

DIARY

Book 653

August 1-4, 1943

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CONFIDENTIAL

To be held in STRICT CONFIDENCE and no portion, synopsis, or intimation to be published or printed until the morning papers SUNDAY, AUGUST 1, 1943.

STEPHEN EARLY
Secretary to the President

STATEMENT BY THE PRESIDENT
ON THE
SUMMATION OF THE 1944 BUDGET

STATEMENT BY THE PRESIDENT ON THE SUMMATION OF THE 1944 BUDGET

In line with my former practice I am issuing this budget summation describing the modifications in the program of the Federal Government resulting from intervening appropriation and revenue acts since submission of my annual budget last January. The summation presents a more accurate portrayal than was then possible of prospects for the fiscal year just started, in the light of economic developments and Congressional action.

Such a document is especially appropriate this year because my original budget of six months ago could not present detailed recommendations for war appropriations so far in advance. These recommendations have been transmitted to the Congress in the form of various supplemental estimates over recent months.

The dominating factor in the fiscal situation is, of course, war expenditures. In presenting a tentative estimate in my Budget Message of last January, I said:

" . . . a 100-billion-dollar expenditure program does reflect a national effort of gigantic magnitude. . . Some persons may believe that such a program is fantastic. My reply is that this program is feasible."

The 100-billion-dollar estimate for war expenditures during the fiscal year 1944, including net war outlays of Government corporations, still stands.

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This huge war bill reflects the military requirements of our aggressive operations in various far-flung theaters of war. It will provide our armed forces with the crushing superiority in equipment which is needed for successful operation with a minimum sacrifice of the lives of our fighting men.

Total Federal expenditures, excluding debt retirement and trust fund disbursements, for fiscal year 1944 are estimated at 106 billion dollars; net receipts will amount to 38 billion dollars under present legislation. The resultant deficit of 68 billion dollars will be reduced if the Congress enacts additional revenue legislation.

These basic facts of the fiscal situation have tremendous importance for all of us, yet it is extremely difficult for an individual to obtain these summary figures from our highly complex laws and records. I hope that this statement will aid the public in understanding the many intricate factors on which they are based.

My original budget and the subsequent recommendations spelling out proposed war expenditures are combined in the three attached tabulations. Table 1 shows my recommendations to the Congress for the fiscal year just started, and the appropriations and authorizations actually voted for the fiscal years 1942, 1943, and 1944. Table 2 gives the expenditures and receipts for the fiscal years 1942 and 1943 (actual), and 1944 (as estimated last January and as revised in July 1943). It also shows the effect of these financial operations on the Federal debt. Table 3 gives a more detailed breakdown of the receipts as summarized in Table 2, reflecting changes in the tax structure.

APPROPRIATIONS AND EXPENDITURES

The dollars-and-cents figures of the budget are the monetary expression of our Federal program of action. Appropriations are the legal basis for incurring obligations and for the subsequent expenditure of cash. In many cases actual cash payments are not made in the same year for which the appropriations are made and in which the obligations are incurred. This is particularly true in the case of contracts for war materials. Thus, a rather large portion of the total cash to be paid out in 1944 will be used for contracts and commitments entered into under authority of the appropriations of previous years. Similarly, appropriations for the fiscal year 1944 will be used for placing contracts now, but a substantial part of the work will be completed and paid for in future fiscal years. Hence, for any specific year, there are differences between appropriations, obligations, and cash expenditures.

In some cases when a program such ~~as the~~ construction of ships must extend over a long period, the Congress utilizes so-called "contract authorizations" in lieu of immediate appropriations for the full expenditure ultimately involved. Such authorizations enable the executive departments to place contracts now, leaving the appropriation of cash for a later time when the money will be needed to pay the bills.

War Activities: General and Special Accounts

I recommended war appropriations of 100,711 million dollars in the fiscal year 1944. Congress appropriated 97,633 million dollars and

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approved 2,000 million dollars of contract authorizations in lieu of recommended appropriations. The net result is a reduction of 1,078 million dollars.

This reduction is distributed as follows: War Department, 390 million dollars; emergency war agencies, 387 million dollars; Lend-Lease Administration, 150 million dollars; War Shipping Administration, 100 million dollars; and Navy Department, 51 million dollars. Congressional action on recommendations for other than war purposes is discussed in a later section.

War Activities: Government Corporations

The war activities of Government corporations consist mainly of: (1) financing war plant facilities, (2) purchasing critical materials, (3) facilitating production of essential commodities by incurring losses in purchase and sale operations, or by payment of subsidies, and (4) miscellaneous operations. Since July 1940, these war corporations have made war commitments of 19,904 million dollars; disbursements, less cash receipts, are 5,584 million dollars. In the fiscal year just completed, net outlays for war purposes were 2,976 million dollars; during the fiscal year 1944 they are estimated at 3,000 million dollars.

As the war program develops, as the plants for which advances were made are amortized or disposed of, and as stockpiles are liquidated, Government corporations are reimbursed. Hence, for the war period as a whole, receipts will offset a considerable portion of outlays.

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Total War Expenditures

War expenditures, including net outlays of Government corporations, amounted to 75 billion dollars for fiscal year 1943, in comparison with the January estimate of 77 billion dollars. Expenditures were therefore 2.9 percent below estimates, primarily because costs of production for many munitions declined more than anticipated. War production has moved from the experimental and pilot stage into mass production and has benefited from technological improvements. Considerable success has been achieved in translating these reductions in cost of production into actual reduction of contract prices.

The 100-billion-dollar expenditure estimate for the fiscal year 1944 is based on present legislation, particularly legislation which establishes the pay and allowances of members of the armed forces, and which deals with prices and wages. It is assumed that the reduction in production costs will level off, but that no general increase in prices will occur. If we should fail in our effort to stabilize the cost of living, or if a substantial general increase in wage rates should take place, war expenditures would, of course, exceed the present estimate. Total war expenditures for the fiscal years 1943 and 1944 are subdivided in the following table.

TOTAL WAR EXPENDITURES

	: Fiscal 1944 : Fiscal 1943	
	: Estimated	: Actual
	(billions)	
Munitions and construction	\$72	\$56
Other, including military pay, subsistence, travel, and agricultural lend-lease	28	19
Total war expenditures	\$100	\$75

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Monthly war expenditures in June 1943 had risen to 7.7 billion dollars, the equivalent of an annual rate of over 90 billion dollars.

The total war program, measured by appropriations, contract authorizations, and Government corporation commitments voted since July 1940 amounts to 330 billion dollars. In addition, construction authorized in terms of tonnage for increase and replacement of naval vessels will, it is estimated, require appropriations of another 14 billion dollars.

Of the 330 billion dollars, 232 billion dollars were appropriated for the 3-year period ending last month during which 212 billion dollars have been obligated and most of the remainder has been earmarked for completion of programs already under way. Only 110 billion dollars have, however, been actually spent as of June 30, 1943.

Congress has further appropriated 98 billion dollars for the fiscal year 1944, practically all of which will be obligated or committed by the end of the year, even though much of it will be actually unspent at that time.

The spread between appropriations and obligations on the one hand, and between obligations and cash expenditures on the other, reflects the necessity for the Government and for contractors to plan production many months ahead.

Appropriations and Expenditures for Other Than Direct War Purposes

The largest single item of appropriation and expenditure for other than direct war purposes is interest on the public debt which has risen rapidly because of heavy war expenditures. Interest is estimated at 2,700 million dollars in the fiscal year 1944, as compared with

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1,808 million dollars for the preceding fiscal year. We are now financing at an average interest cost on new money of less than 2 percent; since personal and corporate income from all new issues is fully taxable, the net cost is even lower.

For all remaining activities of the Federal Government in the general and special accounts, my original and supplemental appropriations for the year just started amounted to 4,745 million dollars, as compared with appropriations by the Congress of 4,630 million dollars.

The Congress decided to discontinue immediately or in the near future the following agencies or activities: the National Resources Planning Board, the Crop Insurance program, the Home Owners' Loan Corporation, and the Bituminous Coal Division in the Department of the Interior. The Secretary of Agriculture has not been authorized to make commitments for parity payments on future crops or to make incentive payments to increase agricultural production. The program of the Farm Security Administration has been curtailed. On the other hand, the Congress appropriated more than I recommended for some items, such as forest protection, research in steel resources, reclamation, and flood relief and flood control.

Expenditures from the general and special accounts for activities other than war, interest on the debt, and statutory debt retirement, it is estimated, will amount to 4,336 million dollars in fiscal year 1944, which will be slightly above the prior year's expenditures, and

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15 percent less than in the fiscal year 1942. The most important increases over the fiscal year 1943 are for veterans' pensions and benefits, retirement funds, and refunds. Refunds alone are now estimated at 282 million dollars above the fiscal year 1943; of this increase, 233 million dollars of rise between January and present estimates is attributable mainly to adjustments for overpayment of income taxes under Current Tax Payment Act.

Summary of Expenditures

The following tabulation, derived from Table 2, summarizes aggregate Federal expenditures from general and special accounts and by Government corporations in the fiscal year 1943, and for the fiscal year 1944, as estimated last January and as now revised.

Classification	EXPENDITURES EXCLUDING DEBT RETIREMENT AND TRUST FUNDS		
	: Fiscal 1944		: Fiscal 1943
	: Revised	: January	: Actual
	: Estimates	: Estimates	
(millions)			
War activities:			
General and special accounts	\$97,000	\$97,000	\$72,109
Government corporations (net of receipts)	3,000	2,693	2,976
Interest on the public debt	2,700	3,000	1,808
Other activities:			
General and special accounts	1/ 4,336	4,124	4,262
Government corporations (net of receipts)	a/ 1,167	309	a/ 1,470
Total expenditures	\$105,869	\$107,126	\$79,685

a/ Excess of receipts over expenditures.

1/ Includes 361 million dollars of refunds primarily attributable to the Current Tax Payment Act which had not been enacted in January.

To determine Federal cash payments to the public, it is necessary to add to the above expenditures trust fund disbursements to the public,

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and to subtract major intragovernmental transactions, such as interest payments by the Treasury to trust funds, and the accrual of interest on savings bonds. When these adjustments are made, total cash payments to the public in the fiscal year 1943 amount to 79,317 million dollars, and are estimated at 105,397 million dollars for the fiscal year 1944.

RECEIPTS AND DEBT

Receipts: General and Special Accounts

Actual net receipts amounted to 22,072 million dollars in the fiscal year 1943. They were estimated for the fiscal year 1944 at 33,081 million dollars last January, and are estimated at 38,148 million dollars at this time.

The increase in the January estimate over the previous fiscal year was attributable to the Revenue Act of 1942 and to greater business activity and higher incomes than anticipated. The further increase of 5,067 million dollars between the January and July estimates ~~arises~~ primarily because of larger collection of direct taxes from individuals under the Current Tax Payment Act of 1943. This Act advances the date of payment of individual income tax on rising incomes and requires partial payment of the uncanceled portion of the 1942 tax. At the time of passage of this Act it was estimated that collections for the fiscal year 1944 would be increased by approximately 3,000 million dollars after refunds for overpayment.

A nonrecurrent increase of importance in these collections is accounted for by the regulations issued under authority of the recently enacted Current Tax Payment Act, requiring monthly rather

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than quarterly payments into the Treasury of amounts withheld by employers. Hence, the anticipated lag in payments for the fiscal year 1944 will amount to only one month instead of a quarter of a year.

Direct taxes on corporations in the fiscal year 1944, including the postwar credits, are estimated 835 million dollars lower than in January. Underlying this change is a reduction in the anticipated yield of the excess profits tax, offset partially by an increase in revenue from corporate normal tax and surtax. Factors accounting for this change include relief provisions of the excess profits tax in the 1942 Revenue Act, the renegotiation of war contracts, and changes in the outlook for corporate profits. Larger estimates of miscellaneous receipts are due to refunds arising from renegotiation of war contracts; these refunds are now expected to be higher than was estimated in the original budget.

Total receipts of general and special accounts are expected to amount to 40,350 million dollars in fiscal year 1944. This figure includes the amount appropriated to the old age and survivors' insurance trust fund, and postwar credits for excess profits tax and victory tax. Both of these are currently collected but represent claims against the Federal Government which are deducted to arrive at net receipts.

The foregoing discussion has been based entirely on receipts of general and special accounts. To calculate total receipts from the public it is necessary to include receipts of trust accounts and to

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exclude transfers such as appropriations to trust accounts. On this basis total Federal receipts from the public were 25,274 million dollars in the fiscal year 1943, and are estimated at 41,898 million dollars for the fiscal year 1944.

Public Debt

The direct public debt, excluding obligations of Government corporations, amounted to 137 billion dollars on June 30, 1943. Unless additional tax legislation is enacted, the debt will increase 69 billion dollars in fiscal 1944, bringing the public debt to 206 billion dollars by June 30, 1944. Changes in the cash working balance may alter total debt a year hence.

The increase in the direct Federal debt does not only reflect borrowing from the public. Government trust funds, especially the social security trust funds, are accumulating a temporary surplus in periods of high employment and low disbursements, which is invested in Government bonds. The surplus reflects claims of beneficiaries against the trust funds and is, of course, a liability of the Government even though such investments in Government bonds reduce the need for borrowing from the public during the war period.

The increase in the Federal debt includes the obligations issued in lieu of debt retired by Government corporations. These operations reduce the contingent debt and correspondingly increase the direct debt. They represent refinancing rather than new financing.

Borrowing from individuals and institutions amounted to 61 billion dollars during the fiscal year 1943; it will amount to 63 billion dollars in the fiscal year 1944 unless additional revenue

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legislation is enacted. Both amounts include that portion of postwar credits against excess profits and victory tax payments which will be claimed after the war.

THE ECONOMIC IMPACT

Governmental spending of over 100 billion dollars a year has major repercussions on the economy. The amounts spent become incomes of corporations and individuals. If expenditures are financed either by taxing or by borrowing active funds, the volume of spendable funds in the hands of consumers will not increase. If, however, expenditures are financed by borrowing from banks or by borrowing idle funds, the spendable income in the hands of consumers will increase greatly.

Individuals are expected to receive incomes approaching 150 billion dollars during fiscal year 1944, over twice the income payments to individuals in fiscal year 1940. Such a huge rise creates a tremendous increase in demand for goods and services. A considerable portion of this enlarged income and demand for goods results from full employment of many millions of workers who were formerly either unemployed or underemployed, or were not seeking employment in the years before the defense and war effort. Such persons now have money to buy more necessities and even luxuries.

The Government directly or indirectly is employing more than one-half of the total labor force either in military service or in war production. In view of this fact, sooner or later a drastic reduction in the supply of goods and in the services available for civilian consumption was bound to result. These facts did not make themselves

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felt during the earlier phases of the defense and war effort because our economy was running far below its capacity. Industrial production (measured by the Federal Reserve index of production) increased by 68 percent from fiscal 1940 to fiscal 1943. Thus we were able to increase war production and civilian production at the same time. In recent months the index of production has not increased substantially, which indicates that we are approaching the capacity of production with our available manpower.

I do believe, however, that a further increase in production is possible if Government, management, and labor constructively tackle the problems of the most effective use of our resources. This should be our objective since we shall feel the full impact of the curtailment in less essential civilian supplies as our large cushion of inventories disappears.

We must recognize clearly that war expenditures are creating an increase in the demand for civilian goods while the supply of these very goods is decreasing. Many of us must reduce our accustomed standard of living during wartime because of the absorption of a large portion of our labor force and labor reserve for war service. A reduced standard of living is due to the titanic war effort and not, as some people believe, to taxes, rationing, and other governmental controls. These controls are necessary to achieve maximum war production, to assure equitable distribution of the available civilian supplies, and to prevent economic collapse after the war has been won.

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We all know that it takes some time to organize a war economy in the most effective manner. We know, too, that controls and regulations imply many inconveniences which we constantly try to reduce. Curtailments and inconveniences cannot be avoided if we are to help win the war with a minimum of sacrifice in human life. Nobody wants to jeopardize victory or cause avoidable loss of life by waging war with an insufficient number of troops, with poorly trained troops, or with less than the best equipment we can produce.

I recommended in my Budget Message last January a truly stiff program of additional taxes, savings, or both. I continue to support that program. The cost of living cannot be stabilized unless price and wage controls are supported by a further substantial absorption of purchasing power as a deterrent to bidding up prices and resorting to the black market. The alternative to stabilization is inflation, and inflation is the most inequitable way of distributing ~~the~~ necessary wartime curtailments. Inflation shifts the full burden to the shoulders of the people in the weakest bargaining position, the people whose incomes do not rise with increasing prices. Inflation also reduces production by creating unrest and friction.

A war program involving 100 billion dollars of expenditure during the next twelve months is, I repeat, a gigantic national effort for victory. That expenditure program must be backed up by a revenue program of sufficient size to make sure that we do not disrupt our home front and that we do prepare the way for an orderly transition to a future peace economy.

July 27, 1943

TABLE 1
COMPARATIVE STATEMENT OF APPROPRIATIONS
For the Fiscal Years 1944, 1943, and 1942
(Excludes reappropriations of unexpended balances)

Classification	1944		1943 Appropriated	1942 Appropriated
	Appropriated	Appropriations Recommended ^{1/}		
GENERAL AND SPECIAL ACCOUNTS				
War activities:				
War Department	359,036,297,571	359,426,448,340	442,878,911,575	475,547,617,948
Navy Department	2/ 27,437,355,198	29,488,363,000	23,811,791,590	18,686,603,128
U. S. Maritime Commission	1,289,780,000	1,289,780,000	4,985,367,615	2,360,810,612
War Shipping Administration	2,272,350,000	2,372,350,000	1,148,360,417	215,190,000
Lend-Lease	6,273,629,000	6,423,629,000	13,386,522	11,432,738,336
Other	1,323,426,293	1,710,854,852	2,190,488,290	2,591,785,032
Total war activities	97,632,838,063	100,711,425,192	75,028,306,009	110,834,745,027
Interest on the public debt	2,700,000,000	2,700,000,000	1,808,160,396	1,260,105,077
Other activities:				
Legislative establishment	45,615,543	45,786,482	32,017,221	29,699,895
The Judiciary	12,530,490	13,067,975	12,680,343	12,409,754
Executive Office of the President	2,227,690	3,148,190	2,644,802	2,364,620
Civil departments and agencies	994,492,084	980,987,829	1,484,206,497	1,527,698,232
Post Office deficiency	-	-	38,848,058	25,468,924
District of Columbia - United States share ...	6,000,000	6,000,000	6,000,000	6,000,000
Veterans' pensions and benefits	883,030,000	883,030,000	603,589,507	607,533,907
Aids to agriculture	808,452,259	915,178,580	715,830,375	1,102,610,722
Aids to youth	-	-	-	338,727,000
Social-security program	482,038,000	500,866,000	545,486,555	506,935,692
Work relief	137,500	1,950,000	285,084,000	885,905,000
Refunds	361,203,000	361,204,500	78,005,000	85,006,350
Retirement funds	440,041,600	440,041,600	322,041,800	243,735,262
Statutory public debt retirement	593,907,551	593,907,551	592,767,394	587,862,428
Total other activities	4,629,675,737	4,745,168,707	4,719,201,542	5,961,957,786
Total, general and special accounts ..	104,962,513,779	108,156,593,899	81,555,667,947	118,056,807,940
TRUST ACCOUNTS				
Unemployment trust fund	1,476,530,000	1,476,530,000	1,398,524,160	1,243,297,663
Federal old-age and survivors insurance fund ...	1,742,895,000	1,742,895,000	1,190,405,816	939,997,862
Railroad retirement fund	248,445,745	248,445,745	220,577,849	143,993,059
Federal employees retirement funds	487,806,600	487,806,600	373,601,649	222,528,756
Commodity stamp trust fund	-	-	155,068,789	328,737,998
Other trust accounts	875,397,145	875,397,145	601,320,319	288,780,323
Total, trust accounts	4,831,074,490	4,831,074,490	3,939,498,582	3,167,335,661

^{1/} Includes appropriations recommended in the January Budget and subsequent recommendations.

