the three, the first will produce a great part of the money and its success will continue to depend upon cooperative efforts of the group which previously made up the Victory Fund Committee.

In the new organization we shall need the assistance of all the loyal and devoted workers who have been responsible for the unprecedented results of the Second War Loan Drive. It is my sincere hope that all committee members will continue to play an active part in this work which they are so ably fitted to do and which is essential to winning the war. I want to express my deepest thanks for what you have done and say that I am counting on your continued help. UNQUOTE

HENRY MORGENTHAU, JR.

(Initialed) D. W. B.

Dictated by Mrs. McHugh to E. Wendrack
over phone from New York 5:15 p.m.

Approved by Mr. Gamble, Buffington, Fred Smith



THE SECRETARY OF THE TREASURY
WASHINGTON

June 1, 1943

Delivered to Mrs. I. J. ...

6/1/43-5:15-PM

*Bill to approve -
and then send
out -*

To Presidents of all Federal Reserve Banks:

Will you please send the following telegram to all members of your district committee, to regional chairmen, regional managers and county chairmen of the Victory Fund organization:

"After full consideration and acting upon the advice of leaders and workers throughout the country, I have announced the merger of the Victory Fund Committee and War Savings staff into a single organization to be called the War Finance Committee.

"It will operate under State Chairmen and on a state basis. It is my earnest hope that the active members of both the merged groups will accept an active part in the new state War Finance Committees. I am now helping put this new arrangement into effect in several states, and on the basis of this experience we expect to perfect reorganizations in the remaining states. I can tell you now that we believe the functions of the new War Finance Committees fall normally into three divisions. First, working with the customers of banking and other financial institutions. Second, pay roll savings. Third, general community promotions. Of the three, the first will produce a great part of the money and its success will continue to depend upon cooperative efforts of the group which previously made up the Victory Fund Committees.

"In the new organization, we shall need the assistance of all the loyal and devoted workers who have been responsible for the unprecedented results of the Second War Loan Drive. It is my sincere hope that all committee members will continue to play an active part in this work which they are so ably fitted to do and which is essential to winning the war. I want to express my deepest thanks for what you have done and say that I am counting on your continued help."

Sincerely yours,

Henry Morganthau, Jr.

1100
1100
1100

FEDERAL RESERVE BANK
OF NEW YORK

June 1, 1943.

Dear Mr. Secretary:

It was nice of you to write about my illness as you did last week and I appreciated it. I have been up and down, and in and out of the hospital since then, but now I seem to be on the mend. I am coming to my office for two or three days, beginning today, on a short hour schedule, in order to pick up some loose ends, and then I am going away for a week of rest and recovery. I hope that will be the finish of this illness.

It has been a particularly trying period to be ill. By the time I come back, I hope that you will have your Treasury sales organization well set up, at least in this district. You may be sure that it will have the cooperation of the Federal Reserve Bank of New York in the further successful financing of the war.

Yours sincerely,



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

JUN 5 1943
RECEIVED
OFFICE



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

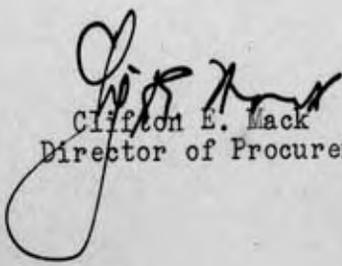
SECRET

June 1, 1948

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended May 29, 1948.

The inventories of Lend-Lease stocks are being carefully reviewed in conjunction with the War Production Board and the Lend-Lease Administration to avoid undue accumulations because of changes in original requirements or variations in changing programs.


Clifton E. Mack
Director of Procurement



(37861)

SECRET

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF MAY 29, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$3159.8 (3089.8)	\$1595.7 (1595.7)	\$1186.9 (1121.9)	\$103.4 (103.4)	\$6.1 (6.1)	\$267.7 (262.7)
Purchase Authorizations (Requisitions)	\$2647.0 (2644.3)	\$1467.9 (1462.8)	\$1026.5 (1027.9)	\$40.5 (40.4)	- -	\$112.1 (113.2)
Requisitions Cleared for Purchase	\$2566.1 (2524.9)	\$1428.7 (1407.9)	\$989.1 (968.9)	\$40.1 (39.8)	- -	\$108.2 (108.3)
Obligations (Purchases)	\$2457.1 (2443.5)	\$1390.9 (1374.4)	\$936.0 (942.0)	\$39.7 (39.5)	\$5.9 (5.7)	\$84.6 (81.9)
Deliveries to Foreign Governments at U. S. Ports*	\$1073.3 (1062.0)	\$774.5 (770.2)	\$268.8 (262.1)	\$18.2 (18.0)	- -	\$11.8 (11.7)

*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 22, 1943.

SECRET

EXPLANATION OF DIFFERENCE

The reductions of Purchase Authorizations and Obligations for Russia is caused by the cancellation of requisitions.

June 1, 1945.

Dear Mr. Burgess:

Your letter of May 26, addressed to the Secretary, reached his office during his absence from the city. I am simply acknowledging it, therefore, and I can assure you that as soon as Mr. Morgenthau is back at his desk, your letter and the enclosed draft on the "Place of the United States in the Post-War Economy" will be brought to his attention. I know the Secretary would wish me to thank you for your courtesy in sending him this material.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Dr. V. Randolph Burgess,
Chairman, The American Bankers Association,
22 East 60th Street,
New York, New York.

File in Diary

GHT/dbs

ECONOMIC POLICY COMMISSION

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 MALDEN SAVINGS BANK
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THE
**AMERICAN BANKERS
 ASSOCIATION**

22 East 40 Street, New York, N. Y.

BRANCH OFFICE
 719-15 STREET, N.W., WASHINGTON, D. C.

ECONOMIC POLICY COMMISSION

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 AMERICAN NATIONAL BANK & TRUST CO.
 CHICAGO, ILLINOIS
 SECRETARY
 DR. PAUL P. CADMAN
 22 EAST 40 STREET, NEW YORK, N. Y.

May 26, 1943.

Dear Mr. Secretary:

For some weeks I have been at work on behalf
 of the American Bankers Association on a statement of
major world economic problems. It has been our hope
 that such a statement in simple constructive form might
 aid in a public understanding of what has to be done.

I am enclosing a draft of this statement, with
 the thought that you might be interested in looking
 through it and giving me any suggestions which occur to
 you. I am also sending copies to Dan Bell and Harry
White.

Sincerely yours,



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

Confidential

Second Draft

Not for Publication

Place of the United States
in the
Post-War Economy

Report of the Economic Policy Commission

American Bankers Association

June 1, 1943.

Confidential - Not for publication.

Second draft of Report by
Economic Policy Commission of
American Bankers Association

May 24, 1943

PLACE OF THE UNITED STATES IN THE POST-WAR ECONOMY

Spokesmen for all parties, all faiths, and all parts of this country are today saying in chorus that after this war we cannot back away from international responsibilities as we did after World War I. The Senate has been considering a resolution giving expression to this thesis. The Administration states it in many forms. The principle is accepted.

But principles mean many things to many people. Differences -- deep cleavages -- arise when they are embodied in definite plans and programs. Even the principles will seem quite different and less compelling when the war is over, when we turn with relief to the pursuits of peace. We cannot safely assume that the principle of collaboration will survive this testing period. We may indeed repeat the bungling of the '20s and '30s. The normal human emotional reaction leads that way, and politics makes capital of such reactions.

A first suggestion for escape from this tragic blunder is that we should make plans now, while the spirit is on us, for putting into effect the principles for which we fight. It is easy to say that we do not know how or when the war will end, or what kind of world will be left. We do not of course know in detail but we do in substance. The problems in essence will be like those after World War I - problems of security, of trade, of money, changed in form but in essence the same old problems of nations getting along together. The fashions in thinking about them change more than the problems themselves. When the peace comes rushing on us we shall be better off with plans that have to be changed than with no plans.

A second suggestion is that groups of citizens accept these broader problems as their own, study them now, and be ready to throw their influence for a

continuing sane foreign policy. Bankers especially have such responsibility. By the nature of their occupations they have some understanding of these subjects and unusual opportunity for leadership in their communities. It is the informed opinion of such groups in the support of wise government action which may make it possible to avoid in future some of the errors for which we are now paying in "blood, sweat and tears."

This report is a preliminary brief survey of practical objectives for the post-war economic world, and this country's place in it.

Releasing the Forces of Recovery

In the avalanche of literature on the subject of world economic recovery two general points of view reveal themselves.

The first may be called the paternalistic or reform approach. Those who consciously or unconsciously hold this viewpoint see the world shattered into a thousand pieces and believe it is our task to put it together again piece by piece, but on a greatly improved pattern. For example, it is suggested that we must see to it that all the peoples of the world are placed under what we regard as democratic government, that public education is made universal after the American model, and that the standard of living of all peoples is raised and the differentials between theirs and ours reduced.

These are appealing objectives but one may question their helpfulness as practical directives for our post-war efforts. Apart from the enormously complicated problems of human relations, even the vast resources of the United States, the British Empire, the Soviet Union, and China, which would presumably share this duty with us, are inadequate for these purposes. Recent reports from Puerto Rico indicate that in this our own insular possession, where we have had a reasonably free hand, the standard of living is shockingly low, partly because the progress of civilization has cut the death rate while the birth rate goes on as of old.

Perhaps, after all, we are not yet strong enough nor wise enough to reform the world immediately.

The other kind of approach to this problem assumes that there exist even today within each country potential forces for its reconstruction, and what is most needed is to release these powerful affirmative forces. The farmer wants to till the soil, the artisan wants to fashion shoes or clothes or machines, the trader wants to trade. In every country there are groups of able and energetic men and women ready to restore the normal ways of life and add to its richness. What they need is not paternalism but opportunity. No people and no nation can be handed a better life. They have to work it out for themselves. But the obstacles that hold back initiative and enterprise must be removed.

From this point of view, the key to post-war economic revival is the elimination of obstacles to the better life to which people everywhere aspire. Such a program is no denial of longer term ideals and objectives but the most effective step towards them.

Any list of these obstacles is more or less arbitrary but it is proposed here to discuss seven essential points at which the strategy of recovery may well be directed.

1. Food

Refugees from Europe report that the most discussed subject is not the war but food, — where the next meal is coming from. When fighting ceases, the first need will be food; lack of it will be the greatest obstacle to progress on every front. The shortage need not last long, for even the next crop, not stolen by the Axis, will bring substantial relief. Some countries have funds in America and England to buy food. But the first essential is that food be supplied in one way or another. For that purpose lend-lease by the United States, by England and the British dominions, perhaps shared in by Latin American countries, will need to

be continued for some months after the end of war. With the food itself will be needed seed and farm tools to replace those destroyed and some minimum of simple industrial machinery and raw materials. Beyond this minimum Europe can better produce her own requirements and thus start the wheels of trade moving. As to removal of this first obstacle to recovery little serious difference of opinion seems likely.

Already a United Nations relief organization is being created.

Herbert H. Lehman, former Governor of the State of New York, who heads the American participation, stated the objectives as follows:

The idea behind the Office of Foreign Relief and Rehabilitation is to help people to help themselves. When we have assisted the people of a freed country to get a crop into the ground we have taken the most important forward step.

We will supply seeds and farm implements and in some cases raw materials to get factories running again. When that has been done many countries will be ready in a short time, we expect, to solve their own long-range problems.

2. Prompt Peace

Some months ago the suggestion was made for a long armistice or cooling-off period before peace terms were finally settled, to avoid the danger of embodying hate and passion in those terms. The logic of this suggestion is understandable, and people are rightly concerned lest settlements made under the emotional stress of war lead to the terrible tragedy of an unworkable and vengeful peace. A sound and just peace is an indispensable first step to a better post-war world.

Notwithstanding all this, public discussion has exposed the weaknesses of the cooling-off period. Until the principal peace terms are determined trade both external and internal will be stagnant in the countries most vitally concerned. No one can go forward courageously with enterprise until at least the basic outlines of the peace are settled.

The experience after World War I showed how not to do it. The peace negotiations were long drawn out. The United States ratified a treaty only in 1922, and then only half a one. The reparations question was only partly settled by the Dawes Plan in 1924 and not wholly settled by the Young plan in 1929. Meantime in a depressed Europe were sown the seeds of despair and Hitlerism.

Today there is growing a conviction that the general terms of peace should be agreed upon by the United Nations and imposed immediately hostilities cease. The advance determination of reasonable peace essentials may have the added advantage of telling the Axis peoples what to expect and thus encouraging them to overthrow their present leaders.

In addition to the main peace essentials there will remain many questions which cannot be resolved promptly, such as ascertaining the true ownership of property, forms of restitution, etc. These can perhaps best be dealt with later by commissions.

From the point of view of economic recovery the point is that the men and women trying to restore their countries' industry, agriculture, and trade would be retarded by uncertainties -- if peace terms were unsettled. Their task will be hard enough and they must be aided by reducing the areas of doubt and uncertainty, -- and increasing the number of verities on which they can count, and on which they can base action.

Admittedly all of this is far from easy. Peace terms must be negotiated in the last analysis by the chiefs of state of the United Nations whose energies are absorbed in the direct war effort. But agreement on the kind of peace may help to win the war, as it affects the attitude and morale of all the belligerents. Political decisions made during the war are not merely preparatory but are part of both the war and the peace. Already the declarations of the Atlantic Charter and the North Africal conference have begun the definition of peace. This is the kind of preparation, carried into greater detail and more definite form and agreement,

which is essential to winning a prompt peace.

3. Collective Security

For many years of its history Europe has lived in the shadow of war. In such shadow, enterprise does not flourish; the standard of living is held back save in more protected areas. Nations spend for war and armaments what might go for the people's comfort and enlightenment. Enterprise must confine itself to short run transactions and cannot boldly plan and venture the long term project. The risk is too great.

The world has known long periods of peace. The Pax Romana was one, enforced by the legions of Rome. More recently the period from the fall of Napoleon to the World War has been termed the Pax Britannica. It is too sweeping a phrase, for there were serious wars. But even so a balance of power in Europe, the British fleet, and the persistence in neutrality by small countries, did give the term some justification. We know that this second period was one of great progress, in which the lot of the average man in Europe and America improved more than in many earlier centuries.

In the seven hundred and fifty years from the Battle of Hastings in 1066 to Napoleon's time the population of England increased from 2 millions to 9 millions, or between four and five times; yet, in the single century from Napoleon to the World War, such was the improvement in the conditions of life, that it quadrupled, to around 37 millions. And much the same thing was happening in Europe generally. During this 100-year span the western world emerged in a sudden outburst from an economic status little changed for centuries into the modern age of steam, of electricity, of railroads, of telephone, telegraph and radio, of the automobile and airplane and of countless other facilities and devices by which man has harnessed the forces of nature for his use. In step with industrial progress have been discoveries in medicine that have stayed the ravages of disease, and a growth of leisure from back-breaking toil that has made possible

the wider spread of education and culture among the masses. In England as late as 1840 only about 60 per cent of the people were able to write their names in the marriage register; today the percentage is nearly 100. This was the human result of the industrial revolution, but substantial credit must be given to comparative freedom from long devastating wars.

The idea of established and secure peace, not through the dominance of a single power, or a balance of power, but an association of powers has been nurtured by many minds. Tennyson wrote of the "Parliament of Man, the Federation of the World." John Fiske, the great American historian, of the "American Political Idea," the federation of states to secure peace.

When President Wilson launched his proposal for a League of Nations he did so with the support of a group of able and respected Americans. The charter was drawn before the war was won. It was accepted perhaps somewhat reluctantly by the other allied nations but just failed of ratification by the United States Senate together with the treaty of Versailles and the pledge of joint security with France and England.

Some great statesmen strove to make the League work: Briand, Stroschmann, Smuts, Cecil, Benes, and Litvinoff. The handicap of non-participation by the United States, the failure of others to support its decisions, together with some inherent defects in the League structure, were too great to overcome.

Today there is general agreement in this country that there must be, at the conclusion of the war, mechanisms and guarantees to prevent war. As yet this sentiment has not crystallized in specific forms. The principal move in this direction has been the Mutual Aid Agreements which have been concluded by the United States with the United Kingdom, China, Russia, Belgium, Poland, the Netherlands, Czechoslovakia, Greece, Norway and Yugoslavia. While these Agreements lay down the principles applying to mutual aid in the prosecution of peace as well as war, they provide no specific commitments or mechanisms.

Two things seem clear. First, that there must be a world organization or organizations of some sort for the discussion of international problems, and, second, that the United Nations must commit themselves to placing their force back of the essential decisions for peace.

It is not proposed here to make a detailed recommendation on this point but simply to emphasize that such a guarantee of peace in our time is a necessary basis for full economic recovery. The risk of war blocks long term economic planning and enterprise. Peace is even more essential for prosperity than prosperity is for peace.

4. Monetary Stability

Ranking close to the hazard of war as an obstacle to human material progress is the changing value of money. The interchange of goods between people that constitutes trade is normally carried on with money. When there is question about the value of money, trade is disorganized, dormant, or hectic, as in Germany and central Europe after the last war and in France during the monetary troubles of the '20s and '30s. Especially is the advance planning on which full employment so largely depends blocked by doubt of the value of money. The depression of the middle '30s certainly owed some of its severity to fears about money — about its gold value and about the goodness of bank deposits. Money and enterprise grew timid and went into hiding together.

The period of "Pax Britannica" was also a period of stable money when the pound, and for most of the time the dollar, were firmly anchored to and freely exchangeable for a given amount of gold. It was one of the sources of the great material progress of that period.

In the welter of uncertainties which will surround us after the war it is essential, as has been said before, to reduce the areas of doubt, to fix as many points of the compass as possible. Only so can the people who want to plan, who want to trade, who want to provide work, go ahead with assurance. Currency value

is one of the variables, essential in every business or government transaction.

The necessity for currency stability is again being recognized, but there are many problems in achieving it. The exchanges cannot just be thrown open at fixed values. Much of the world's gold is concentrated in this country, so that many other countries will lack this medium for bolstering their currencies. Many countries with low purchasing power will be desperately in need of goods of various kinds. The fixing of new rates of exchange is no easy task, with so many uncertainties. A wrong rate may be disastrous as proved true with Sterling after World War I.

Yet the delay in stabilizing currencies after the last war was one of the real causes of delay in European economic recovery, and in world trade as a whole.

The difficulties, while great, are probably not as great as appear on the surface. The gold is not all here, but possibly as much as \$10 to \$11 billions is held by other countries, an amount equal to the value of total world gold stocks in the late '20s and early '30s. Moreover, many foreign countries are today fortified with substantial dollar balances. According to Treasury Department data (Foreign Funds Control), in June, 1941, foreign-owned earmarked gold and banking assets in this country totalled approximately \$6 1/2 billions, and in addition there were foreign-owned dollar investments of over \$6.6 billions, making a grand total in excess of \$13 billions. Of great importance is the fact that there is unlikely to be after this war such a huge volume of intergovernmental debts as plagued the world after the past war and weakened the exchange position.

Stabilization in recent years has always hung largely upon the relation of the pound and the dollar. Each of these normally carries a group of currencies with it, -- the Sterling bloc and the Dollar bloc. If the relation of pound and dollar can be fixed, much more than half the job is done.

As to rate, there are substantial grounds for thinking that, were the job to be done now, the \$4.00 pound rate would be probably as good as any. In

discussion at the Economic Conference in 1933 the rates considered were between \$4.06 and \$4.20. The \$4.02-4.04 rate has been held thus far through the war without serious difficulty, but of course under controls. There would be great advantages for world trade in continuing this rate after the war without break or interruption. The danger to avoid is a long period of fluctuating rates which is disruptive of recovery, encourages speculation and fear. Such a period does not help in reaching a "normal" level because fluctuating rates themselves loose a whole Pandora's box of speculation, fears, and pressures which wholly blot out "normal" trends.

The rate question cannot be settled alone. It goes along with all the other problems of peace and war and trade barriers reviewed here. No country can maintain a stable currency unless its internal economy is in order -- its budget under control, its price level reasonably stable, and its external payments and receipts moderately well balanced.

In other words, the essential elements of stabilization are twofold in character. The first concerns the general political and economic background. The second has to do with the monetary arrangements.

It is upon the second point, the monetary mechanisms for stabilization, that two tentative proposals known as the White and Keynes plans have been formulated by monetary advisers of the American and British Treasuries. These proposals have the great merit of presenting definite programs for study and discussion.

Both of these plans are designed to give effect to three essentials of any plan for monetary stabilization:

1. definite commitments by leading countries to the principle of stability,
2. provision for consultation between nations to promote mutual understanding and cooperative policies,
3. credit facilities for aiding in the reestablishment of currencies and tiding over temporary periods of strain in the balance of payments.

As to these three essentials for stability there seems little likelihood of disagreement among students of the problem. To put them into effect is another matter.

As to the mechanisms proposed in the White and Keynes plans, one basic question is whether the best approach to the problem of stabilization is the global one of setting up some super-governmental authority of worldwide scope, or the more limited one of dealing first with key situations, such as the dollar-pound relationship, and building step by step, upon a foundation of experience, towards the ultimate objective of world stability.

The first approach undoubtedly has appeal as a bold all-embracing program for prompt dealing with exchange problems both in the immediate post-war period and afterwards. On the other hand, enormously complex and difficult problems would confront a world control of this kind. Two questions in particular have been stressed in discussions of both the American and British Treasury proposals: first, to what extent an international control is compatible with national sovereignty; second, whether in any pooling of resources of debtor and creditor countries there can be, in actual practice, adequate safeguard against exploitation of the lending countries or assurance that borrowing countries may not go on borrowing until, ultimately, available funds are exhausted, leaving both lenders and borrowers in a worse position than before.

The greatest danger, however, in this whole area is not that the leading nations will do too much but that they will do too little. The temptation will be for governments to delay action until the skies are clearer. On the other hand, prompt revival of world trade and full employment will require business men to go ahead. When governments fear to make decisions, citizens do also, and recovery lags. The situation calls for the earliest possible government commitments.

Following this principle the country in the best position to make firm commitments as to the value of its currency is the United States; and the fixing

of the value of the dollar has the most far reaching effects. Already the stabilization of the dollar since 1934 has formed a pivot for the whole world currency system. An important step in making the de facto stabilization definite has been taken recently in allowing the President's power to devalue the dollar to lapse. This country is the one on which the greatest responsibility rests for taking leadership in the further necessary steps for bringing about general currency stability.

5. Lower Trade Barriers

It is often hard for citizens of the United States to realize the meaning of foreign trade for the world as a whole. Foreign trade for us is about 7 per cent of the country's total business. But overall figures are misleading as to the influence for certain commodities and certain areas. Cotton exports from Southern States have for them often made the difference between prosperity and depression. Imports from Japan of some specialties have spelled trouble for a limited number of manufacturers. The American consumer pays a higher price for a number of articles because of high protective duties. In these specific ways we feel changes in trade and trade barriers.

But for many if not for most other countries foreign trade fills a much larger role. The following table indicates the estimated relation of export trade to total production of a number of countries:

Relation of Exports to Total Production
of different countries
(Based on 1937-38-39 figures)

(In Millions of Dollars)

	<u>Production</u>	<u>Exports</u>	<u>Per Cent</u>
1 United States	45,630	3,190	6.9
2 Great Britain	11,800	2,380	20.1
3 Canada	2,700	1,040	38.5
4 New Zealand	520	230	44.2
5 Argentina	1,380	505	36.5
6 Brazil	1,740	350	20.0
7 Chile	470	160	34.0
8 Cuba	316	160	50.7
9 India	7,700	600	7.8
10 Japan	4,750	910	19.1
11 Malaya	320	240	75.0
12 Sweden	2,040	480	23.5
13 Belgium	2,250	810	36.0
14 Hungary	790	110	13.9
15 France	9,000	940	10.4
16 Denmark	1,100	330	30.0

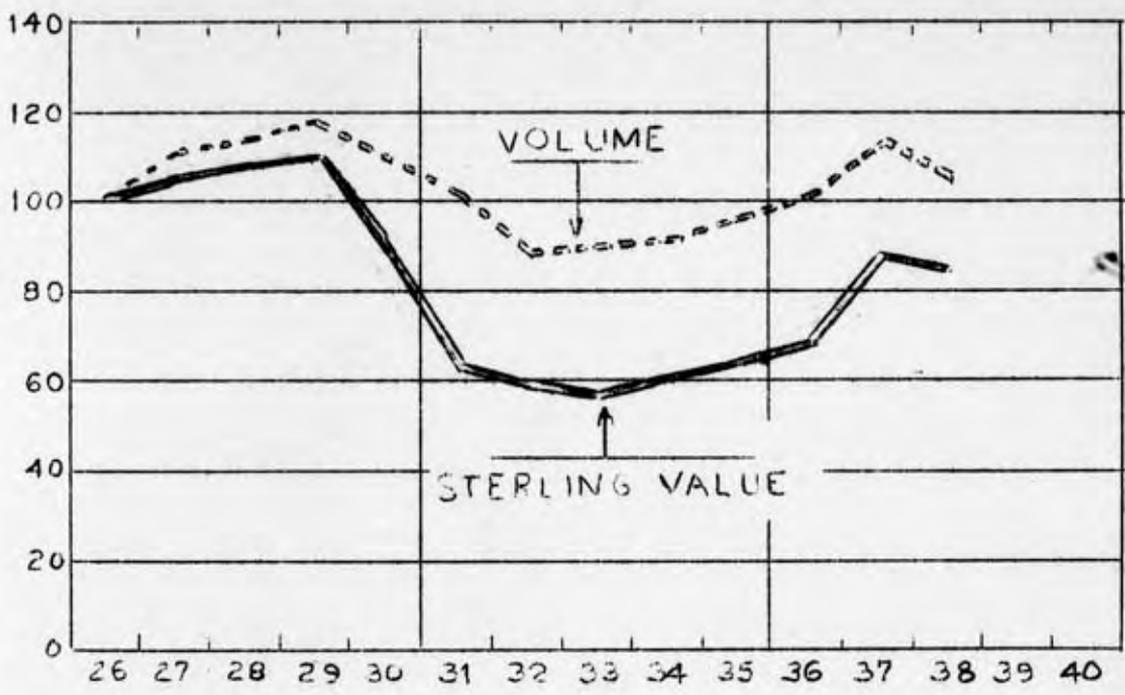
Compiled from various official sources.

Some of these countries are very largely dependent on the export of a few commodities: Argentina on grains and meat products, Cuba on sugar, Chile on copper and nitrates, New Zealand on wool and dairy products. Small fluctuations in these exports may spell the difference between distress or prosperity. Similarly many countries rely for their standard of life on imported goods. These changes can be causes of peace and war, -- they are so vital. For these countries their very existence depends on the free movement of critical exports and imports.

Certainly one of the causes of the disordered internal condition of many countries in the thirties was the disorder of world trade, reflected in the accompanying diagram (page 13-A).

The United States had a substantial share in this trade disorder, for our imports were greatly reduced as the following table shows. For us these changes were fractional in relation to our total business. For the exporting countries they were often disastrous.

13 - A



WORLD TRADE
1926=100

Sources: German Yearbook and League of Nations.

Values of Principal Commodities Imported into the United States in 1929 and 1932

(In Millions of Dollars)

	<u>1929</u>	<u>1932</u>	<u>Per Cent Decline</u>
Silk, raw	427	114	73%
Coffee	302	137	55
Rubber, crude	241	33	86
Sugar	209	97	54
Paper and manufactures	163	94	42
Hides and skins	137	22	84
Wood pulp and pulp woods	103	52	50
Burlap and jute	95	22	77
Tin	92	16	83
Wool, raw	87	6	93
Oilseeds	79	16	80
Cocoa beans	49	20	59
Flax, hemp and manufactures	49	21	57
Coconut and palm oil	47	14	70
Nitrate	<u>35</u>	<u>1</u>	<u>97</u>
Total	2,115	665	69

Source: Statistical Abstract of the U. S.

These are illustrations of the place which a free flow of trade can take in world prosperity and in peace between nations. They exemplify also what may be the effect of trade changes and policies of the United States. Through the complex structure of world trade the United States lumbers like a well meaning but often destructive giant.

We may distinguish two kinds of causes of trade disorders. One is cyclical, — the changes which result from swings of the business cycle, such as those of 1932. These will be discussed later. The other is legal restrictions of tariffs, quotas, clearing arrangements and other prohibitions and restraints. One of the worst and most arbitrary of trade barriers is fluctuations in currency values which may be the equivalent of imposing a high tariff duty. The number of devices for trade limitation grew apace in the period between the two wars. Each new restriction by one country led to new action by others. It was a vicious

circle in which each country sought protection from the goods of others.

The argument from the American point of view for freeing trade from these shackles has been effectively stated by Secretary Hull:

There is a direct and unmistakable connection between business activity and the volume of exports. Our Cotton Belt, our Tobacco Belt, our Wheat Belt, our corn-hog industry, our fruit and vegetable growers, our lumber producers, our machine manufacturers and many other branches of our production cannot prosper unless they have adequate foreign markets for their surplus output. Deprive them of such markets, and their purchasing power shrinks, and with it the whole nation's purchasing power declines....

The experience of the two decades which elapsed between the end of the World War and the outbreak of a new war in Europe has brought out in sharp relief the validity of two basic propositions. The first of these is that our nation, and every nation, can enjoy sustained prosperity only in a world which is at peace.

The second is that a peaceful world is possible only when there exists for it a solid economic foundation, an indispensable part of which is active and mutually beneficial trade among the nations.

Secretary Hull has also devised a means by which the country may play its part in a gradual reduction of the most difficult trade barriers, in the form of reciprocal trade agreements. Under this mechanism tariff negotiations are removed one step from the political bargains which usually meant steadily rising tariffs, but are still subject to the detailed piecemeal review of each adjustment which is necessary to prevent injustices or undue hardships from too rapid or arbitrary change.

The United States has concluded agreements with twenty-seven foreign countries. These countries, in the order in which the agreements were signed,

are: Cuba, Brazil, Belgium and Luxemburg, Haiti, Sweden, Colombia, Canada, Honduras, the Netherlands, Switzerland, Nicaragua,* Guatemala, France, Finland, Costa Rica, El Salvador, Czechoslovakia,** Ecuador, the United Kingdom of Great Britain and Northern Ireland, Turkey, Venezuela, Argentina, Peru, Uruguay, Mexico and Iran.

About 65 per cent of the total foreign trade of the United States is carried on with the countries with which reciprocal trade agreements have been concluded.

The mechanism has thus been thoroughly tried. No revolutionary changes in this country's tariffs have been produced, but in many important respects the interchange of commodities with other countries has been made easier, and -- perhaps more important still -- the long trend towards more and higher tariffs has been stopped.

* The reciprocal duty concessions and certain provisions of this agreement ceased to be effective March 10, 1938.

** The operation of this agreement was suspended April 22, 1939.

In dealing with tariffs one point to remember is that particular groups that feel themselves penalized are more articulate than the consumer who reaps the broad benefits of tariff easements, or even the producer who gains through the relaxation of trade barriers abroad.

Apart from the Hull reciprocal trade agreement policy there is no outstanding single movement towards freer trade. It is rather a matter of constant study, of constant alertness, and the use of every opportunity to negotiate reduction in impediments to trade. These impediments may of course exist in the form of monopolies and other private regulatory agreements as well as in the field of government controls.

In the effort to break down trade barriers we shall encounter conditions under which some countries must restrict their imports to conserve their supplies of foreign exchange, and so be able to maintain a sound balance of payments. It may be that additional markets can somewhere be opened up for the products of some such countries. It may be new export products can be found. War-time changes in production will greatly affect the picture. The freeing of trade and thereby increasing its volume can only be accomplished by consistent effort by men of good will. It is possible that international organizations for conducting such studies and assisting in negotiations would be found feasible and helpful.

6. Reducing the Strings of the Trade Cycle

In the previous section figures were given showing the wide variation in the volume of imports into the United States of certain raw materials at different periods of the business cycle. In countries where a single export is a large part of their livelihood the effects of such variations are severe. It is difficult for any country to adjust itself to such blows,

especially when the prices fall as volume of export diminishes, and credit becomes less freely available.

The trade or business cycle is a phenomenon which has followed mankind throughout history. Its swings have recently been more severe in the United States than in most other countries and in general more severe since World War I than before. When such swings bring depressions like 1921 and 1932 they become major problems both for domestic and foreign policy. The point to be made here is simply that huge swings of the cycle, with their great booms and great depressions, are as damaging to the maintenance of a sound structure of world trade as they are to any domestic economy. When aggravated they become one of the obstacles which impede enterprise and progress all over the world. They may lie so deep in the vagaries of human psychology that they can never be eradicated, but it should not be beyond our ingenuity to temper their destructiveness.

7. Making Credit and Capital Available

Enterprise is held back in many parts of the world by lack of funds. The record makes it clear that improvement in the standard of living has taken place where and when capital, in the form of machinery and equipment, multiplies the fruits of man's labors. But -- and here is the great question mark -- capital to be productive must be wisely used, and capital calls for an investor as well as an opportunity for investment.

The hasty answer that many are making today -- "let the government do it" -- is not the wise answer. Governments have in the past proved rather poor lenders of money and we ought to consider carefully whether government lending is necessary. Furthermore, there is grave doubt whether the American people after this war, saddled with a huge debt, will be ready to venture large

sums of money in various parts of the world to improve backward areas unless there is reasonable chance of repayment.

Thus we should first examine the available private resources. Despite all the uncertainties of the period between wars a very substantial amount of trade has been financed privately. British and American banks have been prepared to finance essential trade movements. Such short-term credit has been freely available for the needs of genuine trade where the buyer of the goods could pay when the goods reached his hands. The banks have made losses as well as profits, and have learned "how not to" as well as "how to." This kind of short-term private credit will again be available promptly and in ample amounts.

Another kind of funds has also been available in fair amounts. American and other business concerns, even during this difficult period, have put substantial amounts of capital into foreign countries where the opportunity was promising and where they could stay with and see that the capital was productively used. If the steps outlined previously in this report are taken more funds of this sort will be available.

There are dangers that attend the flow of business funds abroad that arise from deep-seated political reactions. A powerful foreign interest in any country is a natural target for the politician who finds a popular response to the cry that the foreign corporation is exploiting the country. The consequences are discriminatory taxes and regulations and restrictions as to who can be employed and how, how much profits can be exported, etc., etc. Occasionally the political feeling goes to the point of expropriation as in the case of the oil companies in Mexico. Such treatment does not encourage foreign investment.

On the other side, corporations have at times demanded and obtained special favors and a privileged status which in the long run is bound to arouse hostility.

The net of it is that a much larger flow of American, British and other capital will go to all parts of the world if conditions are made attractive. American business is prepared to go with its capital, to provide know-how as well as funds, and as fully as possible to work with the people of other countries. One method of financing that has been notably successful in certain instances is the joint ownership method, where an important share of the capital is raised locally.

The problem is not so much supplying a new mechanism as removing obstacles which hold back foreign investment. A significant development of recent months is a flow of private capital from this country to Mexico and to other Latin American countries where the political atmosphere of late has been more favorable. Capital is by nature adventurous and will wander far if given half a chance.

This does not mean that in any nearby future huge foreign loans like those of the '20s for Europe and for Latin America can be floated in New York and London. There will have to be much better assurance both as to the general shape of the world economy and as to the way the money will be used. But some foreign security issues are not impossible if just some of the minimum assurances can be given. Recent movements on the New York Stock Exchange show that not all venture money has disappeared.

Given a favoring atmosphere, private capital will be ready to do much of the work which needs to be done. We should not, however, dismiss wholly the need for some use of government credit. There will be situations in some countries where the conditions cannot be made wholly favorable for

private capital and where funds for reconstruction or construction are badly needed and likely to be used wisely. Then some form of government credit may be desirable for both economic and political reasons. The pattern of the Export-Import Bank furnishes an illustration of how this situation may be met. That Bank has made commitments since the start of operations in February, 1934 exceeding \$1,000,000,000; total disbursements have been \$378,000,000 of which \$196,000,000 have been repaid. The bulk of these commitments and disbursements have been related to Inter-American trade, and most loans have been for self-liquidating projects. In most cases private funds have been used under the guaranty of the Export-Import Bank and available banking facilities have been utilized. Its loans have been made on the whole sparingly and carefully and with every effort to strike a proper bargain. Utilized in this way modest amounts of government credit may be a valuable supplement to private investment. The danger to be guarded against is that excessive government lending will drive out the private enterprise which is the best hope for continuing progress.

Carrying out the Program

The size and scope and almost infinite ramifications of the problems we have been discussing must be evident from the foregoing. They involve politics, economics, psychology in all sorts of degrees. How make progress in such a maze?

No single simple formula will do. Nor will any complicated and elaborate scheme. For the first essential is the understanding and agreement of many peoples. There must not only be acceptance at the start but continuous and effective support for a long period.

We can agree on some suggestions. First these international problems must be made somebody's business. Able men, qualified by understanding and by experience in affairs must be set to work on them. Groups of such men from different nations must meet together and discuss them. The conclusions reached by these men must also be discussed by the chiefs of state among themselves, just as Mr. Roosevelt and Mr. Churchill have been discussing military plans. Some discussions have already begun in the areas of relief, of agriculture, of money. These are sound moves.

Second, there must be established organizations engaged continuously in analyzing these difficult questions and seeking to do something about them. Fortunately we are not wholly without precedent in such organizations. There are some 20 years' operations of the League of Nations, and the World Court. Central banks have been important agencies for international collaboration, both directly and through the Bank for International Settlements which has accumulated over 12 years of experience. There are other organizations like the International Institute of Agriculture.

All of these have tangible achievements to their credit.

Something of the flexibility of possible organizations is suggested in Mr. Churchill's proposal for a European Council and an Asiatic Council and for sub-organizations for smaller groups of countries. He stated this as follows in his March 21st address:

One can imagine that under a world institution embodying or representing the United Nations, and some day all nations, there should come into being a council of Europe and a Council of Asia.... It would therefore seem to me at any rate worthy of patient study that side by side with the great powers there should be a number of groupings of states or confederations which would express themselves through their own chosen representatives, the whole making a council of great states and groups of states.

He further discusses the very tender subject of the preservation of the sovereignty of states along with this joint organization:

It is my earnest hope, though I can hardly expect to see it fulfilled in my lifetime, that we shall achieve the largest common measure of the integrated life of Europe that is possible without destroying the individual characteristics and traditions of its many ancient and historic races.

In these quotations there appear the two essential principles of adaptation of international organizations to each purpose and the corresponding principle of respecting the rights, traditions, and nationalism of the participating states..

Such discussions suggest the desirability of avoiding too ambitious and too comprehensive programs of moving forward wherever and whenever opportunity serves, of adapting organizations to all the very human difficulties which such enterprises will encounter. The solutions can hardly be absolute and global. The words "commission" and "council" are better descriptions of the nature of organization than the word "authority."

The nature of the problem was discussed recently by Sir Norman Angel in the following terms:

This fact - that many different nations have to agree to any plan adopted - reminds us that our test of a "good" plan must not be merely that which would be best for the welfare of mankind if only nations had the political wisdom to accept it and to work it. It is well to remember the remark of Henri IV of France, who, when a certain blueprint for world peace was submitted to him, said, "It is perfect, without a blemish of any kind so far as I can see, except perhaps one - namely, that no earthly prince would ever agree to it." Democracies are just as difficult to persuade as princes, and, unhappily, just as unstable, at time in their convictions.

All of which emphasizes the need for beginning now the discussion of plans and organizations and reaching some agreements among the United Nations before the day of peace arrives.

With the Tide

Lest we be discouraged by the all-too-formidable obstacles, we may well conclude by returning to the point made at the beginning of this report - that there exist in the world natural and powerful regenerative impulses capable, given encouragement and reasonable freedom to operate, of bringing about the recovery for which we strive. The problem is not the paternalistic one of dictating a reshaping of the affairs of the world; it is rather to strike off shackles to release the abundant energies of able men and women in all countries that each group may build in its own areas and with patterns of its own choosing.

The world demonstrated in the century of comparative peace between Waterloo and July 1914 what can be done when these energies are released. The industrial revolution, which transformed the lot of mankind in the western world during this period, is not over. After Europe and

America, Japan discovered it - then Russia and China. Now, with the tremendous forces set in motion by the war, the speeding of communications, the opening of new areas to transportation, the development of new contracts, other countries little changed in economic status since the Middle Ages are catching the contagion. Even in highly industrialized countries like the United States the industrial revolution marches on, its pace accelerated by new miracles of scientific discovery and technological advance. Though the new methods and processes are used now for destructive purposes, they will be available for human betterment in time of peace.

Thus the tide is with us. The natural impulse is forward. Our task is to unlock the gates and set free the pent up forces of enterprise the restless urge of the people for a better life.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

MM

DATE JUN - 1 1943

TO Secretary Morgenthau
FROM Randolph Paul and H. D. White
Subject: The Collaborationist Character of B.N.C.I.,
 Afrique

In connection with the memorandum dealing with financial manipulations of collaborationists in French Africa recently submitted to you, we wish to call to your attention that we have since received a report prepared by the Department of Justice on the "Banque Nationale pour le Commerce et l'Industrie" and its French African subsidiary, the B.N.C.I., Afrique.

This report demonstrates conclusively the Nazi-Vichy character of the bank. Since its inception under the auspices of Pierre Laval its expansion has been fostered by the political figures in France who are the leading Axis collaborationists. Through its intimate connection with these political sponsors, the bank has attained a dominant position in Vichy financial circles being favored by the Nazis as a valuable instrumentality in their economic and financial plundering of France. This favored treatment has also enabled its Vichy-sponsored North African affiliate -- the B.N.C.I., Afrique -- to become one of the foremost banks in French Africa.

RP *MM*

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE JUN - 1 1943

TO Secretary Morgenthau
FROM Randolph Paul

CONFIDENTIAL

With regard to the Chinese financial matters in which Lauchlin Currie is interested, Currie sent one of his assistants, Michael Greenberg, over to talk to Pehle about the type of information which we are going to try to collect. Foreign Funds Control is making a tabulation of all Chinese accounts received on the TFR-300 census reports so that Foreign Funds Control and Currie's office can go over the list and pick out certain cases for further scrutiny.

We will keep you advised as to developments.



June 4, 1943

FROM: THE SECRETARY

TO: Mr. Paul
Mr. Bell
Mr. White

Before any information on the Chinese financial situation, either Governmental or relating to individuals, is given out to Lauchlin Currie, I want it to go out over my signature.

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48

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, Chungking
TO: Secretary of State, Washington
DATED: June 1, 1943
NUMBER: 825

CONFIDENTIAL

The following is in regard to Special Exchange Regulations.

Reference is made herewith to the Department's telegram of May 27, 1943, no. 679 and to the Embassy's telegram of May 26, 1943, no. 790.

It seems that the two telegrams under reference crossed each other.

Because of the implication in paragraph one of the Department's cable referred to above approving our original tentative provision taken before Article III was clarified for us by Dr. Kung and by the General Manager of the Central Bank of China, we have not taken advantage of the new rate although it was stated by us in our cable under reference that we assumed we might do so in the light of clarification of Article III of the regulations and in the absence of contrary instructions. Accordingly, we would appreciate receiving specific authority to avail ourselves of the financial advantages which the new regulations provided for. If granted, such authority should include offices of the Naval and Military Attaches and other official civil establishments such as IDC, BEW and OWI pending the outcome of negotiations on reversed Lend-Lease.

The additional funds to be availed of under the regulations would materially lower expenditures by the Government for rent, et cetera and would provide much desired financial relief to Government personnel even though the benefits to be enjoyed under the new exchange regulations are only temporary since the cost of living is rising at a rate of more than 10% a month and it is expected to be accelerated as result of the current Jap military operations in the Human Hupeh area. Furthermore, our use of the new arrangements would provide an opening wedge for a later and more satisfactory adjustment of the exchange problem, such adjustment to be through a lowering of the official rate or through reversed Lend-Lease.

We urgently request that instructions on this be sent.

ATCHESON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 1, 1943, 10 a.m.

NO.: 825

Reference is made to the Embassy's telegram no. 790 of May 26 at 2 p.m. and to the Department's telegram no. 679 of May 27 at 6 p.m. concerning Special Exchange Regulations, which appear to have crossed.

Because Department's 679 implied in paragraph one approval of our original tentative provision taken before Dr. Kung and the General Manager of the Central Bank of China had clarified Article III for us we have not taken advantage of the new rate regardless of the fact that we had assumed in our 790 that since Article III of the regulations had been explained satisfactorily and there had been no instructions to the contrary we might do so. Therefore we would appreciate being given specific authorization to take advantage of the financial advantages accorded us by the new regulations. If so instructed, we would like this authority to extend to offices of the Military and Naval Attaches and other official civil establishments such as OWI, IDC, and BEW pending result of negotiations for reverse Lend-Lease.

Because the cost of living is rising at the rate of more than 10% a month and is expected to increase more rapidly because of current military operations by the Japs in the Hunan Hupeh area, the benefits derived under these exchange regulations will be merely of a temporary nature. However, the additional funds gained under the regulations would give such desired financial relief to government employees and the Government's expenditures for rent, et cetera would be materially lowered. Also an opening wedge for a later and more satisfactory arrangement with regards to the exchange problem through a lowering of the official rate or reverse Lend-Lease would be provided if we make use of the new regulations.

Please send instructions urgently.

ATCHESON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 1, 1943, 2 p.m.

NO.: 825

SECTION I

This is message TF 125 from Adler for the Secretary of the Treasury exclusively and referring to Adler's TF 122 of May 22.

I. The Board has received official notification of the arrangement whereby foreign missionary, philanthropic and cultural organizations will be granted the official rate plus 50% from the Central Bank. At the next meeting of the Board which, because of the chairman's indisposition, will probably not take place until next week, the Board's reply will be discussed. Your comment on point 4 of my TF 122 would be appreciated before the meeting occurs.