^{2/} Together with \$2,000,000,000 contract authorization granted in lieu of appropriations recommended.

TABLE 2
COMPARATIVE STATEMENT OF RECEIPTS AND EXPENDITURES
For the Fiscal Years 1944, 1943, and 1942

Classification	1944		1943 Actual	1942 Actual
	Revised Estimates July, 1943	Budget Estimates January, 1943		
GENERAL AND SPECIAL ACCOUNTS				
RECEIPTS:				
Direct taxes on individuals	\$18,795,000,000	\$13,750,600,000	\$7,077,427,667	\$3,695,340,678
Direct taxes on corporations	14,080,400,000	14,915,000,000	9,995,930,353	5,021,578,716
Excise taxes	4,021,380,000	3,915,380,000	3,796,648,587	3,127,631,235
Employment taxes	2,105,000,000	1,982,200,000	1,507,919,214	1,194,046,889
Customs	333,700,000	204,300,000	324,290,778	388,948,427
Miscellaneous receipts	1,014,215,000	639,215,000	906,117,131	277,376,297
Adjustment to daily Treasury statement basis.	-	-	-223,688,228	-77,007,418
Total receipts	40,349,695,000	35,406,695,000	23,384,645,502	13,667,914,824
Deduct:				
Net appropriation for Federal old-age and survivors insurance trust fund	1,631,750,000	1,525,450,000	1,103,002,793	668,853,203
Post-war credits for excess-profits tax and Victory tax	570,000,000	800,000,000	210,000,000	-
Net receipts	38,147,945,000	33,081,245,000	22,071,642,709	12,799,061,621
EXPENDITURES:				
War activities: 1/				
War Department	56,000,000,000	62,000,000,000	42,265,037,019	14,097,466,382
Navy Department	28,000,000,000	24,000,000,000	20,888,349,025	8,579,588,976
U. S. Maritime Commission	4,200,000,000	4,300,000,000	2,775,752,114	929,451,092
War Shipping Administration	2,500,000,000	1,900,000,000	1,104,980,535	132,171,176
Other	6,300,000,000	4,800,000,000	5,074,743,511	2,272,387,464
Total war activities	97,000,000,000	97,000,000,000	72,108,862,204	26,011,065,020
Interest on the public debt	2,700,000,000	3,000,000,000	1,808,160,396	1,260,085,336
Other activities:				
Legislative establishment	28,305,600	27,455,600	26,694,654	27,268,973
The Judiciary	12,100,500	12,663,500	12,020,160	11,537,737
Executive Office of the President	2,239,200	3,049,190	2,572,749	2,347,032
Civil departments and agencies	1,300,120,100	1,230,373,033	1,339,279,966	1,394,235,351
Post Office deficiency	-	-	8,611,843	17,729,775
District of Columbia - United States share.	6,000,000	6,000,000	6,000,000	6,000,000
Veterans' pensions and benefits	880,725,000	879,360,000	599,742,083	551,885,122
Aids to agriculture	811,490,000	889,319,000	1,037,231,190	1,092,035,673
Aids to youth	-	-	17,914,850	250,512,659
Social-security program	471,673,000	502,705,000	496,738,263	496,474,724
Work relief	21,922,000	5,436,000	313,877,432	937,272,411
Refunds	361,203,000	127,522,000	79,137,651	94,399,953
Retirement funds	440,041,600	440,041,600	322,041,800	243,735,262
Statutory public debt retirement	5,000,000	5,000,000	3,463,400	94,722,300
Total other activities	4,340,820,000	4,128,924,923	4,265,326,041	5,220,156,972
Total expenditures	104,040,820,000	104,128,924,923	78,182,348,641	32,491,307,398
Excess of expenditures, general and special accounts	65,892,875,000	71,047,679,923	56,110,705,932	19,692,245,777

1/ Expenditures from Lend-Lease (Defense Aid) appropriations are included under the various agencies.

TABLE 2 - Continued
 COMPARATIVE STATEMENT OF RECEIPTS AND EXPENDITURES - Continued

Classification	1944		1943 Actual	1942 Actual
	Revised Estimates July, 1943	Budget Estimates January, 1943		
GOVERNMENT CORPORATIONS AND CREDIT AGENCIES				
NET EXPENDITURES (from checking accounts):				
War activities	\$3,000,000,000	\$2,693,000,000	\$2,975,711,476	\$2,254,949,959
Redemption of obligations in the market	2,894,588,000	1,772,123,000	688,141,664	1,809,413,050
Other activities	a/1,166,588,000	309,000,000	a/1,470,167,674	a/ 439,638,755
Net expenditures	4,728,000,000	4,774,123,000	2,193,685,466	3,624,724,254
TRUST ACCOUNTS				
RECEIPTS:				
Transfers from general and special accounts ..	687,097,345	687,097,345	435,065,022	380,461,370
Net appropriation from general account re- ceipts	1,631,750,000	1,525,450,000	1,103,002,794	868,853,203
Other receipts	2,526,484,055	2,453,649,805	2,401,430,766	1,941,569,527
Total receipts	4,845,331,400	4,666,197,150	3,939,498,582	3,190,884,100
EXPENDITURES:				
Investments in U. S. obligations	3,949,400,000	3,676,970,912	3,004,269,459	1,925,330,164
Other expenditures	862,300,000	954,431,203	602,527,629	1,146,334,632
Total expenditures	4,811,700,000	4,631,402,115	3,606,797,088	3,071,664,796
Excess of receipts over expenditures ..	33,631,400	34,795,035	332,701,494	119,219,304
THE PUBLIC DEBT				
Public debt at beginning of year	136,696,090,330	134,830,142,661	73,422,445,116	48,961,443,535
Net increase in public debt during year:				
General and special accounts, excess of expenditures over receipts	65,892,875,000	71,047,679,923	56,110,705,931	19,692,245,777
Government corporations and agencies, net expenditures	4,728,000,000	4,774,123,000	2,193,685,466	3,624,724,254
Trust accounts, excess of receipts over expenditures	-33,631,400	-34,795,035	-332,701,494	-119,219,304
Post-war credits for excess-profits tax and Victory tax	-570,000,000	-800,000,000	-210,000,000	-
Statutory public debt retirement	-5,000,000	-5,000,000	-3,463,400	-94,722,300
Change in Treasury balance	-708,333,930	-63,000,000	46,535,418,710	437,973,154
Net increase in public debt	69,303,909,670	74,919,007,888	64,273,645,214	23,461,001,581
Public debt at end of year	206,000,000,000	209,749,150,549	136,696,090,330	72,422,445,116

a/ Excess of receipts over expenditures.

TABLE 3
 RECEIPTS OF GENERAL AND SPECIAL ACCOUNTS
 For the Fiscal Years 1944, 1943, and 1942
 (In thousands)

Source	1944		1943 Actual	1942 Actual
	Revised Estimates July, 1943	Budget Estimates January, 1943		
Direct taxes on individuals:				
Income tax and Victory tax	\$18,238,400	\$13,086,800	\$6,629,932	\$3,262,801
State tax	511,800	609,300	414,531	340,323
Gift tax	44,800	54,500	32,965	92,217
Total direct taxes on individuals	18,795,000	13,750,600	7,077,428	3,695,341
Direct taxes on corporations:				
Income tax	4,945,600	4,195,000	4,520,839	3,069,271
Excess-profits tax	8,680,700	10,270,000	5,063,864	1,618,189
Declared value excess-profits tax	94,100	90,000	82,432	52,219
Capital-stock tax	360,000	360,000	328,795	281,900
Total direct taxes on corporations	14,080,400	14,915,000	9,995,930	5,021,579
Excise taxes:				
Adjust enrichment tax	3,000	3,000	1,808	4,402
Liquor taxes:				
Distilled spirits (domestic and imported)	832,800	931,700	781,707	574,250
Fermented malt liquors	531,900	465,500	455,635	366,159
Rectification tax	11,500	5,000	18,837	17,225
Wines (domestic and imported)	24,900	33,300	33,663	23,986
Special taxes, liquor occupations	11,000	11,200	10,246	11,076
Container stamps	10,600	10,600	10,549	11,197
Floor-stocks tax	43,900	27,600	111,539	41,911
All other	1,600	1,600	1,299	1,111
Total liquor taxes	1,468,200	1,486,500	1,423,475	1,046,915
Tobacco taxes:				
Cigarettes (small)	892,800	862,000	835,231	704,933
Tobacco (chewing and smoking)	46,300	49,700	47,849	52,139
Cigars (large)	29,400	28,100	23,075	14,188
Snuff	7,000	7,000	7,543	7,440
Cigarette papers and tubes	1,300	1,300	1,473	1,961
Floor-stocks tax	-	-	8,556	-
All other	130	130	130	126
Total tobacco taxes	976,930	948,230	923,857	780,787
Manufacturers' excise taxes:				
Gasoline	251,100	219,300	288,786	369,587
Lubricating oils	54,300	58,000	43,319	46,432
Passenger automobiles and motorcycles	300	300	1,424	77,172
Automobile trucks, busses, and trailers	2,400	2,400	4,230	18,361
Parts and accessories for automobiles	25,000	12,000	20,478	28,088
Tires and inner tubes	35,000	23,400	18,280	56,842
Rubber articles	-	-	14,885	21,545
Electrical energy	50,700	50,700	48,705	49,978
Electric, gas, and oil appliances	2,600	2,600	6,933	17,702
Electric light bulbs	2,900	2,900	3,697	3,102
Electric signs	-	-	614	779
Radios, phonographs and records, and musical instruments ..	6,300	6,700	8,697	22,438
Refrigerators, refrigerating apparatus and air-conditioners ..	1,700	1,700	5,966	16,246
Washing machines	-	-	37	165
Business and store machines	2,800	1,000	6,461	6,972
Photographic apparatus	8,200	4,400	11,164	6,037
Optical equipment	-	-	293	459
Matches	10,500	7,400	9,367	5,227
Luggage	3,800	900	5,682	2,634
Sporting goods	2,000	1,400	4,068	3,487
Firearms, shotguns, pistols, and revolvers	700	700	1,211	5,157
Floor-stocks taxes, tires and inner tubes, and matches	-	-	71	9,872
Total manufacturers excise taxes	460,300	395,800	904,268	768,262

TABLE 3 - Continued
 RECEIPTS OF GENERAL AND SPECIAL ACCOUNTS - Continued

Source	1944		1943 Actual	1942 Actual
	Revised Estimates July, 1943	Budget Estimates January, 1943		
Excise taxes (continued):				
Retailers excise taxes:				
Jewelry, etc.	89,200	69,900	44,223	41,501
Furs	38,200	38,200	88,366	19,744
Toilet preparations	35,000	28,900	32,677	18,922
Total retailers excise taxes	162,400	137,000	165,266	80,167
Stamp taxes:				
Issues of securities, bond transfers and deeds of conveyance	24,000	21,000	21,766	22,876
Stock transfers	18,000	14,900	15,584	13,028
Playing cards	8,400	6,000	7,694	5,758
Silver bullion sales or transfers	50	50	111	40
Total stamp taxes	50,400	41,900	45,155	41,702
Miscellaneous taxes:				
Telephone, telegraph, radio and cable facilities, etc.	128,300	110,600	91,174	48,231
Local telephone service	95,500	93,600	66,989	26,791
Transportation of oil by pipe line	17,400	16,700	13,672	13,475
Transportation of persons	94,100	98,100	87,132	21,379
Transportation of property	182,500	208,200	82,556	-
Admissions	163,300	160,600	154,450	115,032
Club dues and initiation fees	6,200	6,500	6,520	6,792
Leases of safe deposit boxes	6,400	5,500	6,070	3,663
Use of motor vehicles and boats	125,400	125,400	146,667	72,854
Cocunut and other vegetable oils processed	2,000	4,300	1,939	7,161
Oleomargarine and adulterated butter	3,200	2,800	2,679	2,276
Bituminous coal tax	2,000	-	5,626	5,479
Sugar tax	59,000	54,900	53,552	68,230
Coin-operated amusement and gaming devices	11,000	11,900	10,487	6,485
Bowling alleys and billiard and pool tables	1,900	1,900	1,853	1,698
All other, including repealed taxes	1,900	1,900	1,424	5,850
Total miscellaneous taxes	900,100	902,900	732,820	405,396
Total excise taxes	4,021,380	3,915,380	3,796,649	3,127,631
Employment taxes:				
Taxes on employment by other than carriers:				
Federal Insurance Contributions Act	1,662,100	1,555,800	1,130,495	895,619
Federal Unemployment Tax Act	187,100	170,600	158,361	119,944
Taxes on carriers and their employees	244,500	244,500	208,795	170,012
Railroad Unemployment Insurance Act	11,300	11,300	10,268	8,472
Total employment taxes	2,105,000	1,982,200	1,507,919	1,194,047
Customs	333,700	204,300	324,291	388,948
Miscellaneous receipts	1,014,215	639,215	906,117	277,376
Adjustment to daily Treasury statement basis	-	-	-223,688	-37,007
Total receipts, general and special accounts ...	40,349,695	35,406,695	23,384,646	13,667,915
Deduct:				
Net appropriations for Federal old-age and survivors insurance trust fund	1,631,750	1,525,450	1,103,003	866,853
Post-war credits for excess-profits tax and Victory tax	570,000	800,000	210,000	-
Net receipts, general and special accounts	38,147,945	33,081,245	22,071,643	12,799,062



NATIONAL ASSOCIATION OF BROADCASTERS

1760 N STREET, NORTHWEST

WASHINGTON, D. C.

August 1, 1943

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

Dear Mr. Secretary:

This is to thank you for your prompt action in answer to my request concerning designation of your news conference as either "news conference" or "press and radio conferences."

You may be sure the entire radio industry is being advised of this consideration on your part, and already we have received many letters and calls of commendation for your action.

This means a great deal to us, and our appreciation is given you ~~as~~ a small measure.

With kindest regards, I am

Most sincerely yours,

A handwritten signature in cursive script that reads "Walt Dennis".

Walt Dennis, Chief
NAB News Bureau

July 28, 1943

Dear Mr. Dennis:

I assure you that the least I can do, in view of the cooperation I have received, and am receiving from broadcasters, is to rechristen my conferences.

In the future they will be referred to as "press and radio conferences," according to your suggestion.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Walt Dennis, Chief
National Association of
Broadcasters News Bureau
1700 H Street, Northwest
Washington, D. C.

FSigr
7-28-43



NATIONAL ASSOCIATION OF BROADCASTERS

1760 N STREET, NORTHWEST

WASHINGTON, D. C.

July 26, 1943

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

Dear Mr. Secretary:

This is a small request in a time of big things, but I know you will give it your usual generous consideration.

The conferences you hold with newspaper and radio reporters are generally referred to as "press" conferences. This does an injustice to what is now the greatest news medium in the world - radio.

I realize that the word "press" may be considered now to have a general meaning and not apply specifically to newspapers in connection with "press" conferences, but we offer an easy way out -

Substitute the word "news" to make "news conferences" or name them "press and radio conferences."

The radio industry through our association is being urged to effect this changeover and to edit all copy for broadcasting to read "news" conference, "news" source, or "news" association, etc.

We, as the association representing the broadcasting industry, ask your consideration on this matter, and we have enclosed herewith a copy of the official reaction of the White House to our request for your information.

With the kindest regards, I am,

Sincerely yours,

A handwritten signature in cursive script that reads "Walt Dennis".

Walt Dennis, Chief
NAB News Bureau

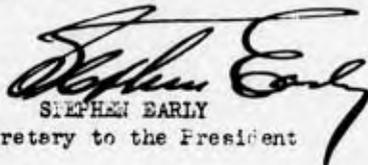
THE WHITE HOUSE
WASHINGTON

July 1, 1943

Dear Mr. Dennis:

This is in acknowledgment of your letter of June twenty-ninth. The suggestion that you make is entirely consistent and in principle I am quite willing to go along with you. Accordingly, we will hereafter at the White House designate the President's stated meetings with the news gatherers as "press and radio conferences".

Very sincerely yours,



STEPHEN EARLY
Secretary to the President

Mr. Walt Dennis,
Chief,
News Bureau,
National Association of Broadcasters,
1760 N Street, N. W.,
Washington, D. C.

PALESTINE FACES CLASH AFTER WAR

Jews and Arabs Are Arming
and Training Guerrillas for
Expected Conflict.

BOTH SIDES HIDING GUNS

Outbreaks Are Not Likely as
Long as Big Allied Forces
Remain on Guard

By C. L. SULZBERGER

By Wireless to THE NEW YORK TIMES.

CAIRO, July 31—The turbulent question of Palestine and the rival interests in that holy land of Jews and Arabs is becoming of paramount importance to the United Nations, who must now face the problem of the initial application of the Atlantic Charter or at least discuss how this can be done.

Dangerous potentialities are shaping themselves. While there is no reason to anticipate an imminent explosion while many Allied

troops are present, if the situation is ignored by the United Nations it is likely to end in terrible bloodshed.

Already determined factions of Jews and Arabs are secretly engaged in preparations for militant action. Arabs and Jews have been buying arms and ammunition. One observer estimates that the Arabs have hidden 30,000 rifles and a large supply of ammunition and machine guns, mortars and hand grenades.

Arabs Got French Arms

Gun-running has been persistent. When the Vichy French departed for Syria they sold many of their arms to Arabs.

The Jews also are building a formidable secret force. It is estimated they have 30,000 rifles and revolvers, about 2,000 larger weapons, much ammunition and grenades and infinitely greater scientific resources for the manufacture of explosives. About 20,000 young Jewish men and women, who have been in various Allied services, will return to Palestine after the war as experts in the handling of arms.

The training of guerrilla fighters has been proceeding secretly among Jews and Arabs throughout the war, while it is common for Arabs to carry arms there are scant signs of the organization of

their preparations. Arabs and Jews have perfected various systems of defensive and offensive operations.

The Jews have two schools of thought, the Socialist party and middle-class elements, who believe in self-defense only, and the militant Revisionists in the Nationalist Military Organization, who believe offense is the better part of defense.

Both organizations are secret. The self-defense school believes that if trouble starts it will be best to confine itself to Jewish areas, but the militant Revisionists intend to attack Arab areas and settlements if there is trouble with the Moslems on the theory that violence must be met by violence.

Both Sides Hide Arms

Most of the Arabs' arms are hidden in mountain caves, orange groves and out-of-the-way places. The Jewish organizations take apart big weapons like machine guns and give pieces to members who assemble when required at a selected spot. The Jewish units are based on cells of ten under a group leader. Above are regional leaders and zone leaders and at the top the triumvirate of the High Command.

United Nations leaders cannot ignore these preparations which

may lead to riots and pogroms throughout the Middle East unless the entire Palestinian question is handled with fairness and firmness.

NOT TO BE RE-TRANSMITTED

COPY NO. 13 26

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 252

Information received up to 7 a.m., 1st August, 1943.

1. NAVAL

Motor gun boats bombarded railway objectives at GIARDINI, North East SICILY, on 27th/28th. On 29th two of H.M. Cruisers with 6 destroyers bombarded railway bridges south of LOCRI.

2. AIR OPERATIONS

WESTERN FRONT. 30th/31st. REMSCHIED. 693 tons dropped including 406 tons of incendiaries. Weather cloudless, but some haze. Bombing rather scattered at first but fair concentration achieved later. Very slight A/A over objective and not many searchlights. Photographic aircraft 1 p.m. following day reported much smoke rising mainly from western part of town to 15,000 feet.

31st. A total of 107 escorted medium and fighter bombers attacked 7 airfields in Northern FRANCE. Enemy casualties 2, 0, 8. Allied 3 missing.

31st/1st. 10 enemy bombers operated off and over the East Coast. 1 was destroyed by A/A fire.

OFFICE
SECRETARY OF TREASURY

1943 AUG 2 AM 11 47

TREASURY DEPARTMENT

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 2, 1943

TO Secretary Morgenthau
 FROM Mr. Hays
 Subject: The Business Situation,
 Week ending July 31, 1943.

Summary

Stock prices: The sudden ouster of Mussolini, and the accompanying upsurge in hopes for a relatively short war, unleashed a sharp decline in stock prices last week. At the close on Saturday, industrial and railroad stock price averages were down 6 percent and 10 percent, respectively, from week-earlier levels. Although the widest declines occurred in so-called "war" stocks, "peace" stocks also dropped sharply. In contrast to the weakness in stock prices in New York, industrial stock prices in London rose to the highest level since September 1, 1937.

Price situation: While the upheaval in the Italian political situation caused a moderate decline in grain and cotton prices early in the week, commodity prices later steadied and the BLS index of 28 basic commodities showed little change for the week. The all-commodity index in the week ended July 24 was unchanged at 102.9 percent of the 1926 average. From mid-June to mid-July the index of prices received by farmers declined 1.1 percent, marking the first downturn in five months. Despite the decline, the index was still 22 percent above last year's level.

Milk shortage: A milk shortage appears likely in certain sections of the country this fall. While milk production in the first six months of this year was about the same as in the corresponding period of last year, the BAE estimates that it may be 1 to 3 percent below 1942 levels in the last six months. Inflexible price ceilings and a deficiency of feed grains and protein feeds are factors tending to reduce milk production.

Retail trade: Sales continue to run well above last year's levels, with department store sales in the week ended July 24 rising 19 percent above the corresponding week last year. Apparel store sales in the first half of 1943 soared to a record high with sales nearly double the level for the year 1939. Chain stores in the second quarter of 1943 accounted for 29.0 percent of total apparel sales as compared to 31.2 percent a year earlier.

- 2 -

General situation

The sudden downfall of Mussolini, and accompanying uncertainties over the immediate course of international developments, upset the stock market last week, caused fairly heavy liquidation of second-grade railroad bonds, and prompted moderate selling of some commodities, such as grains. In addition to other factors, many traders and investors apparently interpreted the latest turn of events in Italy as foreshadowing a possible earlier than expected end of the war in Europe, and took steps to reduce commitments accordingly. Temporarily at least, recent optimistic market appraisal of prospective price and business trends appears to have given way to considerable uncertainty over the economic significance of European political developments.

It remains to be seen whether the break-up of the Fascist regime will increase public complacency in the prosecution of the war program, but WPB Chairman Nelson expressed fears to that effect during the past week. The operating difficulties of the steel industry arising from the coal strikes now appear to have been overcome, and production last week was scheduled at 98 percent of capacity as compared to only 90.3 percent a month ago. Despite the cessation of labor troubles in the mines, coal production is still running about 400,000 tons a week short of the pre-strike average. Nevertheless, it is now expected that coal rationing can be avoided, while further improvement in East Coast oil supplies points to an early increase in gasoline allotments to civilians in that area.

Stock prices drop sharply

After reaching new highs for the year in mid-July, stock prices subsequently began to show signs of easing, and in view of the long rise from the April 1942 lows, an increasing note of caution recently began to appear in speculative comment. With this background, the sudden ouster of the Italian dictator over the weekend caught the stock market by surprise, and stocks declined sharply on increasing volume in the early part of the week. A brief rally around mid-week was followed by further weakness, and at the close

- 3 -

on Saturday industrial stock prices were 6 percent lower than a week earlier, while railroad and utility stocks showed corresponding declines of 10 percent and 7 percent, respectively. As shown on Chart 1, the loss for the week was the sharpest since the long upswing in prices got under way in May 1942.

While railroad stocks and typical "war" stocks in the industrial group showed the widest declines, so-called "peace" stocks also dropped sharply. Evidence of the breadth of the decline may be seen from the fact that by Friday our average of 20 "peace" stocks was 5.8 percent lower than a week earlier as compared to a corresponding decline of 7.0 percent for "war" stocks. Nevertheless, with the exception of one week in March 1940, when the ratio stood at the same level, "peace" stocks near the end of the week stood in the strongest relative position to "war" stocks since September 1939.

London industrial stock prices rise to new highs

In marked contrast to the weakness in the New York stock market, industrial stock prices in London rose steadily last week and at the end of the period stood at the highest levels since September 1, 1937. (See Chart 2.) While a variety of factors doubtless entered into the divergent action of stock prices in the two markets, one theory advanced in partial explanation is that prospects for peace in London conjure up thoughts of release from bombings and the severe privations of a long war, whereas the psychological lift is likely to be less important in the United States. Moreover, restoration of normal world trade and financial relationships is likely to hold greater immediate promise to London than New York.

Transition to peace time economy poses great problems

Although anticipation of supposedly favorable peace time prospects has been a factor in bidding up of some stock prices in recent months, last week's upsurge in hopes for an early peace apparently found stock traders and investors apprehensive over the problems involved. Symptomatic of this point of view, one brokerage commentator stated: "If the disintegration of the Axis is to be as rapid as some think, still lower prices of stocks are probable. This is because we are economically and politically unprepared for an early beginning of the far reaching post-war adjustment from a war economy to a peace economy."

- 4 -

In the last world war (see Chart 3) although the expansion of industrial production fell far short of the present performance, output dropped 22 percent within 6 months after the termination of hostilities. After recovering to around war-time levels in the early part of 1920, another severe decline in production ensued, accompanied by a spectacular crash in commodity prices. In view of the utterly unprecedented current level of war expenditures, the gigantic size of Government contracts subject to cancellation, and the uncertain fate of heavy Government investments in industrial properties, it is not surprising that last week's peace talk, however premature, prompted many holders to liquidate stock holdings.

Basic commodity index shows little change

While the upheaval in the Italian political situation caused a moderate decline in grain and cotton prices early in the week, commodity prices later steadied and the BLS index of 85 basic commodities at the end of the week was practically unchanged. (See Chart 4.) Cotton prices were the most affected by war uncertainties, declining 1 percent. Wheat prices, however, were only slightly lower, and barley rose somewhat. Under a continued heavy demand, rosin prices rose noticeably for the sixth consecutive week.

Although the price of steers was up 1 percent, earlier gains in hog prices were erased when the WPA announced that the Government would curtail its purchases of meat during the next several weeks. Reserves of pork have been built up during recent months of heavy slaughter in order to enable reductions in purchases during August and September, when hog marketings usually fall off. Moreover, the portion of slaughter of steer and heifer beef reserved for Government use was reduced from 45 percent to 30 percent last week, and was set at 40 percent for future weeks.

In the week ended July 24 the BLS all-commodity index was unchanged at 102.9 percent of the 1926 average. The index is now 4.6 percent higher than on the corresponding date of last year, and 37.2 percent higher than the pre-war level of August 1939. Weakening prices for grains and livestock were offset by higher quotations for fruits, vegetables, and eggs.

Farm prices lower

The uninterrupted rise in farm prices since February came to a halt last month, and the index of prices received

- 5 -

by farmers declined 1.1 percent in July. Despite this decline, the index was still 22.1 percent above last year, and 113.6 percent above the August 1939 pre-war level. It was the highest for the month of July since 1920.

Lower prices for meat animals, potatoes, and apples were largely responsible for the decline in average farm prices. The index of meat animal prices showed a contra-seasonal decline of 2.4 percent, but nevertheless it remained well above a year ago and was the highest July figure since 1919. (See Chart 5.) A seasonal downturn of 15 cents per bushel in apple prices more than offset increases in the prices of citrus fruits, and resulted in a 1.7 percent drop in the fruit price index. Since the CPA is reported to be considering rolling back prices of some fruits, it is of interest that the index of fruit prices in July was 76 percent above that of July 1942, and was the highest for the month on record. Cotton and cottonseed prices were off somewhat, but the indexes of grain prices and chicken and egg prices continued to move higher.

While the index of prices received by farmers declined, the index of prices paid by farmers (including interest and taxes) continued its gradual rise. Consequently farm prices averaged 114 percent of parity in July as compared to 116 percent a month earlier. The ratio in the corresponding month last year was only 101 percent.

Milk shortage forecast

A shortage of fluid milk this fall in certain sections of the country was forecast last week by War Food Administration officials. Milk production reached its peak in June, and may be expected to decline seasonally for the next five months. (See Chart 6, upper section.) While total milk production from January to June 1943 was about the same as the record output of the first half of 1942, the Bureau of Agricultural Economics estimates that during the last six months of this year it may be 1 to 3 percent below a year earlier.

California and the Southeast, which import their milk from other sections, will probably be the most severely affected by the shortage, although New York City and other Eastern areas may also be short of fluid milk. With a tight supply and a high demand most of the milk supply is likely to be absorbed in the production area. Distributors will have no incentive to ship such a highly perishable commodity as milk

- 6 -

when a market can be found near at hand. Hence importing states will be particularly affected if milk production is inadequate.

There are three factors, according to the BAE, which will tend to cause a shortage of milk production this fall. They are: (1) constant instead of seasonally-adjusted price ceilings, which tend to stimulate production during the spring and summer but retard it in the fall and early winter, (2) possibility of a scarcity of feed grain in eastern and southern deficit areas, and (3) reduced supply of high protein feeds per animal unit.

Both OPA and WFA are reported to be formulating plans to cope with a milk shortage. Some proposals that have been made are: (1) a reduction in the manufacture of dairy products such as ice cream, cheese, butter, and cream in areas where a shortage appears likely; (2) allocation of the milk supply by the Government or by the industry; (3) rationing in certain areas.

A reduction in butter production to alleviate a milk shortage might require further curtailment of civilian butter supplies. Storage stocks of butter increased rapidly in June to high levels, and on July 1 were 41 million pounds above a year earlier. (See Chart 6, lower section.) Nevertheless, OPA found it necessary last week to raise by 2 points the ration value of butter, effective August 1. Butter production will decline seasonally in the coming months, and then a considerable portion of the stocks will be needed for the armed forces and lend-lease.

Improved shipping situation increases civilian supplies

The improvement in the ocean shipping situation may have important repercussions in increasing the supply of various civilian products. The elimination of coffee rationing, and the President's statement that a large increase in sugar allowances is likely, were the outstanding developments in this field last week. Consideration is also being given to the reconversion of many alcohol plants from the use of grains to the use of molasses or sugar. This change would undoubtedly help to make a larger amount of grains available for feeding purposes.

With tea imports increasing and inventories in a better condition, the Tea Industry Advisory Committee conferred with Government officials last week concerning the increasing of packers' delivery quotas. The cocoa supply situation has

- 7 -

improved considerably. Imports thus far this year have amounted to almost 2,300 thousand bags, as compared with a little over 500 thousand bags during the corresponding period of 1942.

A development which may tend to increase textile stocks for civilians is a recent increase in burlap imports. The Government has purchased 550 million yards of burlap from India recently, and the improvement in burlap supplies may release some looms which have been converted to weaving cotton bag materials.

Finally, improved receipts of copra and coconut oil from Ceylon and Oceania are being counted on to relieve the tight situation in supplies of soap fat. The WFA issued an order in June permitting the release of coconut and babassu oils from Government reserves for inedible uses. This should particularly help the soap industry, which has been unable to obtain sufficient supplies of soap fats to maintain even the 84 percent of the 1940-41 usage permitted that industry for civilian consumption. The increase in coconut oils, etc., may be offset to some extent, however, by an order of the WFA last week which prevents soap manufacturers from obtaining any tallow until war needs have been filled.

Sales of apparel stores at record high

Despite a normal seasonal decline of about 15 percent, sales of apparel stores in first half of 1943 slightly exceeded sales in the second half of last year, according to figures just released by the Department of Commerce. Chain stores, after expanding their proportion of total apparel sales from 28 percent in 1935 to 32 percent in 1941, have been getting a decreasing proportion of total apparel business since the first quarter of 1942. Thus by the second quarter of this year, chain store sales had dropped to 29 percent of the total from 31 percent a year earlier.

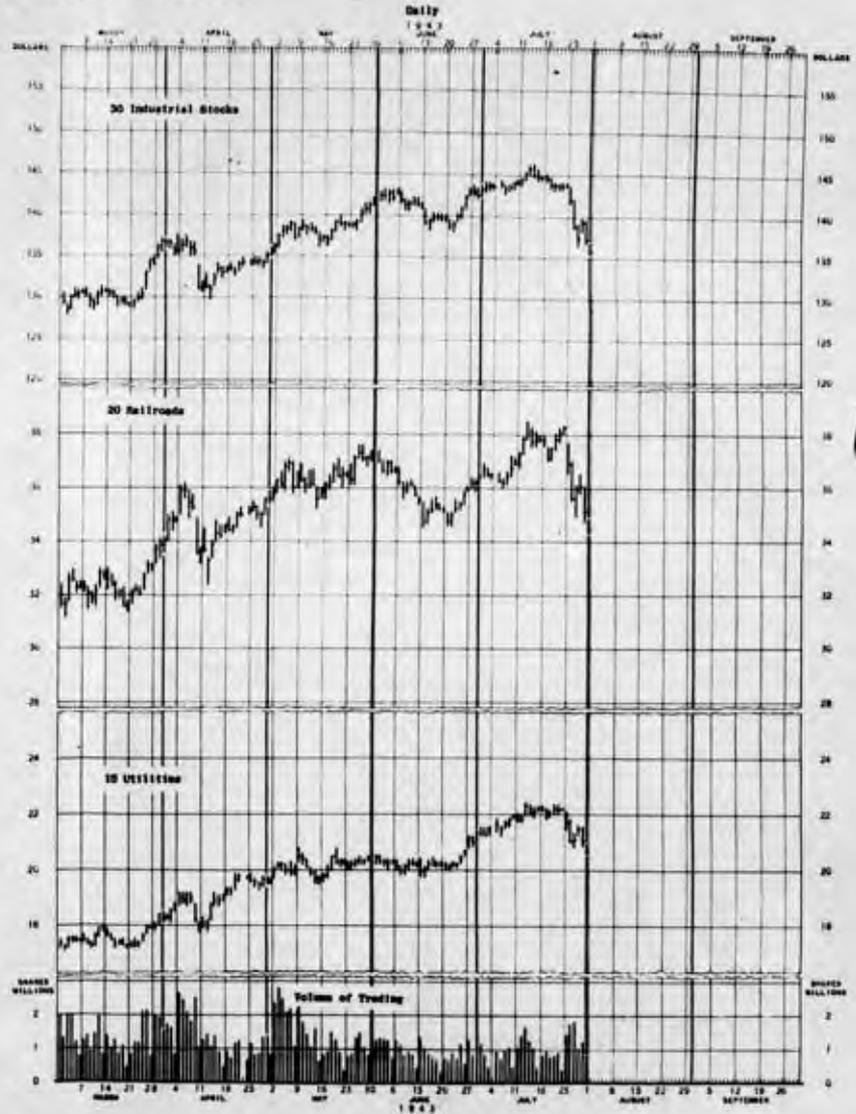
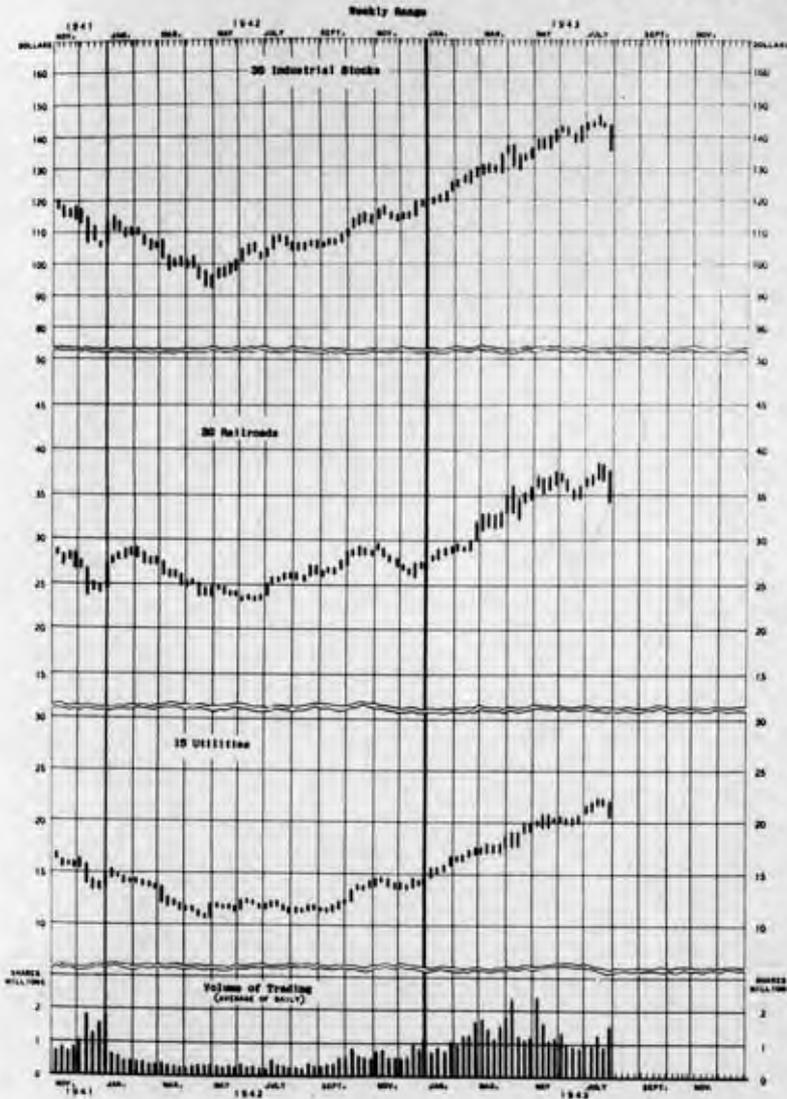
In the grocery store field, independent stores have been making much greater inroads on chain store business since the latter part of last year. However, in May (the latest month for which figures are available) chain stores slightly improved their relative sales position, although a substantial disparity still remained in favor of the independent stores. (See Chart 7.) The increased sales volume of independent

- 8 -

stores doubtless reflects, in part, the fact that under current conditions of high incomes, longer working hours, transportation difficulties, and rationing, the price advantages offered by chain stores are of less importance to consumers than usual. Moreover, evasion of price ceilings and rationing regulations are more likely to occur in independent stores, thus further swelling their sales volume.