II. I am told by Mr. K. K. Kwok of the Central Bank that foreign military officers and foreign journalists are to have a similar arrangement extended to them. NB. A. It will be hard not to grant all other foreign soldiers what is being offered foreign officers. B. Most American soldiers and journalists use the black market when converting their foreign exchange so this concession will be mostly just a paper one.

III. The New York office of the Bank of China has already made inquiries as to "what this new arrangement is all about" and if it will be extended to remittances from overseas, according to Mr. Pei of the Bank. It seems that some concession will have to be made by the Chinese Government to overseas Chinese and it is only a question of time before this is done.

IV. When this is accomplished, except for official expenditures of foreign armies, which it is presumed will eventually be covered by a reverse Lend-Lease arrangement, and foreign exchange accrued from those Chinese exports which are paid for in cash, the Central Bank will convert almost all Chinese foreign exchange receipts at the official rate plus 50%. Concerning outgoing foreign exchange, the Board called the attention of the Ministry of Finance to the fact that in the case of an arrangement for diplomats

there

there would be no sense in giving them the official rate plus 50% and then let them obtain foreign exchange at the official rate. Therefore the Ministry decided that hereafter diplomats would apply to the Central Bank for foreign exchange and they would be charged the same rate as they received for it. Other parties which are being granted the same concession will probably have the same requirement imposed on them by the Ministry.

V. If there develops the extension of the official rate plus 50% for diplomats to foreign missionary, other organizations to foreign soldiers and journalists and it is presumed to over seas Chinese, the following will prove true unless other adjustments are made:

(a) As far as exports are concerned, the prices of which are calculated by converting into foreign currencies at the official rate their cost in fact, the benefits of the official rate will be received by the Chinese Government;

(b) As far as foreign exchange expenditures of the Chinese Government are concerned, unless the agreement of November 1, 1941 is revised, benefits will be received by the Chinese Government, as the Board will continue to reimburse it for its foreign expenditures, and the Government will pay the Board in fact at the official rate;

(c) As far as private foreign businessmen and individuals are concerned, the Board will continue to allow them the official rate for their foreign exchange. "Discrimination" may well be objected to by these persons even though the number of firms and people involved is small.

(d) As far as the position of the Board is concerned, consideration brought up in point four of my TF 122 would gain added power. The Board's entire position would become difficult in fact. Reconsideration in the light of changed circumstances would have to be given to the agreement of November 1, 1941 and to paragraph four of general license 76, but the major question would be what function, if any, the Board would have in a situation where the Central Bank operates independently of the Board would handle the major part of foreign exchange business at official rate plus 50% and where there is only a negligible amount of commercial imports for which the Board provides foreign exchange (see section 2,2);

(e) The already existing trend toward monopolization of business by Government and semi-Government institutions will be strengthened by concentration of most of the foreign exchange business into the hands of the Central Bank.

SECTION II

I. On May 27 Dr. Kung and I had a long informal discussion concerning the foreign situation. He said that he was being pressed to get things straightened out for foreign Diplomats, Missionaries, et cetera. This could be done in one of the following ways:

(a) A reduction in the official rate to say 40 could be recommended, but he was not convinced that this was in the best interests of China. (His attitude toward the reduction in rate was quite a bit less intransigent than formerly, this being the mildest expression he has used in regard to the subject).

(b) The official rate plus 50% could be granted and the Board given the whole arrangement to handle. The Ministry of Finance could give the Board the 50% just as it will give it to the Central Bank under arrangements which are actually adopted or which are in process of adoption. (Point one of your cable of May 8, 1937 is answered by this and section one, paragraph three of your cable of May 12, TF 120 is clarified, i.e. the settlement of accounts referred to there will be between the Central Bank and the Ministry of Finance only). Because it would be embarrassing with the official rate at 20 for the Board to do most of its business at 30 Dr. Kung has decided on the third course of action, which is that

(c) The official rate plus 50% could be granted to various foreign organizations and individuals, but the Central Bank would handle all transactions. In practice this was found to be unsatisfactory it could be done away with, and he emphasized repeatedly that it was only temporary and ad hoc. It could immediately be scrapped if unsuccessful as it exists on a 24 hour basis.

An article appearing in the April Central Bank bulletin, which has been forwarded by pouch, stating that retention of foreign representatives on the Board was not consistent with abolition of unequal treaties and advocating the merging of the Stabilization Board and the Foreign Exchange Control Commission, was pushed poohed by Dr. Kung. He made it definite that this was not an expression of the official attitude of the Chinese Government. I pointed out the necessity of tightening up supervision of sales of United States dollar backed savings certificates so that foreigners who were getting fapi at 30 would not be buying certificates at 20. He told me he would take care of that and thanked me for bringing it up. The discussion was ended with a promise from Dr. Kung to go over the situation again in the not too distant future with me.

II. Undoubtedly

-4-

II. Undoubtedly Dr. Kung was sincere when he said that the Chinese Government wished the Board to continue to exist. Nevertheless the Board would be faced with the danger of extinction through atrophy if the Central Bank handled most of the foreign exchange transactions, at the official rate plus 50%, independently of the Board. The Chinese members of the Board in Chungking cannot take initiative in differing from positions which the Chinese Government has taken. It is the mere truth to say that the sole strength the Board possesses is the support the British Treasury and you are prepared to give it. At this time at least one and most likely two Chinese members would be glad if there was concrete manifestation of this support.

My feeling, based on this conversation and others I have had with Dr. Kung and in view of the Board's predicament, is that the opinions of the Treasury would carry weight and would at least strengthen the position of the Board if Treasury urgently informed the Minister of Finance either through me or the Chinese representatives in Washington of its attitude with respect to the following:

A. Because the fapi is grossly overvalued by the official rate and because procedures are now being adopted by the Government of China that bring about unnecessary anomalies and complications (outlined in paragraph five, section one, above) which all arise from the fact that the Government of China is attempting to change the rate without changing it, the Treasury would prefer an outright reduction in the official rate, say to 40.

B. Treasury prefers that if ad hoc arrangements without reduction in official rate are retained, they be handled so as to canalize through the Board the foreign exchange receipts and outgoes made under them.

ATCHESON

OFFICE
SECRETARY OF TREASURY

1943 JUN 2 PM 1 43

NOT TO BE RE-TRANSMITTED

TREASURY DEPARTMENT 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 179

Information received up to 7 a.m., June 1, 1943.

1. NAVAL

31st May, One of H.M. Submarines sank a U-boat North of the SHETLANDS. Aircraft attacked 3 U-boats in the BAY OF BISCAY. 1 was destroyed.

2. MILITARY

BURMA: CHIN HILLS. The Japanese have occupied FORT WHITE, which was evacuated by our troops at dawn on the 30th. Rearguards are delaying the enemy advance which is directed on KENNEDY PEAK, 6 miles North of FORT WHITE.

3. AIR OPERATIONS

WESTERN FRONT: 31st. Escorted medium bombers attacked the Port at CHERBOURG, Shipbuilding Yards at FLUSHING and Coke Ovens at ZEEBRUGGE.

ITALY. 30th. NAPLES and neighbouring airfields at POMIGLIANO and CAPODICHINO were attacked by 111 Fortresses. Enemy casualties in the air: 13, 15, 1. FOGGIA Airfield was bombed by 51 Liberators, hangars and other buildings were hit and several grounded aircraft destroyed.

PANTELLERIA. On 29th, 29th/30th, and 30th a total of 214 bombers and fighter bombers attacked military objectives including harbour installations and a radio station dropping a total of 175 tons of H.E.

4. HOME SECURITY

31st/1st. LONDON. 2 enemy aircraft were operating and penetrated the London Zone. A gun site at DULWICH was hit and a few service casualties were reported. Minor bombing in the CROYDON Area caused 3 fatal casualties.

May 31, 1945 (actually sent 6/2)

My dear Mr. Presidents:

As a result of my conversation with you last week, I am going on the assumption that you are going to sign the Bill H.R. 2570, "The Current Tax Payment Act of 1945". With this in mind, I am sending you herewith a memorandum giving you an outline of the mechanical problems which we have to face in the Bureau of Internal Revenue to get ready to put into effect the provisions contained in H.R. 2570.

I am also sending you a draft of a statement to be made by you when you sign H.R. 2570. If this draft is not acceptable to you, we would be very glad to assist in making any changes that you deem advisable.

In closing, may I say that I hope you will find it convenient to sign this bill promptly as we need all the time possible to prepare to put the law into effect.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

The President,

The White House.

File in Diary

By SSAgent 2:30 6/2/43

Raum

(Held to
mistake)

Memorandum for the President:

Under H. R. 2570, the "Current Tax Payment Act of 1943," the effective date for commencement of withholding of income and Victory tax from wages is July 1, 1943. Before employers can commence withholding they must make necessary changes in their payroll systems and secure exemption certificates from their employees which will serve as the basis for measuring the amount of withholding. Exemption certificate forms are now in process of being printed. The tasks of distributing these forms to the Collectors of Internal Revenue, who will then distribute them to all employers, and of having them filled out by the employees and returned to the employers, will require considerable effort and time. Therefore, it is eminently desirable, if the bill is

- 2 -

to be approved, that it be signed as soon after its enactment by the Congress as practicable. However, if the bill is to become law without signature, I should appreciate being advised accordingly, so that no time may be lost.

(Signed) H. Morgenthau, Jr.

MAY 31 1943

BMB:hdr 5-28-43

MS

*Draft III + Final as
sent to Pres
6/1*

58

STATEMENT FOR THE PRESIDENT ON THE REVENUE BILL

I have received today from the Congress H. R. 2570. This bill provides a system of current payment for the individual income tax and as a transition measure cancels 75 percent of a year's tax or the whole tax if it is not more than \$50. Since this new system does not go into effect until July 1, the installment of tax due on June 15 will be payable by all taxpayers. In order that the collection at source provided in the bill may go into effect July 1, 1948, it is important that the bill become law as quickly as possible. Accordingly, I have signed the bill although it contains features which, in my opinion, are undesirable.

You will recall that in my January Budget Message I asked that the income tax be placed as nearly as possible on a pay-as-you-go basis. The bill carries into effect that request. The method of collection at source of the great bulk of the individual income tax through the withholding of tax on wages and salaries --

- 2 -

a method which has been advocated by the Treasury ever since November 1941 -- is most important. Without increasing anyone's tax, it provides for more convenient and earlier payment. The methods for payment of taxes on income not subject to collection at the source are also desirable modifications of our present system, since they provide current collection of taxes on such income.

So that there will be no misunderstanding of my position, I must point out that the method by which transition to current collection is achieved will result in a grossly inequitable distribution of the war tax burden. In the distribution of cancellation the bill resembles the Senate bill, about which on May 7, 1943 I addressed identical letters to the Chairman of the Senate Finance Committee and the Chairman of the Committee on Ways and Means, stating that the "cancellation would result in a highly inequitable distribution of the cost of the war and in an unjust and discriminatory enrichment of thousands of taxpayers in the higher income groups." However, I am informed that the bill which I have signed is the only one on which the two Houses of Congress could agree.

- 3 -

It is to be regretted that the formulation and passage of this bill have involved so great an amount of time and energy. Even more regrettable is the fact that numerous taxpayers must have gained the impression that this year of war, 1943--when we must spend approximately \$100 billion to bring victory closer--when existing taxes will yield only one-third as much as our expenditures--when more money is pouring into our pockets than ever before in history--is a time when taxes can be cancelled rather than immensely increased.

This is a tax remission bill, not a revenue bill. For two years Treasury receipts will be increased by collection of a fraction of the 1942 tax already owed to the Government, but this is a small amount compared to our needs. And these increased receipts are merely collection of an existing debt, by far the greatest part of which is cancelled.

In my Budget Message of January 1943, I asked Congress for an additional \$16 billion. A new revenue bill of this magnitude is even more important today than it was then. Much time has elapsed since then; tax increases cannot be

- 4 -

put into operation overnight though the need increases hour by hour. Moreover, excess purchasing power has continued to expand sharply, threatening prices, orderly markets, the fair distribution of scarce goods, and full war production. In January the threat may have seemed distant and speculative to some people. Today the immediate danger must be apparent to all. To meet this danger, we must tax courageously as well as increase the investment of our earnings in war bonds.

Accordingly, the important thing now is for us to proceed at once, without delay, to the consideration and passage of a measure to raise the largest amount of new revenue ever raised by any Congress in our history. Failure to do so would have serious results for both the war and the post-war periods. Annual expenditures of \$100 billion are not adequately financed when only one-third is covered by current tax revenues.

I most strongly urge that all personal and partisan interest be laid aside and that the appropriate Committees of Congress begin consideration immediately of a wartime revenue measure suited to the critical needs of these times.

6-2-43

When the envelop containing re-write of memorandum for President did not arrive in New York on 6/2, the Secretary asked that it be sent to him over the teletype.

Note: Only change Secretary made was to delete the paragraph beginning "These increased payments over the next two years cannot be accepted as a substitute for tax increases."

CHIEF COORDINATOR
TREASURY ENFORCEMENT
AGENCIES

1943 JUN 2 AM 11 49

V

OPR NY 1-2482

OK VVV

NY 1-2482 GOVT LLS OK

COLL OF CUSTOMS NY

SECYS OFFICE WASHINGTON

PLEASE TRANSMIT THIS MSG IMMEDIATELY TO MRS MCHUGH IN ROOM 720
I HAVE RECEIVED TODAY FROM THE CONGRESS H R 2570.

THIS BILL PROVIDES A SYSTEM OF CURRENT PAYMENT FOR THE INDIVIDUAL
INCOME TAX AND AS A TRANSITION MEASURE CANCELS 75 PERCENT OF A YEARS
TAX OR THE WHOLE TAX IF IT IS NOT MORE THAN FIFTY DOLLARS. SINCE
THIS NEW SYSTEM DOES NOT GO INTO EFFECT UNTIL JULY 1, THE
INSTALLMENT OF TAX DUE ON JUNE 15 WILL BE PAYABLE BY ALL TAX
PAYERS. IN ORDER THAT THE COLLECTION AT SOURCE PROVIDED IN THE BILL
MAY GO INTO EFFECT JULY 1, 1943, IT IS IMPORTANT THAT THE BILL BECOME
LAW AS QUICKLY AS POSSIBLE. ACCORDINGLY, I HAVE SIGNED THE BILL
ALTHO IT CONTAINS FEATURES WHICH, IN MY OPINION, ARE UNDESIRABLE.

YOU WILL RECALL THAT IN MY JANUARY BUDGET MESSAGE I ASKED THAT THE
INCOME TAX BE PLACED AS NEARLY AS POSSIBLE ON A PAY AS YOU GO BASIS.
THE BILL CARRIES INTO EFFECT THAT REQUEST. THE METHOD OF COLLECTION
AT SOURCE OF THE GREAT BULK OF THE INDIVIDUAL INCOME TAX THRU THE
WITHHOLDING OF TAX ON WAGES AND SALARIES-- A METHOD WHICH HAS BEEN
ADVOCATED BY THE TREASURY EVER SINCE NOVEMBER 1941-- IS MOST IMPORTANT.
WITHOUT INCREASING ANYONES TAX, IT PROVIDES FOR MORE CONVENIENT
AND EARLIER PAYMENT. THE METHODS FOR PAYMENT OF TAXES ON INCOME NOT
SUBJECT TO COLLECTION AT THE SOURCE ARE ALSO DESIRABLE MODIFICATIONS
OF OUR PRESENT SYSTEM, SINCE THEY PROVIDE CURRENT COLLECTION OF
TAXES ON SUCH INCOME.

SO THAT THERE WILL BE NO MISUNDERSTANDING OF MY POSITION, I MUST
POINT OUT THAT THE METHOD BY WHICH TAXX ^{cut} TRANSITION TO CURRENT
COLLECTION IS ACHIEVED WILL RESULT IN A GROSSLY INEQUITABLE
DISTRIBUTION OF THE WAR TAX BURDEN. IN THE IXX DISTRIBUTION OF
CANCELLAION THE BILL RESEMBLES THE SENTXX SENATE BILL, ABOUT WHICH ON
MAY 7, 1943 I ADDRESSED IDENTIFCXX IDENTICAL LETTERS TO THE CHAIRMAN
OF THE SENATE FINANCE COMMITTEE AND THE CHAIRMAN OF THE COMMITTEE ON
WAYS AND MEANS, STATING THAT THE "CANCELLATION WOULD RSXX RESULT
NIXX IN A HIGHLY INEQUITABLE DISRIBUTION OF THE COST OF THE WAR AND
IN AN UNJUST AND DISCRIMINATORY ENRICHMENT OF THOUSANDS OF TAXPAYERS
IN THE HIGHER INCOME GROUPS." HOWEVER, I AM INFORMED THAT THE BILL
WHICH I HAVE SIGNED IS THE ONLY ONE ON WHICH THE TWO HOUSES OF CONGRESS
COULD AGREE.

PLS DELIVER THIS MUCH TO MRS MC HIGHXX HUGH IMMEDIATELY MORE WILL
FOLLOW AT ONCE END OR GA

WIL

LDELIVER AT ONCE PLEASE CONTINUE FOR I HAVE MESSAGE FOR MR BELL
TREASURY DEPT

GA

IT IS TO BE REGRETTE^d THAT THE FORMULATION AND PASSAGE OF THIS BILL HAVE INVOLVED SO GREAT AN AMOUNT OF TIME AND ENERGY. EVEN MORE REGRETTABLE IS THE FACT THAT NUMEROUS TAXPYERS MUST HAVE GAIN^d THE IMPRESSION THAT THIS YEAR OF WAR, 1943-- WHEN WE MUST SPEND APPROXIMATELY ONE HUNDRED BILLION TO BRING VICTORY CLOSER-- WHEN EXISTING TAXES WILL YIELD ^{only} ONE ONE THIRD AS MUCH AS OUR EXPENDITRES-- WHEN MORE MONEY IS POURING INTO OUR POCKETS THAN EVER BEFORE IN HISOTXX HISTORY-- IS A TIME WHEN TAXES CAN BE CANCELLED RATHER THAN IMMENSELY INCREASED.

CORRECTION ON FOURTH LINE FROM BOTTOM ABOVE IT SHOULD READ ONE HUNDRED BILLION DOLLARS

THIS IS A TAX REMISSION BILL, NOT A REVENUE BILL. FOR TWO YEARS TREASURY RECEIPTS WILL BE INCREASED BY COLLECTION OF A FRACTION OF THE 1942 TAX ALREADY ^{owed} OWNED TO THE GOVERNMENT, BTXX BUT THIS IS A SMALL AMUXX AMOUNT COMPARD TO OUR NEEDS. AND THESE INCREASED RECEIPTS ARE MERELY COLLECTION OF AN EXISTING DEBT, BY FAR TH E GREATEST PART OF WHICH IS CANCELLED.

THESE GXX INCREASED PAYMENTS OVER THE NEXT TWO EARSXX YEARS CANNOT BE ACCEPTEDAS A SUBSTITUTE FOR TAX INCREASES. THIS POINT NEEDS SPECIAL EMPHASIS, SINCE STATEMENTS HAVE BEEN MADE THAT THE COLLECTION OF THE N XX UNCANCELLED PORTION OF THE 1942 TAX SHOULD TAKE THE PLACE OF RATE INCREASES AND THAT THERE SHOULD BE NO RATE INCREASES UNTIL THESE BACK TAXES HAVE BEEN PAID. I CANNOT ACCEPT SUCH AN ASSUMPTION. THE COLLECTION OF UNCANCELLED 1942 TAXES IS OBVIOUSLY NOT THE SAME THING AS AN INCREASE IN TAX RATES ON CURRENT AND FUTURE INCOMES. TO MEET WARTIME NEEDS IT IS IMPORAXX IMPORTANT THAT SUBSTANTIAL INCREASES BE MADE IN THE INDIVIDAL INCOME TAX RATES.

IN BY XX MY BUDGET MESSAGE FXX OF JANUARY 1932, I ASKED CONGRESS
FOR AN ADDITIONAL SIXTEEN BILLION DOLLARS. A NEW REVENUE BILL OF THIS
MAGNITUDE IS EVEN MORE IMPORTANT TODAY THAN IT WAS THEN. MUCH TIME
HAS ELAPSED SINCE THEN- TAX INCREASES CANNOT BE PUT INTO OPERATION
OVERNIGHT THOUGH THE NEED INCREASES HOUR BY HOUR. MOREOVER,
EXCESS PURCHASING POWER HAS CONTINUED TO EXPAND SHARPLY, THREATENING
PRICES, ORDERLY MARKETS, THE FAIR DISTRIBUTION OF SCARCE GOODS, AND FULL
WAR PRODUCTION. IN JANUARY THE THREAT MAY HAVE SEEMED DISTANT AND
SPECULATIVE TO SOME PEOPLE. TODAY THE IMMEDIATE DANGER
MUST BE APPARENT TO ALL. TO MEET THIS DANGER, WE MUST INCREASE TAX
COURAGEOUSLY AS WELL AS INCREASE THE INVESTMENT OF OUR EARNINGS IN WAR
BONDS.

ACCORDINGLY, THE IMPORTANT THING NOW IS FOR US TO PROCEED AT ONCE,
WITHOUT DELAY, TO THE CONSIDERATION AND PASSAGE OF A MEASURE
TO RAISE THE LARGEST AMOUNT OF NEW REVENUE EVER RAISED BY ANY CONGRESS
IN OUR HISTORY. FAILURE TO DO SO WOULD HAVE SERIOUS RESULTS FOR
BOTH THE WAR AND THE POST- WAR PERIODS. ANNUAL EXPENDITURES OF
ONE HUNDRED BILLION DOLLARS ARE NOT ADEQUATELY FINANCED WHEN ONLY
ONE THIRD IS COVERED BY CURRENT TAX REVENUES.

I MOST STRONGLY URGE THAT ALL PERSONAL AND PARTISAN INTEREST BE
LAID ASIDE AND THAT THE APPROPRIATE COMMITTEES OF CONGRESS BEGIN
CONSIDERATION IMMEDIATELY OF A WARTIME REVENUE MEASURE SUITED TO THE
CRITICAL NEEDS OF THESE TIMES.

XX END OR MSG

XX END OF MSG

PLS REPEAT LINE BEGINNING WITH WAR PRODUCTION ABOUT FIFTEEN LINES
FROM END

I WILL BEGIN THAT WHOLE SENTENCE FROM BEGINNING IT STARTS WITH
MOREOVER, EXCESS PURCHASING POWER HAS CONTINUED TO EXPAND
SHARPLY, THREATENING PRICES, ORDERLY MARKETS, THE FAIR
DISTRIBUTION OF SCARCE GOODS, AND FULL WAR PRODUCTION. IN JANUARY
THE THREAT MAY HAVE SEEMED DISTANT AND SPECULATIVE TO SOME
PEOPLE. TODAY THE IMMEDIATE DANGER MUST BE APPARENT TO ALL.

ETC

OK

IS THAT ALL OR DO U HAVE OTHER QUESTIONS

W OPR WA 163 OK
WA N 168 AG VOK

000676

THIS TSY WA 168

COLL OF CUSTOMS NY
FOR MR SCHA XXXSCHWARZ TREASURY DEPARTMENT
FROM FRED SMITH

PLEASE RELEASE FOLLOWING AT 2 PM THIS AFTENOON
QUOTE UNITED STATES TREASURY DEPARTMENT FOR IMMEDIATE RELEASE
JUNE 1 1943 NEWARK NJ JUNE 2 BY THE END OF 1943 THE AVERAGE AMERICAN
FAMILY SHOULD BE INVESTING APPROXIMATE 25 CENTS OF EVERY DOLLAR INCOME
IN WAR BONDS SECRETARY OF THE TREASURY HENRY MORGENTHAU JR TOLD
NEW JERSEYS WAR FINANCE LEADERS HERE TODAY DURING ALUNCHEON AT WHICH
PLANS WERE LAID FOR NEW JERSEYS NEW SIMPLIFIED BOND SELLING ORGANIZATION.
THE NEW JERSEY GROUP IS THE FIRST IN THE UNITED STATDS TO REORGANIZE
SINCE MR MORGENTHAU ANOUNCEMNET LAST WEEK THAT STATE BOND ORGANIZATIONS
WERE TO BE QYOTE STEAMXXX STREAMLINED AND AMPLIFIED IN ORDER TO
CONCENGRATE ON INDIVIDUALS AND TO SELL BONDS TO A STILL GREATER NUMBER
OF PEOPLE UNQUOTE

QYOTE OF THE FORTY FIVE BILLIONS STILL NECESSARY TO COMPLETE OUT WAR
FINANCING NEEDS FOR 1943 QUOTE MR MORGENTHAU STOLL THE NEW JERSEY GROUP
QUOTE THAT AT LEAST EIGHTEEN BILLIONS OR ALMOST 25 PER CENT OF THE NATIK
NATIONAL INCOME FOR THE REMAINDER OF THE YEAR SHOULD COME FROM PURCHASES
OF BONDS BY INDIVIDUALS.

QUOTE FROM THOSE WORKERS EARNING FROM ONE THOUSAND TO FIVE THOUSAND NET
WHO WILL HAVE SEVEN EIGHTS OF ALL THE URRENT AVAILABLE INDIVIDUAL SAV
INGS 25 CENTS OF EACH DOLLAR IS NOT TOO MUCH TO EXPECT. IN FACT THEY
SHOULD AND MUT XX MUST INVEST MORE IF OUR GOAL IS TO BE MET.

QUOTE BUT GETING THIS MONEY IS A GI XXX BIG ORDER TE PFG ADO
TO DO THE JOB WILL REQUIRE H
BUSTED UP GA MONEY IS A BIG ORDER XXX

TO DO THE JOB WILL REQUIRE HARD WORK ON THE PART OF EVERY ONE.
OUR VOLUNTEERS WILL EVEN HAVE TO WORK HARDER THAN THEY DID IN THE
SUCCESFUL SECOND WAR LOAN DRIVE. AND WE CAN GET THIS JOB DONE ONLY
IF EVERY STATE SET S UP ITS CONTINUING ORGANIZATION PROMPTLY AND GOES
TO WORK ENTHUSIASTI ALLY WITH A REALIZATION OF THE IMPORTANCE OF THE TASK

WE ARE UNDERTAKING. IN THIS THE NEW JERSEY GROUP IS SETTING AN
ADMIRABLE EXAMPLE QUOTE
NEW JERSEY WAR SAVINGS STAFF AND WAR FINANCE COMMITTE MERGED
IN THE NEW JERSEY PLAN ANNOUNT XXX ANNOUNCED AT THE LUNCHEON THE WAR
FINANCE LEAXXX LEADERS OF THE STATE HAVE COMPLETELY MERGED THE WAR
SAVINGS STAFF WHICH HAS BEEN IN OPERATION HERE FOR TWO YEARS AND THE
VICTORY FUND COMMITTEE WHICH WAS SET UP PRIOR TO FIRST WAR LOAN DRIVE.
IN BRINGING THE COXX TWO COMMITTEES IN TO A SINGLE GROUP SECRETARY
MORGENTHAU ANNOUNCED THE APPOINTMENT AS CHAIRMAN OF CO XX COL
FRANKLIN D OLIER PRESIDENT OF THE PRUDENTIAL LIFE INSURANCE CO AND
FORMERLY STATE CHAIRMAN OF THE AR WAR SAFINGS STAFF. WORKING
CLOSELI XXX CLOSELY WITH COL DOLIER AS VICE CHAIRMAN IN CHARGE OF
BOND SALE S TO CUSTOMERS OF BANKS AND INVESTMENT DEALERS IS HORACE K
CORBIN PRESIDENT OF FIDELITY UNION TRUST CO NEW JERSEYS LARGEST BANKING
INSTITUTION AND FORMERLY HEAD OF NEW JERSEY VICTORY FUND COMMITTEE.
WE HAE SET UP THIS NEW OPERATION AS YOU OUTLINED IT COL DOLIER TOLD SE
SECRETARY MORGENTHAU AD XX AB XX AND WE CAN GUARANTEE AHEAD OF TIME

THI XX THAT IT IS GOING TO PRODUCE FAR BETER THAN ANY PREVIOUS ARRANGE
MENT.
POINTING OUT THAT THE NEW JERSEY LEADERS SAW THE PROBLEM OF WAR FINANCE
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MAIL/TMT

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WITHOUT WHOSE HELP THE NEW ARRANGEMENT CANNOT CL COMPLETELY SUCCEES

CAPTION CORBIN EXPLAINS DUTIES
OF NEW BANKING GROUP

CAPTION CORBIN EXPLAINS DUTIES
OF NEW BANKING GROUP

MR CORBIN POINTED OUT THAT THE JOB OF THE BANKING AND INVESTMENT COMMITTEE WILL BE OF ESPECIALLY IMPORTANT DURING DRIVES BUT WILL CONTINUE ON A SKELETON BASIS FIFTY TWO E WEEKS PERIOD HE SAID THAT THE BAKS AND INVESTMENT HOUSES DEMONSTRATED WHAT THEY CAN DO DURING THE SECOND WAR LOAN DRIVE. THEY ESTABKISHED OUTSTANDING SALES RECORDS THROUGH SALES TO THEIR CUSTOMERS AND THEY WERE THEN ONLY LEARNING HOW TO DO IT. WITH THE EXPERIENCE WE HAVE GAINED I AM SURE WE CAN MAKE TRUY REMARKABLE SHOWING. I HAVE BEEN ASURED BY THE BANKS OF NEW JERSEY THAT THEY WILL COOPERATE COMPLETELY AND ENTHUSIASTICALLY UNDER THIS NEW ARRANGEMENT.

IN CLOSIG THE LUNCHEON MEETING WICH WAS ATTENDED BY NEARLY FORTY PROOMING PROMINENT STATE FIGURES WHO HAVE HELPED NEW JERSEY ESTABLISH ONE OF THE BEST SALES RECORDS AT THE SMALLEST EXPENSE OF ANY STATE WIDE OPERATION MR MORGENTH XXX MORGENTHAU SAID I WANT TO CE COMMEND YOU ALL ON THE PROMPTNESS WIH WHICH YOU HAVE GATHERED YOUR FORCES TOGETHER TO CARY CARY ON THIS VITALLY IMPORTANT PHASE OF THE WAR. WITH IN A WEK OF MY REQUEST TO STATE GROUPS THAT THEY STREAMLINE AND AMPLIFY THI THEIR BOND SELLING OPERATIONS YOU HAVE PROVED A SOUNDNESS OF OUR DECISION TO MOVE AHEAD ALONG THE LINES OF A SINGLE COMMITTEE WITH A SINGLE STATE AUTHORITY AND COCENTRATION XXXX CONCENTRATION ON INDIVIDUAL BOND SALES I CONFIDENTLY BELIEVE YOU HAVE SET A PATERXXX PATTERN THAT CAN AND WILL BE FOLLOWED IN GENERAL BY ALL THE OTHER STATES. IT IS EXACTINF WHAT I HAD IN MIND IN ISSUING THE STATEMENT FROM WASHINGTON IT IS EXACTING WHAT WILL BE NEEDED TO ACCOMP LISH XXXX ACCOMPLISH OUR FORMIDABLE MISSION. I WANT TO THANK YOU IN THE NAME OF THE UNITED STATES TREASURY ANDIN THE NAME OF OUR COMMANDER O IN CHIEF UNQUOTE

END OR GA

END OK THANKS GE .

NEWARK, N. J. - By the end of 1943, the average American family should be investing approximately 25 cents of every dollar income in War Bonds, Secretary of the Treasury Henry Morgenthau, Jr. told New Jersey's War Finance Leaders here today, during a luncheon at which plans were laid for New Jersey's new simplified bond selling organization. The New Jersey group is the first in the United States to reorganize since Mr. Morgenthau's announcement last week that State Bond organizations were to be "streamlined and amplified in order to concentrate on individuals and to sell bonds to a still greater number of people."

"Of the 45 billions still necessary to complete our war financing needs for 1943," Mr. Morgenthau told the New Jersey group, "at least 18 billions, or almost 25% of the national income for the remainder of the year, should come from bonds."

"From those workers earning \$1,000 to \$5,000 net, who have seven-eighths of all the available money, 25 cents of each dollar is certainly not too much to expect. In fact, they should and must invest more if our goal is to be met."

"But getting this money is a big order. To do the job will require hard work on the part of every one. Our volunteers will have to work even harder than they did in the successful Second War Loan Drive. And we can get this job done only if every state sets up its continuing organization promptly and goes to work enthusiastically with a realization of the importance of the task we are undertaking. In this, the New Jersey group is setting an admirable example."

NEW JERSEY WAR SAVINGS STAFF AND
WAR FINANCE COMMITTEE MERGED

In the New Jersey plan announced at the luncheon, the War Finance leaders of the state have completely merged the War Savings Staff, which has been in operation here for two years, and the Victory Fund Committee, which was set up prior to the Second War Loan Drive. In bringing the two committees into a single group, Secretary Morgenthau announced the appointment, as chairman, of Col. Franklin D'Olier, president of the Prudential Life Insurance Company, and formerly State Chairman of the War Savings Staff. Working closely with Col. D'Olier, as Vice Chairman in charge of bond sales to customers of banks and investment dealers, is Horace K. Corbin, president of New Jersey's largest banking institution and formerly head of the New Jersey Victory Fund Committee.

"We have set up this new operation as you outlined it," Col. D'Olier told Secretary Morgenthau, "and we can guarantee ahead of time that it is going to produce far better than any previous arrangement."

Pointing out that the New Jersey leaders saw the problem of war finance as a war "on three battlefronts", he explained that the new arrangement would include three divisions: "to function in the banking and investment field, in the industrial field, and among the citizens of Communities."

"While the industrial and community operations are most important because through them we will get the widest bond distribution, the banking and investment operation will in the end produce 65% of the money. To get this money, Mr. Corbin, as head of the new Banking

- 2 -

and Investment Committee, will work with former members of the absorbed Victory Fund Committee, which accomplished so much in the Second War Loan Drive. They will take complete charge of bank cooperation both during and between the drives.

"In the industrial field we must depend for success upon labor-management cooperation in New Jersey's industries. Labor and management working together can increase the number of participants in the payroll deduction plan, and the percentage of pay deducted. We can supplement the efforts of labor and management with good leadership in our State Committee -- but any help we give is only supplementary. New Jersey firms, and the unions to which our working men and women belong, are faced with a huge responsibility, because whether or not we are able to reach into the places where, as Mr. Morgenthau has pointed out, seven-eighths of all available money lies, depends squarely upon them.

"Our community activities -- pushing doorbells and handling special promotions to attract the widest possible attention to the need for more and more individual sales -- will be under competent leadership not only at the state level but also at the county and local levels. We have an ample supply of patriotic, conscientious, hard-working people, as I am sure every state has. Our new plan will give them a greater opportunity than ever before -- and opportunity is all they want."

Col. D'Olier explained that a state-wide "Steering Committee" was in the process of formation, and would include active representatives of labor, industry, banking and investment, women's groups and

- 3 -

others "without whose help the new arrangement cannot completely succeed."

CORBIN EXPLAINS DUTIES
OF NEW BANKING GROUP

Mr. Corbin pointed out that the job of the Banking and Investment Committee will be especially important during drives, but will continue "on a skeleton basis" 52 weeks a year. He said "the banks and investment houses demonstrated what they can do during the Second War Loan Drive. They established outstanding sales records through sales to their customers -- and they were ^{then} only learning how to do it. With the experience we have gained, I am sure we can make a truly remarkable showing. I have been assured by the banks of New Jersey that they will cooperate completely and enthusiastically under this new arrangement."

In closing the luncheon meeting, which was attended by nearly 40 prominent state figures who have helped New Jersey establish one of the best sales records at the smallest expense of any state-wide operation, Mr. Morgenthau said: "I want to commend you all on the promptness with which you have gathered your forces together to carry on this vitally important phase of the war. Within a week of my request to state groups that they "streamline and amplify" their bond selling operations, you have proved the soundness of our decision to move ahead along the lines of a single committee with a single state authority, and concentration on individual bond sales. I confidently believe you have set a pattern that can and will be followed in general by all the other states. It is exactly what I had in mind in issuing the statement from Washington. It is exactly what will be needed to accomplish our formidable mission. I want to thank you in the name of the United States Treasury -- and in the name of our Commander-in-Chief."

6/2/43 - 69
Fw. Mr. L. W. Bell - Treasury Dept

This is copy of telegram sent out last week to the members of Victory Fund Committee

quote Secretary of the Treasury has announced today future new organization for sale of Treasury securities which will mean disappearance of Victory Fund Committee as such. Shall advise you further when more definite announcements are made. Meanwhile as chairman of Victory Fund Committee I express to you sincere thanks for your help in two War Loan drives which have established a precedent and a procedure which go a long way towards assuring the successful financing of the war. unquote.

ALLAN SPROUL

H. Morganthau, Jr.

June 2, 1943

To: Mr. D. W. Bell
From: Secretary Morgenthau

Following article appeared in today's Journal American. Please give Eccles a copy.

Quote -

Proven War Loan Drive Setup Loses to Politics

By LESLIE GOULD
Financial Editor

Another casualty in the "Battle of Washington" has been added to the list. This a major one.

The successful method for handling the war bond financing, as worked out in the first World War and again proved in this one.

Instead of the Federal Reserve, with its 12 regional divisions, as the core, the bond financing is to be handled in the future on a State basis, with State chairmen.

This is a victory for Secretary of the Treasury Henry Morgenthau, Jr., and his unorthodox financing plans.



LESLIE GOULD

It is a victory for politics. For the root of the battle over the war financing is politics and rivalry between the Treasury and the head of the Federal Reserve—Mariner S. Eccles.

In that it is the same old, old story of the Battle of Washington. Personal ambitions. Personal pique, with the war and its successful prosecution on the homefront taking second place.

This time, though, a successful method is being scuttled. A method that has raised record breaking sums for the Government, by several billions of dollars over and above quotas set by the Treasury.

But the job was being done by the Federal Reserve System. And Mr. Morgenthau is head of the Treasury. He is not the boss of the Federal Reserve, Mr. Eccles is.

And in doing this job, the Reserve groups blanketed the large bureau set up by the Treasury for War Savings. A bureau that has a considerable paid staff. While the Federal set up was manned largely by volunteers, recruited from the top ranks of finance.

So, politics got busy, with the inevitable result.

Mr. Eccles is a banker by trade. While he is a New Dealer, he does know what is sound and not sound as far as banking goes. On the other hand, Mr. Morgenthau's background is that of an apple orchardist and proprietor of a farm journal, with a deep distrust of anything financial, particularly if it has a New York tie.

In running the Victory Loans, Mr. Eccles was following the pattern tried and tested in the first World War, and it has worked. To wit, the April Victory bond drive which raised 12 1/2 billion dollars, or 5 1/2 billions more than asked by the Treasury. In December the same organization exceeded the quota of 2 billions by better than 1 billion.

And the New York Federal Reserve group did an outstanding job, leading the entire country.

Instead of Allan Sproul, president of the Federal Reserve Bank of N. Y. and chairman of the Victory Fund Committee, the war loan drives in New York will be under Richard C. Patterson, Jr., under the new set up.

Mr. Sproul is a career man in the Reserve. The job he and the executive manager of the New York Victory Fund Committee—Ferry K. Hall—have done speaks

louder than anything of their capabilities and knowledge of securities and their distribution.

Mr. Patterson, on the other, is not a financial man. His background is politics, radio and as a representative recently of important financial interests on boards of directors. He was Commissioner of Correction in New York City from 1927 to 1932. He is a Democrat.

In handling these two big loans, the Victory Fund Committees had developed a technique and organization that assured success of future drives.

So, it is a shock to see this whole set up thrown overboard and on political grounds. It certainly is a nice reward for those who gave so unaparingly of their time, energy and brains.

But it is all so typical of Washington. It follows the pattern. In the case of private industry, it has performed a miracle of production and thus made possible the turning of the tide of the war. But in Washington, a powerful group still is boring away to substitute the American free enterprise system for some foreign form of state socialism.

Morgenthau

COLL OF CUSTOMS NY
 TO MR D W BELL
 FROM SECRETARY MORGENTHAU
 FOLLOWING ARTICLE APPEARED IN TODAY'S JOURNAL AMERICAN. PLEASE GIVE
 ECCLES A COPY QUOTE
 PROVEN WAR LOAN DRIVE SETUP LOSES TO POLITICS
 BY LESLIE GOULD FINANCIAL EDITOR
 ANOTHER CASUALTY IN THE BATTLE OF WASHINGTON HAS BEEN ADDED TO THE LIST.
 THIS A MAJOR ONE.
 THE SUCCESSFUL METHOD FOR HANDLING THE WAR FUND FINANCING, AS WORKED
 OUT IN THE FIRST WORLD WAR AND AGAIN PROVED IN THIS ONE.
 INSTEAD OF THE FEDERAL RESERVE, WITH ITS 12 REGIONAL DIVISIONS, AS THE
 CORE, THE BOND FINANCING IS TO BE HANDLED IN THE FUTURE ON A STATE BASIS,
 WITH STATE CHAIRMEN.
 THIS IS A VICTORY FOR SECRETARY OF THE TREASURY HENRY MORGENTHAU JR AND
 HIS UNORTHODOX FINANCING PLANS.
 IT IS A VICTORY FOR POLITICS. FOR THE ROOT OF THE BATTLE OVER
 THE WAR FINANCING IS POLITICS AND RIVALRY BETWEEN THE TREASURY AND THE
 HEAD OF THE FEDERAL RESERVE- MARINER S ECCLES.
 IN THAT IT IS THE SAME OLD, OLD STORY OF THE BATTLE OF WASHINGTON.
 PERSONAL AMBITIONS. PERSONAL PIQUE, WITH THE WAR AND ITS SUCCESSFUL
 PROSECUTION ON THE HOMEFRONT TAKING SECOND PLACE.
 THIS TIME, THOUGH, A SUCCESSFUL METHOD IS BEING SCUTTLED.
 A METHOD THAT HAS RAISED RECORD BREAKING SUMS FOR THE GOVERNMENT,
 BY SEVERAL BILLIONS OF DOLLARS OVER AND ABOVE QUOTAS SET BY THE
 TREASURY.

BUT THE JOB WAS BEING DONE BY THE FEDERAL RESERVE SYSTEM. AND MR
 MORGENTHAU IS HEAD OF THE TREASURY. HE IS NOT BOSS OF THE FEDERAL
 RESERVE. MR ECCLES IS.
 AND IN DOING THIS JOB, THE RESERVE GROUPS BLANKETED THE LARGE
 BUREAU SET UP BY THE TREASURY FOR WAR SAVINGS. A BUREAU THAT HAS A
 CONSIDERABLE PAID STAFF. WHILE THE FEDERAL SETUP WAS MANNED LARGELY
 BY VOLUNTEERS, RECRUITED FROM THE TOPS RANKS OF FINANCE.
 SO, POLITICS GOT BUSY, WITH THE INEVITABLE RESULT.

MR ECCLES IS A BANKER BY TRADE. WHILE HE IS A NEW DEALER, HE DOES
 WHAT IS SOUND AND NOT SOUND AS FAR AS BANKING GOES. ON THE OTHER
 HAND, MR MORGENTHAU BACKGROUND IS THAT OF AN APPLE ORCHARDIST AND
 PROPRIETOR OF A FAFM JOURNAL, WITH A DEEP DISTRUST OF ANY
 THING FINANCIAL, PARTICULARLY IF IT HAS A NEW YORK TIE.
 IN RUNNING THE VICTORY LOANS, MR ECCLES WAS FOLLOWING THE PATTERN
 TRIED AND TESTED IN THE FIRST WORLD WAR, AND IT HAS WORKED. TO WIT,
 THE APRIL VICTORY BOND DRIVE WHICH RAISED 18 BILLION DOLLARS
 WAS RAISED EIGHTEEN AND ONE HALF BILLION OF DOLLARS, OR FIVE AND ONE
 HALF BILLIONS MORE THAN AS SET BY THE TREASURY. IN DECEMBER THE SAME
 ORGANIZATION EXCEEDED THE QUOTA OF NINE BILLIONS BY BETTER THAN TWO
 BILLIONS.
 AND THE NEW YORK FEDERAL RESERVE GROUP DID AN OUTSTANDING JOB, LEADING
 THE ENTIRE COUNTRY.
 INSTEAD OF ALLAN SPROUL, PRESIDENT OF THE FEDERAL

RESERVE BANK OF NEW
 YORK AND CHAIRMAN OF THE VICTORY FUND COMMITTEE, THE WAR LOAN DRIVES
 IN NEW YORK WILL BE UNDER RICHARD C PATTERSON JR, UNDER THE NEW SETUP.
 MR SPROUL IS A CAREER MAN IN THE RESERVE. THE JOB HE AND THE EXECUTIVE
 MANAGER OF THE NEW YORK VICTORY FUND COMMITTEE- PERRY E HALL - HAVE
 DONE SPEAKS LOUDER THAN ANYTHING OF THEIR CAPABILITIES AND KNOWLEDGE
 OF SECURITIES AND THEIR DISTRIBUTION.