STOCK PRICES, DOW-JONES AVERAGES

Chart 1



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

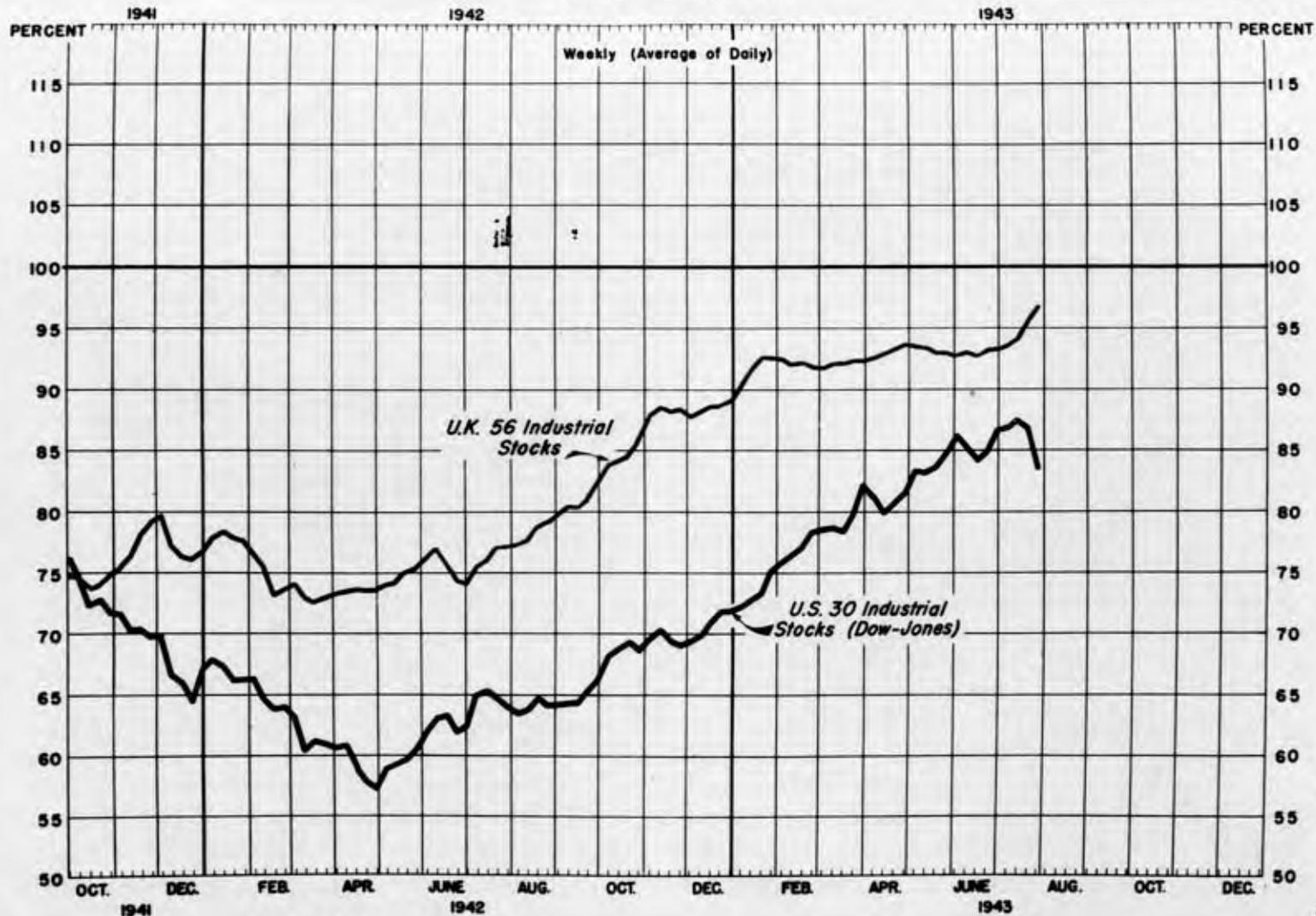
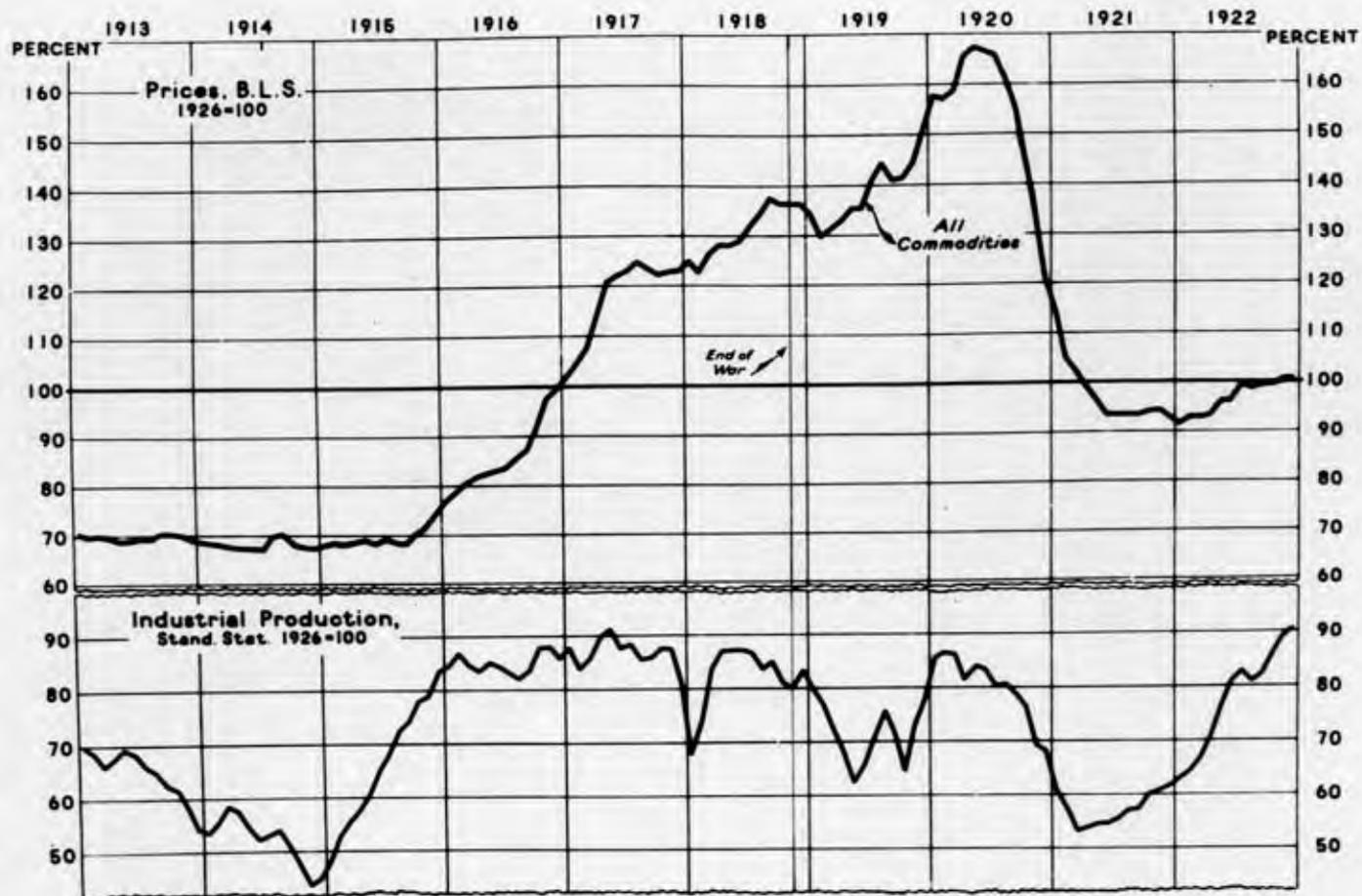
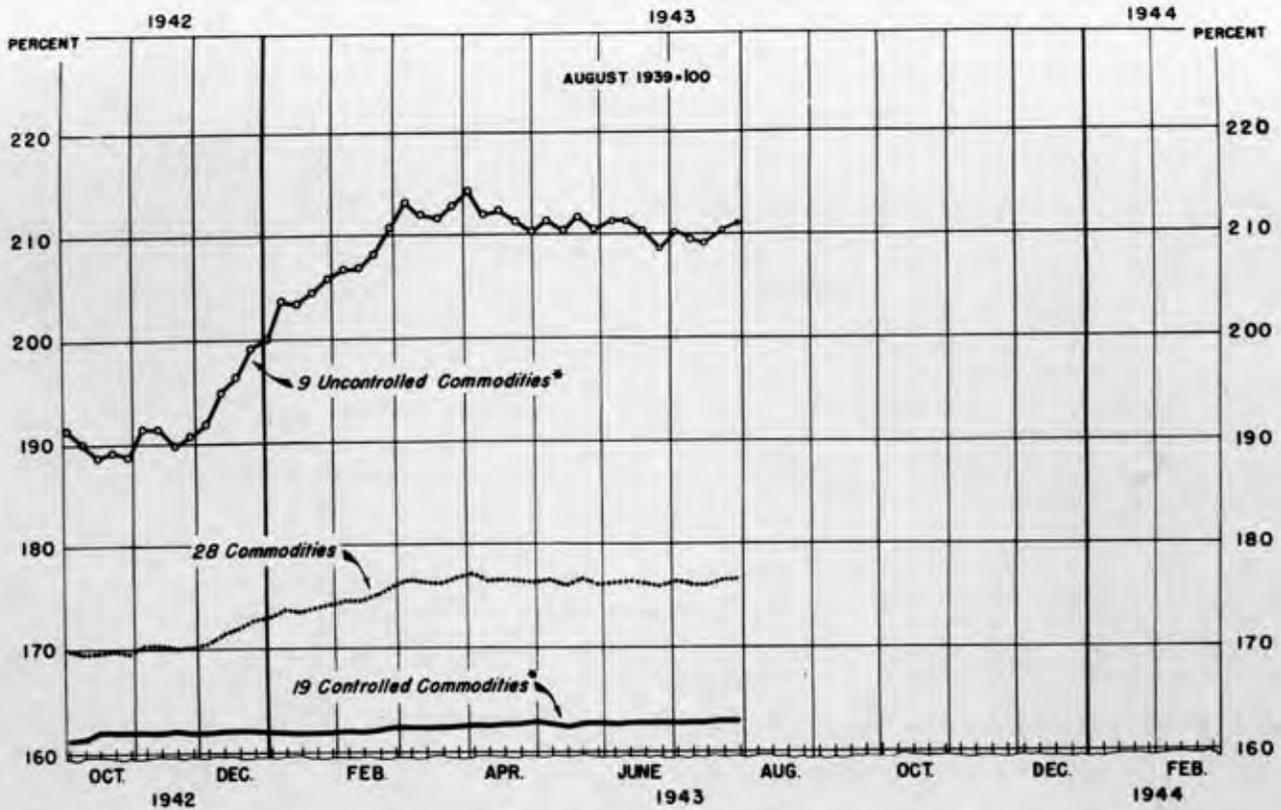


Chart 2

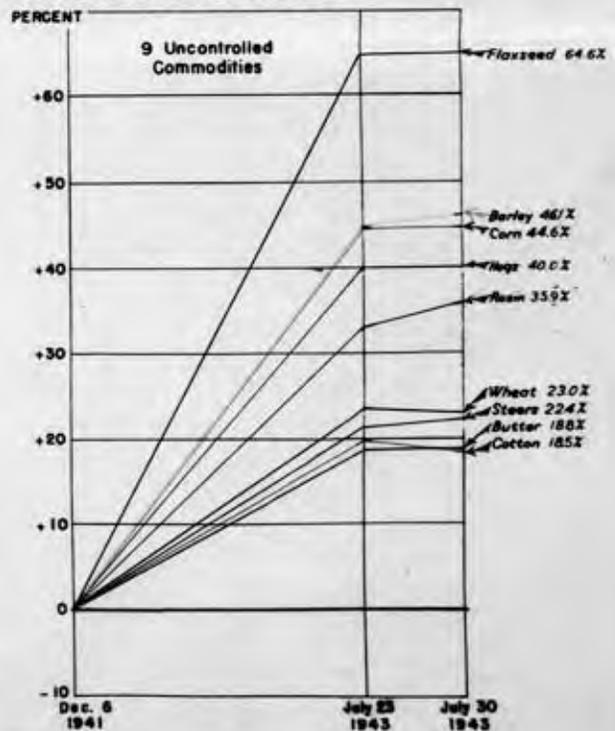
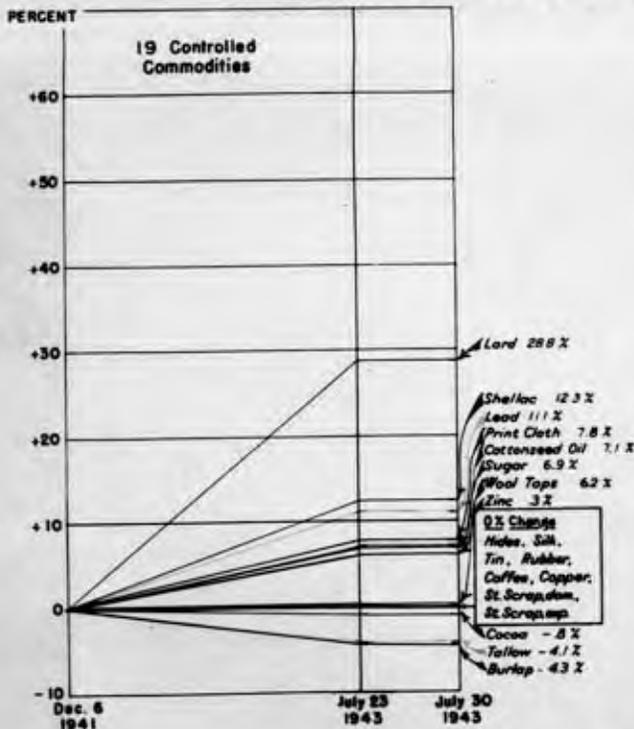
COMMODITY PRICES AND INDUSTRIAL PRODUCTION 1913 - 1922



MOVEMENT OF BASIC COMMODITY PRICES



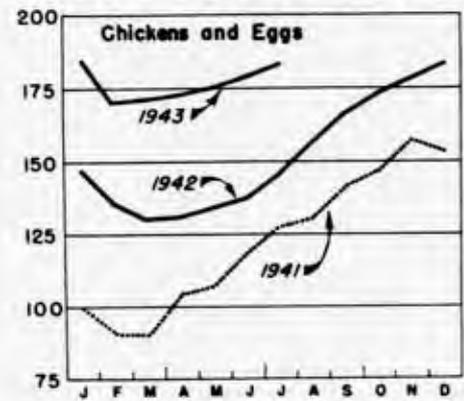
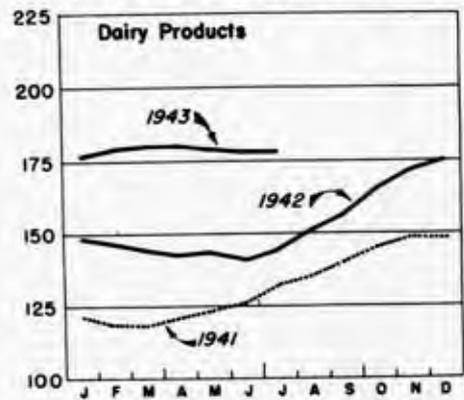
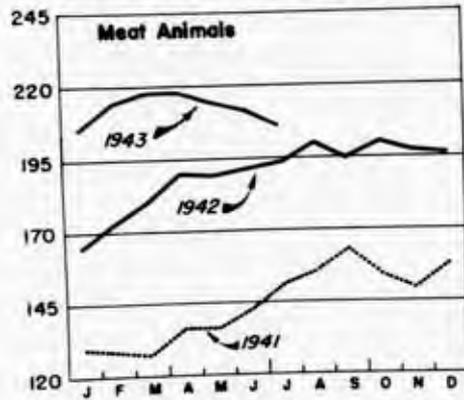
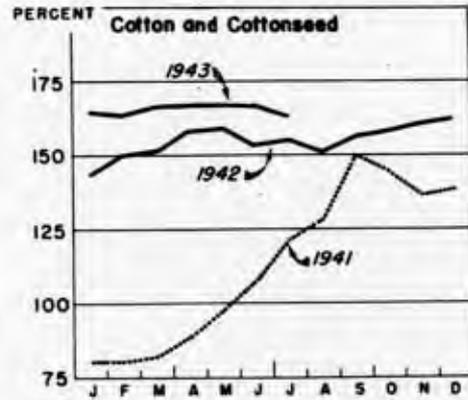
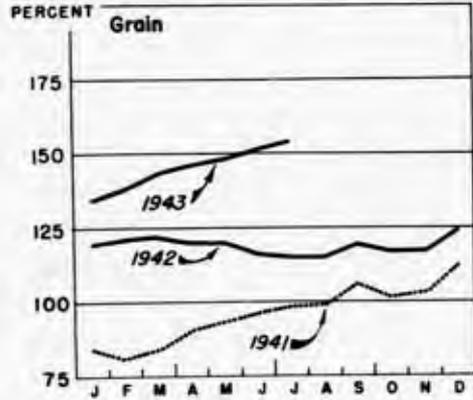
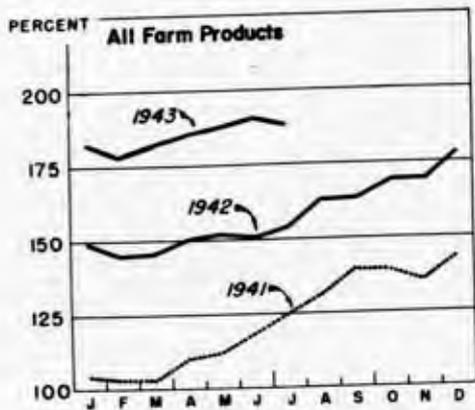
PERCENTAGE CHANGE DEC. 6, 1941 TO JULY 23, AND JULY 30, 1943



* 20 Controlled & Uncontrolled previous to June 26, 1942

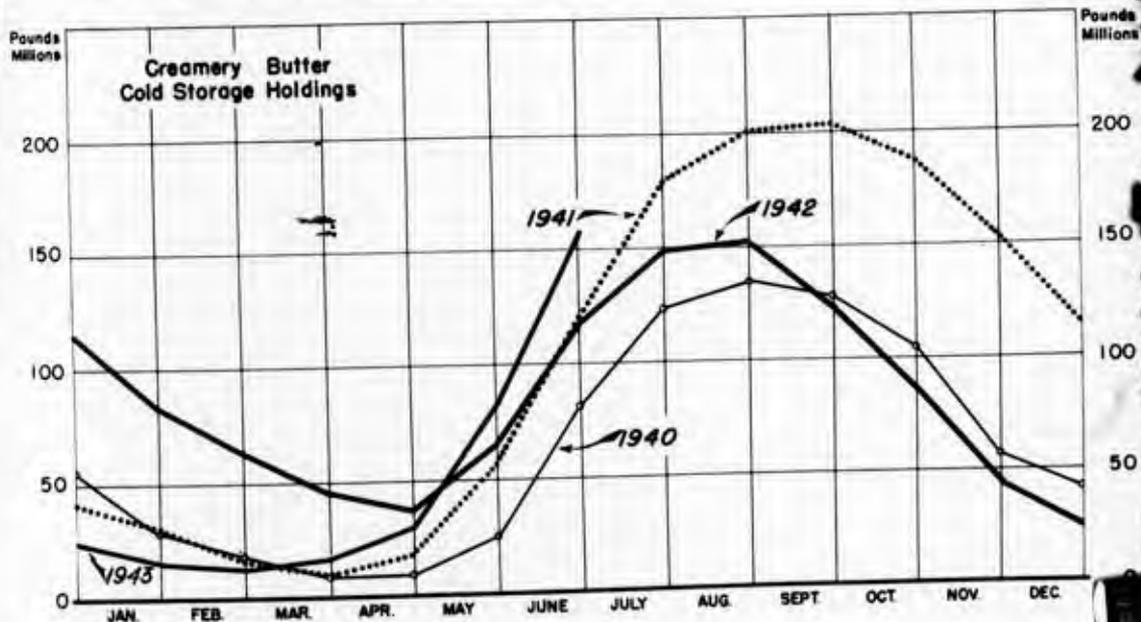
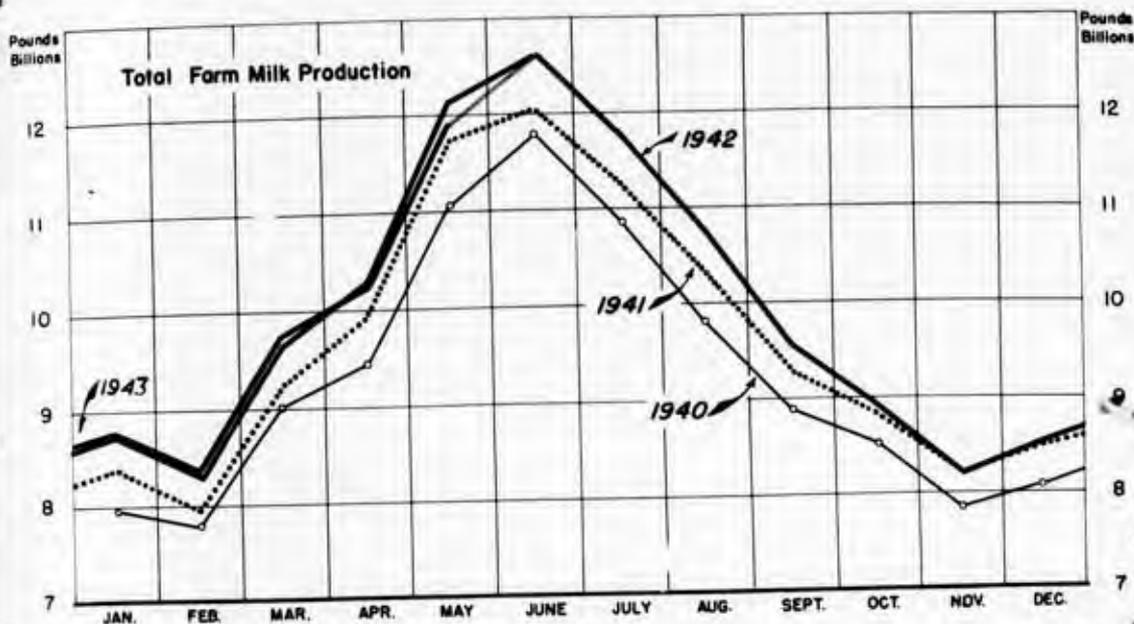
AVERAGE PRICES RECEIVED BY FARMERS

Indexes, August 1909 - July 1914=100



MILK PRODUCTION AND BUTTER STOCKS

Chart 6
40



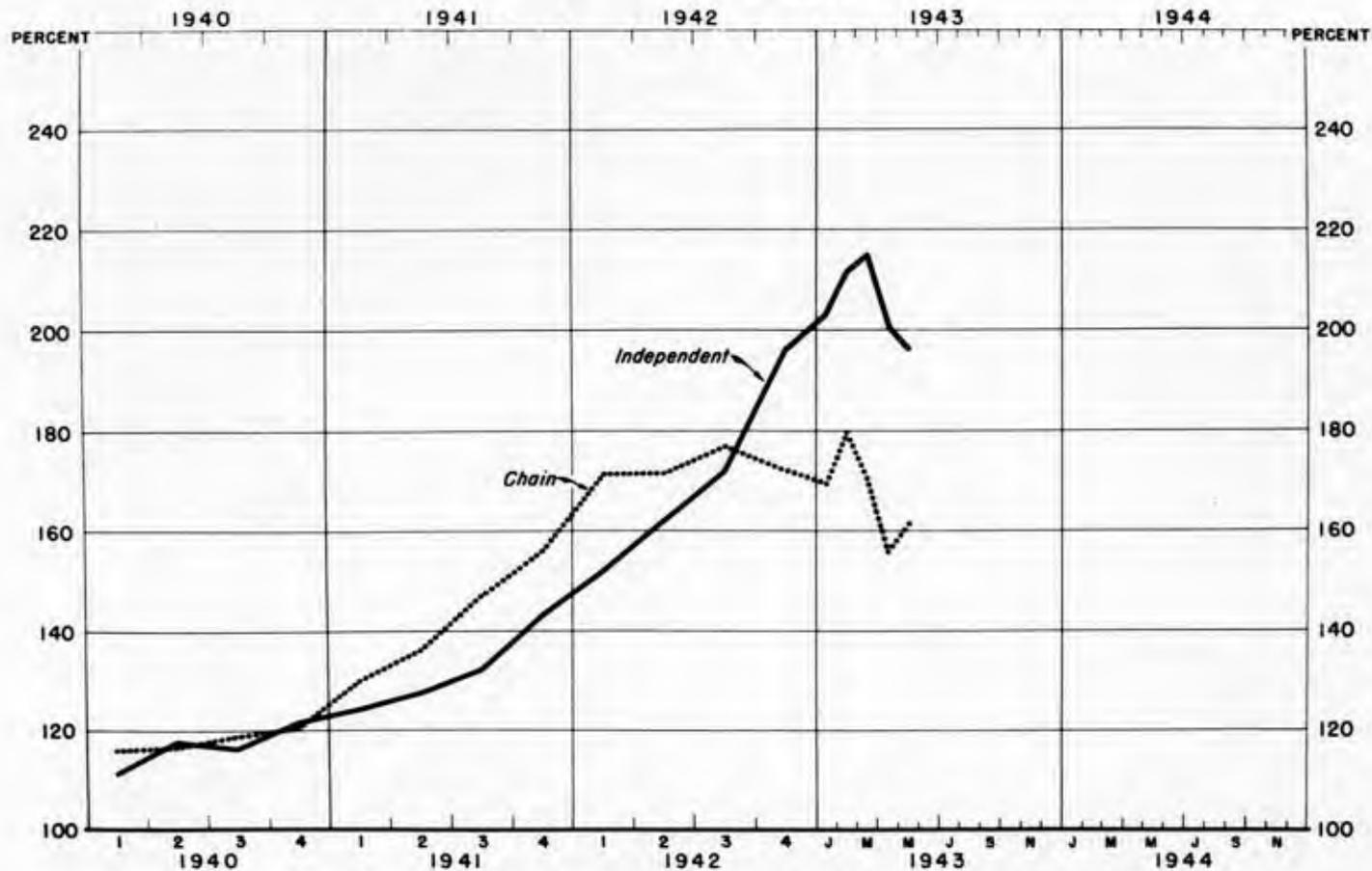
Source: U.S. Dept. of Agriculture

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

C-445

SALES OF CHAIN AND INDEPENDENT GROCERY STORES*

1935 - '39 = 100, Adjusted



*Includes Stores with and without Fresh Meat.
Source: Department of Commerce.

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

C-489

Regraded Unclassified

7 4 1940

First draft

Program to increase revenue by \$12 billion

	<u>Approximate increase in billions of dollars 1/</u>
1. <u>Individual income tax</u> Increase surtax rates and reduce exemptions from present \$500-\$1,200-\$350 to \$500-\$1,000-\$250 (Exhibit 1)	8.7
2. <u>Corporation income and excess profits taxes</u> Increase combined normal and surtax rate by 10 percentage points from present 40 percent to 50 percent; and increase excess profits tax rate by 20 percentage points from 90 percent to 92 percent. (Exhibit 2)	1.0
3. <u>Estate and gift taxes</u> Increase estate tax rates, reduce specific exemption from \$60,000 to \$40,000, and increase gift tax rates to 3/4 the new and higher estate tax rates. (Exhibit 3)	.3
• <u>Excise taxes</u> Increase rates of important existing excises and add some new excises. (Exhibit 4)	<u>2.1</u>
Total increase	12.1

1/ Based on income payment levels of \$146.5 billion.
The figures are approximate, pending the preparation
of official estimates.

Treasury Department
Division of Tax Research

July 27, 1943

LS:com - 7/27/43

Exhibit 1

Individual surtax rate schedule under present law compared with proposed schedule designed to raise approximately \$8.7 billion ^{1/}

Present law exemptions: \$500, \$1,200, \$350
 Proposed schedule exemptions: \$500, \$1,000, \$250

Surtax net income (thousands of dollars)		Bracket rate		Cumulated surtax		
		Present law	Proposal	Present law	Proposal	
	Net over	2	13 $\frac{1}{2}$	23 $\frac{1}{2}$	\$ 260	\$ 460
Over	2	4	16	29	580	1,040
"	4	6	20	35	980	1,740
"	6	8	24	39	1,460	2,520
"	8	10	28	43	2,020	3,380
"	10	12	32	47	2,660	4,320
"	12	14	36	51	3,380	5,340
"	14	16	40	55	4,180	6,440
"	16	18	43	58	5,040	7,600
"	18	20	46	61	5,960	8,820
"	20	22	49	64	6,940	10,100
"	22	26	52	67	9,020	12,780
"	26	32	55	70	12,320	16,980
"	32	38	58	73	15,800	21,360
"	38	44	61	76	19,460	25,920
"	44	50	63	78	23,240	30,600
"	50	60	66	80	29,840	38,600
"	60	70	69	82	36,740	46,800
"	70	80	72	83	43,940	55,100
"	80	90	75	84	51,440	63,500
"	90	100	77	85	59,140	72,000
"	100	150	79	86	98,640	115,000
"	150	200	81	86	139,140	158,000
"	200		82	86	-	-

Treasury Department, Division of Tax Research

July 28, 1943

^{1/} Assumed level of income payments: \$146.5 billion.

GAH:and

8/28/43

Exhibit 1a

Amounts of individual income tax and effective rates under present law and under proposed schedule designed to raise approximately \$8.7 billion ^{1/}

Single person - no dependents

Personal exemption: Present law, \$500; Proposal \$500

Net income before personal exemption	Amounts of tax ^{2/}			Effective rate		
	Present law (including net victory tax)	Proposal (including net Victory tax)	Increase	Present law (including net Victory tax)	Proposal (including net Victory tax)	Increase
\$ 1,000	\$ 107	\$ 157	\$ 50	10.7 %	15.7 %	5.0 %
1,200	153	222	69	12.8	18.5	5.8
1,500	220	320	100	14.7	21.3	6.7
2,000	333	483	150	16.7	24.2	7.5
3,000	574	839	265	19.1	28.0	8.8
5,000	1,105	1,640	535	22.1	32.8	10.7
10,000	2,783	4,068	1,285	27.8	40.7	12.9
25,000	10,644	14,179	3,535	42.6	56.7	14.1
50,000	28,058	35,343	7,285	56.1	70.7	14.6
100,000	69,065	82,485	12,820	69.7	82.5	12.8
1,000,000	899,500 ^{3/}	960,430	60,980	90.0 ^{3/}	96.0	6.1

Treasury Department, Division of Tax Research

July 28, 1943

- ^{1/} Assumed level of income payments: \$146.5 billion.
- ^{2/} Maximum earned net income assumed; Victory tax net income assumed to be ten-ninths of net income.
- ^{3/} Taking into account maximum effective rate limitation of 90 percent on combined income and gross Victory tax.

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Exhibit 1b

Amounts of individual income tax and effective rates under present law and under proposed schedule designed to raise approximately \$8.7 billions ^{1/}

Married persons - no dependents

Personal exemption: Present law, \$1,200; proposal \$1,000

Net income before personal exemption	Amounts of tax ^{2/}			Increase	Effective rates		
	Present law (including net Victory tax)	Proposal (including net Victory tax)	Increase		Present law (including net Victory tax)	Proposal (including net Victory tax)	Increase
\$ 1,000	\$ 15	\$ 15	-	1.5%	1.5%	-	
1,200	21	72	\$ 51	1.8	6.0	4.3%	
1,500	79	167	88	5.3	11.1	5.9	
2,000	188	326	138	9.4	16.3	6.9	
3,000	405	643	238	13.5	21.4	7.9	
5,000	894	1,398	504	17.9	28.0	10.1	
10,000	2,467	3,745	1,278	24.7	37.5	12.8	
25,000	10,035	13,611	3,576	40.1	54.4	14.3	
50,000	27,075	34,423	7,348	54.2	68.8	14.7	
100,000	68,504	81,530	12,946	68.6	81.5	12.9	
1,000,000	899,000 ^{3/}	999,520	60,520	89.9 ^{3/}	96.0	6.1	

Treasury Department, Division of Tax Research

July 28, 1943

- ^{1/} Assumed level of income payments: \$146.5 billions.
- ^{2/} Maximum earned net income assumed; Victory tax net income assumed to be ten-ninths of net income.
- ^{3/} Taking into account maximum effective rate limitation of 90 percent on combined income and gross Victory tax.

Handwritten initials and date: *ESK*
 7/28/43

Exhibit 1c

Amounts of individual income tax and effective rates under present law and under proposed schedule designed to raise approximately \$5.7 billions ^{1/}

Married person - two dependents

Personal exemption: Present law, \$1,200; proposal \$1,000

Dependent credit: Present law, 350; proposal 250

Net income before personal exemption	Amounts of tax ^{2/}			Increase	Effective rates		
	Present law (including net Victory tax)	Proposal (including net Victory tax)			Present law (including net Victory tax)	Proposal (including net Victory tax)	Increase
\$ 1,000	\$ 14	\$ 14	-	1.4%	1.4%	-	
1,200	20	20	-	1.7	1.7	-	
1,500	29	29	-	1.9	1.9	-	
2,000	58	178	\$ 120	2.9	8.9	6.0%	
3,000	267	493	226	8.9	16.4	7.5	
5,000	730	1,213	483	14.6	24.3	9.7	
10,000	2,208	3,479	1,271	22.1	34.8	12.7	
25,000	9,574	13,191	3,617	38.3	52.8	14.5	
50,000	26,392	33,803	7,411	52.8	67.6	14.8	
100,000	67,803	80,875	13,072	67.8	80.9	13.1	
1,000,000	898,800 ^{3/}	958,860	60,060	89.9 ^{3/}	95.9	6.0	

Department of the Treasury, Division of Tax Research

July 26, 1943

^{1/} Assumed level of income payments: \$146.5 billions.

^{2/} Maximum earned net income assumed; Victory tax net income assumed to be ten-ninths of net income.

^{3/} Taking into account maximum effective rate limitation of 90 percent on combined income and gross Victory tax.

SKM and
7/38/43

Exhibit 2

Corporation income and excess profits taxes to raise approximately
\$1 billion of additional revenue

	<u>Present rates</u>	<u>Proposed rates</u>
1. <u>Normal tax rates</u>		
<u>Normal tax net income</u>		
Not over \$25,000		
First \$5,000	15%	No change
Next 15,000	17%	
Next 5,000	19%	
Over \$25,000 to \$50,000 (notch)	\$4,250 plus 31% of excess over \$25,000	
Over 50,000	24%	
2. <u>Surtax rates</u>		
<u>Surtax net income</u>		
Not over \$25,000	10%	14%
Over \$25,000 to \$50,000 (notch)	\$2,500 plus 22% of excess over \$25,000	\$3,500 plus 36% of excess over \$25,000
Over \$50,000	16%	26%
3. <u>Combined normal and surtax rates on corporations with income in excess of \$50,000</u>		
	40%	50%
4. <u>Excess profits tax rates 1/</u>		
	90%	92-1/2%

Treasury Department, Division of Tax Research

July 26, 1943

- 1/ No change in the postwar credit percentage. The 90 percent rate under present law net of the postwar credit is equal to 81 percent. The 92-1/2 percent rate under the proposal net of the postwar credit is equal to 82-1/4 percent.

ECB
G-H:and
7/28/43

Exhibit 5

Comparison of estate tax rates and amount
of tax under present law and under proposal 1/

Net estate after specific exemption (000) 2/	Bracket rate		Total estate tax cumulative	
	Present law	Proposal	Present law	Proposal
Not over 5	3 %	5 %	\$ 150	\$ 250
5 - 10	7	8	500	650
10 - 15	11	12	1,050	1,250
15 - 20	11	16	1,600	2,050
20 - 30	14	20	3,000	4,050
30 - 40	18	24	4,800	6,450
40 - 50	22	28	7,000	9,250
50 - 60	25	31	9,500	12,350
60 - 70	28	34	12,300	15,750
70 - 100	28	37	20,700	26,850
100 - 150	30	40	35,700	46,850
150 - 200	30	43	50,700	68,350
200 - 250	30	45	65,700	90,850
250 - 300	32	48	81,700	114,850
300 - 350	32	51	97,700	140,350
350 - 400	32	54	113,700	167,350
400 - 450	32	57	129,700	195,850
450 - 500	32	60	145,700	225,850
500 - 600	35	63	180,700	288,850
600 - 700	35	66	215,700	354,850
700 - 800	35-37	69	251,700	423,850
800 - 900	37	72	288,700	495,850
900 - 1,000	37	75	325,700	570,850
1,000 - 1,250	39	78	423,200	765,850
1,250 - 1,500	42	79	528,200	963,350
1,500 - 2,000	45	80	753,200	1,363,350
2,000 - 2,500	49	80	998,200	1,763,350
2,500 - 3,000	53	80	1,263,200	2,163,350
3,000 - 4,000	56-59	80	1,838,200	2,963,350
4,000 - 5,000	63	80	2,468,200	3,763,350
5,000 - 6,000	67	80	3,138,200	4,563,350
6,000 - 7,000	70	80	3,838,200	5,363,350
7,000 - 8,000	73	80	4,568,200	6,163,350
8,000 - 9,000	76	80	5,328,200	6,963,350
9,000 - 10,000	76	80	6,088,200	7,763,350
Over 10,000	77	80	-	-

Treasury Department, Division of Tax Research

July 27, 1943

- 1/ Before deduction of credit for State death taxes.
 2/ The specific exemption under present law is \$60,000, under the proposal, \$40,000.
 3/ Note: This schedule together with (a) a reduction of the specific exemption to \$40,000 and (b) an increase of gift tax rates to 3/4 of the proposed estate tax rates will raise approximately \$300 million additional revenue.