MR
 MR PATTERSON ON THE OTHER HAND, IS NOT A FINANCIAL MAN.
 HIS BACKGROUND IS POLITICS, RADIO AND AS A REPRESENTATIVE RECENTLY
 OF IMPORTANT FINANCIAL INTERESTS ON BOARDS OF DIRECTORS. HE WAS
 COMMISSIONER OF CORRECTION IN NEW YORK CITY FROM 1927 TO 1932.
 HE IS A DEMOCRAT
 IN HANDLING THESE TWO BIG LOANS, THE VICTORY FUND COMMITTEES HAD
 DEVELOPED A TECHNIQUE AND ORGANIZATION THAT ASSURED SUCCESS OF FUTURE
 DRIVES.
 SO, IT IS A SHOCK TO SEE THIS WHOLE SETUP THROWN OVERBOARD AND ON
 POLITICAL GROUNDS. IT CERTAINLY IS A NICE REWARD FOR THOSE
 WHO GAVE SO UNSPARINGLY OF THEIR TIME, A ENERGY AND BRAINS.
 BUT IT IS ALSO TYPICAL OF WASHINGTON. IT FOLLOWS THE PATTERN
 IN THE CASE OF PRIVATE INDUSTRY, IT WAS PERFORMED A MIRACLE OF
 PRODUCTION AND THUS MADE POSSIBLE THE TURNING OF THE TIDE OF THE WAR.
 BUT IN WASHINGTON, A POWERFUL GROUP IS STILL BORING AWAY TO SUBSTITUTE
 THE AMERICAN FREE ENTERPRISE SYSTEM FOR SOME FOREIGN FORM OF STATE
 SOCIALISM UNQUOTE
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OTHANKS

THE ESSEX CLUB**NEWARK, NEW JERSEY****JUNE 2, 1943.**

TRANSCRIPT of notes of a press conference with Secretary of the Treasury Morgenthau, following a luncheon held in connection with setting up a new bond selling organization for New Jersey. Present during the press conference, among others, were:

**Henry Morgenthau, Jr., Secretary of the Treasury.
Alfred H. Williams, President, Federal Reserve Bank of Philadelphia.
Leslie R. Rounds, Vice President, Federal Reserve Bank of New York.
Franklin D'Olier, President, Prudential Life Insurance Co.
Horace K. Corbin, President, Fidelity Union Trust Co.
John E. Manning, Collector of Internal Revenue.
Herbert E. Gaston, Assistant Secretary of the Treasury.
Theodore R. Gamble, Assistant to the Secretary of the Treasury.**

**JOSEPH WICHMANN
CERTIFIED SHORTHAND REPORTER
1 Exchange Place
Jersey City, New Jersey**

MR. MORGANTHAU: Now, I am at your service. I don't know whether they have given you a copy of this release. Has everybody had a chance to read it?

MR. GOULD: One thing is a little puzzling, Mr. Secretary. I saw something in here about a New Jersey Victory Fund Committee. As I understand those things, there were twelve Victory Fund Committees. They were on the Federal Reserve District basis. There was no real State thing. This speaks of a merger of two State things. I mean, I just don't quite understand.

MR. MORGANTHAU: As a stranger here, will you tell me who you are when you ask a question?

MR. GOULD: I am Leslie Gould from the Journal American.

MR. MORGANTHAU: Thank you. It will help me out, because I ought to know but I don't. Now, what is bothering you, Mr. Gould?

MR. GOULD: Lots of things, but it was on this question here. You announced a Victory Fund Committee for New Jersey.

MR. MORGANTHAU: Yes.

MR. GOULD: The Victory Fund set-up, as I understand it, there was one in each Federal Reserve District, and New Jersey is not a Federal Reserve District. It is part of the New York District, and the southern part of the

state is part of Philadelphia district. So I mean, how could that be? That is what I want to know.

MR. MORGANTHAU: Well, I think the easiest way to answer that, Mr. D'Olier is chairman, Mr. Corbin vice chairman, of the Victory Fund Committee. They are here. Do you want to explain to Mr. Gould just how you have done it?

COLONEL D'OLIER: It is an entirely new organization. It is organized by states instead of by Federal Reserve Districts.

MR. GOULD: That is, the Federal Reserve thing is out the window.

MR. D'OLIER: Yes, and therefore the Victory Fund Committee and War Savings Staff are consolidated.

MR. GOULD: But this says here, you see, "In the New Jersey plan announced at the luncheon, the war finance leaders of the state have completely merged the War Savings staff, which has been in operation here for two years, and the Victory Fund Committee, which was set up prior to the First War Loan Drive."

MR. D'OLIER: Yes.

MR. GOULD: "In bringing the two committees into a single group, Secretary Morgenthau announced the appointment, as chairman, of Colonel Franklin D'Olier, president of the Prudential Life Insurance Co., and formerly State Chairman of the War Savings Staff."

Mr. Manning, as I understand it, succeeded you.

MR. D'OLIER: No. Mr. Manning was the state administrator.

MR. GOULD: Then it goes on to mention about Horace K. Corbin.

MR. D'OLIER: Who is chairman of the Victory Fund.

MR. GOULD: "Formerly head of the New Jersey Victory Fund Committee." Now, as I understand it, there never was any State Victory Fund Committee.

MR. CORBIN: Shall I answer that?

MR. MORGANTHAU: Yes.

MR. CORBIN: It was the Victory Fund Committee before. There were twelve, taken from the Federal Reserve Districts. The Northern part of New Jersey was in the New York District and Southern New Jersey in the Philadelphia District.

MR. GOULD: Yes, that is right.

MR. CORBIN: I happened to be the representative in the general committee for the northern district.

MR. GOULD: That is, the general committee in New York.

MR. CORBIN: That is it. I happened to be the New Jersey representative. There was one from New Jersey, one from the State of New York, and one from Connecticut, and the bulk of the Victory Fund work in New Jersey, due to the nature of the state in point of population, is in

the northern part of the state. So in bringing in the southern part, because of the geographical state lines, the committee had been normally considered generally as the Victory Fund New Jersey Committee. Does that make it clear?

MR. GOULD: I can understand that, but this thing here, of course, is not so then actually.

MR. MORGANTHAU: What do you mean, it isn't so?

MR. GOULD: It isn't so as to the New Jersey State Victory Fund Committee. There never was one.

MR. MANNING: There were six regional Victory Fund Committees, Mr. Gould, and these Victory Fund Committees, along with the War Savings Staff, are merged into one committee headed by Colonel D'Olier, myself as state administrator, Mr. Corbin to take care of the Victory Fund Workers throughout the state.

MR. GOULD: You see, there never was a Victory Fund Committee for the state. That is the point.

MR. MORGANTHAU: Let me just talk a moment now. I read Mr. Gould's article last night. Most likely the rest of you did not, and before I get through I will answer all of Mr. Gould's questions or anybody else's questions. I have nothing to hide. I never have had. I have been in the Treasury Department for ten years, and anything that I do is a matter of public record, and I would like to say this. As long as you are asking me questions, Mr. Gould,

I am going to direct myself to you, if you don't mind.

MR. GOULD: All right. That is all right.

MR. MORGANTHAU: You can be on the receiving end
once.

MR. GOULD: All right. I have been several times.

MR. MORGANTHAU: After very careful consideration
and very careful planning--

MR. GOULD: Is this quotable?

MR. MORGANTHAU: No. This is what I would call
background. We have decided to go ahead on a state basis.

Now, the decision was made after weeks and weeks
and weeks of consultation. Maybe it isn't the best plan,
but at least the decision has been made, and we are at war,
and it is my responsibility as the appointed officer of the
President of the United States to raise the money for him.

Now, that is what I am trying to do. As far as
I am concerned it is very unimportant what the names are
and what the titles are, who they were formerly. The im-
portant thing is that in states like New Jersey we can
count on and in two or three days invite everybody who as
individuals were members of the War Savings Staff and the
Victory Fund Committee--now, don't let's be technical about
how they were serving--and say to these people, "There is
going to be a state organization, and we are inviting you."
After having given an honorable burial to the Victory Fund

Committee and an honorable burial to the War Savings Committee, we are going to continue under the name of War Finance Committee of the United States Treasury for the state of New Jersey. Now, we are asking the people of New Jersey of all walks of life to cooperate with their government to help raise enough money to finance this war.

MR. GOULD: Excuse me.

MR. MORGANTHAU: Just a moment, please. I don't give a continental damn what they were before, and neither do they, because they are just interested in one thing, and that is: Let's get on with the war.

MR. GOULD: Of course the question is that people think a little politics has been injected into it and therefore there is a fight on between you and Mr. Eccles. No question of a difference of opinion between you for some time.

MR. MORGANTHAU: There is no fight on between Mr. Eccles and myself.

MR. GOULD: He won't agree with you on that.

MR. MORGANTHAU: Well, there are two people here. I am sorry Mr. Eccles isn't here. I ought to know better than you. Mr. Williams is here.

MR. GOULD: I am a reporter.

MR. MORGANTHAU: Well, I am just a politician, and Mr. Williams is here and has sat in on all the meetings, and

I have no control of them. I am perfectly willing to have him interrupt me at any time. Is any fight on between Mr. Eccles and myself?

MR. WILLIAMS: No. The plan of organization--

MR. MORGANTHAU: Mr. Williams--excuse me--is chairman of the Federal Reserve District of Philadelphia and he has been present at all the meetings I have had with Mr. Eccles.

MR. GOULD: Well, there is a difference of opinion between the Treasury Department and the Federal Reserve as to this change of set-up and the honorable burial, as you called it, of the Victory Fund Committees.

MR. MORGANTHAU: No more. There is no more. The release which we gave out, which you made a misstatement about, was helped to be prepared by the public relations man of the Federal Reserve Board, Mr. Elliott Thurston, and was passed on by the entire Federal Reserve Board.

MR. GOULD: But not approved by them?

MR. MORGANTHAU: I said was passed on and approved.

MR. GOULD: May I quote you as saying that you say the Federal Reserve Board approved what has been done here now? I mean this change.

MR. WILLIAMS: Yes.

MR. GOULD: What I am trying to do, my job is to get at the facts, and I have been told, and I have been

told in very high places, that there is a disagreement, a fundamental disagreement, on the conduct of the raising of the financing.

MR. MORGANTHAU: If Mr. Williams, who was there-- Were you there?

MR. WILLIAMS: I was there.

MR. MORGANTHAU: Were you there when the statement came over?

MR. WILLIAMS: That is right.

MR. MORGANTHAU: Let Mr. Williams speak. He can talk much better than I can.

MR. WILLIAMS: The discussions ensued for some time, Mr. Gould, as to the way in which we ought to organize for the next drive, and there were several approaches presented, each of which was thoroughly discussed, and the decision was made as to the plan that has been announced, and not only did the Board of Governors but the twelve presidents agreed to cooperate fully in carrying out that plan. That is a plan where the secretary has the responsibility.

MR. GOULD: May I interrupt you one second?

MR. WILLIAMS: Surely.

MR. GOULD: You said cooperate. Everybody is going to cooperate by buying bonds and selling bonds regardless of the plan, and what I am trying to get at, which nobody is answering yet flatly yes or no: Was there a

disagreement or is there a disagreement between the Federal Reserve and the Treasury Department over the scrapping of the Victory Fund Committees?

A VOICE: No.

MR. GOULD: I am asking Mr. Williams. He is answering.

MR. WILLIAMS: I said there were numerous conferences and plans were presented and discussed and argued for, and out of those discussions came the adoption of one plan, which we agreed to cooperate fully at the operating level--

MR. GOULD: But you didn't approve of it?

MR. WILLIAMS(Continuing): In carrying that into effect. The quality of a plan turns largely on the people who operate it. I am not going to get into a discussion with you as to doctrinary differences between this plan and that plan, and personally, Mr. Gould, I don't think any good function is served by the press--to carry on the secretary's analogy--in disinterring this corpse and dissecting it.

MR. GOULD: But the corpse, though, that has been buried, was a very successful corpse. It raised a hell of a lot of money.

MR. WILLIAMS: No, but there was an agreement on the part of all parties here that we ought to have one organization and only one, because if you go back and trace

this thing historically, what we had were two separate organizations which were brought together only for the Second War Loan Drive. That is a matter of record, and I think it would be worth your while to look into that record.

Then the drive having terminated, we were up against the question: What ought we to do from here out?

There was no disagreement on the part of anyone that there ought to be one organization. There was discussion and difference of opinion as to what that organization ought to be, but under no circumstances was there to be a revival of either one of the preceding organizations as the sole organization, you see.

MR. GOULD: You see, in the last war, as I understand it, the Liberty Loans were conducted through the Federal Reserve Banks, and this is being changed now to a state-wide basis. Now, there is no question but your Federal Reserve is going to have to cooperate. We are going to cooperate one hundred per cent. We are probably going to give you more publicity and boosts on your drive than we ever have, but nevertheless, if there is a change and a disagreement resulted there, why not admit it? I mean, why badger around on the thing? That is what I am complaining about.

MR. D'OLIER: After all, isn't our function to get

on with the war?

MR. GOULD: As efficiently as can be.

MR. D'OLIER: And isn't our function now to see what we can do to make a success of this plan?

MR. GOULD: No question about it, but the question that comes up, which I wanted to have answered,--I mean, there has been a ruckus raised over this. I mean, it has been behind closed doors except for that piece that I wrote, and I think there was another piece written somewhere else, I understand in Washington today. Am I right, Mr. Secretary?

MR. MORGANTHAU: I don't know. I can't keep up with you people.

MR. D'OLIER: Will any useful purpose be served by discussing that end of it? Shouldn't we discuss the plan that we are at?

MR. GOULD: What I would like to get answered is why the successful Victory Loan set-up was changed, particularly after it worked in the first war and it worked so well this time? Why the substitution?

MR. MORGANTHAU: The answer is very simple. We thought that one organization would be better than two, and therefore we are creating one organization on a state-wide basis.

MR. GOULD: But it is forty-eight instead of twelve.

MR. MORGANTHAU: No.

MR. GOULD: You are going to have forty-eight state organizations.

MR. MORGANTHAU: We still had forty-eight states before. We still have forty-eight state communities to do business with. For the Second War Loan ^{drive}, each president of the Federal Reserve more or less had four states approximately under his supervision. Well, instead of holding them responsible on this next drive, we still will get their entire cooperation. All the mechanics will be carried out with them, but they will not be personally held responsible more or less for four states. It doesn't quite work out four states because there are sixteen split states in the Federal Reserve System, but there still were forty-eight organizations. We had an organization for war bonds in every state.

MR. GOULD: That is under the savings.

MR. MORGANTHAU: And we had an organization in every one of three thousand odd counties.

MR. GOULD: Who is replacing Mr. Robins as National Director?

MR. MORGANTHAU: For the time being I am.

MR. GOULD: Is there any question on his resignation of dissatisfaction with the change, disapproval?

MR. MORGANTHAU: You are a reporter. Why don't you ask him?

MR. GOULD: I am asking you. You are the one who

is succeeding him. I mean, it is a fair question. You are Secretary of the Treasury. What higher authority could I go to?

MR. MORGANTHAU: Well, as far as I know, there is none. You may create one, but I don't know any.

MR. GOULD: We are not trying to create any.

MR. MORGANTHAU: Well, I beg to differ with you.

MR. GOULD: You say that what I had in the paper yesterday was wrong?

MR. D'OLIER: Can we get on with the state organization? Isn't that our function right here now? That is what we are interested in.

QUESTION: Mr. Secretary, can we say just this much, that you said today that there is no disagreement between the Federal Reserve Board and the Treasury Department on this committee, and quote you on that?

MR. MORGANTHAU: I will go further than that. I will go further than that. I will say that the Federal Reserve Board in Washington and the twelve presidents of the Federal Reserve banks have individually and collectively offered me their entire cooperation on all future treasury financing and I have accepted it.

MR. GOULD: Individually and collectively offered you?

MR. MORGANTHAU: Their entire cooperation on all

future Treasury financing.

MR. GOULD: They couldn't say otherwise, could they?

QUESTION: Mr. Williams, it is all right to quote what you said too in the same vein, I presume?

MR. WILLIAMS: That is right.

MR. D'OLIER: Have any other reporters any questions to ask about New Jersey? I don't want to forget New Jersey.

MR. GOULD: Don't worry.

QUESTION: Colonel, I am a little stupid on this proposition. Would you please briefly tell us the difference between these two committees that have been interred so that we can explain what the one committee takes the place off

COLONEL D'OLIER: The one committee takes the place of the functions of both committees.

QUESTION: Yes, but how did these two committees exist before? I ought to know, perhaps, but I don't.

MR. MANNING: The Victory Fund Committees more or less operated during the drive periods and they more or less concentrated on the banks and the larger investors. Now with the combination of both, we are not only going to work during the drive periods but it is going to be continuous.

QUESTION: You are setting up three divisions.

Am I correct on that? I mean, finance, industry, and community.

MR. MORGANTHAU: That is right.

QUESTION: In order to illustrate, the finance is getting as their customers the banks and banking houses?

MR. CORBIN: The ones that naturally come through banks.

QUESTION: And the industry is really payroll allotment, and the other one, house to house; is that right?

MR. CORBIN: Yes.

QUESTION: And that is going to be the set-up all through the country in each of the forty-eight states?

MR. MORGANTHAU: That is right.

QUESTION: What is the name of this new committee?

MR. MORGANTHAU: It is the War Finance Committee of the United States Treasury.

QUESTION: Does Mr. Corbin's section of this committee include business, corporations, and such?

MR. CORBIN: Well, the way it will work, it will be very similar to what we did the last time. That is, the same people will work. It will be arranged under a little different supervision, possibly, down the line, but the way it will work is that other than the payroll deductions and door to door, the prospects which have been reached, people

with money, come from the ledgers of individual banks in a particular community. The banks know who have money, and we must get the banks to work, bringing in other people and with them to call on people and reach people with pressure. We all know that pressure works better than just talking, and by pressure I mean personal solicitation. That is a better word.

The banking committee will be responsible for getting the cooperation of the banks so they as heads of individual committees will have the material and give names to reach people with plenty of workers. We had about six hundred workers in this county the last time. We hope to have about a thousand the next drive.

QUESTION: In other words, your pledge is not limited by the corporate structure or anything like that, but just by the bank account?

MR. CORBIN: That is right.

QUESTION: That is, in this particular division of yours you are going to have about a thousand against six hundred?

MR. CORBIN: We had about six hundred of the folks before in this particular area of one million people, and we will probably have a thousand. The more workers the better coverage in the county.

COLONEL D'OLIER: Then the industrial branch of

it will be management. The third one will be the community organizations through the counties and communities.

QUESTION: Have you any individual selected to take roles similar to Mr. Corbin's in these other two branches?

COLONEL D'OLIER: Not yet. We are just in the process of organizing.

QUESTION: Mr. Secretary, do you feel that this will help get a bigger percentage from the man in the street, this anti-inflationary collection that you are after?

MR. MORGANTHAU: We think so, and that was one of the reasons that motivated us to do this thing on a state basis as so many of these organizations, banking organizations, labor organizations, American Legion, League of Women Voters, are organized on a state basis, and we felt that we could get even more volunteers on a state basis and get more subscriptions from individuals if it was organized on this basis. That is one of the principles that we constantly have before us, to get the people to invest as much of their surplus savings as possible in government securities.

QUESTION: According to this handout here, you suggest that people should expect to give about one-fourth of their income. Are you allowing for both taxes and bond contributions or subscriptions?

MR. MORGANTHAU: No. We talk about, if you don't mind much, leading rather than giving, I think it is a loan.

QUESTION: Yes, surely.

MR. MORGANTHAU: We are talking about over and above everything else.

QUESTION: In other words, we will start with a twenty per cent tax deduction, and on top of that we will lend twenty-five per cent more?

MR. MANNING: That isn't twenty per cent.

MR. GASTON: It is twenty per cent after exemptions, which makes a great deal of difference. It runs down. It runs down as low as four or five.

MR. MORGANTHAU: This is Mr. Gaston, assistant secretary of the treasury.

MR. GASTON: In the first place, with the individual exemption, I think it is \$624, \$1248 for man and wife. If he has two children it is 312, and he pays after that. so that you see it dwindles down very sharply. It is twenty per cent over and above the stated exemptions in the act.

QUESTION: Of course we have mortgage interest and that sort of thing in it too.

MR. GASTON: It is a method of collection. It is not a tax, in other words.

QUESTION: Does the employer figure out all these deductions for children, and so forth?

MR. GASTON: They are figured out for them. Yes, he has a table, and gauges the deduction according to the family status of the man.

QUESTION: Under this plan then, the industrial group and the community group will have to be built up even more strongly than the group headed by Mr. Corbin. Is that right?

COLONEL D'OLIER: It will be a pretty tough job. You realize that.

QUESTION: I mean, bigger expansion.

COLONEL D'OLIER: Yes.

QUESTION: Are you going to visit other states, or did you come to New Jersey because this is the first state to set up this one committee?

MR. MORGANTHAU: No. This is off the record. I have been in New York off and on for the last two weeks because my wife happens to be in the hospital. So I have been in New York and I have been using the Customs House as an office.

QUESTION: You are here because of proximity.

MR. MORGANTHAU: Yes. I mean, we are doing this Federal Reserve District, and I was going to Chicago yesterday and I could not because of family reasons. So they were kind enough to come to New York yesterday. So yesterday we were able to set up Illinois and Michigan, Indiana, and Mr. Young,

the president of the Federal Reserve, came on from Chicago and sat at my side and assisted me greatly in doing that, and I think Mr. Swift, who is chairman for Illinois, will most likely tomorrow or the next day announce a similar organization to what we have here, and Indiana will follow, and then Michigan; but I might say for the benefit of the doubters that Mr. Young was there and sat at my side all day long. He is the president of the Federal Reserve, Chicago District, and was an enormous help to me and we were able in one day to do the three states; but the reason for New Jersey first is proximity and, second, the excellent cooperative spirit here, which made it very easy.

QUESTION: Is your reference to Illinois, Michigan and Indiana off the record?

MR. MORGANTHAU: No. That is on the record.

QUESTION: When is the set-up for New York going to be announced? Do you know, sir?

MR. MORGANTHAU: I hope soon. The sooner the better as far as I am concerned. I wish it had been yesterday.

QUESTION: Is it safe to say that the set-up as exemplified--

MR. MORGANTHAU: If a New York reporter were not here, I would have said I came to New Jersey for a breath of fresh air.

MR. GOULD: I live in New Jersey. So I get a breath of fresh air at night.

COLONEL D'OLIER: I promised the secretary that in New Jersey he would find no prima donnas.

MR. MORGANTHAU: And you have lived up to your promise.

QUESTION: Mr. Secretary, may we quote you as saying that this set-up is typical of what it will be in every state?

MR. MORGANTHAU: Definitely. As I say, we worked with Colonel D'Olier Sunday, and I don't know what day of the week yesterday was, but we worked with the Chicago district yesterday, and we have no troubles when you can set up three states in one day. That is quite a lot.

MR. GASTON: I think Mr. Gould is not in doubt that that remark about coming here for fresh air was off the record.

MR. GOULD: No, but the thing you don't want to confirm is that there is any friction.

COLONEL D'OLIER: We are not ashamed of our fresh air over here.

QUESTION: Is there any indication now as to the date of the next drive?

MR. MORGANTHAU: We are meeting on Thursday with a representative of the Federal Reserve and the American

Bankers Association. They have a full committee that cooperates with the treasury, and after we have this meeting on Thursday I think we will set the date.

QUESTION: Here or in Washington?

MR. MORGANTHAU: Washington.

QUESTION: In the meanwhile, ^{late} September or October will be good speculation?

MR. MORGANTHAU: Late September or October will be very good speculation.

COLONEL D'OLIER: Of course in this industrial community organization in the State Of New Jersey, Mr. Manning, Mr. John Manning, Collector of Internal Revenue, as you know, did such an outstanding job in the previous drive that it would be his responsibility to see that this enormous organization, this very exhaustive organization, function properly, and he has shown his ability to handle such a situation as that.

QUESTION: What will be probably a guess on the amount that will probably be sought on this next drive?

MR. MORGANTHAU: I don't know.

QUESTION: You are speaking of forty-five billion, but I mean that wouldn't be true in the one drive?

MR. MORGANTHAU: No.

QUESTION: Would twenty be a guess?

MR. MORGANTHAU: I wouldn't make a guess because

in the drive for the public this time the amount that we go to the banks for will be excluded. The chances are, if anything, it may be less, you see.

One of the reasons I have asked the representative of the A. B. A. to come is we want to talk over with them how much should the next drive for the banks, insurance companies, and so forth, be, you see. So the drive for the public when it comes will be probably less than it was in April.

QUESTION: Of course you actually said in the April drive, it was called eight billion dollars. Now, that was not included with the insurance companies and savings banks?

MR. MORGANTHAU: After all, the insurance companies are a large trust fund of people's savings, and that was correct.

QUESTION: Would a guess then be less than eight billion dollars on the next drive?

MR. MORGANTHAU: Frankly I wouldn't guess.

QUESTION: You wouldn't?

MR. MORGANTHAU: We have to get the estimates from all the government departments on what they propose to spend, and when you are spending at the rate of six or seven billion dollars a month, one or two billion either way makes quite a lot of difference. So Mr. Bell, the

Under Secretary, I think on Thursday will have an estimate, and then just as soon as I can we will announce publicly how much the amount will be, but it may not be right away because forecasting how much money we need for September where you are spending such a vast sum,--I mean, just a couple of decimal points makes an awful lot of difference, and the chances are that we will borrow from the banks before we have another public drive because I think we will need the money.

QUESTION: That is quotable?

MR. MORGANTHAU: No. I would rather not.

QUESTION: You would rather not?

MR. MORGANTHAU: I would rather not. I would rather wait now.

QUESTION: I mean, of course you imply that anyway because you say they are separate and you are going to go to them from time to time.

MR. MORGANTHAU: Yes.

QUESTION: And we can quote you in saying that there will be a change in plan at this time in that there will be a quota for the non-banking group?

MR. MORGANTHAU: I think we had one last time. The banking was five and the non-banking was eight.

QUESTION: You raised thirteen.

MR. MORGANTHAU: Thirteen and a half.

QUESTION: The insurance companies were in the non-banking group?

MR. MORGANTHAU: That is right. Well, I mean they should be. You are a public trust fund.

COLONEL D'OLIER: Right.

QUESTION: The insurance company, ^{money}would be just as inflationary as the bank money, wouldn't it?

MR. MORGANTHAU: No, no.

QUESTION: I suppose I don't know the answer. I am just asking.

MR. MORGANTHAU: Well, it is a question of deposits and all the rest of that.

QUESTION: They sock it away and the banks can hock it at the Federal Reserve. That is it, isn't it?

MR. MORGANTHAU: That is putting it-- That is right. If we keep right along with Mr. Gould, he will be really helping me.

QUESTION: I intend to help you sell bonds a hell of a lot, but I still would like to get you confirm the friction.

MR. MORGANTHAU: You get those New York chips off your shoulder and we will get down to work side by side together.

QUESTION: You expressed at least an incomplete satisfaction with the public subscription in the last drive in relation to the banking, I believe, did you

not?

MR. MORGANTHAU: No, no. We set for ourselves what the treasury statisticians thought were impossible figures when they set the eight billion dollars from the public. That is what we should have gotten theoretically, but the public was so good that they went far above even our fondest hopes. I can make all the plans in the world, but unless I have got the public and the press and all other public agencies behind me, all the talking I can do in the world won't make these things a success, because it depends upon how much the men and women are going to make up their minds to do. That is why I am so anxious, having had discussions as to the best plans and having arrived at a decision with the full promise of support, to go forward and not get the public's mind upset by thinking that as between two Federal agencies there is any disagreement now as to how we should go forward.

QUESTION: I was not concerned with that particularly, Mr. Secretary, but I did want to have my background clear as to just what you were trying to do on this question of inflation. You did say something to the effect, as I recall it, that you needed to get a larger percentage of the general public's income to prevent inflation, or something to that effect.

MR. GASTON: Yes, in future drives. It was not

a question of dissatisfaction with this past drive because we did reach our goal, but in future drives we want to get more from the individual.

QUESTION: That was the recommendation of the Victory Fund Committees, if I recall correctly.

MR. MORGANTHAU: I don't know.

QUESTION: I mean, there was a definite recommendation on a plan.

COLONEL D'OLIER: I don't recall any.

QUESTION: Yes. There was Mr. Sproul made one, I am quite sure.

COLONEL D'OLIER: Mr. Sproul was not a Victory Fund Committee.

QUESTION: No. He was from district No. 12, or whatever his district was.

MR. MORGANTHAU: In the first place Mr. Sproul, to take up the time, if you have got the time,--in the first place he is the president of the Federal Reserve bank. In the second place, he the fiscal agent of the treasury; and in the third place he was appointed by me as fiscal agent as chairman of two committees, the Victory Fund Committee and the War Savings for the Second War Loan Drive.

Is that what you want? Is that correct?

MR. GASTON: That is right.

MR. MORGANTHAU: And that appointment was only for

the Second War Loan Drive.

Now, where were we?

QUESTION: If I may monopolize with a question--

MR. MORGANTHAU: Surely.

QUESTION: How does the small investor's share compare with the Liberty Loan drive of the World War?

MR. MORGANTHAU: Do you know, Herbert?

MR. GASTON: In dollars and cents way beyond. I don't have the figures. It is very difficult to answer it.

QUESTION: You are talking in dollars, but in percentage it is way off so far; isn't that right?

MR. GAMBLE: I think it would be much better to give you the written record, Mr. Gould, and I will be glad to get it for you.

The percentage of participation is much higher. The number of persons is many times higher. There are more persons that have bought E bonds since May 1941 than bought all types of securities in all five of the Liberty Loan drives, Mr. Gould. Dollarwise, it is very, very good in the lower income groups. I would rather you saw that in writing.

QUESTION: In New Jersey we have 1,100,000 people exposed to payroll allotment. Of that 1,100,000 there are over 360,000 that give ten per cent. So you can see there are a great many more individuals buying bonds than there

were the last time. What is the percentage of income, Mr. Gamble? Can you answer that?

MR. GAMBLE: Roughly there are at the present time 27 million people who are setting aside nine per cent of their pay every payday for the purchase of bonds, which is about \$17.50 a month.

COLONEL D'OLIER: Are there any other questions, because, after all, the secretary has to get on.

QUESTION: We have some questions on the New Jersey situation eventually, Colonel D'Olier, that I would like to get answered.

COLONEL D'OLIER: Well, why not come to them right now?

QUESTION: I am Grossman of the New York Times. Do you expect that the institution of the wage tax is going to put a damper on your efforts to secure wider participation?

MR. MORGANTHAU: I think this, Mr. Grossman. I think at the beginning we are going to meet with a little opposition, but months and months ago, when we were studying this deduction at the source, we made various surveys, and we believe that after it is understood that it will not make very much difference to the people who are investing regularly in their bonds or during the drive. I mean, that is what these various surveys which we made last year showed

us, and that was one of the reasons we were in favor as early as December 1941 of a deduction at the source.

QUESTION: What about cashing in the bonds? I notice that has increased a lot in dollars. I don't know what the percentage is.

MR. GAMBLE: I think the percentage is around three per cent, isn't it, 3.84. That is following a very good pattern. The predecessor bond, the D bond, at the end of twenty-two months, the redemption rate was 4.14. At the end of twenty-two months of the E bond, the reduction rate was 3.84.

MR. MORGANTHAU: The dollar amount would naturally go on as the total amount of bonds increases, but the percentage has been fairly constant, as Mr. Gamble says.

QUESTION: I had heard reports that in some of the plants where they had the payroll savings plan, where it was almost compulsory to purchase a certain amount, that they were turning them in and cashing in on those bonds. In that way they could meet their quota and still have their money too.

MR. MORGANTHAU: I don't think that is correct. We have heard those stories very often, and when we go to the plant to run them down, we haven't been able to substantiate them. These stories crop up all the time.

MR. GASTON: Of course the daily treasury statement

is the final word. You get the daily treasury statement every day and you see the amount of new purchases and the amount of bonds cashed in.

QUESTION: Yes. I noticed there were quite a lot in March.

MR. GASTON: Surprisingly small. We had the highest month of the year, didn't we, Ted, in March? After taking the amount of loans less the amount of redemptions, we had over \$900,000,000 in the month of March.

In the E bond, against a quota of \$650,000,000 in the month of March, we sold \$720,000,000.

COLONEL D'OLIER: You wanted to ask some questions about New Jersey.

QUESTION: May I ask one more question on the general situation? Mr. Secretary, would it be all right to quote you on these figures?

MR. MORGANTHAU: No, no. The people that have been talking, Mr. Gaston, Mr. Gamble, are all right.

QUESTION: As Mr. Morgenthau?

MR. MORGANTHAU: All right. I will underwrite what they say cheerfully.

QUESTION: Also will you say where you are going from here, Mr. Morgenthau?

MR. MORGANTHAU: I am going back to New York. I think I am going back to Washington tonight.

COLONEL D'OLIER: Can we get on to New Jersey now?

QUESTION: Yes, Mr. D'Olier. Mr. Manning was administrator for the War Savings Staff in the last drive. Is he going to be administrator for the bond group now?

COLONEL D'OLIER: He is the state administrator for New Jersey, for the whole of New Jersey.

QUESTION: Will that make any difference in the southern part of the state, which was in a different Federal Reserve District before?

COLONEL D'OLIER: No. He will just take that over.

QUESTION: It means increased duties.

MR. MANNING: We have had that right along. No change in that.

QUESTION: On the War Savings?

MR. MANNING: Yes. No change in that.

QUESTION: Who was chairman during the last drive?

COLONEL D'OLIER: Of what?

QUESTION: The War Savings Staff. Did they have a chairman?

COLONEL D'OLIER: I was.

QUESTION: Because you are referred to in here as the former chairman, I believe.

COLONEL D'OLIER: And Mr. Corbin was, in so far as you can call him that. He had charge of the Victory Fund in New Jersey, Northern New Jersey.

QUESTION: In other words, the reference to you here as former chairman means in the light of today's developments?

COLONEL D'OLIER: Yes.

QUESTION: Have you any idea of the size of your full time staff or your volunteer staff during the drive yet, or do those details remain to be worked out?

MR. MANNING: There are 3,500 members of the War Savings Staff approximately.

COLONEL D'OLIER: Speaking about volunteers?

MR. MANNING: Volunteers.

COLONEL D'OLIER: He asked about the paid staff.

QUESTION: Well, both.

MR. MANNING: We have four members, deputy administrators, on the paid staff, and four or five stenographers. The Victory Fund continuously has I don't know how many.

MR. CORBIN: We only have one stenographer. In the northern half of New Jersey I don't think there are over eight people. I don't think it is that much. Maybe seven or eight. Mr. Rounds, have you any recollection?

MR. ROUNDS: Six or seven.

QUESTION: Mr. Gamble, would it be safe to say that New Jersey has one of the smallest paid staffs? It must be at that rate.

MR. MORGANTHAU: They have had an amazing record here. I mean, the thing has been carried on ninety-nine per cent by volunteers.

QUESTION: Would you amplify that a bit, Mr. Secretary?

MR. MORGANTHAU: I think Colonel D'Olier can do it better than I can.

COLONEL D'OLIER: I will let Mr. Manning speak for himself.

MR. MANNING: We have 3,500 volunteers. We have four members of the paid staff as deputies and four stenographers. The Victory Fund, I don't really know. I don't think they have more than what they call secretaries. Is that right?

MR. CORBIN: Four secretaries, and probably in the whole state not over six stenographers. In Newark, for instance, where we handle about 70 per cent of the subscriptions in the state, we have one stenographer, and that is the only expense beyond telephone calls and things like that. We had the office given us free, and our secretary was borrowed from someone else.

QUESTION: Will both these staffs be included in

the new?

MR. CORBIN: Yes.

QUESTION: Anybody who is working for either one is automatically included?

MR. CORBIN: Yes.

QUESTION: Mr. Secretary, did you speak at this luncheon?

MR. MORGANTHAU: Yes.

QUESTION: Are these quotes from what you said?

MR. MORGANTHAU: Yes.

QUESTION: Colonel, how big a steering committee do you expect to have?

COLONEL D'OLIER: I will probably tell you at the end of the week. I don't even know who the vice chairmen are.

QUESTION: Vice chairman for each county?

COLONEL D'OLIER: I can't answer that. We haven't broken down the organization as yet.

QUESTION: You will probably know about Friday?

COLONEL D'OLIER: I should hope so.

QUESTION: You have a central organization in Washington already, I presume, to coordinate the activities of the various state groups, and that is the one you are acting as temporary chairman of?

MR. MORGANTHAU: I call myself chairman. We have no titles down there. I mean, "Secretary of the Treasury"

is good enough for me.

QUESTION: You are no formal committee then?

MR. MORGANTHAU: Yes. I mean, we have people and we have a committee in the treasury and we have ^a policy committee on which, Mr. Gould, believe it or not, Mr. Eccles sits and advises us.

QUESTION: On which he disagrees sometimes.

MR. MORGANTHAU: That is his privilege. Knowing Mr. Eccles to be an independant thinker, he will have his thoughts, and some of us will have ours, but fortunately before we get through we deliver the goods.

QUESTION: Mr. D'Olier, do you plan to break this down now into county units and follow boundary lines?

COLONEL D'OLIER: I just answered that question before by saying we have not yet decided that point. We will unquestionably have county organizations, but just how it will be broken down will be determined later.

Now, does that finish up New Jersey?

Can we let the secretary go back to New York now?

(The press conference is concluded.)

470

1943 JUN 2 AM 10 50

W75G08WASH 16 MPLS 2-952

MORGENTHAU

REURTEL SECOND AM TODAY SENDING TELEGRAM AS INSTRUCTED OVER
YOUR ~~SIGNATURE~~ SIGNATURE TO THOSE ^{you} MENTION

PEYTON

THOSE ~~YOU MENTION.~~

JUN 2 10 50 AM '43

RECEIVED
OFFICE

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 180

Information received up to 7 a.m., 2nd June, 1943.

1. NAVAL

Reference Optel No. 177

Divers were unable to obtain any reply from the

Submarine yesterday and there now appears to be little chance of any survivors. One of H.M. Cruisers and 2 Destroyers bombarded the Harbour of PANTELLERIA on 31st/1st. 150 rounds of six inch fired besides smaller shells. No damage or casualties to our ships. Our destroyers sank 3 ships and a destroyer off CAPE SPARTIVENTO, ITALY, early this morning. After attacks by one of H.M. Ships and other sloops of a support group, a U-boat surrendered South of GREENLAND early this morning. Prisoners including the Captain were taken.

2. AIR OPERATIONS

WESTERN FRONT. 1st. Typhoon bombers damaged 5 small ships off the DUTCH COAST. Fighters attacked railway objectives in Northern FRANCE and carried out sweeps. Enemy casualties - 5, 1, 1. Ours - 1 missing. 15 F.W. 190's flew over KENT and 4 over the ISLE OF WIGHT. 5 were destroyed by 2 Typhoons and 1 by A/A. 5 fatal casualties at NITON, ISLE OF WIGHT, and 6 at MARGATE, a gas holder at BROADSTAIRS set on fire. 1st/2nd. Aircraft despatched:- Seaminging - 33, Intruders - 3. 2nd. In the early hours 12 enemy aircraft flew over Eastern Counties. Fires were started in a gas works at IFWICH and near WOODBRIDGE.

GREECE. 30th. Beaufighters attacked an 800 ton ship off the West Coast, setting on fire the deck cargo and on 31st damaged a Caique off the GULF OF ATHENS.

REASURY DEPARTMENT

1043 JUN 3 AM 11 04

June 3, 1943

MEMORANDUM FOR THE SECRETARY'S FILES:

A conference was held this morning in the Secretary's office, attended by the Secretary and myself on behalf of the Treasury, Judge Vinson, Mr. Doughton and Mr. Cooper of the Ways and Means Committee, and Senators George and Byrd of the Finance Committee. The meeting lasted from 9:00 a.m. to about 11:40 a.m.

Previous to the meeting, I met the Secretary at his house and had a brief occasion after arriving at the office to show him the five alternative plans for the raising of \$16 billion on an annual basis.

In the main meeting, the first principal topic of discussion was whether there would be a Revenue Act of 1943, or a 1943 rate bill, and, if so, when the consideration of the bill by the Ways and Means Committee should begin. It was the unanimous opinion of those from the Congress, and Judge Vinson as well, that the consideration of the bill by the Ways and Means Committee should be put off to allow a period of cooling of tempers and home visiting by Congressmen. After a good deal of discussion, it was decided that if the House adjourned for the months of July and August, consideration should begin by the Ways and Means Committee in hearings before the return of Congress, say about August 20. This would enable the Members to devote full time because the House would not be in session.

A good deal of opposition was voiced by those present to the idea of retroactive taxation, and some, particularly Mr. Doughton, thought that any tax bill passed should not make its increases apply to 1943 income. I pointed out, and Senator George agreed, that any tax increases could, under the pay-as-you-go system, take effect immediately, and that we would not have to wait until the beginning of next year. However, I think the general sentiment of the group was preponderately no new taxes on 1943 income, but

- 2 -

there was reluctant recognition of the necessity of a bill in 1943 to impose additional rates with respect to 1944 income.

Upon the insistence of Mr. Doughton, it was then agreed to discuss in a very preliminary way various plans for raising \$16 billion. I then explained the material I had assembled, giving in basic outline the five plans for raising \$16 billion on an annual basis. I explained this was not \$16 billion in the fiscal year 1944 but was \$16 billion for a full year of operation. I did not go into any detail as to the spendings tax or the estate and gift taxes. I did briefly give a few tax burden figures on various bases in connection with the individual income tax, and also there was some discussion of the possibility of lowering exemptions. In response to one or two questions of Senator Byrd, I gave the rates of sales tax that would be necessary to raise the necessary amounts. In connection with the corporation income tax, I stated that a rate of about 55 percent would be necessary for normal and surtax together, and pointed out that corporations had \$800 million of increased earnings this year after existing taxes. I pointed out in some detail the excise tax possibilities, particularly the figures on beer, wines, distilled liquors, and cigarettes.

In connection with the sales tax, I stated that I was not making any recommendations, but that the various plans were merely put forward for discussion. Mr. Doughton then asked for our position on the sales tax. I referred this question to the Secretary who said he had just received the figures this morning and had no time to go over them. I reiterated my statement that the plans were for discussion purposes only. There was some discussion of the possibility of lowering the exemptions. Congressman Cooper took the principal part of this discussion. It was recognized that lowered personal exemptions could not go together with a sales tax, and Senator George indicated that he would be willing to abandon the Victory tax if the personal exemptions were lowered in some degree. He also recognized that the sales tax and lowered exemptions would not go together.

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I gave to the group information with respect to price rises and the brackets receiving our total income, pointing out that more than \$60 billion of our total income goes to the group below \$2,000. I also gave the figures with respect to estimated income tax payments, the amount of income subject to tax, the amount taken out of the tax base by the personal exemption for dependency credit, the pre-tax income, etc. A good deal of astonishment was expressed at the figure \$41.1 billion for the exemptions.

There was also considerable discussion on the question of whether to bring in the Republicans. The thought was that there ought to be agreement among the leading Democrats as to the tax bill, at least so far as possible, and that this agreement would be reached by discussion in advance of the formal hearings. This brought up the question of including the Republicans in these discussions. Doughton seemed to favor the idea, Cooper thought it needed further consideration, and Judge Vinson was pretty much opposed to including the Republicans, a point which he elaborated after the meeting. No decision was made on this point, it being agreed it would come up at a meeting to be held a week from Friday in the Secretary's office at 9:00 a.m.

After the meeting Judge Vinson came to my office and expressed the view that a good deal of progress had been made. He seemed to feel fairly encouraged. I gave him a copy of the two statements sent to the President in connection with the pay-as-you-go bill, on instructions of the Secretary. 5/31/47



June 3, 1943

11:45 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Buffington
Mr. Gamble
Mr. Burgess
Mrs. McHugh

H.M.JR: Randolph, what I want with these people - I am sorry that Rouse isn't here because he has wasted a lot of time. He should have been here.

Mr. Potter came in to see me last night around five and he had a talk with Mr. Sproul, and Sproul raised objections as to why he couldn't be chairman of that sub-committee because the Fed and this Finance Committee couldn't work together. There were barriers there. There were certain misunderstandings as to what these people would do.

I said, "Frankly, Mr. Potter, the things that you are talking about don't make sense to me. I don't know why this group represented by yourself and the bankers can't go to work and why the Federal Reserve won't give you all the cooperation that you are entitled to."

I said, "I have reached the point now where, as Secretary of the Treasury, I am going to direct our fiscal agents to give you the assistance that you are entitled to."

He said, "Well, if you do that, Mr. Morgenthau, it doesn't have to be a Perry Hall - it doesn't necessarily have to be Sproul. If the bank will give us what we want, we are ready to go on, and we can do the job for you."

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What I want is - and I hoped that Rouse would have been here - you (Burgess) know what this so-called Victory Fund has done - I don't know whether Bell does or doesn't know. You (Buffington) certainly know. So we can have a preliminary meeting and now maybe I will have to do it right in front of Potter, which would be unfortunate, after this luncheon, you see.

But I mean, it would be much nicer if Rouse had been here and Ronald Ransom representing the Fed to say, "Well, this is all right." But if they are not here I will just have to get them together because I am in the mood now - I am just not going to stand any more nonsense.

MR. BELL: I have been--

H.M.JR: I am just not going to stand any more nonsense.

MR. BELL: I am trying to find out just what it is you want the Federals to do. I didn't quite understand it. I think that Herbert and Ted and George have the same understanding you just now stated, but Doc thought that it was still a committee idea - still the idea that Allan would head a committee - chairman of a committee.

Now, if what you want is just the services of the bank, I don't think that is difficult. I don't think you are going to have to do any orders on that.

H.M.JR: What Mr. Potter said was that he would like to have Mr. Sproul act as a committee chairman of these bankers. I got the impression it wasn't Mr. Sproul, that it could be somebody else. But there are certain services that he wants, and then Sproul brought up certain jurisdictional things that this committee couldn't do that it did before, and so forth and so on.

Frankly, I told Mr. Potter, "I don't know what you" - it all gets down to this, it seems to me. You bring Sproul up to the trough, lead by a fine man like Mr. Potter, and he thinks up some new suggestions - objections.

- 3 -

It seems to me, just as fast as we try to put this thing together, Allan Sproul can think of reasons why he doesn't want to do it.

Now, Potter is busy; this fellow (Burgess) is busy, and if we can't have a dress rehearsal, then we have got to do it right out in front and open, and say to Mr. Potter, "O.K., Mr. Potter, you used to be chairman of this committee before Sproul took it over. What is it that you want? I will see that you get it."

MR. GASTON: That is why we wanted to get hold of Potter this morning if we could.