A-ecm - 7/27/43

Amount of estate tax and effective rates under
present law and proposal

Net estate before specific exemption (000) 2/	Amount of tax 1/				Effective rate		
	Present law	Proposal		Present law	Proposal		
		Amount	Increase		Amount	Increase	
50	0	\$ 650	\$ 650	-	1.3 %	1.3 %	
60	0	2,050	2,050	-	3.4	3.4	
80	\$ 1,600	6,450	4,850	2.0 %	8.1	6.1	
100	4,800	12,350	7,550	4.8	12.4	7.6	
150	17,900	30,850	12,950	11.9	20.6	8.6	
200	32,700	51,180	18,480	16.4	25.6	9.2	
400	94,500	145,750	51,250	23.6	36.4	12.8	
600	159,700	263,650	103,950	26.6	43.9	17.3	
800	229,700	396,250	166,550	28.7	49.5	20.8	
1,000	303,500	540,850	237,350	30.4	54.1	23.7	
2,000	726,200	1,331,350	605,150	36.3	66.6	30.3	
4,000	1,802,800	2,931,350	1,128,550	45.1	73.3	28.2	
6,000	3,098,000	4,531,350	1,433,350	51.6	75.5	23.9	
10,000	6,042,600	7,731,350	1,688,750	60.4	77.3	16.9	
20,000	13,742,000	15,731,350	1,989,350	68.7	78.7	9.9	
40,000	29,142,000	31,731,350	2,589,350	72.9	79.3	6.5	
100,000	75,342,000	79,731,350	4,389,350	75.3	79.7	6.4	

Treasury Department, Division of Tax Research

July 27, 1943

1/ Before deduction of credit for State death taxes.

2/ The specific exemption under the present law is \$60,000, under the proposal, 40,000.

Note: This schedule together with (a) a reduction of the specific exemption to 40,000 and (b) an increase of gift tax rates to 3/4 of the proposed estate tax rates will raise approximately \$300 million additional revenues.

Exhibit 4

Possible excise tax changes to raise additional revenue
- continued - 2

Tax base	Present tax rate	Possible tax rate	Possible revenue increase ^{1/} (in millions)
10. Phonograph records	10% of manufacturers' sales price	25% of manufacturers' sales price	\$ 5.0
11. Sporting goods	10% of manufacturers' sales price	25% of retail price	5.0
12. Tobacco products			
a. Cigarettes	\$3.50 per M	\$5.00 per M	350.0
b. Cigars	Intended retail price: Tax Over : Not over: per M	Intended retail price: Tax Over : Not over: per M	
	2¢ 2¢ \$ 2.50	3¢ 3¢ \$12.50	
	4¢ 4¢ 3.00	5¢ 5¢ 13.00) 60.0
	6¢ 6¢ 4.00	7¢ 7¢ 14.00	
	8¢ 8¢ 7.00	9¢ 9¢ 17.00	
	15¢ 15¢ 10.00	17¢ 17¢ 30.00	
	20¢ 20¢ 15.00	22¢ 22¢ 35.00	
c. Chewing, smoking tobacco and snuff			
13. Toilet preparations	18¢ per lb.	34¢ per lb.	45.0
14. Beauty and barber shop services	10% of retail price	25% of retail price	35.0
15. Bowling alleys and billiard parlors	None	10% of charge	70.0
16. Candy and chewing gum	\$10 per table or alley per year	20% of charge	20.0
	None	30% of manufacturers' sales price	90.0
17. Cut flowers and potted plants	None	25% of retail price	60.0
18. Greeting cards	None	20% of retail price	16.0
19. Luggage, handbags, wallets, etc.	10% of manufacturers' sales price on luggage only	25% of retail price	35.0

Exhibit 4

Possible excise tax changes to raise additional revenue

Tax base	Present tax rate	Possible tax rate	Possible revenue increase $\frac{1}{2}$ (in millions)
1. Admissions			
a. General admissions	1¢ per 10¢	2¢ per 10¢	\$125.0
b. Cabarets	5% of charge	20% of charge	50.0
c. Club dues and initiation fees	11% of charge	20% of charge	6.0
2. Communications			
a. Toll service	20% of charge	25% of charge) 50.0
b. Telegraph, etc.			
(1) Domestic	15% of charge	20% of charge	
(2) International	10% of charge	10% of charge	
c. Leased wires, etc.	15% of charge	20% of charge) 100.0
d. Local telephone service	10% of charge	15% of charge	
3. Transportation of persons	10% of charge	20% of charge	
4. Alcoholic beverages			
a. Distilled spirits	\$6 per gallon	\$10 per gallon	400.0
b. Beer	\$7 per barrel	\$10 per barrel	150.0
c. Wine			
(1) Still:			
Under 14% alcohol	10¢ per gallon	50¢ per gallon) 50.0
14-21% alcohol	40¢ per gallon	\$1.00 per gallon	
Over 21% alcohol	\$1.00 per gallon	\$2.00 per gallon	
(2) Sparkling	10¢ per half pint	20¢ per half pint) 35.0
(3) Other	5¢ per half pint	10¢ per half pint	
5. Furs	10% of retail price	20% of retail price	
6. Gasoline	1-1/2¢ per gallon	2¢ per gallon	75.0
7. Jewelry	10% of retail price	25% of retail price	90.0
8. Lubricating oil	6¢ per gallon	10¢ per gallon	35.0
9. Matches			
a. Plain	2¢ per M	10¢ per M) 25.0
b. Fancy wooden	5-1/2¢ per M	10¢ per M	

Possible excise tax changes to raise addition revenue
 - continued - 3

Tax base	Present tax rate	Possible tax rate	Possible revenue increase ^{1/} (in millions)
20. Photographic studio services	None	25¢ of charge	\$ 18.0
21. Soft drinks	None	1¢ per bottle equivalent	150.0
Total			\$2,150.0

Treasury Department, Division of Tax Research

July 27, 1943

^{1/} These are not official estimates but tentative figures of the magnitudes involved.

August 2, 1943

MEMORANDUM FOR THE SECRETARY

DISMISSAL COMPENSATION

It is our understanding that dismissal compensation, that is, special wage payments at the time an employee is dismissed from employment, is of interest to you because of your desire that workers who lose their jobs in the process of readjustment and reconverting industry after the war may have funds to move to a new place of employment and to support themselves and their families until they are again employed.

Dismissal compensation is one of several methods which, used alone or in combination, have been proposed to accomplish the desired result. Following are some of these other methods.

1. Unemployment compensation. Under existing law payments are made to covered workers during periods of unemployment. Such payments are made from a fund set up for the purpose and in amounts and for periods related to the length of employment and the level of wages. The basic difference between unemployment compensation and dismissal compensation is that unemployment compensation is paid to a person when he is unemployed whether or not he has been dismissed, while dismissal compensation is paid to a person when he is dismissed whether or not he remains unemployed.

2. Voluntary saving and war bond purchases. The war bonds which workers are buying and the other savings which they are making give them a cushion against the day when they are dismissed and must adjust themselves to peacetime industrial conditions. The bonds are well-suited to this purpose since they can be cashed.

- 2 -

3. Compulsory "dismissal" saving. The worker could be required to save part of his wages and invest them in Government bonds of a type which could not be redeemed until some time after the war. Provision could be made for cashing these bonds at the time of dismissal if this occurred before the bonds were redeemed in regular course.

The first two of these three methods, namely, unemployment compensation and voluntary war bond purchases, are now in effect. Under the present State-administered unemployment compensation programs, 29 jurisdictions require a one-week waiting period and 21 jurisdictions two weeks of waiting before the claimant receives compensation for unemployment. Twenty-two of the jurisdictions set a maximum unemployment benefit of \$15.00 per week. The maximum in 14 jurisdictions is set at \$18.00 and in others ranges from \$16.00 to \$30.00 per week. The most common minimum (in at least 18 jurisdictions) is \$5.00 per week. The minimum benefit in the remaining jurisdictions ranges from \$2.00 to \$10.00 per week. The duration of unemployment benefits in 26 jurisdictions is 16 weeks. In 9 other jurisdictions, it is 20 weeks, and in the remainder of the jurisdictions it apparently varies from 14 weeks to 24 weeks.

War bond sales to workers through the payroll savings plan were \$410 million in June 1943, or at a rate of nearly \$5 billion a year. Total sales by the payroll savings plan amounted to \$4.6 billion through June 1943. The participating employees in non-government establishments averaged 8.9 percent of their pay in June 1943. A person participating in the plan from the beginning in December 1941 would at this average rate have purchased bonds amounting to 17.8 percent of one year's wages by the end of 1943, and 26.7 percent by the end of 1944.

If existing unemployment compensation provisions and voluntary war bond purchases are thought to be inadequate in meeting the expected post-war problem of dismissals and unemployment, the situation might be met in one or more of these ways:

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1. Introduce a plan of dismissal compensation.
2. Enlarge the benefits and strengthen the financing of unemployment compensation.
3. Introduce a plan of compulsory "dismissal" savings.
4. Intensify the voluntary savings campaign particularly with reference to payroll allotments.

Dismissal compensation might be voluntary or compulsory. It might be financed in a number of ways, namely:

1. Payment by each employer out of currently available funds with no accumulation. This would obviously be inadequate where a large proportion of employees had to be dismissed.
2. Accumulation by the employer over a period of time of a fund from which dismissal compensation would be paid. A separate account would be set up for each employee. If he was not dismissed the money in his account would be retained until the time when his employment was eventually terminated or it might be paid to him at an earlier time.
3. Accumulation of a fund by each employer and the payment out of that fund to such workers as were dismissed, with no rights remaining to any worker not dismissed. This method has the disadvantage that if dismissals are large the persons dismissed last would receive no benefits, while if dismissals were small the company might retain for the benefit of the stockholders a large amount of funds which it had accumulated for dismissal wage payments.
4. The accumulation of a Government-held fund containing the pooled contributions of all employers, with payments made to dismissed employees by the Government or under Government supervision. This would

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closely resemble unemployment compensation except that a lump sum payment would be made at the time of dismissal instead of periodic payments being made during the period of unemployment.

The question may be asked why, if dismissal compensation is desirable, it is not made a part of the unemployment compensation system. Members of the Social Security Board have been opposed, at least unofficially, to including dismissal compensation as part of the unemployment compensation system. The following reasons have been given for this view:

1. The loss in purchasing power arises from unemployment rather than from dismissal. Unemployment may occur when a worker is laid off or is placed on very short hours, although no dismissal has taken place. Dismissal, on the other hand, may not give rise to unemployment for more than a very short time since the worker may get another job elsewhere in the same community or at another place. Indeed, the dismissal may be collusive and made for the purpose of getting dismissal compensation for the worker.

2. The payment of lump sum amounts sufficient to cover transportation costs to other places is too expensive for the results achieved. All persons dismissed would have to be paid the same amount while only part of them would actually move and the distance and expense would vary from person to person.

Aside from including dismissal compensation as part of unemployment compensation, the merits and problems of dismissal compensation depend on the magnitudes one has in mind. If the purpose is to pay each employee perhaps two weeks' wages at the time of dismissal, the situation is quite different than if the purpose is to pay several months' wages. If the accumulation of funds to pay dismissal compensation is recognized as a proper cost of doing business during the war, the effect is a wartime addition to the wages of the worker, payable under certain conditions after the war. The difference between such a plan of dismissal compensation and that of compulsory dismissal savings is that the latter would be taken from wages now being paid while the former would be in addition to wages now being paid.

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The dismissal compensation plan would be either voluntary or compulsory. There is no law prohibiting employers from accumulating and paying out dismissal wages on a voluntary basis, except possibly the restrictions on wage increases which, however, probably will not continue over into the post-war period. However, employers are not likely to make such voluntary accumulations, for two reasons: They would not be recognized as deductions for income tax purposes until the time of payment, and they would not be recognized as costs in negotiation or renegotiation of Government contracts or for the setting of prices by the OPA.

Legislation on dismissal compensation might thus be of two kinds, the first permitting deduction for tax purposes of funds accumulated to pay dismissal wages, and allowance of such accumulations as a cost element in prices to the Government and to civilians. In effect, the accumulations and dismissal wage payments would come very largely from the Federal Government. Increases in war contract prices would, of course, come entirely from the Government, but even without such increases the effect of the accumulation on taxes would be such that the Government would pay from 40 to 81 percent of the dismissal wage. To the extent that prices to final civilian consumers were increased, the public would pay the dismissal wage in higher prices.

Legislation for compulsory dismissal compensation would go further than the facilitation of voluntary dismissal compensation and would require that each employer set up a dismissal compensation fund.

The amount that could be accumulated for dismissal wages would depend on the probable length of the war and the rate of accumulation. The accumulation of 5 percent of wages for one year would permit the payment of a dismissal wage of approximately 2½ weeks. At a salary and wage level of \$100 billion, an accumulation at this rate would amount to \$5 billion a year.

Roy Blough

August 2, 1943

MEMORANDUM FOR THE SECRETARY

THE SPENDING TAX

In this memorandum the conclusion is reached that the spendings tax probably should not be resubmitted this year to Congress as part of a revenue program, for the reasons that the tax proved to be controversial last year, and that, despite the merits of the tax, objections would be raised to the necessary additional paper work imposed on 40 to 50 million taxpayers, since as much money could be raised in some other ways with less such work. It is concluded further that the spendings tax under some other name such as anti-inflation tax, and with some changes in structure, is a promising method for making a major attack on inflation and deserves further exploration and discussion with Congressional and other Executive agencies as a stabilization measure.

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The purpose of this memorandum is to draw together in brief form the main arguments that may be made for and against recommending a spendings tax to Congress at this time. The name "spendings tax" is used not because it is the best name, or even a good name, but because we all understand what it means. It is in general a tax on individuals and is measured by the amounts which they spend on consumer goods and services.

The spendings tax may be proposed as a way of raising revenue in wartime or it may be proposed as a method of discouraging spending and thereby helping to prevent rapid rises in prices on account of too much spending money.

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A. The spendings tax as a revenue measure

As a method of raising additional money the spendings tax is more equitable and would have better economic effects than many, perhaps any, alternatives under present conditions. The advantages of the spendings tax have been discussed before and need not be elaborated here. In brief, it protects people with heavy fixed commitments, it can be made progressive, and it discourages spending and encourages saving, which is particularly desirable in wartime.

However, taxpayers are not always rational in their attitudes toward their taxes. Our studies so far indicate that the spendings tax would require a good deal of paper work by taxpayers and this would be a source of taxpayer resistance. The paper work is partly inherent in the computation of spending and partly due to the desirability of collecting the tax currently. The tax should be collected currently for at least three reasons: (1) Collecting the spendings tax after the end of the year would be contrary to the objective of putting taxpayers on a current collection basis; (2) taxpayers might find themselves financially embarrassed by having spent, through mistake or oversight, more than they intended to, thereby increasing their tax and decreasing their ability to pay it; and (3) the discouragement of spending would be weaker if the tax were not payable until after the end of the year than if it were payable currently.

Current collection at the source involves the very considerable problem that the collection during the year would be based not on spending but on income, with an adjustment and refund at the end of the year, which would cause hardship as well as complications. A system of quarterly returns might accordingly be preferable not only for persons not subject to withholding but for the whole mass of workers as well. On the quarterly return the taxpayer would be required to indicate his income for the quarter, together with changes in his various forms of savings and investments. These computations, while not necessarily difficult, would be new

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and unusual. They would require a major educational campaign to explain to 40 or 50 million taxpayers, and would cause a great deal of groaning every three months because of the time and trouble. To the problems of taxpayers in making out their returns and paying their tax, would be added the administrative difficulties of checking the returns, which would be substantially greater than at present for the bulk of the returns.

Moreover, the spendings tax is at the present time a source of controversy in Congress and among the Executive Departments. The following people in the Administration are understood to be opposed to or very doubtful about the spendings tax: Justice Byrnes, Judge Vinson, Marriner Eccles, Ben Cohen, Richard Gilbert and Gerhard Colm. So far as we are informed, no active support has been received from any Executive Agency outside the Treasury. Leading Congressmen were very cool toward the tax last year and are not believed to have changed their minds. In general, members of Congress look on taxation as a way to raise money, not as a way to control prices; moreover, at this time they are more than ordinarily sensitive about causing taxpayers more work and trouble.

If the Revenue Act of 1943 is to go into effect January 1, 1944, only about three months of Congressional consideration will be possible. A number of time-consuming, controversial issues, such as the sales tax and compulsory lending, are certain to arise. If the spendings tax is proposed and is seriously considered, still more time will be lost in controversy.

In the light of these objectives it is suggested that, despite the merits of the spendings tax, it should not be recommended to Congress at this time as a method of raising revenue.

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B. The spendings tax as a major anti-inflation measure

As indicated at the beginning, the spendings tax is not only a method of raising revenue; it is also a method of holding down spending. The exemptions and rates of tax will be different if the primary purpose is to reduce spending than if the primary purpose is to raise revenue. In considering the spendings tax as a method of reducing spending it should be compared with other major anti-inflationary measures including: (1) Extremely heavy taxation or compulsory loans; (2) overall rationing of commodities; and (3) expenditure rationing or true compulsory saving. None of these alternatives has been adopted in the United States. The spendings tax compares very favorably with all of them as an instrument of wartime inflation control. It can in fact be devised as an expenditure rationing plan with an element of flexibility, the spendings tax being used as a penalty on those who wish to spend more than a minimum tax-free allowance. The compliance and administrative difficulties of the spendings tax appear to be substantially less than those of any equally effective alternative measure.

The lines along which a spendings tax designed to achieve an expenditure rationing effect might be developed are indicated in another memorandum.

If it should be decided that the spendings tax should be adopted as a method of controlling spending, the tax becomes primarily not a tax at all but a penalty provision. The plan thus comes more clearly in the larger field of economic stabilization than in the smaller taxation sector. As a stabilization measure it should undoubtedly be repropounded and rediscussed with the Executive and Congressional leaders on a basis quite different from last year, namely, as a stabilization measure.

Roy Blough

August 2, 1943

MEMORANDUM FOR THE SECRETARY

WAR ANTI-INFLATION TAX PLAN

In general this plan provides for a wartime personal tax at highly progressive rates on consumer spending in excess of exemptions. The amount of exemption would vary from family to family depending on the income and the size of the family. The exemption would also change from time to time, depending on the extent to which national income payments exceeded the total volume of available goods and services at prevailing prices. The purpose of the tax is to reduce attempted spending to the level required to maintain stable prices. Some revenue would result, but this is incidental.

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Tax base

The tax base, or amount on which the war anti-inflation tax is imposed, is the amount of "inflationary spending" in excess of the exemption. "Inflationary spending" includes consumer spending in general, except of such types as are deemed to be non-inflationary or are excluded for other reasons. The amount of "inflationary spending" would be computed in the following manner. Start with the amount of income for the taxable period, subtract the net increase in savings during the period (or, add the net decrease in savings), and subtract the amount of excluded, non-inflationary types of spending; the result is "inflationary spending."

Example: If the income for the period is \$4,500, if the net increase in savings is \$800, and if the non-inflationary spendings are \$700, the "inflationary spending" for the period is \$4,500, minus \$800, minus \$700, or \$3,000.

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Comment: Rent payments probably would be excluded from "inflationary spending" for several reasons: (1) To equalize the treatment of home owners and tenants; (2) to make partial allowance for differences in living costs in different areas; and (3) because the supply of dwellings is largely fixed for the war period and rents accordingly have a minimum inflationary effect. Some other items also would be excluded, for example, taxes. Accumulation of idle bank balances might be deemed "inflationary saving" and included in taxable spending because of the danger of early expenditure, but the question requires study, as such taxation might encourage spending.

Exemption

The amount of the exemption would vary, depending on size of income and size of family. ("Family" includes single persons.) The national average of "inflationary spending" (as defined for the tax base) of each size family at each income level would be determined by sample surveys for a recent pre-tax period, called the "normal period." The amount of the exemption of any family would be a percentage of the average inflationary spending in the normal period by families of the same size and level of family income. The percentage of the normal expenditure allowed as an exemption would be the same at any one time for all families regardless of size or income. The percentage would change from time to time, depending on the amount by which national income payments exceeded the volume of available goods and services at prevailing prices. The exemption percentage would be made sufficiently low that the taxable spending above the exemption would not result in total nationwide spending of more than the volume of available goods and services.

Example: If for a family of husband, wife and two dependent children with an income of \$4,500, the national average "normal expenditure" was \$3,000 and the exemption percentage was 70 percent, the exemption would be 70 percent of \$3,000, or \$2,100. Any "inflationary spending" above this amount would be taxable. If for a single person with an income of \$2,000, the national

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average "normal expenditure" was \$1,500 the exemption similarly would be \$1,050. If the available volume of goods and services increased and the exemption percentage was raised to 75 percent, the exemptions of these families would be \$2,250 and \$1,125, respectively.

Comment: In computing the exemption a minimum or "floor" amount of normal expenditures should probably be used. This would reduce compliance and administrative problems and would help prevent oppression of very low income families. It should be noted that the form of exemption calls for a proportional reduction of spending at all income levels and for all sizes of families. In this respect it is quite different from the spendings tax proposal of 1942, which granted the same per-capita exemption regardless of size of income. Its effect is also quite different from that of rationing, which would tend to level off spending by maintaining the standard of living of the low income groups and greatly reducing that of the high income groups. The effect of the exemption in this respect is somewhat mitigated by the rate structure, discussed below.

Rate structure

Progressive bracket rates would be applied to the amount of inflationary spending above the exemption. Rate brackets would be narrow (not over \$500 in the lower brackets) and, while rates of tax would begin fairly low (perhaps 10 percent), they would rise very rapidly, probably to well over 100 percent.

Comment: The tax rates must be sufficiently heavy to keep total spending within the required limit. The progressive rates would fall more heavily upon people in any income level who spent substantial amounts above the exemption than upon people who spent little more than the exemption. Moreover, the narrow rate brackets and rapidly rising rates are intended to penalize the taxable expenditures of the high income groups much more heavily than the taxable expenditures of the low income groups, thus somewhat offsetting the undesirable social effects of the uniform reduction called for by the exemption. Further study of the rate schedule will be necessary to make sure that the desired results would be achieved.

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Collection method

Returns would be filed and taxes paid quarterly. In computing the tax on the quarterly return, inflationary spending would be computed for the quarter and one-fourth the annual amounts for exemption and rate brackets would be used. If practicable, the return and tax for each quarter would stand alone; however, further study of this matter is required, as violent fluctuations in income from quarter to quarter, or inability to determine income until the end of the year, might make an annual adjustment necessary or very desirable.

Post-war credit

If desired, provision might be made for designating part of the tax as a post-war credit to be returnable to the taxpayer at some specified time after the war.

Comment: In general a tax to discourage spending is not well adapted for use as a post-war credit or compulsory loan. If the tax is to be returned it represents saving. The requirement that a person pay into a Government saving fund a certain amount whenever he spends more than an allowed exemption would not discourage spending for a person who could afford both to spend and to make his payment to Government. Persons with substantial incomes or accumulated savings could afford to do so. Persons with small incomes would find it more difficult and often impossible to do so. For this reason, any post-war credit should probably apply only to the lower income brackets. This conclusion is supported by a point which was previously mentioned, namely, that the tax would require persons with small incomes to reduce their standards of living relatively more than may be deemed socially desirable.

Roy Blough

August 2, 1943

MEMORANDUM FOR THE SECRETARY

For your information, Professor Roy G. Blakey of the University of Minnesota has been employed by the Council of State Governments (Frank Bane's organization) to work on the coordination of Federal and State taxes from the State end.

It is Frank Bane's hope that the Treasury will discuss its revenue program with the Tax Committee of the Council of State Governments and Mr. Blakey before any appearance is made before the Ways and Means Committee.

You will recall that this Committee is the one with which President Roosevelt asked the Secretary of the Treasury and the Director of the Budget to cooperate.

Roy Blough

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AMERICAN JEWISH CONGRESS

330 WEST 42nd STREET NEW YORK CITY

STEPHEN S. WISE, PRESIDENT
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CABLE ADDRESS 'CONGRESS'
 TELEPHONE LONGACRE 5-2600

Dr. Wise's personal address to
 which replies should be sent is:
 40 West 68th St. New York City

August 2 1943

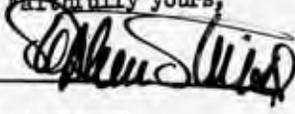
Hon. Henry Morgenthau, Jr.,
 Secretary of the Treasury
 Washington D. C.

My dear Secretary Morgenthau:

My deepfelt thanks for your word that you have before this notified the State Department that you are "fully sympathetic to the proposal of the World Jewish Congress and the American Jewish Congress for the evacuation of Jewish refugees from Rumania," and that "the Treasury is prepared to take the necessary action to implement this proposal."

I am, my dear Secretary Morgenthau, with deepfelt appreciation,

Faithfully yours,



PRESIDENT

SSW:tw

PALESTINE JEWS DIVIDED ON ARMING

Rightists Say They Must Train
to Save Themselves if Arabs
Attack Them

PROGRAM ANNOYS BRITISH

Other Jewish Groups Fear the
Militants May Cause Trouble
in All Arab Countries

By C. L. SULZBERGER

By Wireless to The New York Times.

CAIRO, Egypt, Aug. 1—In their determination to protect themselves after the war Right Wing Jewish groups in Palestine, which their opponents label as Fascist, have been trying to prepare Jewish youths for trouble with the Arabs.

The Rightists instruct the youths in military science on the grounds that this is the only way the minority can save itself from slaughter if the present seeds of discord sprout into trouble. Their activities embarrass other Jewish groups and irritate the British authorities.

Because Palestine is mandated territory the British never have been in a legal position to recruit there. However the Jewish Agency has been recruiting volunteers among Jewish youths to help win the war and also for political reasons. It wants to demonstrate the extent of active Jewish aid and to prepare Jews for military action if trouble with the Arabs breaks out.

Arabs Have Big Majority

The Jewish population in Palestine is about 550,000. The Moslem Arabs number about 850,000, the Christian Arabs about 120,000 and various others, such as Britons,

about 17,000 excluding troops and wartime temporary residents. There are about 22,000 Jewish youths in the British forces, 7,000 auxiliary policemen and 35,000 civil defense workers. There are about 6,000 Arabs in the armed forces, around 4,000 in the police and 10,000 in civil defense.

Last December a decree prohibited the intimidation of alleged Jewish slackers by agents who were anxious to increase the size of the Jewish contingent in the armed forces. There had been several instances of violence or threats.

Voluntary recruiting agencies, after suggesting that young men join the fighting forces, would see to it that they did by getting them dismissed from their jobs or by other forms of boycott. Castor oil was given in the Italian manner.

Bombs were thrown at the homes of some "slackers." One was locked in a coffin and delivered to a Jewish meeting in a cafe as a warning to other youths.

The British have been hard put to it to keep the lid on and avoid friction that tends to come nearer now that the post-war period appears to have arrived in Palestine and the rest of the Middle East. Some Jewish groups fear hotheaded young militants may bring trouble with the British and cause difficulties for Jews in other parts of the Arab world.

British Want Specialists

The British contend that they do not want ordinary soldiers but want specialists, of whom there are many in Palestine, but that the Jews are more anxious to have their men trained in handling arms than in contributing to the technical services.

Some Jews say the British are appeasing the Arabs "in the Chamberlain fashion." They say the Arabs have far greater freedom in their press than the Jews. Officials deny such allegations.

One conclusion that any observer comes to is that a large headache for the United Nations is throbbing in Palestine and that keen study of all aspects of the problems must be made before just decisions can be made.

Treasury Department
Division of Monetary Research

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Date ...August 2, 1943... 19

From: E. M. Bernstein

To: Secretary Morgenthau

The attached cable indicates that the Treasury representative, Mr. Ball, has had some cooperation from the three banks in Martinique. The telegram of July 28 was unquestionably helpful. There has as yet been no cooperation from Hoppenot, who is governing Martinique. Ball will be recalled and will go to Martinique at a later time.



C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Fort de France
TO: Secretary of State, Washington
DATE: July 30, 1943
NUMBER: 230

CONFIDENTIAL

Ball sends the following for Randolph Paul, Treasury Department.

We feel certain after a number of conversations with the directors of the three banks and examination of records freely made available by Credit Martiniquais and bank, that the banks here have no substantial funds belonging to undesirable persons. After further conversation with Didellot, the Banque de la Martinique (see telegram of July 21, 1943, no. 207) has supplied names of all persons who have transferred over 200,000 French francs and there were no suspicious names among these. Since the Consulate is shorthanded it is difficult to report fully by code.

Fifteen boxes of gold coin have been examined. 327 grams is the average weight for 50 pieces of 100 francs value issued in 1935 and 1936 and 322 grams is the average weight for 50 pieces of 20 francs value.

The support of Hoppenot has been sought by Malige and me. Instructions from Algiers to the effect that the banks may give no information to us other than through him were shown to Malige by Hoppenot. This has been ignored by the bankers who have given more information than Hoppenot.

It is suggested for certain reasons that I return and report fully. After you hear my report I believe I could return and get more information in a month or six weeks if necessary. It is requested that you reply at once.

MALIGE

Copy:bj:7-31-43

SECRET

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OFFICE OF THE DIRECTOR

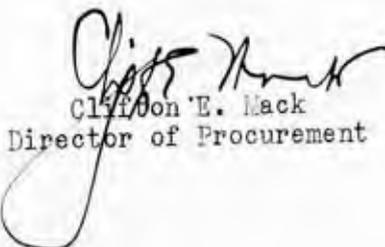
TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

August 2, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of July 26, 1943, the purchases against the African Program from July 26, 1943, to August 1, 1943, totaled \$1,384,120.23 or a total of purchases for the program thus far of \$51,570,754.42.

Attached is report giving status of shipping against these purchases.


Clifford E. Mack
Director of Procurement



(37861)

SECRET.SHIPPING REPORT AS OF JULY 31, 1943

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Agric. Mach. & Implements	1270.61	176.51	428.38	309.85
Automotive Equipment & Parts	663.87	.61	173.82	65.82
Batteries	84.03	8.	34.99	7.
Bearings	1.6		2.95	
Brass & Bronze	288.4	2.5	129.26	8.34
Brushes & Brooms		.75		
Building Hardware & Material	178.29	38.31	84	75.8
Chemicals	14779.37	1855.79	3695.4	5229.67
Clothing, Notions & Textiles	15155.24	63.84	1938.41	5126.55
Copper in Various Forms	208.32	15.5	106.94	62.93
Electrical Eqpt. & Supplies	66.52	4.	5.29	19.27
Explosives	14.15			
Ferro-Alloys	44.	24.5		
Food & Food Products	6032.25			
Furniture & Office Equipment		.6		
Glass	99.6	60	78	123.3
Graphite Products	22.68		109.36	13.05
Hand & Cutting Tools	641.99	54	455.81	517.05
Industrial Machinery	41.81	63.44	32.61	31.51
Iron	145	410	26	495
Jute Bags	751.19	33.55	555	
Lead & Lead Alloys	54.97	6.5	22	
Medical Supplies	52.12	5	23	
Non-Ferrous Metals, Other	64	322	48	.4
Paper & Paper Products	294.63	2176.18	467.82	3273.35
Rope & Twine	247.75	34.75	14	12
Rubber	539.57	78.87	282.04	400.16
Shoes & Boots	272.45	23.34	198.02	708.50
Steel, Alloy Carbon	575.38	877.38	8230.57	4731.76

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Steel, Pipe & Tubing	200.00	16	33.41	56.5
Tin Plate	845			27.5
Zinc				
Totals	51,645.59	5,851.00	12,225.58	21,356.31

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 2, 1943

TO Secretary Morgenthau
FROM Mr. E. M. Bernstein

Mr. Achilles of the State Department telephoned to me that Sir Ronald Campbell has delivered to Secretary Hull a note in reply to the American request on reciprocal aid. Copies of this note will be available Tuesday.

I asked Mr. Achilles to give me the substance of the note applying to the provision of additional raw materials. He indicated that the British Government has agreed to supply as reciprocal aid raw materials originating in the United Kingdom, Southern Rhodesia and the Crown Colonies. This will apply to about \$70 million worth of raw materials annually, but only on contracts entered into after October 1, 1943. The note also states that reciprocal aid would not apply to purchases of these materials through private trade channels.

So far as the Dominions and India are concerned, covering \$122 million worth of raw materials annually, it is suggested that the matter be taken up directly with them. The British Government will indicate to the Dominions and India the policy it is adopting toward these requests for raw materials under reciprocal aid.

The note also states that the British Government will provide as reciprocal aid the shipping services for transporting these raw materials in all parts of the British Commonwealth.

8/4/43

Photostats to Mr. Bell
Dr. White

photostats to Mr White
Mr Bell 76
8/1/43

**CHINESE EMBASSY
WASHINGTON**

August 2, 1943

My dear Mr. Secretary:

I have the honor to acknowledge the receipt of your letter of July 27, 1943, enclosing a message for Dr. H. H. Kung. The message was duly forwarded, and now I have received the following reply from Dr. Kung for transmission to you:

"The Chinese Government greatly appreciates the prompt agreement of the Treasury to the request to provide United States \$200,000,000 for purchasing gold, which will strengthen the common war effort through helping to check inflation. In accordance with the suggestion of the Treasury, the Chinese Government will request transfers in specific

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

-2-

in specific amounts having regard to the
need for the gold."

I am, my dear Mr. Secretary,

Very sincerely yours,

Wei Yao-Ming

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

Chungking

Dated August 2, 1943

Rec'd 4:58 p.m.

Secretary of State

Washington

1354, August 2, 9 p.m.

FOR SECRETARY TREASURY FROM ADLER

TF 145. Re your 993 July 21.

One. For background information on Japs acquiring
 confiscating tampering with and using fapi see
 Embassy's 1270, July 23, and 1337 July 30, copies
 of which were sent to Treasury. In connection with
 the former: (A) I specifically asked Dr Kung,
 K K Kwok and local manager of Bank of China about
 rumor of Japs putting forged C N dollars ten
 billion into circulation, and all replied story
 was utterly inaccurate. (B) Local manager of Bank
 of China who was in Hong Kong when it fell informs
 me that Bank of China's copper plates and new
 notes with the Chung Hua book coin Hong Kong had
 been destroyed during seige but that he had heard
 that new notes printed for Bank of Communications
 had fallen into Jap hands. In connection with the
 latter, according to the same source the counterfeiting
 of fapi by the Japs is not systematically organized
 but carried

-2- #1354, August 2, 9 p.m. from Chungking
but carried on by individuals as a private racket.

Two. When I saw Dr Kung on the 29th I asked him about the reports of Jap counterfeiting and the counter measures his government was adopting. He replied that the amounts of forged fapi notes found in free China was comparatively small totalling not more than about CN dollars ten million. He added that Japs have counterfeited BS dollars Hong Kong dollars and sterling as well as fapi, all of which they have tried to dispose of in occupied territory. The government had adopted stringent countermeasures, confiscating all counterfeit notes and meting out severe punishment to large holders. Recently a group including soldiers were found trying to smuggle in CN dollars 1.7 million of forged notes and all were sentenced, the soldiers by military court.

Three. On basis of available evidence Japs have done much more damage to Chinese economy by buying goods in free China with bona fide fapi they had acquired - at no cost to themselves in exchange for CRE dollars, FRB dollars, and military yen - or confiscated in occupied territory than they have by circulating bogus fapi. The Japs have used substantial amounts of bona fide fapi in this way and are reported to have CN
two billion

-3- #1354, August 2, 9 p.m. from Chungking
two billion left. The consequences of such use
of fapi are obvious, for the inflation is doubly
aggravated by drain of goods from and increased
supply of money in free China. There is no sign
that Chinese Government is making any serious
attempt to grapple with the problem fraught with
political as well as economic implications of
economic and financial intercourse between free
and occupied China.

ATCHESON

WWC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: August 2, 1943, 11 a.m.

NO.: 1356

This is message TF-147, transmitting the weekly economic report from Mr. Adler for the Secretary of the Treasury.

1. Prices:

Wholesale:	<u>June</u>	<u>Increase over May</u>
Food	8900	22%
General	13010	20%

2. In May the amount of legal tender in circulation was CN\$46,486,000,000.

3. Up to June 30 the total sales of U. S. Dollar backed certificates amounted to CN\$990,000,000.

4. On July 20 the Yunnan Provincial Government prohibited black market dealings in foreign currencies. This was done after repeated rumors and at the request of the Ministry of Finance. A rate of over 100 per US Dollar is now in effect and business is being done more secretly.

5. Deposits of Government agencies and organizations constitute now less than 65% of the government banks' deposits, it is learned from a reliable source. An order was recently issued by the joint head office of the four government banks with the effect that the Central Bank hold an increasing part of such deposits. 12% for fixed deposits, 9% for time deposits and 5% for current accounts per annum are the current rates of the Government banks. On loans, except those made at order of the joint head office, they charge as much as 15 and 30%. For 15 day deposits local native banks are now paying at the rate of 40 to 50% per annum. 60 to 70% is their normal charge for 15 day loans. In Chungking there have been reported instances of as much as 100%.

ATCHESON

CAM

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

Chungking

Dated August 2 , 1943

Rec'd 2:05 p.m.

Secretary of State,
Washington.

1355, August 2, 10 a.m.