MR. BELL: I don't know whether he will get here before your luncheon, but if he does, I think we can sit down with Mr. Potter and see just what he wants, and sit down with Les Round and get the services of the banks.

H.M.JR: I want Ronald Ransom present.

MR. BELL: Ronald, too.

H.M.JR: Which director of the Board has New York under him?

MR. BELL: I don't think they have a director.

H.M.JR: Yes, they do.

MR. BELL: They have different functions, like the examinations under Szymczak, or under--

H.M.JR: Incidentally, Herbert, you are expected for lunch today.

MR. BELL: Examinations under John McKee, and fiscal stuff under Szymczak - things of that kind. It is functional, not banks.

MR. BURGESS: They used to divide the banks up.

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MR. BELL: It is functionalized, now.

MR. GASTON: If it is a matter of asking somebody to be chairman of the committee, or being even a member of the committee, I don't think there is anything we can do about it if they don't want to do it. But if it is a matter of giving cooperation and bank service, that we can have, and I don't think we will even have to order it.

H.M.JR: No, it is something else, Herbert. It is something that Mr. Potter wanted to do with this committee - this reconstituted Victory Fund Committee, and Sproul kept saying there were certain jurisdictional things that couldn't be done. Now, I don't know enough about it - I don't know what it is.

MR. BUFFINGTON: I think I do.

H.M.JR: There are certain things that this committee - like Potter said - it is a question of going to bank customers, you see, and certain things which Sproul said that, under this new setup, this bank group couldn't do.

(The Secretary held a telephone conversation with Mr. Ronald Ransom, as follows:)

June 3, 1943
11:52 A. M.

HMJr: Hello.

Operator: Mr. Ransom is talking to New York and his secretary thinks it'll be another five or ten minutes before he's free.

HMJr: He's busy for five or ten minutes?

Operator: That's right.

HMJr: I - I guess - well, let me speak to his secretary.

Operator: All right. Go ahead.

HMJr: Hello.

Miss Cotton: Hello.

HMJr: Mr. Morgenthau speaking.

C: Yes.

HMJr: Would it be agreeable to Mr. Ransom whenever he's available to come over to Mr. Bell's office at the Treasury?

C: I believe he could do that.

HMJr: All right. Now let's see how bright and able you are. (Laughs)

C: (Laughs) Not too much this morning.

HMJr: Pardon me?

C: Not too much so this morning.

HMJr: Not too much this morning. Well, do you know which - do they have - does the Federal Reserve Bank of New York come under a particular member of the Federal Reserve Board here, or don't they do that? Do you know?

C: I'm sorry I cannot tell you about that. (Laughs) Mr. Ransom's regular secretary is.....

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HMJr: Oh.

C:on the extension now and....

HMJr: Oh.

C:Mr. Ransom's on a long distance.....

HMJr: I see.

C:call.

HMJr: Well, I think we can wait until Mr. Ransom comes over. We'll ask him himself.

C: I see. Will - will you hold the line just a moment, please?

HMJr: (Talks aside)

Ronald Ransom: Hello.

HMJr: Hello.

R: Hello. How are you?

HMJr: Is this Ronald?

R: Yeah.

HMJr: Henry Morgenthau.

R: How are you today?

HMJr: I'm pretty well, Ronald. I'm getting a little fagged out. Ronald, we were sitting here and - do I understand - I mean - for instance, if we want to get the Federal Reserve Bank of New York to do something for us as our fiscal agent, does that come under a particular member of your Board, or for instance - or doesn't it - of your New York Bank?

R: Well, I'm sorry to say that at the moment I can't recall that that particular thing is assigned to any one....

HMJr: I see.

- 3 -

R:member of the Board....

HMJr: Yeah.

R:and, in any event, you could certainly take it up with me as Vice Chairman....

HMJr: Wonderful.

R:in the absence of the Chairman as you would take it up with him, in the first event, if he were here.

HMJr: Well, that answers my question.

R: Yes.

HMJr: Now when you're available could you come over and see us over here?

R: Yes. I can come over there in a few minutes.

HMJr: That'd be fine. And they're meeting in Bell's office.

R: All right.

HMJr: Thank you very much.

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H.M.JR: He says he can take it up with him just like Eccles.

MR. BUFFINGTON: I have never talked to Mr. Potter, but knowing the situation that has gone on in the past, what I think is this, that that group in New York has relied largely upon Sproul's leadership to bring the banks into this picture to cooperate in giving up the names of their customers for solicitation. I think he feels that it would be more difficult to do that as chairman of that committee without Allan Sproul's support or the Federal Reserve Bank prestige than it would be with it. I think think that is the purpose.

H.M.JR: I don't.

MR. BUFFINGTON: O.K.

H.M.JR: I don't think that is it.

MR. BUFFINGTON: Then if it is not that, it must be fiscal.

H.M.JR: No, no. As near as I can - this is my guess - everybody has his guess - my guess is that Sproul raised the question as to the breadth of this committee - would they go after all the bank customers, or would pay-roll deduction go after some, or would some go after industry, and so forth - what was the breadth of their scope?

MR. BURGESS: Yes.

H.M.JR: That is the question.

MR. BELL: That doesn't seem to me to be a Federal Reserve problem or any other organization problem. It is in the hands of that chairman, whoever he is.

H.M.JR: Anyway, Potter's attitude was fine. He said, "Get me this thing straightened out, Mr. Morgenthau, and I am your man."

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MR. BELL: Who said that?

H.M.JR: Mr. Potter, in so many words.

MR. BURGESS: I think the thing to do is, you have Bill Potter interested, and the more you can throw on his lap of getting this New York situation organized, the better.

H.M.JR: What I want you and Mr. Potter to know - the head of G.M. couldn't do this thing if for no other reason than he has been sued by the Federal Government. That is a pretty good reason. I want you and Mr. Potter - I have been marking time as to the next move until I had a chance to talk to you; and Potter said to please let him go home on the five o'clock train, and I promised him he could.

But New Jersey went off beautifully.

MR. BURGESS: Fine. I thought the publicity was excellent.

H.M.JR: And Mr. Potter liked our telegram, of which he had a copy.

MR. BURGESS: I got some other good reactions from that telegram, too, from other districts.

H.M.JR: Good. I thought the "Times," the "Tribune," and the "Wall Street Journal" all handled the thing very well.

MR. GASTON: There was a little sour crack in the "Herald Tribune" about the War Savings Staff being political.

H.M.JR: That is all right. One of these days we will take a censorship of the heads of the War Savings Staff and find about eighty percent of them are Republicans.
(Laughter)

MR. GASTON: There is no basis for that statement.

MR. GAMBLE: That is literally true.

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MR. GASTON: We have used the collectors of Internal Revenue as administrators to save money on office space and salary.

MR. BELL: How long do you expect to meet with these bankers? It won't take so long, will it, after your luncheon?

MR. BURGESS: It will take long enough to get the picture.

H.M.JR: I am asking them to come down here, and I am sure, even if we can't get through at five o'clock - I am sure Mr. Potter isn't going to take that literally. I want to tell the ABA people the full story of what our money needs are from now until the first of January, see. I want to ask their advice as to when we should have a bank issue and when we should have our Third War Loan Drive, and I pretty near want to settle it with them this afternoon.

Then if we have the time I would like to talk a little bit about securities, what kind of securities. Then they can bring up anything they want to.

I would like also to have an opportunity to explain a little bit about what has been going on the last couple of weeks.

Would that be a fairly good agenda?

MR. BURGESS: That is all right.

H.M.JR: I mean, after all, I have asked these people to come down. I am in no hurry. I have all afternoon - just have to sign a little agreement with Mexico at four o'clock, which takes only fifteen minutes of my time - and have my picture taken.

MR. BELL: The reason I asked is, I thought that suppose you finished this banking group at three - not later than three - could we go with Mr. Potter in my room and find out just what it is that he wants from the New York Federal? Then I would like to call in Les Round and say, "This is what we have as an organization - what we want in New York - what we want the Reserve Banks to do."

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H.M.JR: Let's leave it this way - I want to be with the ABA committee until we have finished. When we are finished, then we can do the next thing. How is that?

MR. BURGESS: That is all right.

H.M.JR: But I am in a frame of mind that I am through pleading.

MR. BELL: Well, it still isn't clear in my mind what the Federal Reserve Bank of New York is to do. And I think it depends on what they are to do before you can say that you order them, because you can only order them as fiscal agents, and I would like to find out from Mr. Potter just what it is he wants.

H.M.JR: We are talking here in my own official family, of which Mr. Burgess is a member, see, and I am simply telling you the frame of mind in which I am in, and I think if I am sick today or tomorrow - which I hope I won't be - the Treasury goes on. You don't sit around and wait for three or four weeks until I get well.

Now, here is the Federal Reserve Bank of New York, which is responsible for sixty or forty percent of the money, and we can't do business because Allan Sproul is sick. I think it is outrageous. The whole country can't stop because one man is sick.

MR. BELL: No, I think we can do business on a fiscal agency basis with the Federal Reserve of New York.

H.M.JR: Outside of that there should be somebody - after all, there should be - light as we are on top - we are told we are understaffed on top - we still go ahead, and you and I and the rest of us do business. And somebody in the whole Federal Reserve in New York could say, "Well, Mr. Sproul is sick; I am ready to help Mr. Morgenthau." That is what I am asking for.

MR. BURGESS: I think they are all ready to do that. I don't think there is any question about performing the necessary services.

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MR. BELL: I don't.

MR. BURGESS: I think this is wholly a personal question - Allan Sproul as a person, not the bank.

MR. BELL: That is what I think, too. As I get it from you now, it isn't a question of personal services of Allan Sproul; it is a question of services of the institutions, the way you got it from Mr. Potter. I think that is simple.

H.M.JR: I think we will leave it right with - let's stop guessing what he meant and let him talk for himself.

What I am saying again - and I didn't make my point clear - is that Allan Sproul, as president of the Federal Reserve Bank, is sick and is out, see, and there should be somebody in that bank who should say, "Look, Mr. Morgenthau, you are doing something. We don't think you are doing the right thing, but the decision has been made." That is what George Harrison always said, "I don't agree with what you are doing on gold, but what can I do to help you?" But there isn't anybody in that damned bank who has come forward and said, "What can we do?" Instead of that every time I think of a suggestion they always think of a new hurdle.

MR. BURGESS: I don't think you are quite fair. I think that Allan would say, "We will do everything we can. The whole thing that was discussed was whether he would be chairman of the committee, but I agree we had better wait until Potter comes.

H.M.JR: Well, look, you look at it your way. This is all blowing off here. Let me blow off here in the room. Allan Sproul sends a telegram that did us enormous harm in the district. The only step that they have taken - he has taken so far - is to hurt me in the district. Nobody has done anything to try to help me.

Now he can say what I am doing is entirely wrong; but I made a decision, and I think it is up to him or the bank to say, "Well, Morgenthau has done this thing; we are at war. Let's get in and help."

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MR. BURGESS: I think they are prepared to say that.

H.M.JR: Well, I am ready to be pleasantly surprised. And mind you, if I am, outside of this room there will never be a word - no recriminations - nothing.

What I told Mr. Potter was that I would go seventy-five percent of the way, and that still holds. I am not going to answer Mr. Gould or anybody else. I don't know whether you heard about the press conference - and incidentally, at the press conference Al Williams of Philadelphia was perfectly swell.

MR. BURGESS: Round was too, wasn't he?

H.M.JR: The little he said was all right.

MR. BURGESS: They will play ball.

H.M.JR: But that telegram helped. That was your (Burgess') suggestion.

Under Secretary

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Room 278

Exp. Loans

June 3, 1943

To Presidents, Federal Reserve Banks:

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio
Richmond, Va.
Atlanta, Ga.

Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas
San Francisco, Calif.

Please arrange for distribution to all Victory Fund Committee members in your district of press release June two under date line Newark, New Jersey, wired you yesterday, including my statement and report on New Jersey organization.

MORGENTHAU

(Initialed) D. W. B.

HEG
DWB:NLE

Room 278

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Under Secretary

Expenses of Loans

June 3, 1943

To Presidents, Federal Reserve Banks:

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio
Richmond, Va.
Atlanta, Ga.

Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas
San Francisco, Calif.

Secretary would like to have by four p.m. Washington time tomorrow your comments on the following:

Third war loan drive to begin Monday, September twenty ending Saturday, October nine. Reopen on June twenty-eight last 2-1/2 percent bond, primarily for insurance company funds but allow anyone to come in except commercial banks. At same time offer, primarily for the banks, a two and one-half billion dollar four to five year note or six to ten year bond. This will be a public offering and open to anyone who cares to subscribe. We are now considering placing a limitation on amount that a bank can subscribe, such as a certain percentage of demand deposits. On July nineteen offer a new certificate to raise funds to meet the August one maturity. This certificate might possibly be increased by five hundred million dollars if additional funds are necessary at that time. Some time in August, preferably before the fifteenth, offer a new security in exchange for the one billion four hundred million dollars of 3-1/4 percent 1943-45 bonds which will be called for payment on October fifteen. This refunding is suggested for this time in order to get it out of the way before the drive.

BELL

DWB:NLE

(Initialed) D. W. B.

NEW YORK STOCK EXCHANGE
ELEVEN WALL STREET

EMIL SCHRAM
PRESIDENT

June 3, 1943

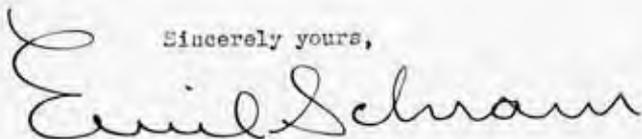
Dear Mr. Morgenthau:

Through the courtesy of Mr. Allan Sproul, President of the Federal Reserve Bank of New York, I have received a copy of your telegram advising of the merger of the Victory Fund Committees and the War Savings Staff into a single organization, to be known as the War Finance Committee. On behalf of the New York Stock Exchange and its members and member firms, I pledge the continued and fullest cooperation in the War Finance program of the Treasury.

It is a source of great satisfaction to our community to have had an active part in the sale of War Bonds and other Treasury issues. Our members and member firms, comprising a country-wide organization, stand ready to assist, to their utmost ability, in all subsequent War Loan drives.

With assurances of my esteem, and with best wishes for the continued success of the War Finance program, I am

Sincerely yours,



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

JUN 3 1943

Dear Harry:

Thank you for writing me about the stories in "Times-Herald", the Chicago "Tribune", and the New York "Daily News" of May 28.

I had already received from Mr. Bartelt a report about this matter, from which I quote the following:

"There is attached hereto a clipping from this morning's Times-Herald under the caption 'White House Staff Lags in Bond Buying.'

"Apparently this story is based in part upon some figures taken from a table of em-ployee participation contained in the March issue of the Interdepartmental Committee's Bulletin.

"I have been unable to determine, however, the basis for some of the statements. For instance, the following:

"War Savings Staff officials commented that it wasn't the clerks and stenographers and the guards around the White House and on the official staff that were lagging in their bond purchases - they are doing splendidly - but it is the higher-paid employees like Harry Hopkins and his ilk."

"While we do not have the names of persons now participating, it is my belief that Mr. Hopkins is participating in the Pay-roll Savings Plan.

Hon. Harry Hopkins--2.

"In talking with Mr. Leigh Ore, Public Relations Officer of the Interdepartmental Committee, on the telephone this morning, I learned that a reporter from the Chicago Tribune called in his office for figures on the White House. Mr. Ore handed him a copy of the report but expressed the opinion that the officials at the White House were buying bonds for cash.

"In connection with the foregoing your attention is called to the following statement in the article:

"Government employees, seeking to get him to contribute part of his substantial salary each month toward war-bond purchases, are put off, they said, with a tale about his wife buying them for him."

"I have reason to believe that no employee of the Interdepartmental Committee's staff or the Treasury Department made any statement upon which the above quotation could be based, and I doubt seriously whether there is any basis for such a statement unless it may have come from a disgruntled employee in the White House itself."

You will note Mr. Bartelt's opinion that no employee of this Department gave out the information on which this disagreeable story was based.

Sincerely,

(Signed) Henry

Hon. Harry L. Hopkins,
Special Assistant to the President,
The White House.

*Copies in Diary & incoming
File to Shavel*

HNG/mff

Per Agent Bouck 6:10 6/2/43

THE WHITE HOUSE
WASHINGTON

June 2, 1943

Dear Henry:

In the Washington Times-Herald of May 28th, the Chicago Tribune and the New York Daily News of the same date there appears the following:

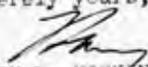
"War savings staff officials commented that it wasn't the clerks and stenographers and the guards around the White House and on the official staff that were lagging in their bond purchases - they are doing 'splendidly' - but it is the high paid employees like Harry Hopkins and his ilk."

.....
"Government employees, seeking to get him to contribute part of his substantial salary each month toward war-bond purchases, are put off, they said, with a tale about his wife buying them for him."

I have been told by Mr. Sanderson at the White House that no information was given out about the amount of war bonds I have purchased, but the news story claims this information was given out by someone in the Interdepartmental War Savings Bond Committee, which I believe, is headed by Mr. E.F. Bartelt of the Treasury Department.

I have no objection to anyone knowing how many bonds I buy providing this information about all government officials is similarly noted. I have, however, a serious objection to the information being based purely on payroll deductions for, in addition to my payroll deduction I bought a substantial number of bonds out of my income. Indeed, well over 20% of my income was spent for war bonds this year and, I think, it would be closer to 25%.

Sincerely yours,


HARRY L. HOPKINS

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, June 3, 1943.

Press Service
No. 36-88

The following joint statement is made by Secretary Morgenthau and by Antonio Espinosa de los Monteros, representing the Secretary of the Treasury of Mexico:

The Stabilization Agreement of 1941 between the United States and Mexico, under which the United States Stabilization Fund undertakes to purchase Mexican pesos to the amount of \$40 million for the purpose of stabilizing the U. S. dollar-Mexican peso rate, has been extended today for a period of two years beyond June 30, 1943. The Agreement also provides for periodic conferences among representatives of the two Treasuries and the Bank of Mexico.

The extension of the 1941 Agreement is in accord with the policy of the Mexican and the United States Treasuries of maintaining the stability of the rate of exchange between the currencies of the two countries. In so doing, the foundation for stable economic and financial relations between Mexico and the United States is maintained. It is a concrete demonstration of what is meant by the Good-Neighbor Policy and of the ability of the United States and Mexico to cooperate effectively as allies in war.

The extension of this Agreement was signed for Mexico by Mr. Antonio Espinosa de los Monteros, the representative of the Secretary of the Treasury of Mexico, and Mr. Rodrigo Gomez, the representative of the Bank of Mexico.

-oOo-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

June 3, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - Close on the heels of House approval, the Senate passed by a 62 to 19 vote, and sent to the White House the conference committee's tax compromise plan. Presidential approval is now generally predicted in view of Representative Robertson's statement in House debate Tuesday that the President had sent word to Speaker Rayburn to that effect.
2. Reciprocal Trade Agreements - Senatorial opposition to the Administration's trade agreement policy crumpled yesterday as that body passed the House-approved bill for the extension of the Reciprocal Trade Agreements Act without restrictions. Previously the Senate turned down attempts to limit the program by such methods as: (1) the Danaher amendment, permitting Congress by concurrent resolution to terminate the agreements six months after the war ends; (2) the O'Mahoney amendment, granting some form of Congressional veto over each agreement as it is made; (3) the Maloney amendment, which would have considered trade agreements as treaties and thus required Senate ratification by a two-thirds vote; (4) the McCarren amendment, forbidding any agreement which would let foreign commodities enter American markets at prices plus the tariff, lower than similar American products. With the defeat of these and other amendments, however, the Reciprocal Trade Agreements program emerged from running the gamut of Congressional hazing with only one minor restriction--the two-year extension clause instead of the three years originally requested. Only other change in the measure was the provision, inserted by the House, granting the President permissive power to refuse agreements with countries in which a cartel is operating to the detriment of the United States. Passage of the Reciprocal Trade Agreements Act with virtually no restrictions is a signal victory for the Administration, which urged this action as definite indication to our allies that the United States intends to continue its policy of international cooperation.

- Deficiency Appropriations Bill - A controversial amendment which the House passed and the Senate eliminated will send the Deficiency Appropriations Bill back to the two houses for another vote. This amendment which a joint conference could not agree upon would prohibit use of any of the bill's funds for payment of the salaries of Robert Morss Lovett, of the Virgin Islands, and Goodwin Watson and William E. Dodd, of the FCC, all three accused of "subversive activities" by the House Kerr Committee. Another controversial amendment upon which conferees cannot reach agreement is the provision denying use of the President's Emergency Fund for the National Resources Planning Board or the Farm Security Administration. Senate version of this amendment does not specifically mention these two agencies by name, but simply denies funds to any agency previously denied funds by Congress or whose appropriations had been drastically reduced by Congress. This would have the same effect as the House wording, however, since both the NRPB and the FSA have been refused money in other Congressional measures. If differences over these controversial amendments are not reconciled very soon, a number of federal agencies will face the necessity of deferring their paydays.
4. Labor - Despite a move yesterday to block its immediate consideration, the House began discussion of the Smith-Connally Anti-Strike Bill. Representatives of the War, Navy, and Labor Departments oppose the measure on the grounds that it will make legal, strikes now nominally outlawed by organized labor's "No Strike" promise. Chief controversial features of the bill, which has been stiffened in the House Military Affairs Committee since its Senate passage, would provide for a secret ballot of union members and a thirty day "cooling-off" period before strikes could be called in war plants. Other provisions of the bill would give the NLR legislative standing and the power to subpoena witnesses, and would require labor organizations to submit financial statements of their receipts to the National Labor Relations Board.

AGENDA

FOR THE BOARD OF ECONOMIC WARFARE MEETING
TO BE HELD JUNE 3, 1943, AT 10:00 A. M.
ROOM 201, SENATE OFFICE BUILDING

1. Discussion of Japan's war economy.
Notes on "Japan's Economic Potential" attached.
A more comprehensive report, "Japan's War
Economy - 1943" will be circulated next week.
2. Discussion of policy regarding enemy property,
patents, and trademarks in Latin America.
Memorandum attached on Mexican-American Cyanamid
Company negotiations.

WTS-25
CONFIDENTIAL

Copy No. 3

BOARD OF ECONOMIC WARFARE
War Trade Staff

MEMORANDUM ON
MEXICAN-AMERICAN CYANAMID COMPANY NEGOTIATIONS

CONFIDENTIAL

May 29, 1943

Memorandum on Mexican-American Cyanamid Company Negotiations

Examination of a copy of a proposed contract between the Government of the United Mexican States and American Cyanamid Company (hereafter called "Cyanamid") indicates the following:

The Mexican government declares its intention to expropriate thirty-four Axis-controlled companies (and their dependencies); agrees to convey their businesses, assets and properties (including trademarks and patents) to a corporation owned by the Mexican Government (designated "Quifar"), and to appoint a subsidiary of Cyanamid the general administrator of all the assets, businesses, properties and good will so transferred. Such subsidiary (designated "Tequis") is given powers of control equal (except for a very few limitations) to the powers of a sole owner; for its services it is to receive a fee of one million pesos per year plus a percentage of profits computed according to a formula which excludes from expenses (a) compensation or interest on invested capital, (b) all taxes on profits, (c) amortization of intangibles. The term of the contract runs to December 31, 1949, with provisions for extension.

The expropriated companies are engaged in the production, sale, and distribution of chemical, fertilizing, pharmaceutical, biological, photographic, coloring, dyeing, and paint products, or products related thereto. Some of the companies handle products which in no way compete with the products handled by some of the other companies. Cyanamid, we are informed, does not itself manufacture all of these products, but will have to buy them (through Tequis) from other American or foreign companies, which may or may not be competitors of Cyanamid in other markets. It is submitted that the result of the contract will be: (1) to give Cyanamid a dominance in the Mexican chemical industry which will range from 40% to 60%, depending on the commodities, and (2) to affect in many ways the relationships of Cyanamid with other American chemical companies, (including those under the control of the Alien Property Custodian). It is also believed the contract will be of great importance in connection with any post-war arrangements which might be made between American and foreign chemical companies.

The contract states that the Mexican Government deems it advisable to encourage and develop the chemical industry of Mexico, in general, and believes the offer of Cyanamid will make possible the fulfillment of this purpose. Cyanamid declares that it desires to carry out such administration in the manner which, in its judgment, is most suitable for the interests of the Mexican chemical industry.

- 2 -

Cyanamid and/or Tequis declare their willingness to administer the businesses and carry on such administration in the manner Tequis deems most efficient. Tequis may expand or contract, or shut down completely, any business so administered. Tequis agrees to furnish a General Manager (over whose selection there is no veto power); it also agrees to follow a "promotional policy giving preference to native born citizens" and some provision for training Mexicans is also inserted, although the contract language is not very clear on these points (perhaps translation is difficult). Tequis also agrees to make studies looking toward the erection of new plants, and to devote its best efforts to obtain the necessary permits for exportation of materials needed in their construction. Cyanamid agrees, during the term of the agreement, to grant royalty-free rights to certain of its patents, but no provision is made for continued use of these patents, free or otherwise, if the Mexican Corporation terminates the contract in 1949.

There is no clear-cut obligation on the part of Cyanamid or Tequis to try to increase the production of drugs or chemicals currently, nor to endeavor to reduce prices or hold them to any specified maximum, nor is there any obligation to cooperate in any general health program.

In effect, the Mexican Government is turning over the management of an industry vitally connected with the health of its citizens and with the country's agricultural possibilities to an unsupervised private foreign corporation whose dominant motive must be, quite properly, to earn as large a return as possible for its own stockholders. Moreover, in future dealings in this matter, whether with the Board of Economic Warfare, the Alien Property Custodian, the Coordinator of Inter-American Affairs, or the Department of Justice, the American Cyanamid Company will speak as the accredited representative of a foreign sovereign.

It is understood that the Alien Property Custodian has registered a protest against execution of the contract in its present form. In view of this, as well as the considerations brought out in this memorandum, it would seem advisable to provide some channel through which inter-agency suggestions or alternative plans could flow.

EB-21
CONFIDENTIAL
Copy No. 3

BOARD OF ECONOMIC WARFARE
Office of Economic Warfare Analysis
Enemy Branch

NOTES ON JAPAN'S ECONOMIC POTENTIAL

CONFIDENTIAL

May 1943

NOTES ON JAPAN'S ECONOMIC POTENTIAL

In cooperation with military and other agencies, the Board of Economic Warfare has been engaged in an examination of Japan's economic ability to support the war.

The Board's survey indicates that Japan's expansion of total output probably will not increase by more than ten percent in the current year. The rate of increase in the production of war materials, however, may be at a somewhat higher rate. Further conversion to war production, by lowering the present civilian living standards, is still possible. Japan has not yet reached Russia's degree of concentration on war production. In some categories, including ordnance and automotive equipment, Japan's capacity probably exceeds present production, and new capacity is being built. Moreover, the manpower of conquered countries can be trained and organized over a period of years to augment Japan's war potential.

Against these opportunities must be balanced limitations in processing and transportation which restrict Japan's basic industries. Among such limitations are:

1. Rolling mill capacity now limits Japan's production of steel (total rolled and forged) to some 6,750,000 metric tons. It is believed that this figure can not be increased by more than five to eight percent in 1944. This is about one-tenth of the steel produced in the United States.
2. Production of coal in Japan and the occupied territories is now about 112,000,000 tons. Transportation and manpower considerations are believed to restrict next year's increase in coal production to around three or four percent. This is about one-sixth of United States coal output.
3. Japan's electric power capacity does not exceed 17,000,000 kilowatts. Its power output is less than one-third that of the United States. Japan probably cannot increase its electric power production by more than ten percent in the coming year.
4. The ratio between the United States and Japanese shipping construction is approximately 20 to 1. Japan will produce around 700,000 gross tons of merchant ships in 1943 and possibly 900,000 gross tons in 1944. Construction must be balanced against a present loss rate of about 1,500,000 tons a year. Even with economies, including a shift from sea to land transport, saving 600,000 tons of shipping, Japan's shipping position will be worse off at the end of 1943.

5. It is estimated that after the 1943 needs of the Japanese armed services are met, 615,000 male workers can be added or transferred to war industries. In 1944, however, this rate of transfer can only be continued by more extensive use in industry of women and juveniles. The labor force can be increased about ten percent in 1944, but only with some loss in efficiency.

In finished armaments Japan's picture is somewhat brighter, although the essential outlines are the same. Estimates of aircraft production, for instance, indicate that Zeroes were turned out at the rate of about 75 per month a year ago, at about 120 per month in the third quarter of 1942, at about 170 during the fourth quarter. The present rate is about 190 per month. There are strong reasons for believing that the present rate represents attainment of a production plateau above which there will probably be no substantial rise until the end of 1943. Production of operational aircraft is now at about 6,500 per year and production of all types, including transports and trainers, is at about 9,500 per year. In regard to these estimates it may be noted that the most reliable evidence so far received has come from the examination of captured Japanese aircraft.

In summary, it can be said that Japan's defensive strength lies neither in its present economic potential nor in any possibilities for rapid increase over the next three or four years. Japan's hope of prolonging the war and obtaining a negotiated peace must rest upon geographical and logistical considerations, rather than expectation of increasing war production to meet that of the United Nations. An example of the logistic difficulties faced by the United Nations in attacking Japan is the limitation upon supplies to China even if Burma is recaptured. Calculations made by the Board, in which assistance was received from the former Director General of the Burma Road traffic control system, indicate that even after four years, and allowing for the construction of a railway and a pipeline in addition to restoring the highway, land transport across Burma to China might not exceed 100,000 tons a month.

Analysis, based on economic rather than political or military factors, indicates that Japan's greatest vulnerabilities in 1943 are in shipping and processing capacity.

1. Japan's present tight shipping position would be aggravated if Japan were forced to continue to employ the major part of her merchant fleet in supply of military forces in the peripheral areas, and by sinkings. This would limit further Japan's possibilities of economic expansion and constrict her opportunity to stockpile in the Inner Zone materials from the Outer Zone.

2. Increased supply to American and Chinese forces in China, at relatively low cost, imposes upon Japan high wastage rates in men and materials. Action in China presumably also looks toward the attainment of air bases within bombing range of Japan's productive centers. Of all major powers Japan has the highest degree of geographic concentration in war production. Aware of this weakness, the Japanese have attempted since 1937, and especially since 1941, to disperse their industry by decentralization, and thus have placed a further strain upon the overburdened Japanese transportation system.

The essential Japanese strategy, dictated in part by limitations of Japan's economic potential, appears to be one of husbanding resources, developing the self-sufficiency of the Inner Zone and thus prolonging the war.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 3, 1943, 3 P.M.

NO.: 842

This is message TF-127 from Mr. Adler for the Secretary of the Treasury with regard to the Department's no. 658, dated May 24, 1943.

1. Your proposals have been submitted to the Board and to Dr. Kung. At the earliest opportunity I shall report their views on each one.

2. With reference to your 1(d) the extension of permission to make remittances to Hongkong and Shanghai Bank receives my support on the following grounds:

a. It is desirable whenever and wherever possible to try to counteract or mitigate the present unhealthy trend which leads towards monopolization in the hands of government or semi-government institutions of businesses. From the point of view of the Chinese as well as that of foreign businesses this is desirable.

b. A precedent for the later inclusion of any American bank which may decide to open branches in free China will be established by granting permission to the Hongkong and Shanghai Bank.

ATCHESON

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL NO. 181

Information received up to 7 a.m., 3rd June, 1943.

1. NAVAL

One of H.M. Ships and 2 Destroyers carried out a further successful bombardment of PANTELLARIA on the evening of the 1st. The above Ship received 1 hit which only caused minor damage.

2. MILITARY

BURMA. 2nd. ARAKAN. No contact in area MAUNGDAW-BUTHIDAUNG with Japanese whose patrol activity is almost negligible, our patrols have the upper hand, heavy rain falling.

CHINHILLS. Retirement from FORT WHITE on 29th was due to water and administrative difficulties, weather continues to interfere with our air operations.

3. AIR OPERATIONS

WESTERN FRONT. 2nd. Fighters damaged 12 locomotives in Northern FRANCE and destroyed a 450 ton Trawler and damaged 3 others off TERSCHELLING. 5 Fighters missing. A Sunderland intercepted by 7 JU 88's in the BAY OF BISCAY destroyed 3 and damaged 2. 2nd/3rd. 30 Aircraft of Bomber Command laid 76 Sea Mines.

MEDITERRANEAN. 31st. 67 Fortresses dropped more than 130 tons on the airfield and railway station at YOGGIA. A total of 134 other aircraft attacked objectives at CAGLIARI, SANTA CATARINA and GUSPINI in SARDINIA, AUGUSTA in SICILY and on PANTELLARIA ISLAND. Enemy casualties - 3, 3, 6. Allied - 3 missing. 1st. During Anti-shipping operations in the Western MEDITERRANEAN, 2 Schooners were damaged.

4. HOME SECURITY

2nd. Fatal casualties in dawn attack IPSWICH now reported 11.

June 4, 1943
9:03 A. M.

Operator: Go ahead.

HMJr: Hello.

Fred
Vinson: How are you, Henry?

HMJr: How are you, Fred?

V: A lot better.

HMJr: Fred, where do you meet today?

V: Over here in the Federal Reserve Building.

HMJr: Oh, my heaven! Well, I can't - what I'm going to do - I only went to one meeting when Byrnes was there, but I'm coming over just to show my friendship to you today, see?

V: Well, that's awfully nice, but now I'll understand perfectly and we're not going to - and so far as I know there'll not be a great deal done. Of course.....

HMJr: Well....

V:we'll be glad - be glad for you to come over.

HMJr: Well, I'll come over and then if after a while I could excuse myself.

V: Well, we're not - unless something that I don't know about is coming up we won't be in there long.

HMJr: And then I - I....

V: My speech of acceptance will be short.

HMJr: Well, I want to....

V: (Laughs)

HMJr: ...I want to bring up two things - I mean - Byrnes never would let me send a substitute....

V: I see.

HMJr:which I think is silly - I mean I wanted to sell - send Bell, the Under Secretary.....

V: Yeah.

HMJr:when I couldn't come.

V: I see.

HMJr: The result is that - that nobody from the Treasury could - would come to the meeting....

V: Well, we'll see about that.

HMJr:and we'd like to be helpful.

V: Well, I know you do want to be helpful and will be helpful, and - and I know that we're going to work together.

HMJr: Well, I - I'm coming over just to show my friendship and then if it goes along too long, I'll - I'll excuse myself.

V: Well, that's fine. That's fine, Henry.

HMJr: All right.

V: Thanks a lot. Goodbye.

June 4, 1943
9:22 A. M.

Operator: Go ahead.

Frank Isbey: Hello.

HMJr: Frank Isbey?

I: Yes.

HMJr: Morgenthau.

I: Yes, sir.

HMJr: Good morning.

I: How are you, sir?

HMJr: I'm alive.

I: (Laughs) I wasn't any worried about that.

HMJr: Now how are you getting on in Michigan?

I: Well, all right. I talked to McLucas yesterday. I didn't go over to see him because we got swamped here. I was a day late, and I told him I was coming over there this morning.

HMJr: Yeah.

I: And I'll go over and have a talk with him, but we shouldn't have any trouble here....

HMJr: Well....

I:at all.

HMJr:we'd like to clean that thing up.

I: Well, I - I'll go over there and see him. I told him I'd call him this morning, so I'll go over and see him in a little while.

HMJr: Well, If I'm not available talk to Gamble, will you?

I: Yeah.

HMJr: But let us know.

I: Yeah. We won't have any trouble.

HMJr: And I'd li.. - I mean - if - I - I'd like to get some expression from Michigan today, if possible. I'd like to hear from Michigan today, if possible.

Operator: Yes, sir.

HMJr: I guess I'm cut off.

Operator: Oh! Just a moment.

HMJr: I'd like to hear from Michigan today, if possible.

I: Well, I'll - I'll let you know within - oh, the next few hours. I'll get it straightened out.

HMJr: Will you do that?

I: Yeah. We won't have no trouble here.

HMJr: Well, the sooner we can get a - a nice announcement from the State on the - on the - what's happening out there, the better.

I: Yeah. All right.

HMJr: All right.

I: Did you get New York straightened out?

HMJr: No.

I: Uh huh.

HMJr: No.

I: Well, we won't have here, because there's no - no excitement here at all.

HMJr: Wonderful.

I: Yeah.

HMJr: Thank you.

I: Bye - bye.

June 4, 1943
9:34 A. M.

HMJr: Hello.

Randolph
Burgess: Hello, Henry.

HMJr: Did you get back all right?

B: Yep. (Laughs) We had a hot train, but....

HMJr: Oh.

B:we got back all right.

HMJr: I'm sorry. Now, Randolph, after you people left we had a little meeting here....

B: Yeah.

HMJr:and it was the unanimous decision of the people who work with me in the Treasury that we'd like you for State Chairman....

B: Oh, oh.

HMJr:and you know the Treasury; you know the Federal Reserve; and - and you're a damn good fellow.

B: (Laughs) Well, it's nice of you to say so.

HMJr: Well, I'll tell you, I just can't fool around with this thing any longer, and I don't want to take a stranger; New York we got to look to for 40% of the money....

B: Yeah.

HMJr:and everybody's got confidence in you, and if you took the thing, why, I could practically forget New York.

B: Yeah. Well, now let me - let me go over that and talk of it with Gordon and.....

HMJr: Would you let me talk to Gordon?

B: Sure.

- 2 -

HMJr: Uh....

B: Now I don't know whether he's in now. I'll get him to call you back. That's the best way.

HMJr: Will you ask him to do that?

B: Yeah. Yeah.

HMJr: And this is something that means an awful lot to us here in the Treasury and....

B: Yeah.

HMJr:it's - well, it would sweeten up the whole picture.

B: Well, let me go over it very carefully. I want to talk to Gordon; I want to talk to Bill Potter, because he's been in this picture.

HMJr: Well, I'm - do you mind if I call him also?

B: That's all right. Yeah.

HMJr: Thank you. That's W.....

B: And I'd also, before I did anything, want to talk to Allan Sproul, if I can.

HMJr: Well, and now would you like - would you like - would you like me to have the Federal Reserve Board here send you word they'd like to have you do it, or doesn't that....

B: Let's not do that yet, Henry. Let's talk it over with Gordon and Bill Potter first.

HMJr: Right. Right. Well, I - you - Rentschler will call me.

B: Yep. I'll get him to call you.

HMJr: Will you?

B: Yep.

- 3 -

HMJr: And I've - I'm coming up tonight. I'll be at the hospital again at seven.

B: Yes.

HMJr: Mrs. Morgenthau's had a turn for the worse.

B: Oh, I'm terribly sorry.

HMJr: She's got phlebitis now.

B: Oh, dear.

HMJr: And it just seems one thing after another.

B: Yeah.

HMJr: And....

B: Oh, that's too bad.

HMJr:so I'll be up there and I'd be there tomorrow.

B: Yeah. All right.

HMJr: But - but you put your heart into this thing and I'll - I'll never forget it.

B: Well, I'll - I'll go over this very carefully....

HMJr: All right.

B:and get Gordon to call you and I'll talk to Bill Potter.

HMJr: Right.

B: Yeah.

HMJr: Thank you.

B: Very good, Henry.

HMJr: Thank you.

June 4, 1943
9:40 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Gamble
Mr. Sullivan
Mr. White
Mr. Paul
Mr. Smith
Mr. Haas
Mr. Thompson
Mrs. McHugh

H.M.JR: I just want to tell you people a little bit about two things, one of which from the Treasury standpoint is the most important.

We have been trying to get organized on a State basis to sell war bonds, and we have a good setup in New Jersey for the State. Mr. Young, the president of the Federal Reserve of Chicago, came on. He was most helpful and they will do all right in Indiana, Illinois, and Michigan.

We have been having a hell of a time in New York because nothing that we seem to do can please Mr. Sproul. In Mr. Sproul's defense I should say that he has been sick for several weeks, but the fact remains that we find it very difficult to do anything. We get him up to the trough to drink, but then he has some other reason. But that is only true of New York.

The man who is the head of the Victory Fund Committee, a man named Perry Hall, wouldn't play ball. I never worked on a fellow harder than I did to get him.

This morning coming down in the car George Buffington wanted to know how long he had to think this thing over -

- 2 -

whether he wanted to go along - and I told him to answer today. His answer was that he didn't think this thing was going to work so he wanted to get out. Bell wants to have another chance to have a talk with him. I told him he could; but if he reconsiders I want to have another talk with him because George has had ample time to think this thing over. I told him this morning - I said, "You are just quitting under fire. It is tough, and I got my back to the wall and I am fighting and this is the time when I need people who believe in their country and believe in what we are trying to do." And I don't think all the talk in the world that Bell is going to give him is going to do any good, but Bell is going to have a crack at it.

The second man is quitting for the same reason - Hobbs. I have been through this a number--

MR. PAUL: Who is the second man?

H.M.JR: Hobbs. I have been through this before with Wayne Taylor and Johnny Hanes and the rest of them. I ought to be used to it by now. But every time it happens it is like a body blow.

And then this is a strange thing, you get a man like Mr. Potter who is chairman of the Guaranty Trust - a man sixty-nine years old who has a physical ailment - a total stranger to me, and he takes off his coat and goes to work for me because we are at war. And these people - they are more interested in who is going to run the war than who is going to win the war. But it is more and more difficult. We will come out, because there are a lot of very patriotic people in this country who are going to see us through on this thing.

I thought you people ought to know a little bit about it. The papers have been very good, except the Hearst papers, and that isn't necessary. Hearst's is just one writer - Gould - and they haven't carried it in all the papers, but the rest of the papers - they all know about it, but they haven't run it.

(Mr. Thompson entered the conference.)

I will say this now that the thing is over - the Federal Reserve Board, with the exception of Sproul in New York - all

- 3 -

the bank presidents with which we have contact have been swell, and the Board has been swell. But you have to get about forty percent of your money in New York, and they can't just laugh it off.

Now, I have offered the job to Randolph Burgess for the State of New York as chairman, and he is going to talk it over with Mr. Rentschler and Mr. Potter. I imagine I will get an answer tonight.

Now, in this setup, one thing I think, Gamble, that you ought to do - the man that you have over there in War Bonds as administrator is no damned good, see. What is his name?

MR. GAMBLE: You are talking about Mr. Sloan?

H.M.JR: No.

MR. GAMBLE: Mr. Adams?

H.M.JR: Sloan and Adams. I want for this bigger thing--

MR. THOMPSON: Adams has gone into the Navy.

MR. BELL: Sloan is going to Chicago.

H.M.JR: Good.

Now, we ought to have a top-flight man, and Coyne isn't the man.

MR. GAMBLE: You are talking about the administrative end now? Coyne is not an administrative head.

H.M.JR: No, but who have you got in mind?

MR. GAMBLE: I think we have a good man there if we can add somebody like Mr. Cake to the staff. We would do very well if we can keep Cake.

MR. BELL: I don't think you need a fellow for Sloan's place, because you are going to split the organization into about four parts, one advertising, and these other three

- 4 -

divisions, and you don't need the executive director any more for the organization. That is going to center up into four places, plus Ted at the top.

MR. GAMBLE: It was always a superfluous job. We don't really need an executive director.

H.M.JR: I am talking about the administrative man to run the red tape.

MR. BELL: The housekeeping.

H.M.JR: Just like when you go to an Army camp, they have one general who runs the camp, and these other generals come and go with their troops.

MR. THOMPSON: A good administrative man.

H.M.JR: Well, he had better be good.

MR. GAMBLE: Yes, we need a top administrative man, and the job is going to be much bigger than it has ever been before.

H.M.JR: I want the very best the Treasury has - so good that when Ted is out of town he would be good enough to run the thing.

(The Secretary left the conference temporarily.)

H.M.JR: Well, what I think is - and it doesn't have to be settled at this moment - but what I was thinking about - I thought this - and you people can think it over during the day - I would like to give you - you said, "Who is going to be responsible while he is gone, you see, out of town?"

MR. BELL: That was the question I asked this morning, and the idea was, as Ted explained it, that he would take one of these three people on a line and make them acting while he was out.

H.M.JR: I don't like that.

- 5 -

MR. GAMBLE: You would rather have a general assistant?

H.M.JR: I would like to give you Eddie Bartelt, see.

MR. BELL: Who are you going to give me? (Laughter)

I don't think you want an administrative assistant such as you describe. I don't think you put that man between Ted and his three assistants. You have to make him a deputy or something like that.

H.M.JR: We will make him a deputy.

MR. GAMBLE: You are talking about deputy director and a good administrative assistant.

H.M.JR: Well, you have to have a deputy director, and none of these men you mentioned suit me for when you are out of town.

MR. GAMBLE: Then we will go ahead with your suggestion and bring in the man who will do it.

H.M.JR: None of these men that you have suit me. I mean, it has to be somebody who sits on the opposite side of the table, literally, so that when you are out of town in the field organizing there is somebody here who is going to carry on every minute. This is a hell of a big job.

MR. GAMBLE: I understand.

H.M.JR: And these fellows drop by the wayside. We have to have somebody first-class.

MR. GASTON: We may have to go into the field and pick some of these A number one State men.

H.M.JR: I suggested that first, and Ted didn't like it.

MR. GAMBLE: For the reason I told you this morning. I thought I had a morale problem with some of these boys

- 6 -

and I didn't want to put an assistant over the top of them until we got them squared around.

H.M.JR: My first suggestion was that you go into the field and find another Gamble in some State. That is what we did with Ted; we brought him in.

MR. GAMBLE: I will bring in three men and you can look at them the first of the week. We have good men - top men.

H.M.JR: From where?

MR. GAMBLE: Southern California. Howard Mills is an investment banker who has been the administrator for the War Savings organization. He has both sides of this thing. He is a top man.

MR. BELL: If this other hadn't developed, I was hoping you would put Buffington in as deputy and Hobbs in charge of the banking end.

H.M.JR: Well, as I say, I want a deputy to Gamble. That I know.

MR. GAMBLE: All right, sir. That is a different job--

MR. GASTON: That is right.

MR. GAMBLE: That is a different job from the way you described it.

H.M.JR: Well, I want a deputy so that as you go around the field there is somebody here when I am here or Bell is here so that this thing is tied up in a package.

MR. GAMBLE: All right, sir. We will have such a man.

H.M.JR: I won't be here Monday. I have two things. In the first place, Mrs. Morgenthau is much worse this morning again. They are afraid she has got phlebitis now, and she has another patch on her lung. So I will be between the hospital and the farm from now until Friday. I have to come back Friday on account of this damned--

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MR. PAUL: We can put that off. We can change that. You can let us know later.

H.M.JR: Didn't get anywhere yesterday.

MR. PAUL: No, I don't think there is much point in the conference, anyway, at this time. They seem to want to have it--

H.M.JR: But, Ted, you have got to get yourself a deputy and get one damned fast.

MR. PAUL: Vinson, by the way, felt very encouraged. He went down to the office with me afterward and talked things over, and he felt very encouraged.

H.M.JR: You (Mrs. McHugh) take a note to the President: "Thursday morning at nine o'clock the following gentlemen met in my office: Senator Walter George, Senator Harry Byrd, Congressman Robert Doughton, Congressman Jere Cooper, Judge Fred Vinson, Mr. Randolph Paul, and myself."

MR. PAUL: I have made a conference report on that.

H.M.JR: "For two and a half hours we discussed whether or not we should have another tax bill, and if so, when. Most of the discussion centered around the fact that the Democratic members of Congress evidently want to adjourn until--"

MR. PAUL: "--adjourn for the months of July and August."

H.M.JR: "Mr. Paul presented a number of combinations which would raise sixteen billion dollars additional revenue on an annual basis.

"The Senators and Congressmen wanted to think the matter over and asked for an opportunity to meet with us again in about a week. I will continue to keep you posted. Sincerely yours."

Give it to Paul as a draft and he can make any changes he wants to.

MR. PAUL: After that meeting I was up on the Hill with Dingell - had lunch with him - and Disney came over to the table, and the conversation turned to a tax bill and both of

- 8 -

them said - they are both members of the Ways and Means Committee - and they said very emphatically that they would do no work this recess on the tax bill.

MR. SULLIVAN: Dingell and who else?

MR. PAUL: Disney.

MR. SULLIVAN: And they are your pals - our pals - aren't they?

MR. PAUL: At least they are supposed to be on our team.

We have received back in conference, now--

H.M.JR: What?

MR. PAUL: We have received back in conference about half what we lost on the Foreign Funds appropriation. We finally persuaded Taber to let half through. That thing is settled.

MR. THOMPSON: The silver item is still tied up.

MR. PAUL: Yes, that is still tied up.

H.M.JR: Why don't we - you know Bob Doughton said he would just as leave have it a week from Monday. Well, let's see how we go along. The question is, is he coming back?

MR. PAUL: He called me just as I came in here, but I haven't talked with him yet.

H.M.JR: Well, why don't you ask him whether he is coming back from North Carolina?

MR. PAUL: Do you mind making it a week from Tuesday?

H.M.JR: I had just as leave.

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MR. PAUL: If I am in New York, it is awfully hard to get a Sunday night reservation.

H.M.JR: That will suit me fine because I don't think anything is going to come out of it, anyway. I think you will find he won't want to be here Friday. But we will see how we get along.

MR. PAUL: Vinson sent over a memorandum yesterday afternoon asking for some data on various points.

H.M.JR: For the veto or signing--

MR. PAUL: No, on the general tax picture.

H.M.JR: Well, I told Vinson--

MR. PAUL: I don't know where Vinson got the idea he seemed to have about that memorandum. He certainly didn't get it from me.

H.M.JR: What memo?

MR. PAUL: You sent to the President. I thought he showed yesterday that he knew we sent one over.

H.M.JR: No, I told him.

MR. PAUL: I didn't know how he got that.

H.M.JR: No, no, I told him. I told him with my little speech - how I was willing to cooperate up to the time I am stabbed the third time in the back, then after that I would no longer cooperate. (Laughter)

MR. PAUL: But he said something early in the meeting. I heard you say that. He said something early in the meeting that indicated that he knew that memo had gone over.

H.M.JR: That is fair enough, isn't it? (Laughter)

MR. SULLIVAN: You will get porous if you take two from everybody. (Laughter)

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Incidentally, Guy Helvering completes ten years as Commissioner, tomorrow. Do you want to drop him a note?

H.M.JR: Will you write it? I will sign it.

MR. SULLIVAN: Sure. I have two other letters. Do you want to sign what Fred and I agree under the labor unions and the labor press? Do you want to see them?

H.M.JR: No, that is what Fred is here for.

MR. SULLIVAN: Legalized forgery. (Laughter)

H.M.JR: But if we don't do anything else this morning, I think that if Bell agrees - unless I am moving too fast - and Norman ought to sort of be in on this thing - that he definitely needs a deputy.

MR. BELL: I agree with that.

H.M.JR: I hope you agree to that.

MR. GAMBLE: I agree to it under these latest developments.

MR. GASTON: I think so.

H.M.JR: You should have somebody literally in your room, if you can stand it, so that when you go out on the road this fellow knows--

MR. GAMBLE: I can stand it.

H.M.JR: --everything that is going on.

I am repeating myself, but what you do there you have got to keep Bell and me serviced, and on publicity, Chick Schwarz.

MR. THOMPSON: I wonder if we shouldn't move Ted around the hall here.

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H.M.JR: No, he is going to the Sloan Building.

MR. GASTON: I have a little question about that. I just don't know whether that is going to work out very well or not. There is going to be a lot of running back and forth between here and the Sloan Building.

H.M.JR: Well, how is he going to keep in touch with his organization?

MR. GASTON: By telephone, the way Dan keeps in touch with his organization.

MR. BELL: Probably ought to have an office in both places. He ought to have an office over here.

MR. GAMBLE: I should spend a few hours over there every day.

H.M.JR: Why can't you have an office in both places?

MR. GAMBLE: Can have. That is the way it will work out.

H.M.JR: But I don't want - I mean, I don't want Peter Odegard over here; I don't want Professor Welch over here, and all of these appendages. I mean, if you are going to have it, then they ought to all be over there. And let Gamble have an office, but let him have an office here, too. Do you agree on that?

MR. GAMBLE: I agree on that perfectly, and I think that it should be arranged so that I can spend a few hours over there every day.

H.M.JR: Well, now, where will you fix him up?

MR. BELL: Where he is.

MR. THOMPSON: Right where he is, on that basis, I should think.

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H.M.JR: Well, if Odegard goes over there you could throw those two rooms into one.

MR. GAMBLE: That is right.

MR. GASTON: Put his deputy in the Odegard room, and then there will be one of them here all the time.

MR. GAMBLE: I would rather keep the deputy over there, Herbert.

H.M.JR: Then when Harold Graves moves out you can have--

MR. GAMBLE: We have no space problem.

H.M.JR: --you can have that room.

MR. BELL: We have three rooms down there, really. We have Robbins' room and his deputy's room.

MR. SMITH: I took over Robbins' office.

H.M.JR: When Harold Graves moves out you can have Harold's room.

MR. GAMBLE: That is a good place.

H.M.JR: Let him have Harold's room.

Has anybody got any special pleasant--

MR. SULLIVAN: Yes, there is a good spot on the broadcast on June 13 which was first offered for June 8, but that is too early, on withholding. They want either you or me.

H.M.JR: I am for you.

MR. SULLIVAN: I am for you, too. (Laughter)

MR. PAUL: We have several requests on that, John.

- 13 -

MR. SULLIVAN: We have a very good program mapped out on publicity on the withholding, and on June 15 on War Bonds.

MR. GASTON: The lid is off on that stuff. Don't ask me - do all you can on explaining this law.

H.M.JR: Don't ask you?

MR. GASTON: I mean, they have been checking with me whether so and so ought to speak, and so on, but I mean, on explaining this withholding tax, I think John should just organize as good a program as he can. That is the thing to do - to put all the pressure possible on the the explaining of this law.

MR. SULLIVAN: I talked with General Carter and Admiral Carter, yesterday. There have been a lot of queries coming in from the Army and Navy. They are coming over today and we are getting out a pamphlet for the service men, and also General Carter spoke about some difficulties he was having working out withholding for the civilian employees. So I am giving him a man to work in liaison with the War Department, to work out their problems, and then I asked Carter if he wanted somebody, and he said that he would be delighted. So that part is working out all right.

H.M.JR: O.K.

June 4, 1943

My dear Mr. President:

Thursday morning at nine o'clock, the following gentlemen met in my office: Senator Walter George, Senator Harry Byrd, Congressman Robert Doughton, Congressman Jere Cooper, Judge Fred Vinson, Mr. Randolph Paul and myself.

For two and one-half hours we discussed whether we should have another tax bill and, if so, when. Most of those present conceded the necessity of a tax bill this year, though there was a strong opinion that it should not apply to 1943 income. The question when a tax bill can be considered is complicated by the fact that many members of Congress evidently want to adjourn for the months of July and August.

Mr. Paul presented a number of plans which by different combinations would raise 16 billion dollars of additional revenue on an annual basis. The Senators and Congressmen wanted to think the matter over, and asked for an opportunity to meet with us again shortly. A further conference has been arranged for June 15th.

I will continue to keep you posted.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Sent by Secret Service Agent

6/4/43 - 12:45 p.m.

File in Diary

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~~mean~~ 1943 income

My To

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Yours sincerely,

The President,
The White House.

by different combinations

June 4, 1943
10:37 A. M.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello. Hello. Gordon?

Gordon
Rentschler: Hello, Henry. Good morning.

HMJr: How are you? Got a little....

R: Fine.

HMJr:cold?

R: How is Mrs. Morgenthau?

HMJr: Hello?

R: Hello?

HMJr: Is this my call or yours? Am I calling you,
or are you calling me?

R: Why, I was calling back to you. They ssid you'd
had a call for me.

HMJr: That's right.

R: Henry, how is Mrs. Morgenthau this morning?

HMJr: Not so good, I'm sorry to say.

R: Oh, I'm sorry.

HMJr: No. She's had a little setback.

R: Oh, that's too bad. Well, she's making progress
though.

HMJr: No, I don't think she is right now.

R: Oh.

HMJr: But they're not too worried - but I'm going to
be up there this afternoon late....

R: Yes.

HMJr:again, and we're having - bringing in another....

R: If there's anything in the world we can do, Henry - I suppose you've got everything that you want done.

HMJr: We've got everything medically. We just need a little luck now.

R: Yes.

HMJr: Gor. - thank you anyway for your interest. Gordon, what you can do for me is -- I want Randolph Burgess to take over the State Chairman for War Finance for the State of New York.

R: My golly, fellow, you want a lot this morning.

HMJr: Well, I don't - it isn't for me, it's for the country, but it is for me also.

R: Yes. I see.

HMJr: I - I - this is - this is - I never was more earnest in my life, and it's both for the country and - and I'll say it's for me personally. Now there're certain interests up there that are very much in the minority, that are making me a little trouble....

R: Yes.

HMJr:but Randolph has been swell and I know you can back him up, and Mr. Potter's been swell.

R: Yes.

HMJr: And it's in times like....

R: They've both been terribly interested in trying to make this a big success, Henry.

HMJr: And I think that Randolph is - is fitted in every way to do this thing, and I'd appreciate it very much if - if you'd let him do it.

R: Henry, let me have a chance to talk with Randolph and some of our other men and see how we can re....

- 3 -

HMJr: Yeah.

R:change our things here to fit.

HMJr: Yeah.

R: Our offhand disposition is to do anything you want to do, but I'd - I'd like to check with Randolph and some of the directors and see whether - how that fits.

HMJr: Well, this is the first really important thing that I've asked....

R: Well, I appreciate that.

HMJr:and it's - it's terribly important for us.

R: Well, we'll approach it entirely from that point of view, Henry.

HMJr: And....

R: And I'll give you - I'll - I'll talk it over and I'll give you a - a ring at a very early time.

HMJr: Now what do you call an early time?

R: Well, you'd like to know as early as you can this afternoon, I suppose.

HMJr: Yes.

R: Fine. Well, I'll - I'll get at it right away, Henry, as the - as the one thing we'll give preference over everything else to.

HMJr: Well, I can't ask for any more, and....

R: And we'll - we'll try every way we can.

HMJr: Well, I can't ask any more.

R: All right, Henry. Fine.

HMJr: Thank you.

R: And I'll give you a ring later on this afternoon - early this afternoon.

HMJr: Thank you.

R: Right.

HMJr: Goodbye.

June 4, 1943
11:49 A. M.

HMJr: Hello.

Operator: Mr. Potter.

HMJr: Thank you.

Operator: Go ahead.

HMJr: Hello.

William
Potter. Hello.

HMJr: Mr. Potter?

P: Yes.

HMJr: Morgenthau speaking.

P: Yes, Mr. Morgenthau.

HMJr: I hope your trip home wasn't too uncomfortable.

P: Oh, we were all right. We got good accommodations, and we got home all right, a little hot, but nothing's perfect.

HMJr: Good. Mr. Potter, after you gentlemen left, we talked things over here in the Treasury and we came to the unanimous conclusion that we'd like to have Randolph Burgess take the State Chairmanship of New York.

P: I know that, because Mr. Burgess and Mr. Rentschler are in my office now.

HMJr: I see. (Laughs)

P: (Laughs) Yes. I know all about it.

HMJr: And I - I hope that not only will you approve, but I'll get your assistance.

P: Well, you will.

HMJr: Good.

- 2 -

P: Of course, Randolph isn't hankering for it.

HMJr: Oh.

P: Now I'll tell you just what I've said to him.....

HMJr: Please.

P:or between us we've said this.

HMJr: Yeah.

P: Randolph has asked me to call together the bankers of New York City....

HMJr: Yes.

P:the principal ones.

HMJr: Yeah.

P: I have done that and I'm holding a meeting with them this afternoon.

HMJr: Yes.

P: He's asked me to do it, because he wants me to put the question up to them....

HMJr: Yeah.

P:as to whether they will give Randolph Burgess their wholehearted, unreserved support.

HMJr: Right.

P: I'm going to do that for him.

HMJr: Fine.

P: I - I think I know what the answer will be.

HMJr: I do too.

P: But anyhow I want to get them committed.

HMJr: Good.

P: Then again, Randolph is going to do one more thing.

HMJr: Right.

- 3 -

P: On account of his long and very close association with Allan Sproul....

HMJr: Yeah.

P:he wants to tell Allan himself.....

HMJr: Yeah.

P:just what's happened.

HMJr: Yes.

P: And he wants to - well, that's what he wants to do.

HMJr: Well, I think that's a nice thing to do.

P: And he wants Allan, of course, to say to him, "God bless you. I'll do anything I can to help you."

HMJr: And I'm sure he will.

P: And I feel satisfied that he will and he couldn't do anything else if he wanted to, but I know he'll want to.

HMJr: That's right.

P: Now those are the things that we're doing.....

HMJr: Yeah.

P:and I suppose that Randolph won't tell you "yes" positively until certain formalities and steps have been taken.

HMJr: Yeah.

P: But we talked it over here and I'm going to do everything I can to help him.

HMJr: Well, I - I can't begin to tell you how much I appreciate what you're doing.

P: Yeah.

HMJr: I realize that you're doing it for your country and I appreciate it.

P: Certainly.

HMJr: I....

P: I'm doing it partly for you, too.

HMJr: Well, I - I....

P: The other thing's first and you're second.

HMJr: Well, I would like.....

P: Isn't it?

HMJr: Well, it's that way with me - I.....

P: (Laughs) I know it.

HMJr: I - I - your - I'm glad to be under obligations to you for this, too.

P: Well, you won't be under any obligation.....

HMJr: Well....

P:Henry.

HMJr: Well, I - I'm glad to be under obligation.

P: All right, sir. That's nice.

HMJr: Now, is Randolph going to be home tonight?

P: (Talks aside: Are you going to be home tonight, Randolph?) Yes, he is.

HMJr: Well, after supper -- after his supper -- I - I'll give him a ring.

P: All right.

HMJr: And may.. -

P: You know where he is, do you?

HMJr: Dorset. Is that right?

P: Just a minute. (Talks aside: Where are you going to be?) At the Hotel Dorset in New York.

HMJr: Yes. Well, I expect to be up at the hospital between six and seven.

P: Yeah.

HMJr: After - sometime after supper I'll - I'll give him a ring.

P: I'll tell him that.

HMJr: And then we can either get together tonight or maybe tom.. - are you going to be in town tomorrow?

P: I - I wasn't.

HMJr: Well, you're doing your work this afternoon.

P: Yes. I'm doing everything that I expect to have to do just at this juncture right now.

HMJr: And - and - and Randolph will know the results of this meeting?

P: He'll know it immediately.

HMJr: Is he - when - when is he going to see Sproul?

P: Well, he can't see Sproul. He's got to talk to him....

HMJr: Oh.

P:on the telephone. Sproul has left this morning....

HMJr: I see.

P:for the ?

HMJr: Oh, yeah....

P: a club.

HMJr: Uh huh.

P:and he won't get there until about six o'clock this evening.....

HMJr: I see.

P:so we won't be able to get him on the telephone until he gets there.

HMJr: Oh, yeah.

P: He's on the train.

HMJr: And I've been there and the connections are not too good.

P: No, they're not.

HMJr: (Laughs) Well, I again am very much obliged and - and I'll be contacting Randolph after supper tonight.

P: I'll tell him that.

HMJr: Thank you.

P: Goodbye.

June 4, 1943
12:15 p.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Gamble
Mr. Smith
Mrs. McHugh

H.M.JR: Do you want to tell these fellows briefly the result of your conversation?

MR. BELL: I talked an hour and a half with Buffington and Hobbs, trying to point out the desirability of building this organization quickly and building it around the people who had already had the experience, and we discussed it back and forth and apparently a lot of things have happened. They are kind of building up in their own minds reasons why they can't stay in the organization.

Finally I tried to tell them that there are a lot of things done in Washington that nobody agrees with, and everybody has to go along with it. The Secretary many times has had decisions made that he didn't agree with, yet he had to support them.

The same was true in my case when I was Director of the Budget.

I said, "This thing is bigger than any one man; we have got a war to win; the financing has got to be done, and you fellows have just got to stay and help on it."

The final thing was that they said they didn't think they could be effective in it, and they thought they were making an honest decision by pulling out and saying they thought somebody else could work better in the organization - in the setup.

- 2 -

They said they had lost a good many of their contacts by these people pulling out, just like going into a new organization, so there wasn't any difference than taking somebody from the outside.

H.M.JR: One little thing I have got to repeat because you fellows are sitting here. He said that I referred to him as a guest, not as a member of the Treasury. You remember, I was trying to do that tax thing with Paul, and Buffington - were you there?

MR. GAMBLE: I was out of the room. George came out and asked me about it and I explained it to him.

H.M.JR: He interrupted me. I said, "George, please remember you are a guest in the room" - instead of saying, "Shut up." (Laughter)

He said - I mean, here I am in the middle of a tax thing, and he wants to tell me. If that is something to quit about - I told Mrs. McHugh - I said, "This is the first time you have ever seen me under such a strain; either you are going to come through it all right or you are not." She came through it beautifully. Mrs. Klotz has seen me in that condition a hundred times. That is the time when you need people to help you quiet down. He used that as an example - one of the smallest things.

MR. BELL: That is one of the many things building up--

H.M.JR: Weren't you furious at me because you weren't invited for lunch? Weren't you wild at me? (Laughter)

MR. GAMBLE: No.

H.M.JR: George Buffington is. He wasn't invited to lunch yesterday. It gets down on that basis. Dan thought he could do it; he made an honest effort. I knew he couldn't.

MR. BELL: Well, I failed.

- 3 -

MR. GAMBLE: I asked your secretary to tell you (Bell) if I could be of any service to you while you were talking to them I wanted to be.

H.M.JR: Now we got a little on the good news side. I talked - I just talked with Potter, and in his room was Gordon Rentscheler and Burgess. And at the request of Burgess, Mr. Potter has called a meeting of all the New York bankers this afternoon to ask them whether they will support Randolph Burgess. So, if they say, "Yes," he can't say, "No." I mean, he is asking them for their support.

Sometime between six and seven he is going to talk with Sproul and say, "Sproul, I take this job because I have your support," and I am going to talk to him after supper tonight.

MR. BELL: What has been done about Patterson?

MR. GAMBLE: If I may, I will take that responsibility.

MR. BELL: I didn't want two.

H.M.JR: Two what?

MR. BELL: Two men in New York thinking they were in charge.

MR. GAMBLE: I will dispose of Patterson.

H.M.JR: Gamble has set him up and set him down four times. He says he is a rubber ball. (Laughter)

MR. GASTON: I think Randy might be able to use Dick Patterson as a speech maker - a general assistant.

MR. GAMBLE: I think he should be told. I think you should tell Mr. Burgess that we haven't the slightest hesitency of taking Patterson out of the picture; and if he honestly wants him out, which he probably does, we will take the responsibility for it.

- 4 -

H.M.JR: Well now, I think--

MR. BELL: May I go on with that a little?

H.M.JR: Yes, please.

MR. BELL: Remember that Mr. Potter is having a meeting of probably seventy-five or eighty bankers this afternoon.

H.M.JR: A dozen.

MR. BELL: That is public information. If Mr. Burgess is going to be made president, it won't be supertime before Dick Patterson hears it.

H.M.JR: Call him up and tell him that we offered it to Burgess.

MR. BELL: Yes, I think something ought to be done before it is in the paper.

H.M.JR: Call him up and tell him we have offered it to Burgess.

MR. GASTON: I think the situation is that the Secretary talked to him and told him that he wanted him to be chairman and that was on tentative basis - on the basis that he form an organization with him - and he found he just couldn't perform.

MR. BELL: So he has asked Burgess to form the organization as chairman.

H.M.JR: I will leave it to him (Gamble). He has done it about three times already. He says that every time he does it I undo it. (Laughter)

Well, you are going up with me tonight?

MR. SMITH: Am I invited?

H.M.JR: Yes.

- 5 -

MR. SMITH: Yes.

H.M.JR: I think you (Gamble) had better be up there, too.

MR. GAMBLE: No, I don't mind. Would you like me to go with you?

H.M.JR: I think the two of you. I won't bother Herbert on this, unless you want to come.

MR. GASTON: No, I think I would a little rather--

H.M.JR: Be honest.

MR. GASTON: I think I had better stay here. I will be up there Monday.

H.M.JR: I don't think I need you. I don't want you to think you are my guest or something. (Laughter) Herbert has been through it. Herbert knows my bad and few good points. I think I will take Gamble and this fellow (Smith) with me; and be ready to leave from three-thirty on, will you, please?

MR. BELL: Gamble will go with you Monday, I take it, to the meeting.

H.M.JR: Yes. Are you coming up Monday?

MR. GASTON: I am coming up Monday to attend that newspapermen's thing.

H.M.JR: What time is that?

MR. GASTON: One o'clock, I think.

H.M.JR: Mine is at three. Can you join me at three?

MR. GASTON: Yes.

MR. GAMBLE: We can really go to work after we get the New York thing. I think it is awfully important that we have everybody around so we move as fast as we can.

- 6 -

H.M.JR: Do we need Mrs. McHugh up there, or not? I don't think I need you (Mrs. McHugh) tomorrow.

MR. GAMBLE: I shouldn't think you would. It is going to be confined to this one problem.

H.M.JR: If I want you (Mrs. McHugh) up Monday, I can get you through the Treasury. We will see. But I think the chances are that by tonight this New York thing is going to be in the bag.

MR. GAMBLE: I believe so, too.

H.M.JR: If you need a car, either of you, to send up to your house for stuff, 121 is at your disposal.

Now, as to George staying around here for a month or two, let that cook - he has taken plenty of time to make up his mind, so when we want to sever connections - let's hold that in abeyance. He has offered to stay around here a month or two.

MR. BELL: And do whatever he can to help.

H.M.JR: I mean, that is the way I felt with Robbins.

MR. GAMBLE: No, we have enough hands, Mr. Secretary. We have enough problems to deal with - all of our complications now.

H.M.JR: I told him this morning - have you talked yet to Los Angeles?

MR. GAMBLE: In about ten minutes.

H.M.JR: Talk to this man in Los Angeles - an investment banker there. Mills is his name. - see if you can get him to come on Monday. I want to look him over as a deputy. Is that all right with you?

MR. BELL: Sure. I don't know him, but it is all right.

- 7 -

~~come on Monday. I want to look him over as a deputy. Is that all right with you?~~

~~MR. BELL: Sure. I don't know him, but it is all right.~~

H.M.JR: I don't know him either, but Harold Graves thinks he is good.

MR. GAMBLE: Nothing but good reports from Day and right down. He is a top man.

MR. BELL: Day got along all right with him.

How about Michigan?

H.M.JR: I called him up. He said he would give me an answer this afternoon. I think if we could announce McLucas, that would help.

MR. GASTON: You talked to Isbey?

H.M.JR: Myself. O.K., everybody?

MR. BELL: We are planning some financing about the 27th, and I am scheduled, you know, to go to Michigan to make that talk. That probably will be Sunday, the 26th. Should I still be on the schedule, or should I make--

H.M.JR: No, you will be on the schedule.

June 4, 1943
3:08 P. M.

Operator: Go ahead.

HMJr: Hello.

Gordon
Rentschler: Hello, Henry.

HMJr: Go ahead, Gordon.

R: Henry, we're making some progress on this matter. I just wanted to report that to you.

HMJr: Wonderful.

R: And Randolph is going to see you in the morning.

HMJr: Good.

R: I'm canvassing all of our fellows. It'll probably take me the rest of the day and probably tonight to get them all, because they ought to know about it. It's a pretty big step to take.

HMJr: Is everybody good and patriotic?

R: Oh, yes. Everybody - well, they've all - whenever we asked - the least we've done, Henry, whether - no matter how hard it is.

HMJr: That's right.

R: But I'll finish covering them, and Randolph - I understand you're coming here tomorrow morning?

HMJr: I'll be there tonight. I'll be there in two hours.

R: That's fine. Then you and Randolph will see each other in the morning.

HMJr: That's right.

R: Very good. But I'll keep after this now, and Randolph will have the answer in the morning when you see him.

- 2 -

HMJr: My money's on you.

R: All right, fellow.

HMJr: Thank you.

R: Goodbye, Henry. I hope you find your wife much better.

HMJr: I hope so.

R: Yeah, and if there's anything - I know there's nothing we can do medically, but if anything turns up, you let us know.

HMJr: Thank you.

R: I guess you've got the best doctors you can put your hands on anyway.

HMJr: We've got very good doctors.

R: Yes. What is it, virus pneumonia?

HMJr: They don't know. They can't analyze it, but....

R: I had the darn thing. It took me about two months. It was an awful nuisance.

HMJr: But I'm afraid - on top of everything now, she's got phlebitis, I'm afraid.

R: Aw. She's got what?

HMJr: Phlebitis.

R: Oh, that's no fun.

HMJr: No.

R: No.

HMJr: No.

R: Well, she's - just as long as you have her in top hands, why....

HMJr: Yeah.

R:you can be satisfied.

- 3 -

HMJr: Well, I think they're supposed to be the best doctors in New York.

R: Yeah. Well, all right, Henry and - and - and good luck to both of you in coming out of that all right.

HMJr: Thank you, and I.....

R: And you'll see Randolph in the morning.

HMJr: Thanks so much.

R: Bye - bye.

Room 278
Under Secretary
Exp. Loans

June 4, 1943

To Presidents, Federal Reserve Banks:

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio
Richmond, Va.
Atlanta, Ga.

Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas
San Francisco, Calif.

Amending telegram of June three distribution should be made to all members of your district committee, to regional chairmen, regional managers and county chairmen of Victory Fund organization.

MORGENTHAU

(Initialed) D. W. B.

NLE

WAR ADVERTISING COUNCIL

INCORPORATED

1010 VERMONT AVENUE, N.W.
WASHINGTON 5, D. C.
Telephone: District 9043

60 EAST 42ND STREET
NEW YORK 17, N. Y.
Telephone: Murray Hill 2-2773

June 4, 1943

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

Dear Mr. Secretary:

Thanks for your thoughtful letter about what we did here on the "Report to the People" and also for your previous letter of thanks about the work of the War Advertising Council task forces on the Second War Loan.

Your thoughtful appreciation of the good efforts of all these people, your willingness to take a moment to say "thank you", helps us keep up the enthusiasm of our many volunteers, - and enthusiasm is a vital ingredient in advertising. If you get it into the copy writers, somehow it finds expression—comes out in the ads.

So your sincere praise, your spoken and written words of encouragement and the very definite leadership you are giving to the advertising efforts of the Treasury make me feel that you are the best advertising man of us all.

Cordially,

Chester J. LaRoche
bam

Chester LaRoche

*Let Fred Smith read & return
1/1/43*

Mr Smith
Mr Gamble 189
to read

Needham, Louis and Brorby, Inc. Advertising

135 SOUTH LA SALLE STREET - CHICAGO

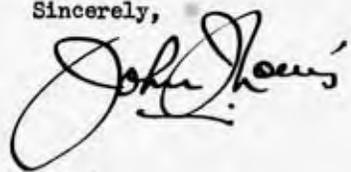
June 4, 1943

Dear Secretary Morgenthau:

My brief visit was enough to convince me that it would be a great privilege to play on your team. Thank you sincerely for asking me.

At present, I am trying to find a way to do it, and will keep in touch with Ted Gamble.

Sincerely,



JJL:W

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

JUN 4 1943

Dear Mr. Wanders:

I have spent so much of my time on Treasury business away from Washington, since the Second War Loan, that some of my correspondence has backed up. That is why I am late in thanking you for the help which you gave us during the drive.

Mr. Robbins, Mr. Peabody, and others have spoken many times of the aid you were able to give them, and I want you to know that I appreciate your willingness to leave your regular boat to help solve some of our problems.

I hope you will also express my gratitude to Mrs. Reid.

Sincerely yours,

(Signed) H. Mergenthal, Jr

Mr. George Wanders,
New York Herald Tribune,
230 West 41st Street,
New York, New York.

FS:cf
6-4-43

Copies in Diary

Initialed copy to Smith

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

June 4, 1943

TO Secretary Morgenthau
FROM Randolph Paul

You will recall at the meeting yesterday with Mr. Doughton, Senator George, Judge Vinson and others that it was agreed we would meet again at 9:00 a. m. June 11th in your office.

This morning Mr. Doughton stated that he was leaving for his home tonight and would appreciate having the conference postponed until June 15th at 9:00 a. m. He will notify all the Congressional conferees and I will notify Judge Vinson.



MEMORANDUM FOR THE SECRETARY.

June 4, 1943.

Mail Report

An otherwise colorless collection of mail for this week was brightened now and then by outbursts against John L. Lewis, or Japs on the West Coast, or steel pennies. Anonymous communications were rare, and very few were abusive of Treasury officials or Treasury policy.

Tax correspondence, light for the past several weeks, reached its lowest point for many months. Of the 20 who spoke for a pay-as-you-go plan, a dozen insisted that no tax obligations be forgiven. The withholding tax, or higher taxes in general, had occasional opposition, as did the tax-exempt status of State and Municipal Bonds. There are still some who think that both the Victory Tax and the new withholding tax can be best collected by means of a stamp plan. Much of the tax mail was again directed to the President, for the White House has referred to the Treasury during the last five days 94 letters and telegrams that oppose the new Congressional tax bill.

The bulk of the mail related to Bonds, of course, with close to 100 of the communications concerning only procedures for replacing or reinscribing Bonds. Although very few reactions to the revamping of the Bond sales organization have been expressed, these have been favorable except for 2 or 3 editorials, clipped and forwarded, which refer to political motives. As yet no objection has been raised to the plan to reduce the size of Bonds, while several correspondents again approved the idea.

With only 38 Bonds submitted for redemption, last week's figure was cut in half, and the reduction in complaints about delayed Bonds from personnel of the War Department was almost as great.

- 2 -

Memorandum for the Secretary.

June 4, 1943.

During May, the White House forwarded to the Treasury 872 letters, of which 519 were acknowledged in this office, 163 referred to other offices, and 190 filed without reply. While considerably higher than for last month, this figure is a rough average for May receipts -- standing, as it does, half way between the low of 381 for May 1937, and the high of 1,428 for May 1942.

G. E. Forbush
by Kay Pearson

General Comments

M. M. Henning, Office Manager, Berkeley Fuel & Supply Company, Berkeley, Calif. Your new steel pennies are a real pain in the neck to any cashier. The dimes and the pennies look too much like twins, and it takes a magnet to tell them apart. Why not emulate our good Chinese Allies and take a square chunk out of each one of them and build a few tanks and maybe an aircraft carrier with the metal so saved.

Robert Catherwood, Tampa, Fla. I beg to inform you that on December 27 and again on May 27 last, the Customs Officers at the Miami Airport removed from my suitcase all Spanish books and papers for examination, (a) "by the censor", and (b) for examination "by F.B.I." and "by Naval Intelligence". In both cases the promise to return them by mail was broken. * * * The length of time this property has been retained, and the fact that books in English were not removed, suggests that your subordinates have classes in Spanish and depend upon travelers' luggage to supply the books.

Florence Matthes, (70), Salem, Oregon. Here is a little more to win the war! Don't you boys send me any Bonds for these few dollars (check for \$9.60) as I want to give all this to help us to Victory. I might not be able to send any more now, as I have to turn my old cow dry. Yours most sincerely, Florence Matthes.

Harry F. McCray, Reno, Nev. Please consider adopting that old Chinese custom of punching a hole in the newly coined penny. Its adoption will: Save metal. Bond the Chinese closer to America. Stop grumbling of merchants and customers with poor eyesight. Save time in counting houses. A new holiday for collectors. Good healthy tonic to relieve tenseness in time of war.

- 2 -

Arthur Walsh, Executive Vice President, Thomas A. Edison, Inc., West Orange, N.J. Under date of January 11, 1943, I advised you that we had agreed with our employees to request permission from the Secretary of Labor to pay them double time for work on Thanksgiving Day, and that in the event we did not succeed in obtaining this permission, we would turn over the difference between time and one-half and double time to you as a contribution to help defray the cost of the war. The Secretary of Labor refused us permission to make the double time payment, and our checks totaling the sum of \$9,049.03 were sent to you at that time. We entered into a similar arrangement with our employees with respect to work performed on Christmas and New Years Days, and as a result of the previous action of the Secretary of Labor, I am now enclosing two further checks payable to the order of the Secretary of the Treasury, one of Thomas A. Edison, Inc., for \$5,177.74, and one of this company's affiliate, Edison-Splitdorf Corp., for \$679.55. These checks represent the difference between time and one-half and double time for work performed on Christmas and New Years Days, and we ask you to please accept them on behalf of the U. S. Government as a contribution to help defray the cost of the war.

C. G. Benzon, Ft. Worth, Tex. (Night Letter) Will you please advise in the nation's press why I and thousands of other loyal citizens should continue to buy War Bonds when Lewis and other Labor leaders of similar ilk are permitted to go scotfree for their actions in fomenting defense strikes? Consensus in Southwest, Lewis should be tried for treason immediately.

- 3 -

C. E. Shafer, West Virginia Hotel, Clendenin, W. Va.
* * * I am setting forth in a statement the amount of space contributed by my paper to the various Government Bond sale drives, as well as scrap metal drives for which there has been nothing paid me, and as all small papers are hit hard by food rationing, as well as production slow-down in industries, making it almost impossible for publishers to secure advertising, I think there should be a fund to pay publishers something for this service.

Florence Karp, Bonded Typewriter Company, N.Y.C.
It is in utter desperation that I turn to you at this time. In September, 1942, my brothers, as owners of the Bonded Typewriter Company, entered into a contract with the Procurement Division to sell to the Government certain classes of typewriters. Under the terms of this contract we have shipped, to designated places, those machines in our possession. However, we have not yet been paid! Since that time both of my brothers have joined the U. S. Army, and I am trying to carry on. We are a small business concern and have been drastically hit by the "typewriter freeze". I have tried several times to write to various people in the Procurement Department, but to no avail. The answers, when there were any, were evasive and gave me no information about how to obtain payment for these machines. I have, therefore, taken the liberty of writing to you at this time because I feel certain of the courtesy of a reply from you. * * *

- 4 -

Favorable Comments on Bonds

Frederick Merritt, Union League Club of Chicago. As a private citizen, may I assure you the people contacted, as well as myself, are emphatically in favor of your war finance program. First: your insistence for a continuance of a discount bond. Second: your belief in the importance of the payroll deduction plan, and your campaign starting June 15 to bring it to a 10% minimum. Third: using the present War Savings Staff as a springboard for future War Loan Bond drives. Fourth: "the danger of a heavy redemption demand" is not so dangerous to the welfare of the democracy as the effect on the small investor and labor by a discontinuance of the present plan. The arguments sustaining the above contentions are too many and too well known to necessitate a repetition. This letter is occasioned by the articles in the Chicago Tribune, May 28 and 29, indicating that you have some opposition to meet, and to indicate that there are many who believe as you do.

Samuel L. Humes, Chairman, Welfare Committee, Local #603, Washington, D. C. It is with the greatest of sincerity that I take this opportunity to express to you the many thanks for being so thoughtful of us, "The Red Caps of the Washington Terminal Company", that you sent, in person, one of America's greatest and most distinguished men, Mr. Wm. Pickens, to our quarters to lecture to us. As you may know, we the "Washington Terminal Red Caps" are the poorest paid men in the railroad service today. Therefore, prior to this lecture by Mr. Pickens, our subscriptions for War Bonds were very few. But since we heard this most wonderful lecture, our force has rallied 85% to the cause. Although our subscriptions are very small, we are doing our best to show our patriotism to our country, our love for our Flag, and our sincere desire to help win this war for Democracy. * * *

- 5 -

Unfavorable Comments on Bonds

Fern M. Canright, Route 2, Garden City, Mich. After perusing articles in our Detroit News relative to your desire that we, the general common people, buy more War Bonds, I feel compelled to write you and ask WHY it is made so hard for one to do this very thing. I have been "trying" to invest in War Bonds, not only the 10% quota, but I think we would average better than 50%. We are trying to buy \$250 worth of Bonds per month, and that for an average couple such as we are, is, I think, worth a little consideration. * * * I have been buying them at our local Post Office, through which we have had mail for 7 years, and where we are very well known. * * * There is always a question as to whether they'll give me the Bond upon purchase, or whether they'll accept our check, and the last one was to the effect that they would hold the entire amount of the check, rather than give me the balance due me. The check was for \$107.00, and I was buying a \$100.00 Bond. When you consider that I am taking three-fourths of my husband's salary check and buying a Bond with it, do they not owe me the consideration of giving me the balance due? After all, we do have plenty of current obligations to meet. I told them I absolutely did not intend leaving that amount there and I told them to keep the Bond and I'd keep my money. I think I am justified in this decision, and more especially when I've been buying these Bonds every two weeks regularly, with no come-back on the checks. I wish you would advise, as it has me stumped when I make a special trip, use necessary gas and tires, only to be told they intend keeping all the money instead of the sum due for a Bond, until the check goes through the bank.

Anonymous -- "Officer in the United States Navy" -- postmarked Cambridge, Mass. * * * I recently went into the Cambridge Trust Company to buy U. S. War Bonds, and was refused the privilege of buying them there. An officer of the bank, which is supposed to be an

- 6 -

authorized agent for U. S. War Bonds, flatly declined even to consider my application. I wanted to invest \$1,125.00. I explained to the official that I would give him a check with my application, and that he could wait until the check had cleared before making out the Bonds. . . .that I was in no hurry, and could pick them up anytime at his convenience. I made no demands of any kind. The reply of this official of the Cambridge Trust Company was a curt and decisive "NO", and some vague murmuring to the effect that his organization had no time to handle the sale, and that it was TOO MUCH TROUBLE. * * * How can the Cambridge Trust Company profess to realize the vital importance of selling War Bonds, and then refuse to sell them on the basis of trouble involved? How can such an institution blatantly proclaim, through posters and banners, their patriotic desire to sell War Bonds, and then turn down a normal application for such an investment? * * * What is the state of the nation in New England? Is this typical?

Ambrose O'Connell, Executive Vice Chairman, Democratic National Committee, Washington, forwards the following letter which he has received from Frank J. Comfort, National Committeeman for Iowa, Des Moines, Iowa: There are many here who are complaining about the service they are getting in connection with the War Savings Bonds purchased through Class "A" pay reservation plan. There are many of the men and women who were with the Government prior to December 31, 1942, who purchased War Savings Bonds under a plan whereby the Government retained 10% of its pay, plus 5% under some reservation plan. Many of these folks are no longer employed by the Government, but find it difficult to get either the Bonds or a refund of the 5% retained out of their semi-monthly pay. This condition is causing a lot of ill-will toward the Administration. They charge incompetence on the part of the Treasury Department, and likewise charge that the Treasury Department has no regard for the laboring man. A committee called on me recently and suggested that there

- 7 -

should be some way these folks could get their Bonds within a period of five months, and that they should have refunded to them the 5% retained out of their pay within the same period of time, if the Department had any business system that would take care of these items. * * *

Charles A. Slate, Grand Rapids, Mich. The Ford Motor Company had deducted for twelve War Bonds from my pay - I never received but eleven. These Bonds were sent in the regular mail, not registered, and no one had to sign for them. I have seen several of such Bonds left at a time by the mail man in Dearborn, Mich. He left them on a table in a rooming house where I stayed. He merely threw them on a table in a card room and left them there for any one to help themselves. Now the Ford Motor Company put up notices some time back in the machine shop where I worked that they were not responsible for the delivery of War Bonds, and any dispute must be taken up with the U. S. Government. The Ford Motor Company, so far, has refused to even check over the serial numbers of these Bonds to see which one is missing. What am I to do about this?

Miss Edna Ambrose, Corresponding Secretary, New Jersey Roadside Council, East Orange, N. J. May I call your attention to the fact that the use of billboards to publicize the sale of War Bonds is looked upon with great disfavor by many groups throughout the country? The New Jersey Roadside Council is one of these. At a meeting of the Council on May 13, the following resolution was passed and the secretary was requested to send a copy to you. "Whereas, the Outdoor Advertisers have abused the opportunity afforded by the war emergency to appeal to the patriotic impulse by urging the use of billboards to publicize the sale of War Bonds, and by setting up memorials for recording the names of enlisted men and women in communities; therefore, be it resolved that the Roadside Council protest to local organizations the use of billboards for such purposes and to Federal authorities, the use of the mails and the franking privilege for what is obviously a promotion scheme of the outdoor advertising industry."

- 8 -

Favorable Comments on Taxation

Charles F. Foster, President, The First National Bank, Cushing, Okla. It should be the desire of every American citizen to want to pay a just income tax, especially through a period like we are now witnessing. We, as bankers, have learned that installment paper has its place if the payment does not exceed one's ability to pay. * * *

N. C. Nobleman, Public Accountant, Galveston, Tex., sends the Secretary copy of a letter he has addressed to the Members of the Senate. * * * Any one paying \$50.00 or more in taxes can well afford to pay his taxes, and we the common people who now pay from \$1.00 to \$50.00 taxes do not want any abatement of taxes. We are ready and willing to pay our just taxes, and it is only the ones who pay more, and who are well able to pay more, who want the abatement. * * *

- 9 -

Unfavorable Comments on Taxation

Charles F. Gaulke, Los Angeles, Calif. * * * The pay-as-you-go is a very good plan, but for the average wage-earner it is far too high. How do you expect one making from \$40.00 to \$50.00 per week to be able to pay a tax totaling 22%, which would include Social Security and Unemployment Insurance? * * * I think you will find that your tax bill is very unjust to the average wage-earner, and may cause great hardship on the hard-working men and women who are the backbone of your defense program. * * * Fulton Lewis, Jr., in his speech at Long Beach, Calif., Sunday, May 23, stated that if one wished to find brains and knowledge, Washington, D. C., would be the last place to look for them. From the way you are handling this tax question, he is absolutely right. Get next to yourselves. Forget the big boy for a change, and put in a just and fair tax bill. * * *

T. D. Foy, Schenectady, N.Y. For your information I am attaching a copy of my letter of today to Hon. Patrick Kearney. The notification referred to therein I believe is the Treasury Department's demand for payment of income tax. The notification is contained in a "window" envelope - and slightly to the right and above my name appears the balance owing by me for 1942 income tax. (The following is the letter which Mr. Foy addressed to Representative Kearney.) The attached unopened Treasury Department notification is sent to you for the reason obvious on the face of it, and I would like to have the following questions answered: 1. Why should my business be broadcast in this manner? 2. If the Treasury Department must broadcast such personal affairs, what need is there for an envelope? 3. Why should either notification or the envelope be necessary? 4. Should there be an investigation of this three-times-a-year routine toward elimination or simplification? * * *

- 9 -

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- 9 -

Unfavorable Comments on Taxation

Charles F. Gaulke, Los Angeles, Calif. * * * The pay-as-you-go is a very good plan, but for the average wage-earner it is far too high. How do you expect one making from \$40.00 to \$50.00 per week to be able to pay a tax totaling 22%, which would include Social Security and Unemployment Insurance? * * * I think you will find that your tax bill is very unjust to the average wage-earner, and may cause great hardship on the hard-working men and women who are the backbone of your defense program. * * * Fulton Lewis, Jr., in his speech at Long Beach, Calif., Sunday, May 23, stated that if one wished to find brains and knowledge, Washington, D. C., would be the last place to look for them. From the way you are handling this tax question, he is absolutely right. Get next to yourselves. Forget the big boy for a change, and put in a just and fair tax bill. * * *

T. D. Foy, Schenectady, N.Y. For your information I am attaching a copy of my letter of today to Hon. Patrick Kearney. The notification referred to therein I believe is the Treasury Department's demand for payment of income tax. The notification is contained in a "window" envelope - and slightly to the right and above my name appears the balance owing by me for 1942 income tax. (The following is the letter which Mr. Foy addressed to Representative Kearney.) The attached unopened Treasury Department notification is sent to you for the reason obvious on the face of it, and I would like to have the following questions answered: 1. Why should my business be broadcast in this manner? 2. If the Treasury Department must broadcast such personal affairs, what need is there for an envelope? 3. Why should either notification or the envelope be necessary? 4. Should there be an investigation of this three-times-a-year routine toward elimination or simplification? * * *

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- 10 -

"A Very Disgusted and Angry Taxpayer", Toledo, Ohio. May we add our two cents worth to the flow of words and phrases which necessarily accompany the consideration of a pay-as-you-go tax plan. * * * Our hair-brained tax planners say that 75% of the tax will be "forgiven" (why forgiven - we have not sinned against our Government) for either 1942 or 1943, whichever amount is lower. * * * May I point out that there are many families who have had children during this year who will be forced to pay the greater tax - the tax on which they did not have the added exemption created by an increase in the family, at a time when their living costs are higher? Is that fairness? NO! By God. * * *

Mary E. Swanner, Rochester, N.Y. Your statement to the Press that you have got to find some way to "dig \$16,000,000,000 annually in taxes from the taxpayers' pocketbooks" is tragic, especially when most of said taxpayers are beside themselves to know how to meet their week-to-week actual living expenses, and I don't mean luxury living either. The three of us in this family haven't yet found enough cash to spend our #17 shoe coupons and we all need shoes. Wouldn't it be smart to stop the huge amount of unnecessary spending which is going on, and in that way find the money to carry on necessary spending? If we can ever get that hulk out of the White House, it will be a lucky day for the people of America. * * * I am hoping Senator Byrd, whom I am writing today, will really go through with his investigation regarding the travel and communications spending which is appalling.

Anonymous - Postmarked Joplin, Mo. * * * I can see no reason why Mr. F.D.R. would not veto such a bill, even though it were only a fraction of one-tenth of forgiveness. Veto it on general principal of its greed and disloyalty. It is so silly for any one to say you would pay 1942's taxes, should this bill pass. You

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nor any one will pay any more taxes than you would, had you paid your 1942 tax. It will be the men that are fighting for us, their sisters, brothers, mothers or children that will pay the bill. * * * If any one at home feels that he is getting the rough end of this war, let him take his gun and go to the front line trenches, or float on a raft in the icy waters of the Arctic. Pay or fight should work as well as work or fight. To strike against paying taxes is as dishonest as to vote to strike in war plants. Nice stuff for Hitler to drop behind the lines; your Congressmen back home are striking against paying their taxes and putting billions in the pockets of war money mongers. * * *

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

June 4, 1943

TO Secretary Morgenthau
FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Labor - Most controversial issue on Capitol Hill yesterday, even as in the rest of the nation, was the problem of how to deal with strikes in essential industries in wartime. Made even more timely by the continuation of the Lewis coal mine strike, the House yesterday spent four hours of heated debate on the Smith-Connally Anti-Strike Bill. Although a decision is hoped for today, there are indications that a final vote may not be taken until Monday. Democratic leaders, cautioning against legislating "in anger," claim the bill was made too stringent by the House Military Affairs Committee and urge passage of a modified version of the Senate-approved Connally Bill. Representative Ramspeck is offering such a substitute, chief features of which provide: (1) a \$5,000 fine and one year imprisonment for anyone instigating or inducing an interruption of work in a government-operated plant, aiding in a lockout or strike, or giving direction or guidance for its continuance; (2) denial of strike benefits and unemployment compensation to idle workers in government-seized plants; (3) powers for the WLB to subpoena witnesses; (4) reemphasis on the President's power to seize strike-bound industries. His measure, Chairman Ramspeck said, is aimed chiefly at the present coal strike, but would apply to any industry operated by the government. Provisions which the House Military Affairs Committee refused to delete from the Smith-Connally Bill and to which Administration leaders object would insist upon a secret ballot among union members and a 30-day cooling off period before a strike could be called. Opponents claim these clauses would make "legal," strikes now outlawed by organized labor's voluntary "no strike" pledge.
2. Lend-Lease - The Senate yesterday passed a 6-billion dollar plus, Lend-Lease Appropriation Bill, considered urgent because certain pending negotiations with Russia hinged

on its passage. However, because of two Senate amendments the measure will probably have to be sent to a joint conference with the House before it will be ready for the President's signature. One of these strikes out the House restriction against use of any of the funds to pay farm subsidies; the other would permit the Government to sell 50,000,000 bushels of wheat for feed at the parity price for corn.

3. Presidential Term - A resolution in the form of an amendment to the Constitution to place a limit of two elective terms on the Presidency was introduced in the Senate yesterday by Senator Josiah W. Bailey. The resolution was immediately referred to the Judiciary Committee where Chairman Van Nuys, who gave it his approval, appointed a subcommittee composed of Senators McCarren, Connally, McFarland, Austin, and Ferguson to consider it. Although Senator Bailey claimed his resolution was "not aimed at the present situation" or a fourth term but at future Presidential terms, the issue nevertheless could arouse heated debate in view of the coming elections.

JUN 4 1943

Dear Eleanor:

Regarding your note of May 27, I am in sympathy with the general objective of Senator Thomas' bill to provide better care of children of mothers engaged in war work. I assume that you question the desirability of its administrative provisions.

As I understand the bill, the Children's Bureau would act in cooperation with state and local welfare agencies in developing eligible day care plans outside the school system, and the Commissioner of Education would act in cooperation with state and local public educational authorities in developing eligible nursery and other extended school services through utilization of public and nonprofit private school systems. Both of these Federal officials would in turn be subject to the supervision of the Federal Security Administrator in the making of general regulations, in the determination of eligible war areas, and in the over-all allocation of funds between child care and extended school services plans.

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I think these administrative provisions are somewhat complex, but I have no suggestion to make for the better utilization of existing agencies in these fields. I assume that the need for Federal assistance in child care is already apparent in war areas and I therefore view the proposal as essentially a war measure occasioned by the increased participation of women in war work. I am not sufficiently well versed in this field to be able to offer any better plan for welding together Federal, state and local efforts along this line.

Affectionately,

(Signed) Henry

Mrs. Eleanor Roosevelt,
The White House.

TJL:ims
6/2/43

Orig. file in Diary
Photo file to Paul's office
By Mess. Manus 10:27 6/4/43

THE WHITE HOUSE
WASHINGTON

May 27, 1943

Dear Henry:

Will you tell me what you think of Senate Bill 1130, introduced by Senator Thomas of Utah, to provide for a child care program under the Federal Security Agency? My own feeling is doubtful.

Affectionately,

E.R.

(Dictated but not signed by Mrs. Roosevelt, as she was leaving Washington)

78TH CONGRESS
1ST SESSION

S. 1130

IN THE SENATE OF THE UNITED STATES

MAY 24, 1943

Mr. THOMAS of Utah introduced the following bill; which was read twice and referred to the Committee on Education and Labor

A BILL

To provide for care of children of mothers employed in war areas in the United States, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "War-Area Child-Care Act
4 of 1943".

5 APPROPRIATION

6 SEC. 2. For the purpose of providing funds for child
7 care necessary to assure the availability of women for em-
8 ployment, where essential to the prosecution of the war,
9 there is hereby authorized to be appropriated for the fiscal
10 year ending June 30, 1943, \$1,500,000, and for each fiscal
11 year thereafter, \$20,000,000: *Provided, That the above*

1 authorization shall expire six months after the date of ter-
 2 mination of the present war as proclaimed by the President,
 3 or at such earlier time as the Congress by concurrent resolu-
 4 tion may designate. Such sums shall be used for making
 5 payments to States (and under circumstances specified in
 6 section 8 to local public authorities) for expenditure in ac-
 7 cordance with State plans, submitted and approved as pro-
 8 vided in this Act, for day care or extended school services for
 9 children of mothers employed in war areas. There are also
 10 authorized to be appropriated such sums as may be necessary
 11 for administrative expenses of Federal agencies in connection
 12 with the administration of this Act.

13 SCOPE OF PLANS

14 SEC. 3. (a) A State plan for day care services shall be
 15 submitted by the State public welfare agency. Such State
 16 plan may provide for day care through foster family home
 17 services or in day care centers, community-wide information
 18 and advisory services for mothers, health services for children,
 19 and other auxiliary services necessary to assure proper use
 20 of day care facilities and to safeguard children receiving care
 21 under the plan. Such services and care shall be administered
 22 by or through public agencies, other than school systems,
 23 designated in the plan for such purpose and may be rendered
 24 or conducted by public or nonprofit private community
 25 agencies other than school systems.

1 (b) A State plan for extended school services shall be
 2 submitted by the State educational agency. Such State plan
 3 may provide for nursery school, before-school, and after-
 4 school care, health services for children and other auxiliary
 5 services necessary to assure proper use of extended school
 6 services and to safeguard children receiving care under the
 7 plan. Such services and care shall be administered by or
 8 through public-school systems designated in the plan for
 9 such purpose and may be rendered or conducted by public
 10 or nonprofit private-school systems.

11 APPROVAL OF STATE PLANS

12 SEC. 4. (a) State plans for day care and State plans
 13 for extended school services may be presented by each of
 14 the several States. Any such plan may be considered for
 15 approval only where one or more war areas are in such
 16 State and the plan shows that it is in accord with the State
 17 program for care of children of employed women developed
 18 jointly by the State departments of education and welfare
 19 after consultation with the child care committee of the State
 20 defense council or a State committee, including representa-
 21 tives of the State departments of education, welfare and
 22 health, labor, management, and other appropriate public and
 23 private agencies and civic groups, that the estimates of State
 24 participation submitted with such plan include all State funds
 25 and appropriate personnel which may feasibly be made

1 available by the State, and that Federal funds are necessary
2 to provide for expansion or improvement of day care or
3 extended school services in war areas within the State.

4 (b) A State plan submitted in accordance with subsec-
5 tion (a), to be approved under this Act must—

6 (1) provide such methods of administration as are
7 necessary for efficient operation of the plan, including
8 local advisory committees similar in function and repre-
9 sentation to the child-care committee or State com-
10 mittee referred to in subsection (a);

11 (2) provide for effective utilization of appropriate
12 facilities and services of State agencies for administrative,
13 advisory, and supervisory services and of appropriate
14 facilities and services of local public and nonprofit private
15 agencies to provide day care and extended school serv-
16 ices in war areas; such utilization may include, under
17 conditions specified in the State plan, payments by
18 public authorities designated in the plan to nonprofit
19 private agencies for day care or extended school services
20 on a per capita, per diem basis under agreements ap-
21 proved by the State agency responsible for administer-
22 ing or supervising the administration of the plan;

23 (3) establish schedules of fees designed to provide
24 contributions from parents which would be equitable in
25 view of their wages or the general level of wages paid to

1 such parents in the area and in view of the care and
2 services provided their children;

3 (4) provide that the State agency will make such
4 reports, in such form and containing such information,
5 as the approving officer designated in section 6 may from
6 time to time require, and comply with such provisions as
7 such officer may from time to time find necessary to
8 assure the correctness and verification of such reports;

9 (5) include with the plan an initial statement of
10 anticipated operations for the period ending on the next
11 succeeding 30th day of June following submittal of the
12 plan estimating by classes and amounts—

13 (A) the necessary cost of State personnel in
14 providing administrative, advisory, and supervisory
15 services under the plan, including travel, subsistence,
16 and clerical expenses, and the part of such cost to
17 be met from State funds, from funds made available
18 under this Act, and from other Federal funds;

19 (B) the cost of providing, in each war area
20 which is to receive financial assistance, day care or
21 extended school services, as the case may be, and
22 auxiliary services under the plan, and the part of
23 such cost to be met from funds made available under
24 this Act, from other Federal funds, from State funds,

1 from fees, and from local public and private partici-
 2 pation, including maintenance, facilities, equipment,
 3 utilities, and services furnished;

4 (C) the approximate number of children to be
 5 cared for, the kind of care to be provided, the local
 6 agencies by which such care will be provided, and
 7 the estimated cost per child of such care by each
 8 such agency.

9 STATE AND LOCAL PARTICIPATION

10 SEC. 5. (a) A plan shall be approved only if, from
 11 estimates furnished pursuant to the preceding section, the
 12 Federal approving officer referred to in section 6 finds that
 13 for the period covered by such estimates at least half of the
 14 total expenditures under the plan is provided through fees
 15 and through State and local participation, and such plan shall
 16 remain approved for any fiscal year thereafter only on such
 17 a finding for such year. For purposes of this Act, the total
 18 expenditures under the plan shall not include any part of the
 19 cost of alteration or construction of facilities which exceeds
 20 \$1,000 for any one local project.

21 (b) For purposes of this Act, State and local partici-
 22 pation shall not include moneys, supplies, or alteration or
 23 construction of facilities or acquisition of equipment to the
 24 extent paid for out of Federal funds, the rental value of any
 25 facility to the extent it was constructed with donated Federal

1 funds, and the service of any person to the extent such person
 2 is compensated from Federal funds.

3 ADMINISTRATION

4 SEC. 6. The Federal approving officer shall be the Chief
 5 of the Children's Bureau in the case of State plans for day-
 6 care services and the Commissioner of Education in the case
 7 of State plans for extended school services. The approving
 8 officer shall approve any State plan for day care or extended
 9 school services, as the case may be, meeting the require-
 10 ments of sections 4 and 5 of this Act. With the approval of
 11 the Federal Security Administrator (hereinafter referred to
 12 as the "Administrator") each approving officer is authorized
 13 to establish procedures and promulgate regulations with re-
 14 spect to State plans within his jurisdiction and with respect
 15 to the allocation by such approving officer of funds to States
 16 on the basis of their needs and proposed expenditures as
 17 estimated in accordance with section 4 (b) (5).

18 PAYMENT TO STATES

19 SEC. 7. The Administrator shall from time to time deter-
 20 mine the amounts which shall be available from funds appro-
 21 priated under this Act for approved day care and extended-
 22 school-services plans, respectively, and shall notify each
 23 Federal approving officer and the Secretary of the Treasury
 24 of such determinations. From time to time each Federal
 25 approving officer shall review each plan he has approved

1 and estimates which have been submitted of necessary total
 2 expenditures to be made thereunder and shall determine the
 3 amount of Federal funds under this Act which, when added
 4 to State and local funds and other resources which under
 5 section 5 (b) are not included as State and local participa-
 6 tion, is necessary to carry out the State plan during the
 7 period for which certification is made, and shall certify for
 8 such period such amount reduced or increased, as the case
 9 may be, by an amount equal to any sum by which he finds
 10 that unadjusted payments with respect to any prior period
 11 were greater or less than the amounts which were necessary
 12 for such period: *Provided*, That the total certified for a fiscal
 13 year for a State plan shall not exceed the total allocated for
 14 such plan for such year. The approving officer shall there-
 15 upon certify to the Secretary of the Treasury the amount to
 16 be paid to each State (or under circumstances specified in
 17 section 8 to local public authorities) out of funds determined
 18 by the Administrator to be available for approved day-
 19 care plans or extended-school-services plans, as the case
 20 may be; the Secretary of the Treasury shall thereupon,
 21 through the Division of Disbursement of the Treasury De-
 22 partment, prior to audit or settlement by the General
 23 Accounting Office, pay the State (or local public authori-
 24 ties), at the time or times fixed by the approving officer,
 25 the amount so certified.

PAYMENTS TO LOCAL PUBLIC AUTHORITIES

1
 2 SEC. 8. If in any State the State agency responsible for
 3 administering or supervising the administration of an ap-
 4 proved State plan is not authorized by State law to make
 5 payments from funds made available under this Act to local
 6 public authorities for day care or extended school services
 7 provided by public or nonprofit private agencies in accord-
 8 ance with the State plan, the Federal approving officer may
 9 certify to the Secretary of the Treasury for payment to such
 10 local public authorities such parts of the total amount to be
 11 paid for carrying out the State plan as may be designated
 12 in such plan and estimates submitted therewith.

OPERATION OF STATE PLANS

13
 14 SEC. 9. If there is reason to believe that in the adminis-
 15 tration of any State plan approved under this Act there is
 16 a failure to comply substantially with any provision required
 17 by section 4 and the Administrator, after he has given
 18 reasonable notice and opportunity for hearing to the State
 19 agency administering or supervising the administration of
 20 such plan, finds that there is such failure, the Federal approv-
 21 ing officer shall notify such State agency that further pay-
 22 ments will not be made under such plan for any period sub-
 23 sequent to such finding and prior to a certification to the Fed-
 24 eral approving officer by the Administrator that he is satis-
 25 fied that there is no longer such failure to comply. Until

1 such certificate is received the Federal approving officer shall
2 make no further certification to the Secretary of the Treasury
3 with respect to payments under such plan.

4 DEFINITIONS

5 SEC. 10. As used in this Act—

6 (a) The term "State" includes Alaska, the District of
7 Columbia, and Hawaii;

8 (b) The term "war area" means a local area found by
9 the Administrator to be one in which substantially increased
10 employment of women remains or has become essential to
11 the successful prosecution of the war;

12 (c) The term "day care" means care provided in war
13 areas during any part of the twenty-four-hour day by com-
14 munity agencies other than school systems for any child six-
15 teen years of age or under, whose mother is employed (but
16 may include emergency care for the full twenty-four hours
17 when required by exceptional circumstances affecting indi-
18 vidual children);

19 (d) The term "extended school services" means such
20 care provided by school systems;

21 (e) The term "nonprofit private agency" means any
22 private agency no part of the net earnings of which inures to
23 the benefit of any private shareholder or individual.

MEMORANDUM REGARDING S. 1130, A BILL TO PROVIDE FOR THE
CARE OF CHILDREN OF MOTHERS EMPLOYED IN WAR AREAS IN THE
UNITED STATES AND FOR OTHER PURPOSES

Summary of Bill

This bill was introduced by Senator Thomas of Utah on May 24, 1943. Its purpose is to provide Federal aid to state and local authorities in support of approved plans for day care or extended school services for children of mothers employed in war areas.

For that purpose the bill would authorize the appropriation of \$1,500,000 for the fiscal year ending June 30, 1943, and \$20,000,000 for each fiscal year thereafter.

Federal aid for state and local child care plans would be limited to those areas where the Federal Security Administrator finds employment of women to be essential to the successful prosecution of the war.

For administrative purposes the bill contemplates two types of child care services: (a) day care services to be provided by community agencies other than school systems, and (b) extended school services embracing nursery school, before school, and after school care, etc., provided by school systems. Either type of service may be rendered by public or nonprofit private community agencies or private school systems.

State plans for day care services are to be submitted for approval by the state public welfare agency to the Chief of the Children's Bureau. State plans for extended school services are to be submitted for approval by the state educational agency to the Commissioner of Education.

The Federal Security Administrator is given authority to make an overall division of Federal funds between day care and extended school services plans. The Chief of the Children's Bureau as to the day care plans, and the Commissioner of Education as to extended school services, then determine the amount of Federal funds which will be made available to the particular state or local authority. At least half of the total expenditures under the plan must be provided through fees and through state and local participation. The Secretary of the Treasury shall make payments to state or local public authorities upon certification by the approving Federal officer.

With the approval of the Federal Security Administrator the Federal approving officers are authorized to establish procedures and promulgate regulations with respect to state plans and the allocation of funds to states on the basis of their needs.

The bill establishes general standards which must be met for approval of state plans, including a specification of state public and private agencies and civic groups which must participate in the development of such plans, estimates of available state funds and personnel and a showing of necessity

- 2 -

for Federal assistance, local civic participation in administration of the plan and effective utilization of the facilities of state agencies and local public and nonprofit private agencies, equitable provisions for payment of fees for such care, and continuing Federal surveillance of the operations of such plans.

Mr. Henry C. Murphy, Assistant Director, Research and Statistics, made an informal check of opinion as to this bill among persons versed in child care policies of the Federal Government. He was advised by Major Schottland, formerly Assistant Chief of the Children's Bureau, that he had drafted the bill and it had the approval of the Children's Bureau, the Commissioner of Education, and the Federal Security Administrator.

The bill is essentially a manpower, or womanpower, measure designed to increase the availability of women employees in tight war labor areas, to alleviate necessary absenteeism of mothers under existing conditions, and to supplement presently inadequate facilities for care of the children of women workers.

On their face the administrative provisions of the bill appear complex because of the distribution of authority to approve specific plans between the Children's Bureau as to day care plans and the Commissioner of Education as to extended school services, both to be under the general supervision of the Federal Security Administrator who also has authority to make over-all allocation of funds between the two general types of plans. But these provisions are said to be adapted to the best utilization of existing state and Federal agencies in their respective fields. Thus, state public and private welfare agencies represent the field of child care outside of the school systems, as does also the Children's Bureau. On the other hand, the Commissioner of Education is in close touch with school authorities who are the logical administrators of plans for extended school services. Moreover, the bill has also been adapted to the utilization under state plans of nonprofit private school systems, thus removing one possible element of opposition. The bill also makes flexible provision for the allocation of funds to particular areas, both by limiting assistance to labor shortage areas where the need of Federal aid is shown and by avoiding the application of any rigid formula governing the division of aid between states. It is reported that the only prospect of opposition is from the Federal Works Agency, which believes that funds made available to it under the Lanham Act, although intended to provide facilities rather than child care services, could legally be made available for the latter purpose.

This checkup was necessarily informal and unofficial, as the degree of Treasury interest in the bill was not deemed sufficient to warrant official consideration with participating agencies. No reason appears for expressing opposition to the bill if one assumes the necessity and desirability of providing additional facilities for the care of children of working mothers as a measure essential to the successful prosecution of the war.

JUN 4 1943

My dear Mr. President:

This is in reply to your letter of June 3, 1943, referring to the Treasury role in the "Plan for Coordinating the Economic Activities of the U. S. Civilian Agencies in Liberated Areas."

I can assure you that the Treasury Department will cooperate wholeheartedly in any program having your approval. The Treasury Department will continue to fulfill its responsibilities with respect to exchange rates, monetary control and general fiscal matters in harmony with your program for liberated areas. In discharging these responsibilities, the Department will, in accordance with your request, recognize the leadership of the Secretary of State in the coordination here and abroad of civilian agency activities in this field and will make every effort to assist him in the exercise of such functions.

Faithfully,

(Signed) H. Mergenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

Photo file in Diary
File to White's office

HDW:APL:JED:WHT:dah 6/4/43.

By Secret Service 3:45 6/4

THE WHITE HOUSE
WASHINGTON

JUN 2 1943

My dear Henry:

I am enclosing a "Plan for Coordinating the Economic Activities of U. S. Civilian Agencies in Liberated Areas" drawn up by the Bureau of the Budget after extensive discussion with various interested agencies. It has my approval as a positive approach to the establishment of adequate inter-departmental machinery, and I am sure I can count on your wholehearted assistance in its prompt and effective operation.

In order to facilitate the functioning of the plan I have written the Secretary of State asking him to undertake full leadership in the coordination here and abroad of the relevant civilian agency activities, and amplifying certain of the functions assigned to the agencies. A copy of that letter is enclosed for your guidance.

The time for preparation is short and the need for the best of interagency cooperation is pressing.

Sincerely yours,



Honorable Henry Morgenthau, Jr.
Secretary of the Treasury

Enclosures

THE WHITE HOUSE
WASHINGTON

JUN 9 1943

My dear Cordell:

I am enclosing a plan for the coordination of the economic operations of United States civilian agencies in areas liberated from enemy control, which has been worked out by the Budget Bureau after extended discussion with the agencies concerned. While I am told that complete agreement was not reached on every detail, I believe this plan represents a positive approach to the problem and I urge you to move ahead rapidly in its application through the operation of the State Department and the proposed interdepartmental machinery.

Our civilian agencies must be adequately prepared to assist our military forces in performing those services and activities in which they are expert. We must harness together military and civilian efforts. Only thus can we achieve full mobilization for the prosecution of the war, and adequately meet the many problems developing in the wake of our armed forces.

It is impossible, of course, to outline in detail the exact nature of those problems. Certain general functional assignments have been made to the civilian agencies. However, I am amplifying those assignments here so that you may be fully aware of your responsibilities and those of other agencies. More detailed working arrangements should be evolved through the mechanisms provided for in the enclosed plan.

The Office of Foreign Relief and Rehabilitation Operations will be responsible for the relief and rehabilitation of victims of war in certain liberated areas to be designated by me. In such areas, subject to consultation and arrangements with our allies, Governor Lehman should distribute relief goods, and goods to facilitate the production of basic civilian necessities, whether they be given away, sold, or bartered. In these areas the Office of Foreign Relief and Rehabilitation Operations should also provide technical advice and services with respect to relief and the production of civilian necessities, and should facilitate the restoration of agriculture, housing and transportation. In its work I want the Office of Foreign Relief to make full use of available personnel and facilities of other agencies. When any or all of this program is transferred to a United Nations organization, further adjustments may be necessary. In certain other areas it may prove desirable, in accordance with

arrangements with our allies, to have civilian supplies furnished through Lend-Lease.

In this way we can maintain the single civilian supply line to each liberated region, so essential in assuring consistency in policy and administration.

I understand that the Office of Foreign Relief and Rehabilitation Operations may use a number of the services of the Office of Lend-Lease Administration. So long as Lend-Lease funds are used to finance the Relief and Rehabilitation program, allocations of goods by the allocating agencies should be made to Lend-Lease for the account of the Office of Foreign Relief. While Lend-Lease would thus act as the claimant, the presentation of requirements should be a joint undertaking. Should conditions demand shifts within Lend-Lease allocations which affect the Relief account, such changes should be made with the approval of the allocating agencies.

The Office of Lend-Lease Administration can assist the Office of Foreign Relief and Rehabilitation Operations in preparing and screening requirements and, when feasible, should detail staff members to work with Governor Lehman's staff for this purpose to insure maximum speed and efficiency. While detailed working arrangements on other functions will need to be developed, the Office of Foreign Relief vis-a-vis Lend-Lease might assume generally a relationship similar to that now assumed by the British. It may be desirable, however, for the Lend-Lease Administration to send a few representatives to the field to participate in the preparation of requirements and the inspection of distribution.

The Board of Economic Warfare is responsible for foreign procurement, the development of strategic and critical materials, certain industrial development, gathering economic intelligence, and other prescribed economic warfare measures. The staff of the Board should be available for technical advice and other assistance to the several agencies.

The Treasury Department is responsible for fixing exchange rates and should assist on monetary, currency control and general fiscal matters. This important work must be geared in with the plans and activities of the other agencies.

Since you are and have been responsible for determining the policy of this Government in relation to international problems, I shall rely on you to unify our foreign economic activities to the end that coherent and consistent policies and programs result. The Department of State should provide the necessary coordination, here and in the field, of our economic operations with respect to liberated areas. The attached plan properly recognizes this role of the State

Department, and is similar to what I had in mind when we discussed the problems arising from the invasion of North Africa, as set forth in my letter to you referring to that discussion.

I want to emphasize the importance of selecting as Area Directors, men of administrative competence and vision — men adjustable to the complex conditions they will face. I believe that the various agencies concerned have on their staffs a number of persons of the type you will need.

The job in Washington will demand a large part of the time and energy of the Assistant Secretary you name to coordinate these activities. Because of the wide scope of the work involved, the Department should reexamine its internal organization and procedures in order that it may assume the positive leadership required.

I want the facilities of our civilian agencies operating in the international economic field utilized to the fullest extent. It is equally essential that the transition from military to civilian operations in liberated areas be consummated as speedily and efficiently as possible.

In view of the time required for preparing to meet economic problems in liberated areas and the possibility that the enemy may soon be driven from presently held territory, I urge you to take all necessary steps to fulfill your responsibilities with respect to the attached plan.

I am sending copies of this to the other interested agencies.

Sincerely yours,

The Honorable, The Secretary of State

Enclosure

PLAN FOR COORDINATING THE ECONOMIC ACTIVITIES OF U.S.
CIVILIAN AGENCIES IN LIBERATED AREAS

The plan herein outlined for coordinating in this country and abroad, the activities of U. S. civilian agencies relative to economic affairs in liberated areas is based on the following premises:

1. Premises

- a. There must be one central point in Washington for the coordination of interrelated activities of the several U. S. agencies operating abroad. Leadership in providing this coordination rests with the Department of State.
- b. There must likewise be in each liberated area a central point of leadership and coordination similar to that in Washington.
- c. The attainment of unity in policy and operations requires the participation of all agencies concerned through interdepartmental machinery which provides a setting for close and continuous working relationships.
- d. Such provision for coordination shall not remove the responsibility or authority of each agency for carrying out its own functions.
- e. A major objective of the interdepartmental machinery should be that of relating the economic plans and operations of U. S. civilian agencies for liberated areas to those of officials responsible for foreign political policies, and to those of the armed services and members of the United Nations.
- f. Excepted from the scope of this memorandum are the territories and possessions of the United States now occupied by enemy forces, such as Guam and the Philippine Islands.
- g. At all levels of interagency operations in Washington, the military and the political policy representatives of our government should work with the civilian operating agencies to afford proper guidance, to obviate excessive clearance, and to provide the information essential to effective planning and operations.

Interdepartmental Policy Committee

In order to develop a unified policy and to facilitate the coordination of agency activities, there is hereby established an interdepartmental Committee for Economic Policy in Liberated Areas (Policy Committee). The Chairman of this Committee shall be an Assistant Secretary of State whose designation is provided for in Section 3 of this plan. In addition to the Chairman, the Committee shall consist of the heads, or their deputies, of the following:

State Department (Political Policy)
Treasury Department
War Department
Navy Department
Board of Economic Warfare
Office of Lend-Lease Administration
Office of Foreign Relief and Rehabilitation Operations

This Committee will provide a means for bringing together responsible officials of the agencies to consider policies, programs, and other matters of concern to such a group. The Committee will give final resolution, subject to the decisions of the President, to overall policies and programs of interagency concern which have not been resolved in the Coordinating Committee (to be established).

B. Assistant Secretary for Foreign Economic Coordination

The Secretary of State shall designate an Assistant Secretary of State who shall coordinate our economic activities related to liberated areas and facilitate military-civilian cooperation.

In connection with these duties, he shall act as Chairman of the Policy Committee and of the Coordinating Committee to coordinate the activities of the interested agencies. To this end he shall provide a secretariat and necessary staff to serve the Policy Committee, the Coordinating Committee, and any sub-committees.

C. Coordinating and other Subordinate Committees

The Policy Committee shall establish as a working committee a Coordinating Committee composed of representatives of the same agencies as those in the former group.

Subject to appeal to the Policy Committee, the Coordinating Committee shall review and coordinate area plans, and take such steps as may be necessary to adjust policy and area operations to meet the changing needs of the military services and to comply with working arrangements set up with our allies.

Area sub-committees, covering territories to be liberated as well as territories already liberated, may be set up, based on administrative areas determined in consultation with military officials. While the exact nature of their work cannot be definitely foreseen, it is expected that each area sub-committee will develop and coordinate interdepartmental policies and plans with respect to its area, collaborate with the prospective Area Director prior to liberation, and expedite his operations in Washington once the area is liberated. In performing these tasks, the area sub-committees may be utilized to revise communications from the Area Director, and to maintain close working relationships with military groups concerned with civil affairs in the area and with similar committees and officials of our allies.

The Coordinating Committee may establish such sub-committees as it deems necessary (functional, ad hoc, etc.).

These various area and other sub-committees will serve under chairmen appointed by the Chairman of the Coordinating Committee in consultation with the members of the Committee.

In order to tie in recruitment and training programs, the Interdepartmental Committee for the Recruitment and Training of Personnel and its sub-committees shall be reconstituted as a Sub-Committee on Recruitment and Training under the Coordinating Committee. The membership of the Sub-Committee shall come from the same agencies represented on the Coordinating Committee and shall also include the representatives of the Civil Service Commission and the Office of War Information. This sub-committee will coordinate the recruitment and training activities of civilian agencies with regard to personnel for service in liberated areas and bring about a maximum use of common training facilities by both military and civilian agencies.

Placing this committee under the Coordinating Committee will facilitate close relationship between training programs and area planning, thereby increasing mutual understanding and cooperation among staffs.

5. Area Directors

For each of the areas liberated, the Secretary of State shall appoint, with approval of the Policy Committee, an Area Director. These Directors will provide over-all direction and coordination to the economic activities of U. S. civilian agencies in their respective areas.

It is recognized that the emergency problems faced and the delay of detailed Washington clearances make it necessary to give Area Directors wide latitude in operations and ample authority to act

the spot." It is likewise evident that the pattern for each area may be modified according to the military theatre arrangements and agreements with our allies.

In general, however, the following pattern shall obtain where a major part of economic operations are under U. S. agencies:

The Area Director will be subject to orders of the military commander of the area, and of the Assistant Secretary in accordance with policies established by the Policy or Coordinating Committee. In the field the Area Director will keep the political representative of the State Department advised of his activities and will be guided by him on matters of general political policy. That representative, however, shall intervene only when definite political policies are involved. Clearance "bottle-necks" in this respect shall be avoided throughout.

Within these limits, the Area Director shall have all the powers necessary to coordinate the field activities of the various U. S. civilian agencies concerned with the economic affairs of the area. In case of emergency, threatened breakdown of activities, or serious difficulties, these powers shall extend to directing specific operations and shifting functions and personnel, pending other arrangements in Washington to meet the situation.

The Area Director will act as the major channel of contact for the civilian economic agencies with the military and our allies in the field. He will likewise channel all communications of these agencies from the field to the Assistant Secretary in Washington for proper handling.

2. Communications and Clearance of Personnel

The Assistant Secretary shall facilitate the speedy dispatch of all communications between civilian agencies and their representatives in the field and prompt decision by the State Department on the clearance (including passports) of movements of agency personnel to and from liberated areas.

Where a delay of such communications or clearances is deemed desirable by the State Department, the relevant agency, or its field representative shall be promptly notified and an effort made to settle any differences. Should an agency or its field representative thereafter insist on the delivery of a message under dispute, it will be delivered along with any companion message the State Department, the Area Director, or an agency representative may wish to send.

Bureau of the Budget
June 1, 1943

OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

June 4, 1943

FRED M. VINSON
Director

Dear Mr. Secretary:

Enclosed you will find a revised copy of the proposed War Model Program. Will you please destroy the draft copy which was passed out at our last Board Meeting.

Sincerely yours,

E. F. Richard
Secretary

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



WAR PRODUCTION BOARD
Washington, D. C.

May 19, 1943

The Honorable James F. Byrnes
Director, Board of Economic Stabilization
The White House
Washington, D. C.

Dear Mr. Byrnes:

At a recent meeting of the Economic Stabilization Board, the question of launching a War Model Production Program to guarantee the continued production of low priced goods for basic essentials was discussed and the general idea approved.

It was decided that a Committee, consisting of the personal representative of yourself, the War Production Board Chairman, the Price Administrator, and the Chairman of the War Manpower Commission be set up to study the question and prepare a report on how the program should be carried out and what items should be included in the initial list. The Committee has completed its studies after detailed conferences with all of the agencies concerned and is submitting its report herewith.

This report has not yet been approved by our principals but it is sent to you in conformity with your express desire to have the report discussed at the next meeting of the Economic Stabilization Board.

Yours sincerely,

Signed: Howard Coonley, Committee Chairman, for
War Production Board

Edward D. Hollander, for War Manpower
Commission

Dexter M. Keezer, for Office of Price
Administration

Samuel Lubell, for Office of Economic
Stabilization

CONFIDENTIALCOPY NO. 25

May 19, 1943

I

We have reached the stage in our war economy when the production of civilian essentials must be planned carefully as war production. Huge military requirements have been narrowing steadily the supplies of labor, materials and production facilities available for civilians. As our armed forces liberate countries occupied by the enemy, there will be a growing need for supplying those countries vast quantities of consumer goods, particularly food and clothing.

To keep the home front functioning most effectively, our civilian population must be assured the basic essentials that they cannot do without. However, the war can be shortened if those needs are satisfied in the most economical way possible so as to free the greatest possible portion of our resources for the war needs of our armed forces, our allies and the liberated countries.

The program outlined here would be an important contribution towards meeting that goal. Broadly speaking, it calls for the production of articles, designated as "War Models", which provide the greatest wartime serviceability, with a minimum drain on manpower, critical materials and productive facilities and which can be sold at prices that the mass of consumers can afford to pay.

The proposed program is confined to selected basic essentials retailing in the low and middle price ranges.

This program would not only help meet our war needs directly but it would fortify the President's "hold the line" order against inflation. The articles designated as War Models would always be produced in the most economical way possible, stripped of practices, styling and varieties that are wasteful in wartime and taking the fullest advantage of mass production techniques. Savings in manpower and materials would be effected and appreciable economies in costs realized. These economies would ease the pressures on existing price ceilings. In some instances, they could make possible the actual lowering of prices that the mass of consumers pay.

War Models would also aid in simplifying the administration of price control; they can help check the hidden price increases that come through the deterioration of quality and the disappearance of low-priced lines, which compel persons to buy more expensive goods. They can reduce the inventory need of merchants, make their selling job easier.

By increasing the supplies of goods to a maximum and giving greater serviceability, they can help in avoiding rationing. Should rationing become necessary, the existence of War Models would greatly ease the task of making rationing effective and equitable.

The extent of these advantages, of course, will vary from commodity to commodity and with the scale on which the War Models are developed.

The Committee is recommending that the program be started with a list of essential textile items. As quickly as other widely used articles can be chosen, they should be added. Textile fabrics being interchangeable

for a multitude of end-uses, it is relatively easy for production to be shifted from low and moderate-priced essentials to higher-profit semi-luxuries. With the steady tightening of fabrics, some of the most essential, low-end items are likely to be squeezed dangerously low in production while things we could do without are favored.

The initial aim of the program should be to obtain at least one War Model in some one price range for each of the items listed. The production of these War Models, of course, must be assured. While no manufacturer should be compelled to produce a War Model, sufficient inducements should be arranged to guarantee a minimum production of each War Model.

Materials should be reserved and allocated for their production; manpower assistance given; prompt pricing assured and any other inducements arranged. It may be possible, for example, to stimulate the program through federal procurement, although too much emphasis should not be placed on this right now.

Through the Procurement Division of the Treasury, it will be possible to set the War Models up as Emergency Alternate Specifications. Specifications designated in this way are distributed to all federal procuring officers so that those officers can adopt them for their own requirements in their purchases.

Lend-Lease, the Office of Foreign Rehabilitation and the Procurement Division have agreed, wherever it is feasible, to purchase War Model goods for their own use. Whether such purchases could be integrated into the War Model program in the immediate future is not certain. At present, OFRRO is confining its purchases of textiles

to second-hand clothes. Should the production of new clothes for OFRRO become necessary, that production program might overlap with the War Model program although most likely efforts would be made to confine OFRRO purchases to a cheap goods level that would fall below the minimum standards set for the War Models.

In the event that the end of the war causes War Model goods to become so-called "surplus" items, OFRRO has agreed in principle to buy up such goods.

It is recommended that the first War Models be fitted into those price ranges which (a) figure most importantly in the cost of living, and (b) to the extent that it can be determined where the heaviest government purchasing is likely to take place.

If possible, the broad price brackets in which the War Models are desired should be given in any public announcement of this program.

Additional items should be added to this initial War Models list, including durable goods, woolens, etc., as quickly as they can be investigated and found practicable.

II

WHAT PROGRAM DOES NOT DO

The Committee found so much conflict in the thinking of people as to what a War Model program means that certain misunderstandings should be cleared up at the outset.

A War Model program cannot be thought of as something apart in itself. It is only one phase, a more intensive development, of the broader program of conservation and simplification of production that the War Production Board has always pursued. What is new in the War Model idea is that it provides a mechanism for allocating production resources at a particular price range.

That can be considered the essential significance of War Models. The ordinary conservation order will channel materials between more essential and less essential uses; it does not channel materials to one price range in preference to another. If civilians are to be guaranteed their minimum essentials, these essentials must be produced at prices within reach of the mass of consumers. In a really tight civilian economy, it becomes necessary to find some means to guarantee the continued production of essentials at specific price ranges. This, a War Model will do.

As supplies available for civilians here at home narrow, the War Model mechanism can be expected to prove of increasing value.

Within this broad framework--that War Models are the means for assuring continued production at the most essential prices--the program can be kept as flexible as is desired. War Models would cover only a portion of the total production in any commodity--and always in the brackets where low and middle income groups do their buying. A single War Model could be set up in a single price range, or a line of War Models established to cover two, three or more price ranges. Ten percent of production could be covered in one commodity; fifty percent in another. The program could be expanded or contracted as civilian needs change.

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That part of the production of any commodity which is not covered by War Models would be left free to be produced as manufacturers see fit, subject, of course, to other WPB conservation orders. Materials, manpower and facilities freed by the War Models through their more economical utilization of these resources, and which do not go to war purposes, will be available for non-war model production.

There is no intention to regiment either industry or the buying habits of consumers. The general technique used should be to select the price ranges at which War Models are to be produced, decide on the production desired, work out the necessary specifications with the industry, and then arrange for preferences to be given those manufacturers who will produce these War Models.

No rigid formula for developing the War Models can or should be laid down in advance. Specifications for each War Model should be worked out individually with the industries concerned. These specifications should be fitted to make the fullest use of existing equipment and to permit as wide a choice of materials and price ranges as are needed to guarantee the desired production.

The program does not mean that existing brands or trademarks will be abolished. War Models need not be completely standardized articles, with every manufacturer compelled to follow an identical pattern. Whatever specifications are drawn up should be minimum standards, with scope left for manufacturers to exercise their own ingenuity in improving the product and in developing their own variations. Manufacturers and consumers should be left as much freedom of choice as is not wasteful.

In developing the War Models and allocating materials for their production, the participation of small business should be encouraged. Wherever possible, War Models should be used to lighten the difficulties of distressed industries. To protect the interests of small enterprise, the Smaller War Plants Corporation should name the small business representatives to the Industry Advisory Committee working on the War Model. The Smaller War Plants Corporation should also be called in on agency conferences on matters directly affecting small business.

The manufacture of War Models should be encouraged as far as possible where labor supply is adequate and avoided as far as possible where the supply of labor is short.

Some means must be developed to insure the equitable distribution of the War Models which are produced both as to different parts of the country and as between different types of retail stores.

Such a distribution plan would be helpful in minimizing possible disturbances of normal distribution that might result from the different prices for different-sized stores which are set up under dollars and cents ceilings.

Because of the confusion that prevails as to the meaning of the phrase, the Committee is not happy at the choice of the term "War Model" to describe this program. The terms "Victory" or "Utility" unfortunately cannot be used because they already have come into wide commercial use. The Committee feels that any public announcement of the program should be focused not on the phrase, "War Models", but on what the program aims to do--assure civilians the continued production of low-priced goods for certain basic essentials. The need to identify

the program could be met by developing some suitable insignia that these articles could carry as a guarantee that they meet the minimum specifications that have been set up.

III

RECOMMENDED PROCEDURE

The War Model program presents an unusual administrative problem. While the development of these War Models is primarily a production job, pricing is so important a function as to require active participation by the Office of Price Administration at every step. In addition, varying with the commodity, several other agencies will have a vital interest in the program.

To meet this situation, the Committee recommends the following plan of organization:

1. Full authority and responsibility for carrying out this program should be entrusted to one man, named by the Chairman of the WPB.
2. Working with him should be an Inter-agency Committee consisting of the personal representatives of the Price Administrator, and the Chairman of the War Manpower Commission. (Possibly other agencies later) The WPB representative should be chairman.
3. From time to time, as the Committee sees fit, the heads of other agencies can be asked to send representatives to sit with the Committee. Among these agencies might be the Office of Defense Transportation, Food Administrator, the Smaller War Plants Corporation, the Army or Navy, etc.

4. The Inter-agency Committee should function as an overall group guiding the development of the program. The Committee should coordinate the interests and activities of all agencies concerned and arrange for the fullest implementation by these agencies of each War Model decided upon. It would decide what items should be designated as War Models, approve or turn down suggestions for additional items to the War Models list. The Committee would also provide a mechanism by which the War Models can be developed in harmony with prevailing policies in the different agencies.
5. Each War Model project should be initiated by an invitation to the industry concerned to submit its own recommendations. While using the industry advisory machinery of WPB, both the WPB and OPA Industry Advisory Committees should participate in the project. Retailers and distributors should be fully consulted.
6. To guide industry in submitting its plans, the Inter-agency Committee should designate the broad price field to be covered by each War Model.
7. To insure the participation of small business, and to protect the interests of small enterprise, the Smaller War Plants Corporation should be asked to name the small business representatives to the industry committee working on the project.
8. In developing the details of the War Models, the fullest use should be made of the technical experts of the various government agencies and branches of agencies. It is important in this connection that the project be considered not as the work of a single agency but as a joint endeavor of all government agencies involved.
9. Before any War Model is finally approved, the reaction of typical consumers should be sought. This can be done through special consumers panels that would be asked to consider each different War Model.
10. When the specifications and other technical and economic details of a War Model are finally approved, it will be the responsibility of the Inter-agency Committee to see that it is fully

implemented by all agencies. It should be understood that approval of a War Model automatically carries with it preferences for materials, manpower, etc.

11. The Order setting up a War Model should take the form of an "O" order issued by the War Production Board.
12. Simultaneously, OPA should issue its regulation pricing the War Model.
13. Simultaneously, manpower assistance for manufacturers producing these War Models should be arranged. It should be understood, of course, that in accepting materials for war models manufacturers undertake a corresponding obligation to employ proportionately the labor in their own plants to make the war models.
14. Modifications and changes in any of the War Models should be handled through the Inter-Agency Committee with the chairman of the Committee in charge.

IV

STARTING LIST

The Committee recommends that the program be begun with a number of the most essential textile items. The list suggested is broad enough to appeal to all groups of the population, farmers, laborers, white collar workers, men, women and children. It has been kept small enough so that general agreement could be reached with all the agencies concerned, the WPD Textile Branch, the Office of Civilian Supply, OPA and the Bureau of Labor Statistics.

The list follows:

<u>Item</u>	<u>Weight in Cost Living Index*</u>	<u>Weight in Clothing Index*</u>
<u>Men's Work Clothes, including</u>	<u>.5</u>	<u>3.5</u>
overalls	.2	1.2
overall jackets		
dungarees		
work pants	.1	.9
work shirts	.2	1.4

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<u>Item</u>	<u>Weight in Cost Living Index *</u>	<u>Weight in Clothing Index *</u>
<u>Women's Work Clothes, including</u>		
coveralls		
work jackets		
work aprons		
work slacks		
work blouses		
work skirts		
	(Being put into index June 15)	
<u>Low-priced Housedresses or Wash Dresses</u>	.3	2.5
<u>Shoes for Men, Women and Children</u>	2.0	16.2
<u>Rayon and Cotton Slips</u>	.2	1.5
<u>Women's Cotton Hosiery</u>	--	--
<u>Children's Overalls and Jeans</u>	--	--
<u>Knitted Underwear for Men and Women</u>	.2	1.4
<u>Knitted Underwear for Children and Infants</u>	--	--
<u>Men's and Boy's Shorts</u>	.1	.7
<u>Men's Socks</u>	.3	2.6
<u>Children's Socks and Anklets (including Women's Anklets)</u>	.1	.9
Total	3.7	29.3

* NOTE: These weights are only approximate since some of the items are imputed to other items.

These items represent only a small percentage of the average family's basic essentials. They should be considered as a minimum starting list. Other items, not only clothing, but durables, etc., should be added immediately. Since War Models will take some time to work out, these additional items should be added without waiting for this first list to be put into effect.

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It should be made clear to the public that items not on this list will continue to be produced just as they would be if this program were not undertaken.

In knitted underwear for winter wear, it will be necessary to develop a War Model quickly, to catch the next season.

A full justification of these items is attached. In brief, these articles have been chosen because:

They are among the most essential clothing articles.

Since considerable work in simplification has already been done with these items, they lend themselves most easily to War Model treatment.

In Men's work clothes, War Models already have been established by the OPA and there is need to assure the fabrics and manpower for essential production.

In knitted underwear there is need for assuring the production of infants' underwear and men's heavy-weights which are suffering in favor of less essential lightweights.

In housedresses and slips, manufacturers are reported to be discontinuing larger, matron sizes; children's overalls, too, seem in danger of being squeezed low.

Manpower savings are forecast for slips, men's hosiery, work shirts, shorts, women's work clothes, children's socks and anklets.

Materials can be saved in women's work clothes, slips, men's work shirts, underwear, shorts, and socks.

Price reduction would seem possible for slips, men's socks, women's seamless hose and shoes.

Quality deterioration and the disappearance of low-priced lines are reported for many of the items.

Particularly important in women's work clothing are the added safety factors that could be introduced.

For all of the items in the list, the OPA assures us it will be possible to establish specific dollars and cents ceilings.

With the general fabrics situation tightening steadily, the existence of these War Models will prove a valuable mechanism to make certain that low-priced essential articles of clothing are not squeezed out of production in favor of higher-margin clothes.

V.

TIMETABLE OF ACTION

To get this program started without delay, the Committee suggests the following timetable of action:

1. Approval of this report by the WPB Chairman, Price Administrator, Chairman of the War Manpower Commission and the Director of Economic Stabilization, incorporating any suggested changes.
2. Designation of the membership of the Inter-agency Committee.
3. Public announcements of the War Model program.

along with the first list of items selected. This announcement should carry the names of the Inter-agency Committee, certainly of the director named by the WPB Chairman.

4. Inter-agency Committee decide in what broad price field each of the War Models should be developed.
5. Extend invitations to all industries affected to submit their recommendations for War Models. This invitation should contain a statement of principles, the yardsticks to be followed in drawing up War Models, the price ranges at which efforts to develop War Models will be concentrated, and the date of an industry meeting to discuss the problem. If released a couple of days after the initial announcement of policy, this invitation to the industries can be used to re-emphasize the major points of the program and to correct any misapprehensions that may arise.
6. Staff memorandums and directives should be prepared by the Inter-agency Committee for circulation within their respective agencies, explaining the program and setting out the procedures to be followed.
7. Inter-agency Committee should start work on additions to War Model list, woolens, durable items, etc.
8. The situation on the shoe War Model ought to be reviewed and prodded along.

APPENDIX 1COPY NO. 25

May 19, 1943

JUSTIFICATION OF ITEMS SUGGESTED FOR
INITIAL WAR MODEL LIST

It was decided to confine the first list of war model items to a small group of essential articles of apparel. Preliminary soundings had indicated that such a list could be agreed upon relatively quickly by all government agencies concerned. The WPB Textile Branch, Office of Civilian Supply, (now Requirements), OPA and Bureau of Labor Statistics were asked to suggest items which in their judgment would lend themselves most readily to war model treatment, where war models were most needed, and where the greatest advantages were to be gained. It was explained that the aim would be to draw up a list broad enough to appeal to all groups of the population, workers, farmers, men, women, and children, yet small enough for general agreement within the government.

All items suggested by two of the agencies were placed on a preliminary list for detailed investigation. This preliminary list then was gone over, item by item, with the experts in the Textile Branch, Office of Civilian Supply, now the Office of Civilian Requirements, OPA, and the Bureau of Labor Statistics.

After reviewing the results of these interviews, the Committee unanimously approved the following items:

Item	Weight in Cost of Living Index*	Weight in Clothing Index
<u>Men's Work Clothing including</u>		
overalls)	.2	1.2
overall jackets)		
dungarees)		
work pants)	.1	.9
work shirts	.2	1.4

- 2 -

Women's Work Clothing, including

coveralls
 work jackets
 work aprons
 work slacks
 work blouses
 work skirts

(to be included in the index June 15)

<u>Low-priced House-dresses or Wash Frocks</u>	.3	2.5
<u>Shoes for Men, Women and Children</u>	2.0	16.2
<u>Rayon and Cotton Slips</u>	.2	1.5
<u>Women's Rayon and Cotton Hosiery</u>	—	—
<u>Children's Overalls and Jeans</u>	—	—
<u>Knitted Winter wear Underwear for Men and Women</u>	.2	1.4
<u>Knitted Underwear for Children and Infants</u>	—	—
<u>Men's and Boy's Shorts (woven)</u>	.1	.7
<u>Men's Socks</u>	.3	2.6
<u>Children's Socks and Anklets</u> (including Women's Anklets)	.1	.9
	3.7	29.3

*Notes: These are only approximate since some items are imputed to other items.

The more general advantages to be gained for all of these commodities are outlined in the main body of our report. There follows a more detailed, though brief, summary of the particular reasons why these items were selected. It should be noted that conditions described here take into account only WPB orders already in effect. (May 15.). Measures are likely to be adopted to meet some of the problems outlined here before a war model can be worked out. We were informed of no

- 3 -

measures under consideration that would conflict with the program outlined in this report; to the contrary all the measures we were told of would fit in with the program.

(A) Overalls, Overall Jackets and Dungarees.

Since OPA already has established so-called "war model" overalls, overall jackets, and dungarees, these items, would have to be included in our program. It is generally agreed that no further economies of any degree seem practicable over the specifications already laid down by OPA and the WPB conservation order issued previously.

Probably the greatest single additional advantage still to be gained from a War Model program would be to assure the continued production of these vitally essential garments.

The present production outlook is not good. Production has been falling for several months; early this month the WPB estimated production this year might fall 12 million units short of requirements.

The Bureau of Labor Statistics recently interviewed a number of overalls manufacturers in the mid-west. All complained of difficulty in obtaining piece goods. Many of the manufacturers said they were going to stop producing for civilians and take Army contracts so as to be assured of their materials and labor.

The WPB is about to take action to assure overall manufacturers an adequate supply of denim. This action, coupled with the latest OPA price regulation, would virtually establish a war model in this field.

- 4 -

Some trouble is being experienced in the distribution of overalls. Apparently some retailers find themselves unable to obtain overalls because the companies that supplied them have turned to military production. The WPB textile branch expressed fears that OPA's new order with its differential pricing will aggravate this distribution problem but it is too soon to determine just what effect the order will have.

Not much quality deterioration has been reported but a war model would provide a precautionary protection should the fabric situation worsen considerably. This would become particularly important if rationing became necessary.

The Bureau of Labor Statistics reports some dropping of low-priced lines.

(B) Work Pants.

With work pants, much the same general production outlook prevails, with the same need for encouraging production. A war model would have the added advantage of facilitating price regulation. OPA is preparing a price regulation similar to the overalls order for work pants. Some work pants manufacturers have been squeezed on their price and the new OPA order is intended to relieve this squeeze.

- 5 -

(c) Work Shirts.

Here, too, production has been declining. The Bureau of Labor Statistics reports complaints from all manufacturers interviewed on the difficulty of obtaining piece goods. Because the Navy has taken so much of the supply of chambray, the most popular material for work shirts, manufacturers have been forced to scramble for a variety of other materials. Fabrics that are ideal for work shirts have been diverted to less essential uses while work shirts were being produced for materials that would be more serviceable if put to other uses.

As with overalls, manufacturers are turning to military production to be assured of materials. The variety of fabrics used has made effective pricing difficult. A needless variety of models are being produced; deterioration of quality, price increases and the disappearance of low-priced lines are reported. The wide variation in fabrics being used results in some waste in manpower.

WFB textile branch informs us that action will soon be taken to meet the fabrics problem. These actions would fit completely into the War Models program. By concentrating production on specified fabrics and assuring the availability of these fabrics, production could be assured.

Women's Work Clothing, including

Coveralls, work jackets, work aprons, and work shirts, work slacks,
work shirts.

Since the women's work clothing field is a relatively new industry, there is no general agreement among either the trade of

- 6 -

women as to what types of garments will give the greatest serviceability and provide adequate protection against specific occupational hazards. Properly designed War Models would be welcomed by many manufacturers; the industry, being new, could adopt such War Models with ease. Accidents among women workers would be reduced. The newness of the industry also complicates OPA's pricing problems. These can be eased by War Models.

Substantial savings in materials and some savings in manpower can be had. It ought to be possible to offer a line of serviceable work clothing that would be appreciably lower in price than the average prices now paid. At present unnecessarily expensive and none too serviceable materials are being used for women's work clothing; there is an unnecessarily great variety of types of garments and needless frills and styling.

All the persons we have talked with agree considerable simplification can be effected and still have attractive work garments produced. Simpler garments will help cut down unnecessary demand.

In this respect, the War Model may help solve a problem now perplexing the War Production Board--that is, how to provide materials to make certain that the necessary minimum of essential work clothing for women is produced and yet keep these materials from being dissipated into garments used for less essential purposes, such as sport use. In the absence of rationing, a War Model could help draw a line between necessary and less essential uses.

- 7 -

The American Standards Association has been working on specifications for these various types of garments, with particular attention to safety. The ASA's report is expected around the end of June.

Low-priced Housedresses or Wash Frocks

This is particularly important for farm women and the wives of workers. A War Model is needed to insure continued production of at least a minimum quantity of these dresses at reasonable prices. The frocks could also be made more serviceable; and there is need for assuring production in the larger, matron sizes. Some manufacturers are reported to be discontinuing larger sizes.

The Bureau of Labor statistics reports some quality deterioration; also considerable dropping of low-priced lines. Prices already are up 50% since the outbreak of the war. All these complaints are likely to become aggravated with the steady tightening of fabrics. In fact, fears have been expressed that this type of dress might disappear completely. A War Model could assure a minimum production of these essential housedresses at a specific, uniform price.

In recent years, there has been a shift in women's taste to frocks that can be used for street wear as well as around the house. A War Model program should not seek to reverse this trend. This can be safe-guarded against by keeping the scale of the housedress program within reasonable limits.

Technical questions have been raised as to the difficulty of defining a housedress. This difficulty might arise if a conservation order covering all housedresses were being considered. A war model auto-

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matically furnishes its own definition, in the specifications, fabrics and price bracket that are selected.

Shoes for Men, Women and Children

The decision to have one or more war model shoes for men, women and children has already been announced and a committee from the industry is working on the problem. Thus far little headway has been made.

The need for war models was recognized as part of the rationing of shoes. With shoes limited to three pairs a year it was felt that people would want to buy better shoes. Since the consumers' only yardstick of quality is price, they would tend to buy more expensive shoes. Manufacturers would be tempted to increase the production of higher priced lines at the expense of lower-priced shoes. However, since the best qualities of leather were going to the Army, it was likely that there would be an upgrading in price but not in quality. A war model of assured quality at a popular price would stabilize the picture.

The change in consumers' buying since rationing has borne out this earlier judgment--more expensive shoes are being purchased with rationed coupons in preference to low and reasonably priced shoes. There is more need now than ever to carry through the war model shoe program.

Shoes can be taken as an example of another advantage of having war models for all the items in the list. If rationing of clothing became necessary, a really dangerous shift in production to higher priced lines, and often without a comparable increase in serviceability, would be likely to set in. War models are an insurance against this.

Cotton and Rayon Slips

A War Model here definitely ought to yield a reduction in price. Some idea of the possibilities can be seen from this story which was told us. Three years ago a St. Louis manufacturer produced a line of slips, maintaining the usual variety of styles and constructions, that retailed at \$2.95. He decided to concentrate his production on a single fabric and style, and produced a slip, as good as his old line, that retailed at \$1.95.

War model slips would save labor and materials, both in the cutting and production of the garments. There is much needless styling and trimming that can be sacrificed with advantage. More serviceable slips could be produced, which would lessen replacements during the war. OPA is experiencing considerable difficulty in pricing slips--they still are under the general price ceiling of last March and the controls are felt to be ineffective. A growing tightness of materials is reported, with rayon yardage particularly tight. This is likely to lead to a further dropping of low-priced lines; some dropping is already reported. Some manufacturers are also reported to be discontinuing the larger sizes.

Women's cotton hosiery

The WPE and OPA orders on rayon hosiery leave so little more that could be done with a War Model that it was felt best to leave it off the initial list.

In cotton hosiery, a War Model would yield several important advantages. It would facilitate effective price control, aid in getting rid of shoddy, unserviceable merchandise and guarantee the continued

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production of low-priced stockings which might be forced out of production by the cotton yardage shortage. Cotton stockings are particularly important for farm women.

One War Model in cotton hosiery that has been suggested holds out the promise of a price reduction. It would be a seamless hose made of a mixture of rayon and cotton. A more serviceable stocking could be produced by using a heavier denier yarn, without stirring consumer resistance.

Children's Overalls and Jeans

With the general work clothing picture so tight, there is serious danger that the production of overalls and jeans for boys and girls might decline sharply. Since overalls and jeans are probably the most serviceable of all children's clothes, it is particularly important that they continue to be produced. A War Model would also help solve OPA's present difficult pricing problem.

Knitted Underwear for Men and Women, Children and Infants

The chief advantages of war models in this field would be to safeguard the continued production of underwear, particularly as between different underwear items. Both infant's underwear and men's heavyweight underwear are suffering in production, while less essential lightweight garments are favored.

Lightweight production is reported above requirements; infant underwear at least 10 percent below and men's heavyweight underwear off even more. WPB textile experts also fear that total underwear production may suffer because of the many demands on the available supply of knitted yarn.

- 11 -

Priority ratings may solve this latter problem of seeing that the available yarn goes to the underwear industry in preference to less essential items, although it has proven extremely difficult to manage the flow of textiles through priorities. However, simple priorities will not channel the yarn between different types of underwear or between underwear produced at different price ranges. War Models do provide a means for getting such an allocation.

Knitted underwear is one of the items where the Bureau of Labor Statistics reports numerous instances of the dropping of low-priced lines. Substantial deterioration in quality is also reported.

Concentration on fewer models should yield some small savings in materials and more appreciable savings in manpower, particularly with green help.

With all War Model items, care must be taken to see that the specifications are such as to permit industry to make the best use of existing equipment. That point is worth stressing for knitted underwear because of the many variations in gauges, stitching, etc. between machines in the industry. Specifications of the type that can be laid down for other items would not be adaptable to knitted underwear. However, war model standards can be defined readily enough and in such a way so that there would be no threat to production.

Men's and Boys' Shorts

Shorts lend themselves readily to a war model treatment. A war model would prevent further quality deterioration. In shorts, this means principally assuring the proper fullness in cut and serviceability of

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fabric. Skimpiness results in early discarding and greater buying, which is a waste of manpower and yardage. Numerous instances of the dropping of low-priced lines are also reported. A war model would yield some savings in cutting down patterns and fancy weaves.

Men's Socks

Considerable savings in manpower, materials and a possible price reduction are promised here. Men's socks are distinguished by the great variety of patterns that are produced. Changing from one pattern to the next means a loss of machine time. Many patterns involve knitting additional material on to the socks, material which serves no function other than decoration.

A WFB order freezing existing patterns becomes effective on May 15, but further savings could be had by selecting the most serviceable constructions and giving those preference.

The patterns selected could be the ones most easily produced by green labor.

Fewer pattern shifts would increase the productivity of unskilled labor.

An appreciable saving in yardage could be effected by adopting as a War Model a nine inch hose. There has been discussion within WFB of forbidding the production of any men's hose longer than nine inches. Such an order, it is estimated, would save six million pounds of men's sock yarn which would make 3,000,000 shirts for babies.

The Bureau of Labor Statistics reports dropping of low-and socks; also quality deterioration.

War Models would also mean smaller inventories would be re-

- 13 -

paired; manufacturers could fill and ship orders more quickly than if they had to supply their customers full lines embracing many styles.

A War Model program concentrating production on the most serviceable types would reduce the replacement rate for hose.

Children's Socks and Anklets

The possibilities here are similar to those in men's socks. This also includes women's anklets since their sizes are identical with girls. The WPD order will freeze patterns and colors, but further economies can be had by selecting the most serviceable constructions as War Models socks and giving them preference. Such War Models could be in simple patterns, with fewer colors, probably solid colors. Interstriping--giving socks as many colors as Joseph's coat--requires more manpower both in production and in dyeing. Socks or yarns used have to be dyed in small lots which requires considerable manpower. These economies would certainly relieve any price squeezes now prevailing and might mean a price reduction.

A solid color, war model sock would ease inventory problems.

In the anklet field a war model would help curb unnecessary demand. More serviceable socks and anklets would reduce the replacement rate.

Other Items Considered

The Committee also turned down a number of items that were suggested as possible War Models.

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Pajamas were kept off the list because it was felt that they did not rank high enough in essentiality. It was felt that it would be unwise to commit ourselves to assuring fabrics for the production of war model pajamas when more essential clothing needs had to be filled first.

In work gloves the Committee found that the production problem was so critical that immediate action was necessary to meet the situation. Since such action was certain to be taken before a war model could be arrived at, it was thought wiser to wait until this immediate production problem was solved.

Towels, blankets and sheets were left off because the WFB had already issued far-reaching orders in these fields and anything further that had to be done probably could be accomplished through regular conservation orders.

Children's snow suits were felt to be a most desirable item for the list but were left off because of the seasonal nature of the industry, with production for next fall beginning in a matter of weeks.

JUN 4 1943

My dear Mr. Ambassador:

There are enclosed two copies of a letter I have signed today modifying the letter of July 15, 1937, as previously supplemented and modified. If you agree to the modification, will you please sign both copies and return one of them to me.

In connection with the further modification of the letter of July 15, 1937, I am enclosing a draft of a proposed letter to be sent by you to Secretary Hull. This letter certifies to your authority to further modify the letter of July 15, 1937.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency
The Ambassador of Brazil,
Washington, D. C.

Enclosures

JWG:RB:lhb 5/27/43

Copy in Diary
File to White's office
By Mess. Manus 10:27 6/4

JUN 4 1943

My dear Mr. Ambassador:

Pursuant to a request from the Minister of Finance of the United States of Brazil and current discussions which have been held with the Brazilian Embassy in Washington, it is agreed as follows:

The letter of July 15, 1937 of the Secretary of the Treasury of the United States of America to the Minister of Finance of the United States of Brazil, as said letter has been previously supplemented and modified, is further modified by changing the figure in item (1) from "\$100,000,000" to "\$200,000,000", and by changing the word "milreis" wherever it appears to "cruzeiro" or "cruzeiros" as the case may be.

It is understood that the authority of Banco do Brasil to act as fiscal agent of the Brazilian Government in connection with all transactions undertaken under the arrangement provided for by said letter dated July 15, 1937, as supplemented and modified, shall continue in full force and effect.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency
The Ambassador of Brazil,
Washington, D. C.

The foregoing is agreed to on behalf of the United States of Brazil and the Minister of Finance of the United States of Brazil.

Ambassador of the United States
of Brazil.

JWG:RB:lhb 5/27/43

PROPOSED LETTER TO BE SENT FROM THE AMBASSADOR OF THE UNITED STATES
OF BRAZIL TO SECRETARY HULL

BRAZILIAN EMBASSY

Washington

Your Excellency:

I have the honor to refer to the letter dated July 15, 1937 from the Secretary of the Treasury of the United States of America to the Minister of Finance of the United States of Brazil, as supplemented and modified, relative to the sale of gold and the purchase of milreis with dollars.

2. I am directed by my Government to certify to your Government that I was authorized to modify the aforementioned Agreement by means of the Agreement of _____, 1943, executed by me and the Secretary of the Treasury of the United States of America, the duplicate originals of which Agreement have been delivered to the respective parties. I am also authorized to declare that the new Agreement represents the valid and binding obligations of the Brazilian Government and the Minister of Finance of the United States of Brazil, in accordance with its terms.

3. I shall be grateful to Your Excellency if a copy of this letter be sent to the Secretary of the Treasury.

- 2 -

I take the opportunity to renew to Your Excellency the assurances of my highest consideration.

His Excellency Cordell Hull,
Secretary of State of the United States of America.

JUN 4 1943

Excellency:

I wish to thank you for your letter of May 11, 1943 and for the enclosure dealing with currency and currency conditions in Yugoslavia in the immediate post-Armistice period.

You have stated that this report was prepared some time ago and it would be appreciated if, in the event that additional pertinent information about these matters comes to your attention, you would forward such information to me.

Very truly yours,

(Signed) H. Morzenhan, Jr

Secretary of the Treasury

His Excellency, Jurač Butaj,
The Minister of Finance,
Kingdom of Yugoslavia,
Kingston House,
Princes Gate, SW 7,
London, England

Photo file in Diary
File to White's office

By Mess. Manus 10:27 6/4/43

WHF:Dr1
5/28/43



MINISTRY OF FINANCE
ROYAL YUGOSLAV GOVERNMENT

LONDON, 11th May 1943.

Excellency,

I have received your letter of the 16th April in which you ask my views about the future provisional dollar : dinar exchange rate.

It is very difficult at this stage to have a sound view on this matter, and I believe this will remain so until more facts about the state of the country are known. Although some European countries occupied by Germany at present can easily form an idea of the relative value of their currency, this is practically impossible in the case of Yugoslavia, since the continuous fighting and resistance over most of the country's area is daily changing the material state of the country and is also making it practically impossible to obtain sufficiently reliable or sufficiently recent information.

If it had not been for this state of affairs, I would, without much hesitation, suggest the rate of 55 Dinars to one Dollar which, although not the stabilized official rate, was, however, the rate at which most transactions have been done, as our National Bank has been buying dollars at this rate from exporters. But I hope you will appreciate that the circumstances do not permit of such an easy decision.

In any case, I hope to discuss this matter further during my forthcoming visit.

I am taking advantage of your kind suggestion to

send relevant material and views on monetary problems, and I am enclosing a copy of the memorandum which my monetary expert has prepared sometime ago.

Yours sincerely,

Dr. J. [unclear]
Finance Minister.

H. [unclear], [unclear]
The [unclear] of the [unclear]
Washington, D.C.,
U.S.A.

RECEIVED
Treasury Department
MAY 20 1943
Division of
Monetary Operations

1943 MAY 20 AM 11:00
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OPINION AS TO THE POSSIBLE DEVELOPMENTS
OF CURRENCY AND OF MATTERS DIRECTLY AF-
FECTING CURRENCY CONDITIONS IN YUGOSLAVIA
IN THE IMMEDIATE POST-ARMISTICE PERIOD.

Report by Dr. H. Dimovic

Consideration of the above will be facilitated even by the mere listing of:

- (a) Problems which have to be or may have to be faced before the Government's return.
- (b) Problems which the Government will or may have to face after its return.
- (c) Preparations which can be made before the Government's return.
- (d) Measures which the Government, when re-established in Yugoslavia might take.

These problems, preparations and measures are separately listed in the enclosed schedule A, schedule B, schedule C, and schedule D.

The matter is complicated generally by

- (a) the ignorance as to the state and conditions in Yugoslavia at the time of the Government's return.
- (b) the ignorance as to when this will be, and
- (c) the resulting ignorance as to what conditions will be here and outside of Yugoslavia at the time.

The Yugoslav case is further specially complicated by special circumstances.

- (a) The country has been split by the Axis into more (seven regions) separate units than other Axis occupied countries.
- (b) this resulted in there being at present at least seven separate currencies, plus other local currencies (beside other countries currencies) which might circulate such as

old pre-war Dinar or any currency which the Mihailovic authorities might be circulating. Also there may be counterfeit notes in circulation.

Further Yugoslav foreign trade - like that of any other country - is mainly done with its neighbours. None of these are at present represented in London amongst the Allies. Greece is the only neighbour of Yugoslavia with a Government in London, but the trade with Greece was always insignificant. However, the post-war foreign trade is changed it cannot alter the natural state of things which is that the foreign trade of a continental country always gravitates towards its neighbours. The present tendency suggesting less tariffs for the post-war period means that physical distances from markets become increasingly important. This development of decreasing tariffs would tend ~~towards~~^{to} increasing trade with neighbours. Yugoslavia's trade neighbours are not represented at present in London.

However, fortunately Yugoslavia is not fully a continental country. Its long seacoast and ports, and the consequent fact that transport over a long sea distance may be cheaper than rail transport over a short distance, makes Yugoslavia a trade neighbour of Great Britain and America for goods suitable for sea transport.

Such currency considerations, therefore, as are connected with foreign and not internal trade will, in the case of Yugoslavia fall into two groups,

- (a) matters concerning future trade with Allies which can be discussed and agreed with Allies before the Government's return.
- (b) matters concerning future trade with Yugoslavia's continental trade neighbours which cannot be discussed with them absent from London. This must either be left over for discussion and agreement with them after they are and if they are re-established, or the Allies can make plans in the best interests for all of them and simply enforce them after the war.

It will be important to know as soon as possible which of these two possible courses will be taken as hardly any plans for Yugoslavia's foreign trade with them can be made now if the first alternative is adopted. On the contrary if the Allies adopt the second course very far reaching plans concerning Europe's ^{an} international payments and currency can be made now.

Yugoslavia's international payments with European neutrals have been small due to the small trade with these neutrals. The fact, therefore, that they are represented in London is not very helpful, putting aside the probability that these countries would probably not enter into post-war discussions while the war is on.

It has generally been agreed amongst the Allies in London that it is too early to fix at present the actual rate of exchange between the new currency with notes of which the respective Governments will return home and the Axis created currencies found at home on arrival. This common agreement as to the impossibility of fixing this rate at present is due to the common ignorance of the purchasing value at present obtaining at home and especially of the purchasing value which the ^{the} different Axis controlled currencies will have at the end of hostilities, the date of which end is not known.

There seems to be, however, another most important obstacle which also makes it impossible for the fixing of these rates at present. This is the lack of knowledge as to whether the stability - the necessity of which is a further point on which all the Allies are in common agreement - will proceed to be established from bottom to top or from top to bottom. By this is meant the following:

First alternative. Producers in liberated home countries fix the price for their goods guided by the market demands and by their own and their competitors supply. These prices are then known. The purchasing value of the currency in turn is then known.

in turn enables the rate of exchange of this currency to be fixed in relation to another nation's currency, if this other currency also has a known purchasing value. These international rates of exchange are, therefore, fixed by the respective central banks or other State authorities, after - and not before - the private producer has obtained his price basing this on supply and demand. In short here the initiative is with the private business community and rates of exchange will not be artificial but tend to correspond to actual facts. But the difficulty is that this private ^{community} is not in London.

Second alternative. The authorities representing the two nations fix the rate of exchange between their two ~~countries~~ ^{countries} first, basing this relation on some known purchasing value - if this can be done at all - of their currency of which they are aware. The producers then in turn proceed to fix the price for their goods having a knowledge of what the currency, which they get in exchange for their goods, would be able to procure either in their country or abroad. Here the initiative is with State authorities, and the advantage is that these authorities are now in London.

The first alternative obviously cannot be entertained until the governments return home and some time elapses from then; while the second alternative seems to be difficult for carrying out in practice due to the lack of suitable peg, that is there is insufficient knowledge of the internal price or purchasing power.

If however, a currency were to be fixed in relation to an Allied currency which has stability and definite purchasing value then the currency plans could be worked out now and would probably satisfy the foreign trade needs, but this procedure need not necessarily prove sufficient to satisfy the internal needs of the currency.

Although not ideal it seems to be the best of the possible solutions.

It is here where gold could enter into the picture if all nations are deficient of it, but this is not the case, and it is very doubtful if the nations would be willing to buy gold or if they would be able to sell for it, or, if countries which have too much gold would be willing to sell it away free, or, even if every nation was made a present of a certain amount of gold if this would really help in itself, as we might go back to the unsatisfactory way of accepting international payments which existed during the fifteen years following the last war.

3. Since it is more unlikely that one will go wrong if one starts from the existing and from the known and from there build the yet unknown, the following stability chain can be envisaged:

(a) most of the gold is now in U.S.A. It is unknown whether gold would, in future, be ~~used~~^{not} used as it is alleged it has been in the past. But it cannot be denied that all the gold in U.S.A. is a powerful peg.

(b) The U.S.A. dollar is pegged to this gold. Of course the danger is that the present relation of the dollar to this gold can be changed by the U.S.A. government alone, there being to my knowledge no commitments on the part of the U.S.A. towards other nations not to change the dollar: gold relation without consulting them.

(c) We come now to the £ : \$ ratio. This has been stable now for a long time due to the agreements between the U.K. and the U.S.A. governments. The sterling and dollar purchasing power must have changed during the war and is, in fact, daily changing. The danger, therefore, is that the U.K. and the U.S.A. authorities alone without consulting a third government, could change this relation. The word "danger" is here used only in its relation to the express desire of stability, but, of course, it is appreciated that it may in fact be desirable that there should be a change in ratio, the same as it may be desirable to change the ratio of the first peg, gold : dollar; but, any change would certainly affect stability which is so much desired by everybody. Here one sees the pos-

ability of some joint assurance by U.K. and U.S.A. that they will not change these ratios without consulting the other Allies.

Although some such assurance can be deduced from the general implication of the Atlantic Charter, the terms of the Charter are probably too wide to be sufficient for currency purposes.

- (d) Subject to all the above, our own future currency representing a link in itself in the international stability, could be joined probably usefully - for everyone concerned - to the already assembled links or pegs in the international stability chain as in fact it exists at this moment. And other Allies could naturally bring their currencies in, in a similar way, to complete the United Nations Currency Stability Chain.

Most of (a), (b) and (c) exist already and this (d) will still have to be done unless a better way can be found.

14. A further point is certain and I believe that most of the Allies will agree that there will be no such inflation after this war as there was after the last. After the last war the absurd extent of inflation on the Continent was mainly due to two causes.

(a) to the Continental Allies ignorance as to how to control their currencies.

(b) to the German ^{national} ~~international~~ inflation as a means of getting out of debts and reparations.

It is hoped that the United Nations, guided and supported by the big Allies will, this time, both know better themselves and control better the enemies. Therefore one could state that the danger of inflation which, after the last war was a major concern, should be a minor concern after this war.

15. One main consideration remains, unanswered. Perhaps the most attention should be focused towards its solution. It is the relation of the purchasing power of all the United Nations currencies towards their underlying productions. It is difficult to see how the element of supply and demand can be removed, nor can the desirability of this removal be seen. Yet with this element of supply and demand continuing to guide the amount of production in the different countries it is difficult to see how the

ing power of a currency can stay put and not change, and, if it is
how than can its international stability be maintained without one
suffering and being dissatisfied, with the result that changes in the
international currency ratio will be demanded and will probably have to
be made.

Would it be possible to find some other consideration to be given
to such nations which will need a change in their international currency
ratio but would be willing to forego such a change in the interests of
international currency stabilization or would it be better to introduce
more co-operation between

- first the producers themselves in every nation who could perhaps
form groups for every type of production, similarly to what
has been done in U.K.

- secondly between such national groups on one hand and with their
respective governments and also with similar groups in other
nations on the other hand.

- thirdly between all the State authorities of all the different
nations with one another and in turn with their original
groups of nations, and these further in turn with the
remaining nations. Such increased co-operation is ^{perhaps}

~~likely~~ the only way to secure more co-ordination ^{between} ~~which~~ them
which, in turn, may sufficiently open the eyes of both
the most remote producer and the most remote government

official everywhere, to enable them to maintain stabilized
production which is the only sound basis for stabilized
currencies. Only such co-operation and co-ordinated

widespread mutual giving of information could also enable
the nations to accompany major changes in the production
with changes in currency relations. It would appear

that the objection to currency instability is not a desire
to prevent orderly change in currency relations, but only to
prevent disorderly changes. By disorderly change is meant
such change ^{which} occurred after the last war.

In the past after the last war changes in exchange rates covered in practice, were equivalent in some of its consequences to: unilateral breaking of agreements, contracts, etc.

Producers receiving less for their goods than it costs them to produce them:

They only produced the goods because in their private contracts with buyers, they stipulated a price, which not only included cost but also a certain profit. However, such private contract between two parties (buyer and seller) including a profit was subsequently - after contract date not beforehand - changed - not by buyer or seller - by a third party (for example speculators operations or State agreements or State acts changing rates or exchanges) in such a way as to result in a loss. And if instead of earned profit one gets undeserved loss confidence cannot be maintained. Trade cannot prosper, and such changes cannot be called orderly.

On the other hand if in future after this war more emphasis is laid on orderly change which is possible instead of trying to secure permanent stability which seems impossible, we shall all probably be making progress.

To conclude: changes in currency stability seems unavoidable as long as there will be changes in the underlying production of goods. And unless all invention and progress and improvements in the production of goods are brought to a standstill, which seems impossible and unacceptable, these changes in production will have to continue. In turn these will bring about changes in the stability of currencies. Different productions must always result in different currency values.

But it is: possible to bring order into this continuing change, so that disorderly change becomes orderly. We cannot remove the change, but we can remove that part of the uncertainty accompanying it which mainly affects trade, and which causes injustice and resulting lack of confidence.

If plans can be evolved which will show clearly to nations and their officials that they will not be asked to contribute more than they will receive and that their contributions will probably only amount to:

- (1) exchange of information in such a way that everyone of them will secure a complete picture of the whole world's economic and financial structure, so that by giving away their own smaller national picture they will in return get the bigger

worlds picture.

- 6) exchange ~~for~~^{of} formal pledge that if plans are evolved - plans so clear that no doubt will remain that by their adoption circumstances affecting changes in currency rates would be such as to result on the balance in definite benefits to all nations adopting these plans - which will enable changes in currency rates to be made in an orderly manner, in fact abandoning stability of exchanges for stability in changes, thereby assuring stability of contracts, then nations will be unlikely to refuse co-operation and will probably agree to enforce measures planned, without which enforcement little will be gained.

17. Of course it is not an easy matter to evolve such plans, but it should not prove impossible. When evolving them thought should be directed towards securing at least the following aims:

- (1) that commitments or contracts - private or state - made before changes in currency rates are made, will not be foiled by changes made after this contract date.
- (2) If, however, the changes affect these contracts or commitments then the party affected by receiving less in purchase power than contracted (although perhaps not less in terms of money) could be compensated by using the extra purchasing power which the other party - which expected less of same - would probably receive due to currency change.
- (3) evolving this will not be simple mainly because the purchasing power lost to the first party or seller, may go to benefit others and not the second contract or commitment - party or buyer. A third party - neither seller nor buyer - may secure intentionally - speculators - this portion of the purchasing power not received by the first party or seller or it may go accidentally to a State central bank, for instance, instead of to the second party or buyer. Therefore it will be necessary to:

grant speculators and other third parties, from either operating
from keeping extra purchasing power to which they are not
entitled, and restore same to the parties entitled to it.

These are not the only aims; many other aims will have to
be considered and this will be considered further.

SCHEDULE A.

PROBLEMS WHICH HAVE TO BE OR MAY HAVE
TO BE FACED BEFORE THE GOVERNMENT'S
RETURN.

1. Deciding the total amount of currency to be taken to Yugoslavia.
2. Deciding the denominations and proportions of each denomination to their total.
3. The actual form, pictures, wording, size, marks, paper, etc.
4. Ascertaining, if possible, what is the position in the country regarding
 - (a) the purchasing power from time to time of
 - Slovenian-Dalmation-Montenegrin Liras
 - Slovenian Marks
 - Croat Kunas
 - Hungarian Pengos
 - Serbian Dinars
 - Bulgarian Livas
 - Albanian Leks or Francs
 - German Kassascheine
 - Other German Scheine
 - Old Dinars
 - Dollars
 - Sterling
 - Counterfeit
 - etc.
 - (b) The different prices ruling for the same goods in the different six or seven parts into which the country has been split.

- (c) What goods have not increased in price since pre-war times and in which of the seven parts.
- (d) Which goods are cheaper than pre-war and where.
- (e) Which goods have increased in price
- (f) Roughly what goods are sold on black markets alone.
- (g) What goods are sold only at controlled prices.
- (h) What goods are sold at both controlled and black market prices, the difference between the two prices, what percentage are on black market and what are on free very roughly, of course.

5. Establishing if there is really inflation in the country as a whole, taking into account the economy of the whole country, of course this can only be done if sufficient information, as under number 4, is procured, which is not the case at present. It seems that at present there are parts where there is inflation and parts where there is not.

6. Ascertaining from the big allies their views on:

- (a) gold. for instance are plans ready for a new different gold standard?
- (b) length of continuation period of the present £ : \$ rate of exchange.
- (c) the amount of increase in their possible concrete post-war requirements of Yugoslav standard goods as already exported ~~to~~ to them before the war.
- (d) the proportion which they could supply of the goods which Yugoslavia will need from them soon after the war and as already indicated by Yugoslavia.
- (e) their payments terms for (c) and (d) of the above.
- (f) their allocation of shipping tonnage for Yugoslav immediate post-war needs.
- (g) their manner of post-war trading, State controlled or same as before the war or both, and what is the tendency.
- (h) their intention as to the internal purchasing power of their own currencies. Continuation of price control, of wages control? of high level of production being continued.
- (i) their intention concerning the marketing of the Dominion.

Colonial and South American agricultural goods connecting with with similar European goods.

- (j) the tendency of their other foreign trade policy for the first short post-war relief period and for the subsequent longer reconstruction period.

Quotas? Customs Duties? Licences? M.F.N. Clause? Preferences? etc.

- (k) their intentions concerning the amount of their intervention on the Continent of Europe especially regarding the financial policy of their present enemies in Europe.

PROBLEMS WHICH THE GOVERNMENT WILL
OR MAY HAVE TO FACE AFTER ITS RETURN

1. One part of the country may be liberated or, for some other reason be ready for the introduction of new currency before another part of the country.
2. Perhaps in one of the seven groups there is sufficient currency order so that overprinting of the existing currency may be a possible solution for the first period.
3. It should be considered whether the old Dinar plan can be re-intro-
duced if sufficient notes are in existence either in:
 - (a) hoarding
 - (b) vaults of national bank branches in the seven separate regions or in the safes of other banks.
4. Quick decisions will have to be taken as to the retention of certain officials at present working in the branches of the National Bank in the seven regions, or as to the choice of new men as to the return of old loyal officials.
5. Reports which these people may have prepared - particularly if they have been asked months in advance to do so over the B.B.C. broadcasts in Yugoslavia - may have to be urgently studied.
6. Decisions may have to be taken as to the method of reassembling quickly yet efficiently the branches of the National Bank from the seven regions.
7. Decisions will quickly have to be taken regarding the methods to be used in ascertaining the purchasing power over the whole area and over at least some period of time.

Decisions as to the method of controlling prices will have to be taken quickly.

Decisions will have to be taken as to what articles or goods of which the prices need not be controlled.

10. A method may have to be found of efficient communication with similar authorities in neighbouring countries, without having to go through trade negotiations.

11. It will have to be decided ^{whether} - pending better arrangements - some advances of a small percentage could be given in new currency against the depositing of existing currency.

12. Separate arrangements will have to be made concerning currency destroyed or forcibly taken away by the enemy. Claims where documents have been destroyed will have to be similarly treated.

13. It will have to be decided what method is to be adopted to regulate claims arising from exports.

(a) from one of the seven regions to another

(b) from any of them to Germany, and

(c) from any of them to other axis controlled countries and for which no payment or only credit balances have been received.

14. Decisions will have to be taken whether the conditions pertaining in Germany at that time can be considered as fairly fixed or not; because in each case a different policy will have to be adopted. If Germany remains more or less a whole unit, some advantage can be taken of the existing clearing method. However, if Germany is going to split into many separate units there will be little point in doing this.

15. Decisions may have to be taken whether home broadcasts could not

used to a great extent in order to help the stability of the new currency
broadcasting regularly on this being done and what will be done and why
that more confidence be gained. This is a must but it might
have to be very useful and an early decision on the merits of such procedure
will have to be taken.

16. As hard as normal trade is possible without the seller having
the assurance that the purchasing power of the proceeds of sale will not be
changed for at least some period after payment, decisions regarding some
kind of Government guarantee concerning the stability of the purchasing
power of the new currency may have to be taken and publicised.

17. Decisions will have to be taken as to controlling imports and exports
for the first period. Will equilibrium between the two be insisted on for
this first period?

18. More particularly decisions will be needed as to rather
(a) quotas specifying quantities allowed to be imported are to be
re-introduced.
(b) tariffs (customs duties) will be re-introduced on pre-war levels.
(c) licenses will be needed by importers and exporters (for either or
both) before they can send goods out or bring them into Yugoslavia.

19. Decisions will be needed as to whether frozen credits belonging
to foreigners will be de-frozen or only partly de-frozen (say U.K. and U.S.A.
and other Allied owners) ~~will~~ or will not be de-frozen at all; or will
only some be de-frozen
(a) according to their origin or
(b) according to their future employment (for instance to procure
badly needed imports.

20. Decisions will be needed as to whether it will be permitted to use
other types of credits belonging to foreigners (funded short and long term
debts) for payment of Yugoslav exports.

Decisions may be needed as to whether machinery for international trade is to be re-established:

- (a) at once with a number of countries or with a very wide multilateral payments, or
- (b) multilateral European agreements, or
- (c) multilateral combined North-Eastern European, Central European-Southern European basis, or
- (d) Central European and Balkan basis, or
- (e) Balkan basis only, or
- (f) with limited but still multilateral numbers of Allied countries only or
- (g) on a unilateral basis by separate arrangements with one nation following another.

22. The rate of the Most-favoured-Nation clause will have to be considered and decided too.

23. General decisions will be needed as to whether all protective devices relating to foreign trade will be abandoned, or perhaps some will be used for the first post-war period, not necessarily quotas, tariffs, licences, but perhaps some new type.

24. Obviously it will be desirable to continuously know and follow:

- (a) the general level of production costs for goods.
- (b) the general level of prices of goods.
- (c) the relation of (a) and (b) towards their national currency and its purchasing power and
- (d) the relation of national currency to other nations currencies and their existing purchasing powers.

It will hardly be possible to do all this without special efficient machinery (research work, keeping of indices, etc.), and decisions will be needed whether such machinery is to be quickly established and how.

25. Consideration may have to be given as to whether joint declarations with neighbouring countries concerning official and economic measures to be adopted and policies to be followed for every few following months, would not prove very useful in regard to the needed stability and confidence.

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PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: June 4, 1943, 10 p.m.

NO.: 724

Reference is made to telegram no. 825, sent at 10 a.m. on June 1, 1943, by the Embassy.

1. Pending the outcome of reverse Lend-Lease negotiations, the Embassy is authorized to take advantage of the new rate. It is, however, the desire of the Department that nothing be done which might prejudice the reciprocal aid negotiations. The Department feels that these negotiations offer the most satisfactory solution to the problem of exchange unless the authorities of the Chinese Government are ready to lower the official rate sufficiently so that it will be comparable to the exchange relief anticipated from reverse Lend-Lease and to have such further revisions as may be deemed necessary made.

2. Offices of the Military and Naval Attaches and other official civil establishments which were mentioned in the telegram under reference are included in the above authorization. It is assumed that the new rate may be used by all other official civil establishments of the United States Government, including Treasury and Lend-Lease.

HULL
(GHS)

RCC

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

Chungking via N.R.
Dated June 4, 1943
Rec'd 11:02 a.m.

Secretary of State

Washington

845, June 4, 10 a.m.

The Minister of Finance announced June 2 that Sir Frederick Mase, Inspector General of Customs, is retiring "on grounds of his age and health" and that Mr. L. K. Little has been appointed acting Inspector General. The Chief Secretary of the Inspectorate General, Mr. K. D. Ting, is to officiate following Mase's retirement and until Little's arrival.

ATCHESON

LMS

ehicopy
6-7-43

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 182.

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

1. NAVAL

A Polish submarine torpedoed a 7,000 ton tanker off CAPE SPARTIVENTO, ITALY on 25th.

2. AIR OPERATIONS

WESTERN FRONT. 3rd. Spitfires damaged a 2,000 ton ship, a ferry and several barges off the DUTCH COAST. 3rd/4th. Aircraft despatched: Seaminging - 39, Leaflets - 16 (one missing) Intruders - 3, Anti-shipping - 4.

SARDINIA. 1st. Medium and fighter bombers dropped 50 tons on the harbours at PORTO PONTE ROMANO, TERRANOVA and PORTO TORRES. 2 ships were set on fire and others damaged.

SICILY. 1st. Fighter bombers destroyed 12 and damaged 6 Seaplanes and set on fire 4 small ships near TRAPANI. 3rd. Spitfires damaged a 400 ton schooner off Southeast coast.

PANTELLERIA. 1st. Heavy and Fighter Bombers dropped more than 80 tons on the harbour, gun positions and other objectives.

TUNISIA. 1st/2nd. 23 enemy aircraft attacked SOUSSE ineffectively. One was destroyed.

AEGEAN. 2nd. Beaufighters sank 2 small ships and damaged a third.

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DETROIT MICH JUNE 5 1943 115P

HON HENRY MORGENTHAU JR

SECRETARY OF THE TREASURY

FOLLOWING MY CONFERENCE WITH FRANK ISBEY I AM PLEASED TO ADVISE
I WILL BE VERY HAPPY TO SERVE AS CHAIRMAN OF THE BANKING
COMMITTEE ON UNITED STATES TREASURY WAR FINANCE COMMITTEE FOR
MICHIGAN STOP I ASSURE YOU MR SECRETARY WE IN THE MICHIGAN BANKS
WILL DO EVERYTHING IN OUR POWER TO FURTHER THE SUCCESS OF YOUR
FINANCING PROGRAM STOP THE WHOLE ORGANIZATION WILL BE ADVISED IN
DUE COURSE OF THE PROPOSED PLANS AND I AM SURE WILL RESPOND
WHOLEHEARTEDLY STOP WE ARE VERY PROUD OF MR ISBEYS RECORD IN
THIS GREAT EFFORT

W S MCLUCAS.

140P

SECRETARIA DE MEXICO
DELICE

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE JUN - 5 1943

TO Secretary Morgenthau
FROM Randolph Paul

Reference is made to your memorandum of June 4, 1943, with regard to information on Chinese financial matters.

For your information, no information has been given to Mr. Greenberg and all further information going to Lauchlin Currie will be transmitted over your signature.



JUN 5 1943

My dear Mr. Secretary:

I know you will be interested in the enclosed report prepared by members of my staff on the financial manipulations of collaborationists in French Africa.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State.

Enclosure.

By Brown 9:32 6/5/43

File in Diary

Copies of outgoing to White

WHT:Dr1
5/31/43

also sent to:

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(Honorable, The Secretary of the Navy

The Honorable, The Secretary of War

The Honorable, The Vice President

Mr. Herbert H. Lehman, Director, Office of
Foreign Relief and Rehabilitation Operations,
Department of State, Washington, D.C.

Brigadier-General William J. Donovan, Office of
Strategic Services, 25th and E Street, N.W.,
Washington, D.C.

Mr. Edward R. Stettinius, Jr., Administrator,
Office of Lend Lease Administration, 515
22nd Street, N.W., Washington, D.C.

CONFIDENTIALMEMORANDUM

Re: Financial Manipulations of Collaboracionists
in French Africa.

The techniques of Axis looting have been common knowledge for years. The fact that the collaboracionists in each of the occupied countries shared in the "pay-off" on Axis looting is equally well known. This memorandum will not repeat this story. Rather, it will outline some of the financial manipulations in French Africa of the French collaboracionists.

As early as September 30, 1942 we were informed that the appointment of Jacques Guerard as the Vichy Government's ambassador to Portugal was probably evidence that "the rats were leaving the ship" and that Guerard was probably trying to arrange transfers of funds for Laval and others where they would be available when the "breakup of France comes". Guerard is an old-time collaboracionist and is associated with the Banque Worms group.

After November 7, 1942 we were reliably informed by a prominent French banker (now in the United States) that:

"For a considerable period prior to the Allied invasion of North Africa, French industrialists and bankers prominent in collaboration had been transferring francs to North Africa. It is estimated that such persons, notably, the Banque de l'Indochine, the Banque de Paris et des Pays Bas, Banque Worms, the Heraults, Mirabeau, etc., had prior to November, 1942, accumulated in North Africa funds in excess of 25,000,000,000 francs.

"These francs represent their reward for facilitating the successful handling of the "occupation costs" by Germany in France, which was accomplished in the following manner. The collaboracionist banks and industrialists received from the Germans all property of refugees, Jews, and labor unions which had been expropriated by official decree. The most valuable of these properties were then sold to the Germans and payment therefor was made by debiting the credit balance created by daily write-ups of 500,000,000 francs on the books of the Banque de France pursuant to German fiat. The collaboracionist financial institutions, with large assets in foreign centers, were apparently willing to participate in the German occupation scheme, whereby they in effect became potential defendants in suits for these properties after

- 2 -

the war, provided they would be allowed to remove the francs received for these properties to North Africa. This accounts for the estimated 25,000,000,000 francs accumulated by these institutions in North Africa.

The attached articles by Drew Pearson, Johannes Steel, Nicholas P. Gregory and Time Magazine indicate that this story is no secret.

As a matter of fact there is no need to speculate about the fact that the French collaborationists were funneling assets from Metropolitan France into North and West Africa. On March 11, 1943 Treasury representatives interviewed M. Pose in Casablanca. Pose is the director and general manager of Banque Nationale Pour Le Commerce et L'Industrie (B.N.C.I.), Paris. Shortly before November 8, 1942 Pose suddenly showed up in North Africa and was subsequently named Economic Minister in Giraudi's administration. While he was recently forced to resign from this position, he is still most active in the affairs of B.N.C.I., Afrique. B.N.C.I., Paris, the parent of B.N.C.I., Afrique, was organized in 1932 through the auspices of Pierre Laval who used the funds of the French Government to reorganize the defunct Bank Nationale de Credit into B.N.C.I. The fortunes of this bank have followed the fortunes of its political sponsors.

Pose's significant statements to Treasury representatives may be summarized as follows:

(a) B.N.C.I. opened its first office in North Africa in September, 1940 (after the Armistice). At the present time B.N.C.I. has 50 branches in North Africa, approximately equally divided between Morocco, Algiers and Tunis and there are six more branches in West Africa, the first branch having been opened in November, 1940. By 1942 the B.N.C.I. was doing 20% of the commercial business in Morocco and 12% of the deposit business.

(b) Throughout the past 2-1/2 years - between the fall of France and the landing of the Allied forces in North Africa - Pose has consistently and deliberately funneled off assets of the B.N.C.I. in Metropolitan France to the colonial empire.

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In following this practice of funneling its assets into the colonies, Pose contended that the bank has had to be very careful not to allow the procedure to become too evident to the Nazis, and hence in some areas it has bought out established banks and kept the name of such banks rather than put them under the name of the B.N.C.I. (e.g. Madagascar).

Accordingly, we have the frank admission of one of the collaborationist banks of its practice of diverting its assets into North and West Africa and the other French colonies. The other big French collaborationist banks have similar outlets in French North and West Africa. Thus, for example, the State Bank of Morocco (Banque d'Etat du Maroc) is the subsidiary of the Banque de Paris et des Pays Bas; Societe Generale in Algiers is the subsidiary of Societe Generale (France); the State Bank of Algiers is a subsidiary of the Comptoir National d'Escompte; Banque de Tunisie and Banque Commercial du Maroc are controlled by Credit Industrial and Commercial. Banque Worms also has branches in French Africa.

It must be kept firmly in mind that the state banks in French Africa are privately owned and controlled subsidiaries of financial groups in Metropolitan France — the same collaborationist group that is influential in shaping policy in North Africa.

Moreover, the exchange control agencies in French Africa are not independent Government agencies. They are in fact the instrumentalities of the so-called state banks in French Africa. Thus M. Ben Béchier, the head of the Algerian Office des Changes, is an employee of the Bank of Algeria and has his office in their building. A similar situation prevails in Morocco and in the A.O.F. (West Africa). In the A.O.F. the director of the Office des Changes and the managing director of the Bank of West Africa are one and the same person — M. Bottin.

The foregoing has been set forth to show:

- 4 -

(a) That all the facilities were available for the pouring of collaborationist funds into French Africa.

(b) That in fact such funds did funnel into French Africa prior to the Allied occupation; and

(c) That the collaborationist group in France did control, and still controls, the financial institutions in French Africa and the exchange control authorities in such area are the servants of the so-called French African state banks, which are in reality privately owned.

Of course, the final objective of these financial manipulations was not merely to transfer collaborationist loot into franc assets in French Africa. Collaborationist francs in North Africa are merely searching for a bridgehead into free dollars, free sterling or some other valuable currency. The black market rate for French francs in France is variously quoted between 150 and 300 to the dollar against the official rate of 50 francs to the dollar in French Africa. In terms of paper profits the collaborationists made enormous profits in getting their francs into French Africa whether the official rate there was 75 or 50 francs to the dollar. But the collaborationists are not after mere paper profits evidenced by franc accounts which inevitably must be largely lost when the franc seeks its natural level at the end of the war. This group knows that it must translate these paper profits into dollars or sterling currency, credits, or investments - preferably dollars - if they are to be realized upon.

Accordingly the financial proposals emanating from North Africa must be carefully considered in their proper frame of reference, in order to ascertain whether such proposals are designed to provide a means whereby collaborationist groups can cash in on their franc holdings, or, even though such proposals may be suggested by perfectly proper motives, whether such proposals will have the

result of providing a vehicle for collaborationist groups to move their assets into realizable foreign exchange. Some of the financial developments in this connection have been:

(1) Demand for free dollar accounts. One of the first demands was that we ought to free all of the blocked accounts in the United States of the North African banks and if this were not possible as a minimum we should free the accounts of the Offices des Changes (exchange control accounts). Treasury representatives who have just returned from Africa, refer to requests of this character by M. Ben Reichler, Director of Exchange Control for Algeria, by M. Tron, Secretary of Finance to the French High Command, by the State Bank of Morocco, as well as by the highest political quarters in the French African Government, e.g. General Girard, probably prompted by Pese, Lemakgre-Dubrevill, Bergeret, et al.

Obviously, the nearest way of "washing in" on these franc profits is to get the French dollar accounts here freed from our freezing control so that such dollars can be manipulated into cloaked collaborationist accounts both here and in South America.

We have countered by issuing a license over the official accounts which require that we be given ten days advance notice of any transfers and that during this period we can veto any transaction. As set up, and in practice, this licensing procedure is very flexible and it causes little or no delay or inconvenience for any bona fide transaction.

(2) Accumulation of dollars through financing franc expenditures for our forces in French Africa. Tying into item (1) above is the financing of our forces in French Africa. To furnish our forces with francs we have established dollar accounts at the Federal Reserve Bank of New York for each of the State banks. As our forces need francs, we credit these accounts with

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dollars. At the present time the accounts of the Central Banks of Algeria and Morocco have more than \$75,000,000 to their credit, arising from these transactions. While technically these funds belong to the "French Treasury in Africa", we should not be misled by either the title of the account or the source from which we get the francs.

The "French Treasury in Africa" borrows the francs with which our forces are supplied from the French banks in Africa. In other words the collaborationists in their political capacity secure from themselves in their financial capacity. We buy the francs with dollars which are credited to the accounts of the French African state banks "for the account of the French Treasury in Africa." This puts the French Treasury in Africa in the position of owing large balances to the collaborationists banks and having as its only substantial asset with which to repay such balances its dollar holdings in the United States. If these dollar holdings were free of the United States controls as the French would like, the French Treasury in Africa would be under considerable pressure to transfer its dollar balances to the collaborationists banks.

(3) Efforts to gain control of the balances of the former French Government and the Bank of France. There is no need to repeat in this memorandum the various moves made in the name of Giraud to establish the right to use the blocked assets of the former French Government and the Bank of France, even though the French African authorities had tens of millions of dollars on deposit here. To date we have parried all such attempts but Murphy had been advised by the Commandant en Chef in so many words that his acceptance of our refusal is "without prejudice" to reopening this matter again.

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One very neat way for the collaborationists to realize on their franc assets in North Africa would be to shoulder the French people with the francs and for the collaborationists to take the dollars of the French people in return. This, however, is looking at the "end product" of such deals, rather than the immediate proposals by which the effort is being made to establish the right to draw on such assets.

(4) Floating a French dollar loan in the United States. One of the most recent maneuvers bearing on this subject is reflected in a cable dated March 30, 1943 from the American Consulate General in Algiers. This cable stated:

"This is a message for Secretary Hull and Secretary Morgenthau from Messrs. Glasser and Murphy.

"United States Government permission to sell North African securities in the United States to French residents of the United States has been asked by Tren. The proposal contemplates introducing the issue of securities at the same time announcement is made of unity with the forces of deGaulle. Except for payment in dollars the terms of issue of the securities would be the same as the terms of securities issued in North Africa. Psychological and propaganda motives, not the funds acquired, according to Tren would be the purpose of issuing the securities. He also said that General Giraud considers this matter to be of great importance. In reply we said that it was possible that there would be complications with the Securities Exchange Commission regulations insofar as concerns immediate action but a reply is considered by the government here to be of the greatest urgency. Similar requests have been made to Spain and Great Britain but as yet no reply has been received. A similar request received a favorable reaction in Brazil."

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This proposal was side-stepped by the following cable which we prepared and which was sent on:

"This is a message from the Secretary of the Treasury for Messrs. Murphy and Glasser.

"With regard to the Consulate's No. 514 of March 30, concerning the sale in the United States of North African securities to Frenchmen resident here, the Treasury Department has advised that the Government of France is one of the governments which defaulted in payment of debts to the Government of the United States. For that reason, under the so-called Johnson Act of April 13, 1934 (U.S. Code, title 31, section 804a), persons resident in the United States cannot buy securities of the French Government. It has not been possible, accordingly, to look into the merits of the request made in the telegram under reference. The Department of State agrees with this conclusion."

The possible ramifications of this proposal were outlined in the attached article by Johannes Steel. In brief, Steel indicates that while the French talked about floating a dollar loan in the United States, in reality, the S.N.C.I., et al, would take up the loan in francs. This means the S.N.C.I., et al would have, in effect, converted their francs into French Government dollar bonds, constituting a dollar obligation against the dollar assets of any French Government hereafter established.

Methods of Counteracting these Manipulations

In discussing the French financial proposals, some of this Government's counter-moves have been noted. By and large the bulwark of this defense has been our freezing orders pursuant to which French assets in this country may only be used pursuant to Foreign Funds Control license. This strategy is purely defensive on our part and leaves the collaborationists in a position to maneuver on any level in searching for the weakest link in the control. While our controls are effective, it would be foolish to be lulled into any sense of false security—for the freezing controls are no stronger than our

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licensing system. The French will press for licenses on all fronts — making full use of political tactics to achieve their end. It is on this level that the defense of our freezing regulations will most likely crack, for much will be made of the fact that the French are a "proud and sensitive people" and that our controls are incompatible with their status as a sovereign ally. It may be expected therefore that pressure on the State Department will be great.

Immediately after November 7, 1942, Treasury representatives in North Africa did take all the measures possible within the fabric of the political situation prevailing to frustrate the financial activities of the collaborationist group. However, our forces in North Africa were in no position to issue decrees as an army of occupation. Instead, we had to persuade the French to take action. Under the prodding of our Treasury representatives the French on November 16 issued "Instructions to Banks", which, among other things, provided for the blocking of all bank accounts belonging to European nationals, including people in Metropolitan France.

On December 20, after lengthy and prolonged negotiations, the Treasury representatives succeeded in having signed a "Trading With The Enemy Ordinance", under the terms of which severe penalties were laid down for any trade or communications with the enemy, or enemy-occupied areas, and under the terms of which a black list would be issued — the French authorities have subsequently issued black lists for several European countries and their colonies.

Control over Dakar and French West Africa by the French North African authorities was delayed for some weeks following the events of November 8. It was not until December 7 that French West Africa formally allied itself with French North Africa on the side of the United Nations. During

- 10 -

this interim, it would have been possible for financial transactions and communications to have been carried on between this area and Metropolitan France. When French West Africa finally came within the sphere of influence of French North Africa, it was on political terms so favorable to the French that financial controls other than those indicated above could not be insisted upon.

On March 5, 1943, the French issued a sequestration decree, the negotiations for which were instituted by Treasury representatives in early December, 1942. This decree, at least, sets up the legal and administrative framework within which the franc balances of the collaborationists could be blocked in North Africa if it were the disposition of the authorities there to deal with the situation. Needless to say this is in fact the real place to tackle such spoils. If these looted balances were blocked in the banks in North Africa there would be less need for us to be concerned about an attack on our own freezing regulations since the funds would be blocked at their source. However, no one should be overly optimistic that the collaborationists in their political capacity are going to impose effective controls on themselves in their financial capacity.

Parenthetically, it should be noted that United States Treasury representatives carried with them on their landing at Algiers on November 8, 1942, drafts of decrees which, if issued, would have imposed really effective controls over such looted francs from the very start. It was not that we had failed to anticipate the problem - rather there was no vehicle available through which the necessary controls could be established.

- 11 -

As things now stand, our technicians in North Africa are limited as to what they can do to combat the situation. They must use persuasion with the French. They can pick out the most sordid cases and force the French to deal with these. But they cannot hope to be really effective until they can get sincere French Government cooperation.

To the extent possible the Treasury Department has taken and will continue to take a strong position against the efforts of the collaborationist group to transfer its looted assets out of French Africa. However, it seems clear that this is not a problem which may be adequately dealt with by the Treasury Department without the support, both on a political and economic level, of the other interested governmental agencies.

Dollars

Within an hour after Fighting Frenchman Georges Catroux arrived in Algiers last week (*see col. 1*), the Giraud Government announced the dismissal of Jacques Lemaigre-Dubreuil, a French industrialist (peanut oil) who had taken a devious but potent hand in North African affairs.

M. Lemaigre-Dubreuil's pre-surrender associations included an interest in a pro-Fascist Paris newspaper, connections with

both French and German industrialists. With the consent of the U.S. State Department—a consent which, according to some apologists, was given reluctantly—Lemaigre-Dubreuil recently had been an inter-Allied economic adviser in Algiers.

A fantastic episode in inter-Allied economics preceded his ouster. French speculators had transferred millions of francs to North Africa when the rate of exchange was 100 to 150 francs to the American dollar. Upon French advice, the U.S. authorities reduced the rate to 50 francs to the dollar—enabling the speculators to turn a profit of 100 to 150%. Before the U.S. Treasury finally awoke and forbade such speculation, several huge fortunes were amassed by this trading in **invasi
dollars.**

The Washington Merry-Go-Round

By Drew Pearson

Paris Bankers Sent Money to North Africa

GRADUALLY more details of the State Department's policy of cooperating with Vichy appeasers is leaking out, and unfortunately it does not make good reading.

Latest untold chapter is how the big bankers in Paris knew in advance all about the American landing in North Africa and transferred their funds there to the tune of 25 billion francs or 350 million dollars. Then, after sneaking this sum out of France, the French bankers, with the aid of their friend United States Minister Robert Murphy, brought pressure to raise the exchange rate on the franc.

Finally they succeeded. This simple transaction increased the holdings of the State Department's banking friends to 525 million dollars.

The story seems almost unbelievable, but here are the sordid details.

Ever since the fall of France, Germany has been taking over valuable property from the Jews, labor unions, and refugees who had fled from occupied countries. In doing this, the Germans obviously were preparing for a long-term throttle-hold on France, so they went about it very carefully.

Apparently they wanted to avoid litigation in French courts after the war so they arranged these deals through certain French banks. The Jewish, labor unions and refugee property was ordered taken over and given to the banks. Then the Germans bought the property from the banks, paying in francs.

However, the francs were taken out of the "Occupation Francs" which the Bank of France paid to Germany every day, for the cost of occupation, or actually these deals.

How French Profits

The bank of the bankers were permitted to keep the purchase price of the property, so they amassed huge profits, and it was these profits which were transferred to North Africa before the American landing.

The banks doing business with the Germans were: The Banque de Paris et de Pay Bas, the Banque de l'Indo-China and the Banque Wurm.

Despite their close cooperation with Germany, apparently these bankers knew in advance that United States troops were going to land in North Africa. How they knew this military secret in ample time to send their money to Algiers—though the United States Cabinet did not know it until a few days before—has not been definitely established on this side of the Atlantic.

However, certain circumstantial facts are significant. The charming and suave Robert Murphy, had as his close friend Jacques Lemaigre-Dubreuil, head of the French Association of Taxpayers, a big business lobby—financed by many of these bankers. Lemaigre-Dubreuil worked hand in glove with the Comité des Forges, or steel-trust, which had property in Austria and Axis countries. He had led the Fascist disturbances in Paris in 1934, shared the same political philosophy of these German collaborating bankers, and was close to them.

Strangely enough it was Lemaigre-Dubreuil whom Murphy chose to handle his contacts for the invasion of North Africa. It was he who picked General Giraud, arranged to get him to North Africa in disguise, and who was Murphy's key man in this vitally important operation.

How much Lemaigre-Dubreuil told his banker friends in Paris about our military plans is his secret, but it is an incontrovertible fact that they moved their 25 billion franc profits, wrung from unfortunate Jews and labor unions, to North Africa shortly before the United States landing.

French Banking Lobby

AFTER United States troops landed, the State, War and Treasury Departments had agreed to keep the exchange rate at 75 francs for 1. Whereupon the French bankers immediately launched a lobbying campaign to peg the franc at 50 to the dollar. Obviously this would greatly enhance the 25-billion-franc nest-egg they had sneaked out of Paris.

Strangely enough the bankers received vigorous support from the naive Bob Murphy. His

argument was that in Free French Africa to the south, the franc was pegged at 50 to the dollar, so it should not be 75 to the dollar in North Africa.

However, Washington had fixed the 75 franc rate in Algiers and Morocco because the Germans had made the franc much weaker in this area, while they had not been able to weaken the franc in Free French Africa.

The Treasury is supposed to govern United States financial policy. But in this case, Mr. Murphy went to bat so vigorously for his French banking friends that eventually he got hold of President Roosevelt in Casablanca and the White House is-

sued an order fixing the rate at 50 francs to the dollar.

Overnight, the French banking clique which had profited from the forced sale of Jewish and labor union property, had their 25-billion-franc nest egg increased in value from 350 million dollars to 525 million dollars.

Capital Chaff

IT was shortly after Louisiana's Senator Ellender telephoned Louisiana's Supreme Court Justice Archie Higgins that he was sure to be appointed to the United States Fifth Circuit Court of Appeals, that F. D. R. appointed Texas' Jimmy Alfred to that judgeship . . . It looks as if Judge Higgins might now run for Governor of Louisiana . . . Jim Farley thinks the Republicans will pick Governor Bricker of Ohio as their nominee. Jim himself is partial to Senator Scott Lucas of Illinois as the Democratic candidate, but he doesn't count out Harry Wallace,

Jimmy Byrnes, Paul McNutt, or even—Jim Farley . . . A delegation from the Democratic National Committee will call on F. D. R. March 12 along with Frank Walker to discuss the moot question of rewarding more Democrats instead of more Republicans—which the committee says has been the White House practice in the past. This question nearly blew the lid off the recent Chicago meeting of the Democratic National Committee and it was decided to send a delegation to talk it over with the "Chief."

S. Investigates French Profits Revaluing of Franc in Africa

1132.

Vichy Officials Said to Have Reaped Harvest on Advance Tip of Upward Exchange Revision After Invasion; Seizure of Funds Likely

By Nicholas P. Gregory

WASHINGTON, April 18.—The Treasury Department foreign funds control division is investigating reported foreign exchange profits reaped by some Vichyites and other wealthy French North African officials through an advance tip that the franc would be revalued upward from 75 to 50 to the dollar, it was learned today.

The investigation may lead to tighter control over the finances of many officials, found suddenly to have acquired extraordinarily large sums of francs in anticipation of a profit by converting into dollars.

Soon after the invasion of North Africa by the Americans, the franc was revalued at 50 to the dollar, thereby automatically raising it to 2 cents. Conversion of francs into dollars began.

The groundwork for punishment of these exchange speculators exists and may be put into operation after the investigation is completed. For example, General

Dwight E. Eisenhower, commander in chief of the Allied armies in North Africa, may permit conversion of francs based on holdings as of a certain date, perhaps prior to the invasion.

These officials, it is learned, acquired large sums of francs after the invasion and after they had received exclusive information of the proposed upward revaluation. The Treasury may also use the threat of the seizure of dollar assets some of these officials have cached in the United States or refuse to honor credits deposited to their accounts.

Bernard Bernstein, former head of the Treasury Foreign Funds Control Division, was suddenly commissioned prior to the invasion a lieutenant colonel and was sent to North Africa ostensibly to straighten out the chaotic monetary condition of the colonies.

Last January he returned to the United States and conferred with his former colleagues in the Treasury. Little is known of these con-

(Continued on page 23, column 4)

ferences. However, Colonel Bernstein asked for other Treasury employees to be sent to Africa to assist in the work.

On the basis of Colonel Bernstein's disclosures, Henry Morgenthau jr., Secretary of the Treasury, asked for an inquiry into the financial transactions of many French officials. The investigation is now under way and may result in drastic action to eliminate these reported large profits made by some officials there.

The administration of North Africa is in the hands of the War and State Departments. Treasury, Lend-Lease and Board of Economic Warfare officials are also stationed there, but policy is dictated by the Army and the State Department.

The colonial French franc was revalued upward to raise the purchasing power of the native population and the French colonials. By one stroke the United States expected to bring some relief to the hard-pressed population which had been robbed by the Italian and German so-called armistice commissions.

The Treasury printed special American currency for circulation in North Africa. These dollars are marked with a gold seal as contrasted with the customary blue seal. This special currency was prepared as a precaution against Nazi seizure and possible use in other parts of Europe.

The franc at the time of the invasion had a nominal value of slightly more than one cent. It had been declining since the German invasion of France. The French government has in the United States about \$1,400,000,000 in gold, exchange and other assets.

Although most of the resources of the Bank of France were sent out of the country, the Germans were able to seize considerable resources, as for example, about \$250,000,000 of Belgian gold which was entrusted to the Bank of France. The position of the French currency has deteriorated since June, 1940, the Nazis draining the Bank of France at an alarming rate. Its foreign exchange holdings have declined to \$7,000,000 francs, the bank reported, while occupation costs have risen to 180,000,000,000 francs. Note circulation has grown from 151,222,000,000 in December, 1939, to 223,484,000,000 francs. These statistics are said to be inaccurate and collectively "doctored" to present a better monetary picture than is the case.

In other words, the government of Marshal Henri Petain had had to send to the Germans... the franc had more than half of the inflated francs now in circulation.



Steel Filings

How the Treasury Halted A Peyrouton Dollar Deal

By Johannes Steel

It may yet be too early to draw the balance sheet for the first fiscal year of collaboration in North Africa. We have never been told when the first fiscal year of collaboration began.

We do not know when the first deal was negotiated and the first transaction consummated. Yet there are ample indications that German as well as French big business knows the precise dates. The question now is whether we will eventually be able to pay dividends on the business of collaboration in which we have engaged in North Africa.

Let us therefore strike an interim balance. What did we get? Certain military concessions which, it is insisted, saved American lives. Considering what has happened in North Africa since we first landed there, it remains extremely doubtful that any lives have been saved by negotiation. In fact, it may very well be that we would have long been in Tunis and Bizerte had we not negotiated with Darlan long enough to give the Germans time to throw really important reinforcements into Tunisia. If we had given Darlan the alternative of being shot within two hours or delivering Tunis and Bizerte within that time, we would probably be there now.

The Fortune Hunters

We also got Giraud and that band of sinister international operators, headed by the ubiquitous Marcel Peyrouton, who see this phase of the war as nothing but an opportunity to amass gigantic fortunes and control over a continent-wide European industrial and financial cartel.

We also got Gen. Nogues who, in fact, is still actively sabotaging our efforts at every step of the way. Further on the debit side is the unparalleled loss of American diplomatic and political prestige among the peoples of Europe in particular and the peoples of the world in general.

Now let us take a look at what this has cost us already and what we are proposing to pay out in the future. I mean in ac-

tual cash. Somehow, during the last two weeks before the Allied landing in Africa, a sum of money, according to the latest information amounting to 25 billion francs in cash and securities, was transferred from the Continent to North Africa. This was done with the permission of the Vichy Government and the German economic control of France. The 25 billion francs represented assets and moneys jointly held by German and French interests.

The transaction in the main was carried out through the Banque Worms and their North African correspondents, the Banque Nationale Pour le Commerce et l'Industrie. Now, it is important to note here that these French francs which were transferred to North Africa were purchased in France at the rate of approximately 200 francs per dollar. Meanwhile, however, the American Administration in North Africa has obliged the holders of these funds by exchanging these francs for dollars with the one difference that we have been giving them \$4 for 200 francs, or fifty francs to the dollar.

Peyrouton Finds a Way

Of course, it has been physically impossible for Marcel Peyrouton and his principals to unload altogether the total of 25 billion francs and obtain dollars for them. Apparently there were not enough dollars in North Africa. Now, however, Marcel Peyrouton and his French and German principals apparently believe they have found a way of doing it.

Representatives of the Banque Nationale Pour le Commerce et l'Industrie have convinced a group of three American banks that it would be a good idea to grant the Giraud administration

a loan of fifty million dollars upon which the American banks, of course, will earn their usual 4 per cent commission.

But—and this is a beauty—said the representatives of the Banque Nationale Pour le Commerce et l'Industrie to the American banks: "All you have to do is underwrite this loan. We will take it up in North Africa ourselves. North African French business will subscribe to this loan because we believe in the future of Giraud and France. But, of course, you must enable us to convert our francs into dollars so that we can subscribe to this fifty million dollar loan. Will you get the Treasury to buy our 25 billion francs at the rate of fifty francs per dollar?"

This plan was being worked out neatly in New York and Washington last week until the Treasury got wind of it and politely but firmly said "No!" This does not mean, however, that the boys have stopped trying. Here is one for the Senate to investigate. A really hot potato!

You also may listen to news analyses by Johannes Steel over Station WMCA daily at 7:30 p. m.

Steel Filings

Did Speculators Tip Nazis To Our Africa Invasion?

By Johannes Steel



Cordell Hull has stated that there is deep concern among the United Nations over the transmission of vital information to the Axis through neutral countries.

The Secretary of State made this comment in the course of a press conference when he was asked about a remark of a former Argentine Consular Attache in Tokio to the effect that Argentina has been the eyes and ears of the Japanese government in the Western Hemisphere.

Mr. Hull is well justified in expressing his concern, although the problem is certainly not limited to Argentina and in more than one way is of our own making. Only the politically naive will insist that Germany derives no advantage from the continued existence of large diplomatic staffs in Washington on the part of such "neutrals" as Finland and Spain, both of which are actively on the side of Germany.

Loopholes for Fascism

The whole world is laughing at our appeasement of Spain. Last week, Argentina ratified the first in a series of cultural agreements between that country and Spain which are deliberately aimed at the spread of Fascist propaganda throughout South America and at the destruction of the Pan-American ideal. The projected ideological conquest of South America by the Fascist doctrine of Hispanidad is perhaps even more important for the future than the fact that the Japanese Embassy in Argentina is accused of sending more than thirty cablegrams a day to Japan with full information on United States war production.

Yes, information is leaking through neutral sources, but not through neutral sources alone. For what I would really like to know is who was the American official who tipped off Jacques Lemaigre-Dubreuil some four weeks before the American coup actually took place, that an Allied invasion of North Africa was coming. Let it not be forgotten that that tip enabled Lemaigre-

de Bolsanger, who represents Vichy on the board of directors of the Bank of International Settlements at Basle, to participate in the North African currency speculations which have made vast new fortunes and which are now being investigated by the United States Treasury.

Nazi Bankers Also Know

Certainly this was vital information, the leakage of which should have caused grave concern because these French speculators, who knew of the coming invasion long before the American public, informed their German colleague on the board of directors of the Bank of International Settlements, Baron von Schroeder, of it. In fact, de Bolsanger met von Schroeder in Switzerland early in October 1942. Shortly after Baron von Schroeder's conference with de Bolsanger, French industries and banks which were half German-owned began transferring their assets to North Africa.

All liquid funds were transferred to the offices of the Banque de Paris et des Pays Bas and the Banque de l'Etat du Maroc in Morocco and Algiers. All this, of course, for the purpose of exchanging franc assets, with the help of the American diplomatic representatives in North Africa, into dollar assets. This was possible because there was a leakage of information—something which Mr. Hull might very well be justified in worrying about. Also a beneficiary of this leakage, Pierre Etienne Fiandin, a member of the Board of Directors of the two German-French North African trusts, hurried to Algiers in order to arrange with our diplomatic agents that the control of the North African economic setup was not to be disturbed by coming military events.

Hedge Against Axis Defeat

Probably this leakage of information enabled German

or its money and holdings under the protection of the Allies—a sound hedge against Hitler's coming military defeat!

Meanwhile, it would certainly be extremely interesting to know whether Baron von Schroeder, who primarily seemed to be interested in transferring German-French assets to North Africa, thought it necessary to inform the German General Staff of his knowledge that an Allied invasion of North Africa was on the way. A particularly interesting question since Herr von Schroeder was the man at whose house in Cologne in 1933, the pact was made between German industry and Hitler, leading to the latter's election as Chancellor.

If von Schroeder did inform the German General Staff of what he expected to happen in North Africa, it would be interesting to speculate upon the reasons which made the German General Staff decide not to take more drastic counter-measures than it did. Could it be that the German General Staff felt that all the conquest of Africa would finally amount to a delay of one year in the establishing of a second front on the European Continent by the Allies, giving the Germans enough time to fortify Festung Europa?

**TREASURY DEPARTMENT
OFFICE OF THE SECRETARY**

June 5, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended May 26, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Jwg

ka:6/5/43

FEDERAL RESERVE BANK
OF NEW YORK

June 4, 1943

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended May 26, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

L. W. Knoke,
Vice President.

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

Enclosure

copy:ah 6/5/43

PERIOD	BANK OF CANADA (and Canadian Government)								UNITED STATES							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds
First year of war (a)	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	- 0.4
Apr. 1 - Apr. 28	29.0	-	29.0	39.0	-	-	-	39.6	+ 10.6	16.4	15.1	1.3	19.4	-	19.4	+ 2.9
WEEK ENDED:																
May 5	0.7	-	0.7	2.8	-	-	-	22.8	+ 16.1	3.0	1.0	2.0	3.3	-	3.3	+ 0.3
12	56.5	-	56.5	12.3	-	-	-	12.3	- 44.2	12.0	12.0	-	12.0	-	12.0	+ 0.8
19	6.6(r)	-	6.6(r)	24.8	-	-	-	24.8	+ 18.2(r)	3.0(r)	3.0	-	3.5	-	3.5	+ 0.5(r)
26	2.3(b)	-	2.3	19.3(b)	-	-	-	19.3(b)	+ 17.0	-	-	-	0.1	-	0.1	+ 0.1

Average Weekly Expenditures

First year of war 6.2 million.
 Second year of war 8.9 million.
 Third year of war 10.1 million.
 Fourth year of war (through May 26, 1943) 8.8 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.
- (b) For monthly breakdown see tabulations prior to October 8, 1941.
- (c) For monthly breakdown see tabulations prior to October 14, 1942.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Does not reflect transactions in short term U. S. securities.
- (f) Includes \$12.1 million deposited by War Supplies, Ltd. and 7.0 million received from N. Y. accounts of Canadian Chartered banks.

(r) Revised

INTERNATIONAL FINANCIAL ACCOUNTS
(In Millions of Dollars)

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)									BANK OF FRANCE			
	Total Debits	D E B I T S			Total Credits	C R E D I T S			Net Incr (+) or Decr. (-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)	
		Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits		Proceeds of Sales of Securities (Official) (b)	Transfers from Official Australian Account	Other Credits (c)					Gold
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+125.9	18.5	4.4	- 14.1
1942													
Sept. 1 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
1943													
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	-109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-
Apr. 1 - Apr. 26	37.0	12.3	-	20.7	87.4	-	-	15.1	72.3	+ 50.4	-	-	-
WEEK ENDED:													
2	6.0	4.7	-	2.1	11.0	-	-	1.0	10.8	+ 11.0	-	-	-
12	62.0	52.7	-	5.3	28.8	-	-	12.0	12.8	- 30.2	-	-	-
19	6.4	3.4	-	2.9	35.2	-	-	3.0	30.2	+ 25.2	-	-	-
26	5.2	4.1	-	1.1	15.0(j)	-	-	-	15.0(j)	+ 9.8	-	-	-

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) \$27.6 million
England (June 20, 1940 to March 12, 1941) \$54.9 million
England (since March 12, 1941) \$22.9 million

See attached sheet for footnotes.

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 20, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Of which 11.3 million appears to represent current and accumulated dollar proceeds of sterling area services and merchandise exports.

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MOST SECRET

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OPTEL NO. 183

For Joint Staff Mission Washington.

Information received up to 7 A.M. 5th June 1943.

1. AIR OPERATIONS

Western Front 4th. Spitfires damaged 3 E-boats off Texel. About 18 enemy fighters made a low level attack on Eastbourne. Fighters and anti-aircraft destroyed 3 and damaged one. Bombs did considerable damage to private property and caused 6 fatal casualties.

4th/5th. 5 enemy aircraft operated over this country. One was destroyed. No noteworthy incident, damage slight, casualties few.

Pantelleria 2nd. 151 medium and fighter bombers dropped 82 tons on various military objectives.

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OPTEL NO. 186

Following is supplementary resume of operational events covering the period 29th May to 5th June, 1943.

1. NAVAL

NORTHERN WATERS. Russian photographic reconnaissance of ALTA FJORD AREA first located 3 heavy ships probably TIRPITZ, SCHARNHORST, LUTZON. Reference Optel 178. The Floating Dock was sighted on 31st South of BERGEN.

MEDITERRANEAN. H.M. and Allied Submarines report 1 Tanker, 1 4,000 ton Merchantman and 2 small ships sunk and 1 - 7,000 ton Tanker stopped and on fire. SFAX Harbour fairly clear of wrecks though much damage to Jetties and Quays. Berths available for 3 ships alongside and also at PETROL Jetty. MARSEILLE increasingly used as base for small craft. Both here and at TOULON several Trawlers and Motor Yachts are being converted to Anti Submarine Craft.

SUBMARINE WARFARE. Week ending 2nd, 13 attacks on U-Boats by H.M. Ships of which 3 were promising. No Ship is known to have been sunk in North Atlantic week ending 30th May. About 90 U-Boats estimated operating in Atlantic and Indian Ocean. Some activity against local Convoys off the CAPE of GOOD HOPE and off BRAZIL. Assessment of attacks on German submarines during week - sunk 11, probably sunk 12, possibly sunk 7, probably damaged 13. German submarines reported reached CONSTANZA from KIEL via HAMBURG, DRESDEN and DANUBE taking about 9 weeks. Estimated 40/50 operational submarines in MEDITERRANEAN, half of which German, for some weeks they have shown little activity..

SHIPPING CASUALTIES. During the week 29th May to 4th June inclusive, 10 ships reported torpedoed. One U.S. Ship and a British Tanker (both since reached Port) in the FREETOWN Area. A Panamanian Tanker and 2 U.S. Ships (all still afloat) in convoy off Northwest Coast of BRAZIL, a U.S. Ship and a Norwegian Tanker sunk Southeast of Cape of GOOD HOPE and 1 British, 1 Dutch (in Convoy) and 1 Swedish Ship all sunk in the South INDIAN OCEAN. In addition a British Ship bombed and sunk by Aircraft off CAPE ST. VINCENT. A British Ship in Convoy sunk by mine off the HULBER and a Panamanian Ship sunk, probably by mine, off HALIFAX, NOVA SCOTIA.

TRADE. 5 German Ships totalling 21,346 tons and about 20 smaller ships, in Portuguese Ports since war started have been taken over by Portuguese in agreement with Allied Governments. German crews will be repatriated in exchange for British merchant Seamen from Germany. At the end of April, several German or German controlled ships were scuttled in Harbour at OSLO, several seamen, including Germans, arrested for sabotage. Imports in Convoy into United Kingdom week ending 29th - 685,000 tons including 267,000 oil.

2. AIR OPERATIONS

WESTERN FRONT Night. The attack on ESSEN reported last week was successful, Krupps being again hit. This week large scale operations curtailed by weather, 918 Sorties, 34 Aircraft missing. Heavy well concentration and successful attack on WUPPERTAL. Day. U.S. Bombing of U-Boat Bases at ST. NAZAIRE and LA PALlice 29th now reported "Fair". Attack on Naval Stores Depot REMES disappointing. In attacks on shipping R.A.F. Aircraft destroyed a 450 ton Trawler, set on 800 ton ship on fire and damaged 2,000 ton ship, 5 other small ships, a ferry, several barges and 3 E-Boats.

ANTI-SUBMARINE OPERATIONS. During week ending 2nd, Aircraft of Coastal Command made 31 sightings of U-Boats and carried out 22 attacks.

ENEMY. 13 enem. Aircraft crossed our coasts by night. 3 were destroyed. By day 76 Aircraft over South and East Coasts. 15 Enemy Aircraft destroyed and 1 damaged. Our losses - 0.

MEDITERRANEAN. ITALY. Heavy attacks by Fortresses on NAPLES and neighbouring Airfields, also on LEGHORN, 3 successful attacks on FOGGIA Airfield and railway. SICILY. Attacks on Airfields, AUGUSTA, TRAPANI Sea Plane Base and on shipping on SICILIAN Waters. SARDINIA. All Airfields attacked and many Aircraft destroyed or damaged on ground. In attacks on Ports, 2 ships set on fire and others damaged. PANTELLERIA. Many heavy raids by Bombers and Fighter Bombers and much damage caused.

RUSSIA. In the KUBAN, the Russian Air Force strongly supported their Land Forces especially Northeast of NOVOROSSISK. In general, Russian Air Activity seemed to be increasing. Attacks on the German supply traffic in the BLACK SEA continued and several convoys were intercepted and some ships sunk. Russian Long Range Bombers raided railway centres behind the enemy lines.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF ALLIED AIR ATTACKS.

DORTMUND. Final interpretation of photograph taken after 4th/5th May attack proves damage severe and widespread. Greatest in centre of old town and mostly from fire. In 45 acres of industrial devastation 28 factories involved. Damage to main passenger station, railway workshops, main telegraph offices, a gas works and airfield. Later photographs confirm 23rd/24th May attacks outstanding success. Damage highly concentrated and very severe affecting important industrial concerns. Chief destruction around main railway station.

VILHELSHAVEN. U.S. Day raid 21st May. Considerable damage in Marine Wraft Shipyard where about 11 buildings involved.

PILSEN. Now known that in 1st raid 200 German soldiers killed in a barracks. A Power Station supplying part of SKODA Works hit and expected out of action 2 or 3 months.

NAPLES. Photographs 3rd April show very large area of docks damaged, apparently from large ship having exploded. Considerable destruction among warehouses and only 1 out of 6 gasholders at gas works intact.

GROSSETO. Severe damage to barrack and administrative buildings at airfield confirmed by photographs.

PALESTINO. Recent photographs disclosing the sum total of damage from attacks during April and May confirm great destruction throughout the town and in the docks area.

GERMAN INDUSTRY. Reported that German official statistics show total Industrial Production declined 15% compared 1942 of which 7% direct result of bombs. Other factors include, labour, dilution fatigue, machinery deterioration. Presumably comparison covers spring period. On this basis estimated decline in RUHR about 35%, rest of Germany about 10% of which 8% due to non-raids factors. Decline between 1917 and 1918 - 8%.

5. HOME SECURITY

Estimated civilian casualties week ending 2nd:- Killed and missing - 76, seriously wounded - 129.

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OPTCL No. 184

TREASURY DEPARTMENT

Information received up to 7 a.m., 6th June, 1943.

1. NAVAL

On 4th evening 2 Norwegian motor torpedo boats sank a south-bound escorted 7,000 ton ship south of BERGEN. The escorting minesweeper was also seriously damaged. Shore batteries opened fire but the motor torpedo boats sustained only minor damage and 7 wounded. On 2nd/3rd one of H.M. Cruisers bombarded PANTELLERIA and early 3rd two destroyers shelled the harbour. On 19th May one of H.M. Submarines sank a French 2,800 ton ship southeast of CANNES and torpedoed a large tanker in the same area on 26th. 8,200 ton and 10,500 ton tankers in homeward Atlantic convoy both struck icebergs yesterday; smaller seriously damaged, larger proceeding with convey.

2. MILITARY

BURMA. ARAKAN. Monsoon having broken operations past week limited to patrolling. Further indications received of Japanese thinning out in HAUNGDAW area. Cholera reported among Japanese in BUTHIDAUNG area. Reliably reported over 100 Japanese killed and many wounded by our recent bombing.

CHIN HILLS. After evacuation of FORT WHITE on 29th May our troops maintained contact with the enemy and on 3rd it was reported that a platoon of BURMA levies had reoccupied the position. Patrols as far as 2 miles east of FORT WHITE have made no contact. Heavy rains have restricted both ground and air operations.

3. AIR OPERATIONS

WESTERN FRONT. 5th. Spitfires damaged a 900 ton ship and a 500 ton armed trawler off the Dutch Coast. 5th/6th. Aircraft despatched - scanning 12, leaflets 5, anti-shipping 7.

ITALY. 1st/2nd. Wellingtons dropped 13½ tons on NAPLES hitting port buildings and industrial plants. 4th. 45 Liberators bombed GROTTAGLIE airfield 12 miles east-northeast of TARANTO, destroying hangars and buildings and two grounded aircraft. Enemy casualties in the air - 4, 2, 0.

PANTELLERIA. On 3rd and 3rd/4th Allied aircraft dropped total of 152 tons on various military objectives.