FOR THE SECRETARY OF THE TREASURY FROM ADLER. TF146

(1)-Have received a number of inquiries as to exact status of United States dollar proceeds of maturing United States dollar backed savings certificates purchased by members of the USAF in China. Is there any specific FFC ruling as to status of American soldiers stationed in blocked countries?

(2)-There are persistent but unconfirmed rumors that sale of United States dollar backed savings is to cease at the end of July.

ATCHESON

WSB

VCH

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

Bombay

Dated August 2, 1943

Rec'd 10:06 a.m.

Secretary of State

Washington

516, August 2, 12 p.m.

Your 13, January 12, 1943.

FOR THE TREASURY DEPARTMENT

(a) July 31 gold rupees 72 annas 6 per tola fine, silver rupees 106 per 100 tolas.

(e) Reserves July 23 gold coin and bullion no change, silver coin including paper notes millions rupees 146.2.

(g) STRICTLY CONFIDENTIAL June gold imports 164 ounces exports nil, silver imports 1,129,463 ounces exports 1,945,276.

(i) Commodity prices Calcutta 72 items, year 1914 represents 100: index number for 1943 June is 319.

(j) Gold production Mysore State May 1943 fine gold.

DONOVAN

WSB

OFFICE
SECRETARY OF TREASURY

1943 AUG 2 AM 8 58

TREASURY DEPARTMENT

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NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 253

Information received up to 7 A.M., 2nd August, 1943.

1. NAVAL

Yesterday morning our Light Forces attacked enemy A/A ship and four trawlers off the Dutch Coast. The A/A ship was damaged by gun fire. One of H.M. Armed Merchant Cruisers arrived at FREETOWN on 1st. Yesterday a Sunderland sank a U-boat in the BAY OF BISCAY. The Sunderland was lost but six of the crew together with survivors of the U-boat were rescued.

2. AIR OPERATIONS

WESTERN FRONT. 1st/2nd. 29 aircraft were sent sea-mining.

ITALY. 11 heavy bombers attacked REGGIO.

BURMA. 29th. Mitchells attacked and hit a bridge over the MU River at MYITINGE, the centre span is believed destroyed.

30th. Medium bombers attacked MEIKTILA Airfield railway centre at MYINGYAN and oil installations at CHAUK, 140 miles east-northeast of AYERASE AKSAB.

August 3, 1943
8:56 a.m.

HMJr: Hello.

Operator: Major Dillon hasn't come in yet but they expect him shortly.

HMJr: Is anybody there?

Operator: I think Mr. Pierce is there.

HMJr: Let me talk to Mr. Pearson.

Operator: Mr. Pierce.

Gunner Wm.
Pierce: Good morning, Mr. Secretary.

HMJr: Good morning. Is this Mr. Pearson?

P: Pierce.

HMJr: Pierce. Oh, I'm sorry.

P: Yes, sir.

HMJr: Do you mind telling me who you are Mr. Pierce?

P: Oh, I'm a Marine gunner.

HMJr: Marine gunner?

P: In the Marine Corps, yes sir.

HMJr: Good for you. Then you run the works.

P: Aye, sir.

HMJr: (Laughs) Look, Mr. Pierce, when Major Dillon comes in I wish you'd tell him I want to pay my respects to the Navy Department and find out why the hell they can't get out my son's order under two weeks. Now, his orders haven't come through yet and the boy's A.W.O.L. without them.

P: Oh, you mean his - that extension of his leave?

HMJr: It never came through. Now, he's got to report to Brooklyn tomorrow and he has nothing to show them. See?

P: Yes, sir.

- 2 -

HMJr: Even the Treasury - we can get out a bond in less than two weeks.

P: (Laughs) I know you can, sir.

HMJr: Well, now look. Can't somebody just go over to the Personnel Division and sit there 'till they get that boy's order and if it's been mailed get a - he's got to have an original, I understand - doesn't he? You know that better than I do.

P: Well, he can get a certified copy of it. It would be just as well.

HMJr: Well, would you see that he gets a certified copy - and I'd like to have it by noon?

P: Over in your office?

HMJr: Yes, sir.

P: Very well, sir. We'll do it.

HMJr: I want to see whether the Navy really is - can go to town on this.

P: We'll do it the first thing this morning.

HMJr: I mean - it's ridiculous.

P: Oh, I know it is. I don't know why it has been held up that long.

HMJr: Well, will you see that it's delivered to me in my own hands?

P: I certainly will, sir.

HMJr: I appreciate it.

P: All right, sir. Thank you, Mr. Secretary.

HMJr: Bye.

P: Bye.

August 3, 1943
9:00 a.m.

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HMJr: Hello. Hello.

Robert
Doughton: All right.

HMJr: How are you?

D: Pretty well, thank you. How are you, Henry?

HMJr: How's the shooting down in North Carolina?

D: How's that?

HMJr: Any bootleg liquor down in your country?

D: I imagine there is. There always has been.

HMJr: Good.

D: I guess there is. I don't know whether it's good liquor or not though.

HMJr: They tell me it's good.

D: Well, I never try it. I guess it is.

HMJr: Did you have a little rest?

D: No, no. I had a hard time. As I live - somebody to see me every hour about something. I had a lot of things. But I'm feeling all right, thank you. How are you getting along?

HMJr: Pretty well. I'd like to kind of see you.

D: Yes, that's what I called you for yesterday. I thought we'd better talk about timing our work on the tax bill and I didn't want to send out any messages or notices to the members until you and I talked it over.

HMJr: Well, when would you - when and where would you like to get together?

D: Well, might be less publicity - I can come down or you can come up. Whatever you say.

HMJr: Well, I'll be glad to do any way you want. Be glad to see you here.

- 2 -

D: Well, I can run down there sometime this afternoon as far as I know.

HMJr: Well, would three o'clock be good?

D: Three o'clock. I don't know any reason why it wouldn't be fine. I was looking for some people here this morning or I'd go this morning.

HMJr: Well, I'd like to see you. I want a little heart-to-heart talk with you anyway.

D: All right.

HMJr: And so I'll look forward to seeing you at three o'clock.

D: Three o'clock, unless something intervenes that I don't know anything about now. If so, I'll call you.

HMJr: Thank you very much.

D: You're welcome. Good bye.

HMJr: Bye.

8/3/43

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Craft of press release for Mr. Doughton
to give to newspaper men after he saw Secretary
today.

RELEASE - DRAFT

8/3/43

After conferring with Secretary Korgenhan today, Chairman Doughton of the House ^{Committee on} Ways and Means ^{Mr Henry Sherman} ~~Committee~~ made, with the

Treasury head, the following joint statement:

After a discussion in the Treasury this afternoon, we can safely state that we ^{appear to be} are in agreement on most of the fundamental issues concerning the need for increased Government revenue to pay a larger share of the war costs, ^{and} that as rates rise we should look for ways of protecting taxpayers whose working and living conditions subject them to special burdens.

We do not mean by this that we are at this time in complete agreement as to the amount of revenue to be sought, because that is ~~hardly~~ ^{which could only be made in full committee} a decision ~~that we can make in an afternoon conference,~~ ^{which} ~~even if it were left entirely up to us.~~ ^{is} However, it is safe

enough to say that the amount of revenue which eventually will be sought ^{by whatever method is determined, the payers} will be within the limitations of ~~intention~~ ^{intention} to pay. The belief that we should obtain more of the war costs from current income than we are getting now is almost universally held.

- 2 -

Economists point to the fact that something like 45 billion dollars over and above present taxes must be absorbed one way or another in order to prevent inflation. However, it of course would not be feasible, to set up any mechanics to get this additional 45 billion dollars, or even the major portion of it through taxes. The amount which we can get will depend, we are sure, upon the equitability of tax methods which can be devised between now and the fall.

~~In the meantime,~~ ^{my} it is ~~our~~ feeling that we face considerations in the coming revenue bill which have not been as vitally important before. For example:

- (1) We believe that the new revenue bill should be a program to do two things: to raise revenue and to combat inflation. It ~~must~~ ^{should} be more than just a revenue-raising bill.
- (2) The burden of any tax or anti-inflation proposal should be as equitably distributed as possible, not only between upper and lower income groups, but by recognizing that in any income group there may be people who need to be protected against the full impact of tax increases.

- 3 -

(3) We ought to promote at least part of our program as ~~strictly a war and inflation measure.~~ In doing so, it might become necessary to deviate from traditional tax methods.

^{and} We are encouraged by the results of our talk. We agree that the more horse sense that goes into the coming tax bill, the better and we are going to try to put lots of horse sense into our considerations of the tax program.

After conferring with Secretary Morgenthau today, Chairman Doughton of the House Committee on Ways and Means made the following statement:

After a discussion in the Treasury this afternoon, I can safely state that we appear to be in agreement on most of the fundamental issues concerning the need for increased Government revenue to pay a larger share of the war costs, and ^{that with} ~~as~~ rates rise ^{we} we should look for ways of protecting taxpayers whose working and living conditions subject them to special burdens.

I do not mean by this that we are at this time in complete agreement ~~as to the amount of revenue to be sought,~~ because that is a decision which could only be made in full Committee.

However, it is safe enough to say that the amount of revenue which eventually will be sought, by whatever method is determined upon, will be within the limitations of taxpayers to pay. The belief that we should obtain more of the war costs from current income than we are getting now is almost universally held.

8/3/43

Copy of press release as handed to newspaper men by Congressman Doughton today in Secretary's office.

After conferring with Secretary Morgenthau today, Chairman Doughton of the House Committee on Ways and Means made the following statement:

After a discussion in the Treasury this afternoon, I can safely state that we appear to be in agreement on most of the fundamental issues concerning the need for increased Government revenue to pay a larger share of the war costs, and that with rates rising we should look for ways of protecting taxpayers whose working and living conditions subject them to special burdens.

I do not mean by this that we are at this time in complete agreement as to the amount of revenue to be sought, because that is a decision which could only be made in full Committee.

However, it is safe enough to say that the amount of revenue which eventually will be sought, by whatever method is determined upon, will be within the limitations of taxpayers to pay. The belief that we should obtain more of the war costs from current income than we are getting now is almost universally held.

-2-

It is my feeling that we face considerations in the coming revenue bill which have not been as vitally important before. For example:

(1) I believe that the new revenue bill should be a program to do two things: to raise revenue and to combat inflation. It should be more than just a revenue-raising bill.

(2) The burden of any tax or anti-inflation proposal should be as equitably distributed as possible, not only between upper and lower income groups, but by recognizing that in any income group there may be people who need to be protected against the full impact of tax increases.

I am encouraged by the results of our talk.

August 3, 1943
10:30 a.m.

GROUP

Present: Mr. Bell
Mr. Gaston
Mr. Gamble
Mr. Sullivan
Mr. Thompson
Captain Kades
Mr. Bernstein
Mr. Smith
Mr. Blough
Mr. Haas
Mr. Paul
Mrs. Klotz

H.M.JR: Let me get a couple of things off my desk. The family is getting a little bit bigger again.

Dan, where do we stand on recommending somebody for chief financial officer for Italy?

MR. BELL: I had quite a talk with Colonel Haskell this morning, who has just returned, and he has quite a story.

H.M.JR: Did you see him?

MR. BELL: Yes, I spent an hour with him this morning.

H.M.JR: Would I enjoy seeing him?

MR. BELL: I think you would. He is an awfully nice fellow. He was over there four days before the invasion of Sicily and stayed about a week or ten days afterwards. He has the picture pretty well. He knows

- 2 -

about what Eisenhower has in mind for the over-all picture. He thinks we have got to give some more consideration to the problem; that otherwise we are going to lose the chief place.

H.M.JR: Why can't I have a talk with you and Jack McCloy and that General--

MR. BELL: General Hilderling and Colonel Haskell.

H.M.JR: Yes. What do you think?

MR. BELL: It is all right. It would be good.

H.M.JR: Where is Haskell in relation to Hilderling?

MR. BELL: I don't know exactly, but Hilderling is the head of the civilian military control, and Haskell is on McCloy's staff. He is on the General Staff. But they work pretty close together on all of this - all these matters. They are both on this McCloy committee.

H.M.JR: Why don't you try to arrange it for, say, three-fifteen tomorrow?

MR. BELL: All right. I wasn't going to be here, but I can.

H.M.JR: No. Doughton is coming in at three to see me. I want to see him alone first. I want to have a heart-to-heart talk with him first.

You are just here today? You are going Wednesday for the rest of the week?

MR. BELL: I was going tomorrow and Thursday. I was coming back Friday morning.

H.M.JR: Let's see how I get along today. Would you talk to me this afternoon? If we are going to do it, I would do it Friday morning. I don't know yet, you see.

- 3 -

MR. BELL: All right. If I could see you for a few minutes, say, after this meeting, I could tell you the general story as to what you are looking for.

H.M.JR: All right. I don't have anything until eleven-thirty.

MR. BELL: It will take five minutes.

H.M.JR: Have you something else?

MR. BELL: I assume Ted told you about Mr. Smith's decision.

MR. GAMBLE: I have not.

MR. BELL: He has declined. He said he was very sorry but he didn't feel he had the energy.

H.M.JR: You (Gamble) and Herbert have got to get me somebody else.

MR. BELL: Ted has been working on it.

H.M.JR: We have to sew up these States. This week is the last week. If you don't do anything else, you (Gamble) and Herbert have got to give me a State chairman for every State this week.

MR. BELL: This is the only one left, isn't it?

MR. GAMBLE: Yes.

H.M.JR: Got a real chairman for--

MR. GAMBLE: This is the only real problem we have.

MR. GASTON: This is a real problem. It is a tough one.

- 4 -

MR. GAMBLE: This is the fifth man now that we have worked on.

H.M.JR: You know there are some awful good people over in western Massachusetts.

MR. GAMBLE: We need a man from Boston for this job.

H.M.JR: They have influence over there.

MR. GAMBLE: We have a candidate we can talk to you about. I talked to Boston yesterday. I talked to all these people yesterday.

H.M.JR: Who did you talk to?

MR. GAMBLE: You mean the candidate?

H.M.JR: Yes.

MR. GAMBLE: Channing Cox, former governor of Massachusetts and president of the Old Colony Trust Company. By using him--

H.M.JR: Do you know him?

MR. SULLIVAN: Yes, I do.

H.M.JR: Good man?

MR. SULLIVAN: He is an able man. He isn't a perfect candidate. I talked to Gamble, and we both recognize that. But I can't think of anybody, off-hand, who is better.

H.M.JR: Don't bother me. Just go ahead. You (Gamble) and Herbert are the fellows who are handling it.

MR. GAMBLE: I think we have a problem, and we are going to have to have help from you on it. We don't like to do it.

- 5 -

MR. THOMPSON: I have a ninety-day deferment for an Internal Revenue agent, to finish up a tax case.

(Ninety-day deferment for Donald G. Tripp, Special Agent, approved by the Secretary.)

H.M.JR: Bell did a nice job while you were gone.

You know about that printing situation?

MR. THOMPSON: Yes, he told me yesterday about it. He thinks we will get it out within the same period of time.

H.M.JR: That is the 5th?

MR. THOMPSON: Yes. He is following through on that.

H.M.JR: When is Charlie Bell going away?

MR. THOMPSON: He plans to go sometime in October, I think.

H.M.JR: Dan?

MR. BELL: That is all I have.

MR. BLOUGH: Some memoranda you phoned about Sunday are ready.

H.M.JR: Where?

MR. BLOUGH: Here. I wouldn't say they are final. You didn't ask for final ones. There are three of them. Each of them is quite short.

(Memoranda dated August 2, 1943, concerning dismissal compensation, spendings tax, and war anti-inflation tax program, handed to the Secretary.)

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H.M.JR: Has Paul seen them?

MR. BLOUGH: I think not.

MR. PAUL: I went over the spendings tax one, if that is the same one.

MR. BLOUGH: It is considerably changed.

H.M.JR: Depending on the Doughton thing, I am saving tomorrow morning to talk taxes - all morning.

Will you be here tomorrow morning?

MR. PAUL: Yes.

MR. BLOUGH: That is all.

H.M.JR: Fred?

MR. SMITH: I have two things here. The last of the Toscanini concerts is going to be held on Sunday, September 19, and they would like to have you talk on that for about four minutes.

H.M.JR: Oh, I don't--

MR. SMITH: Sunday - you probably won't be any place on Sunday.

H.M.JR: It doesn't interest me. I don't think you get enough audience. I want to talk to the people below five thousand dollars. (Laughter)

MR. SMITH: If that is what you want, I have a humdinger for you. Walter Winchell is going on a vacation and wants you to write his column. (Laughter)

H.M.JR: For how long?

- 7 -

MR. SMITH: About a thousand words, just one day. It seems awfully silly for you to do it, and still, on the other hand, you probably will never reach as many dopes as you would if you did that. (Laughter)

MR. GASTON: The newspaper column?

MR. SMITH: Yes, that is right. It is the widest circulated column, I guess, there is in the country.

H.M.JR: No, thank you. (Laughter) Any other good ideas?

MR. SMITH: No, this one just came in.

H.M.JR: Could I see a copy of the release that went out last night?

MR. SMITH: Sure, I will get it.

H.M.JR: I liked the way it came out, backing up the President.

You go ahead with that State Department business, will you?

MR. BERNSTEIN: Yes.

This is a brief memorandum. I can tell you orally what it contains. (Memorandum dated August 2, 1943, handed to the Secretary.)

H.M.JR: Go ahead.

MR. BERNSTEIN: The list that we submitted to the British contained a hundred and ninety-one million dollars' worth of raw materials annually, and it was distributed over the whole British Empire. The British have agreed to supply that part which comes from the United Kingdom, Rhodesia, and the Crown colonies, amounting to about seventy million dollars. The rest

- 8 -

comes from the Dominions and from India, and they request that we take up with them specifically the same question.

In the meantime, the United Kingdom Government will inform the Dominions that they are going along with us on the raw materials program.

There are two qualifications in addition to this: First, that this arrangement on reciprocal aid shall apply only to contracts entered into after October 1.

H.M.JR: Of this year?

MR. BERNSTEIN: Yes. There may be a considerable amount already contracted for.

The second is that it should not apply to goods that come through private trade channels. We haven't yet been able to find out what proportion of these raw materials do come from those channels.

Then finally, the British have agreed to pay all shipping costs in connection with such raw materials from whatever part of the British Commonwealth they come.

H.M.JR: I am going to have to sit down with you. It is too involved.

Have you talked with the Lend-Lease people?

MR. BERNSTEIN: No, sir, we haven't yet.

H.M.JR: Supposing you and Miss Kistler have a preliminary talk with them today and see how they feel about this and what is the answer.

How is Martinique?

MR. BERNSTEIN: I spoke to Mr. Feis again, and he has spoken to the people in the State Department.

- 9 -

Feis says he is very eager for the State Department to cooperate with the Treasury, and they will. They don't want it to apply to food shipments because of the special place that food shipments occupy.

When we get ready to move on the general licenses for the banks, he will be glad to get State Department clearance for us.

H.M.JR: Now, don't let me forget this. When I sit down with you and go over that cable of Winant's, I want to write him a personal letter on that.

MR. BERNSTEIN: Yes, sir. There are small matters that may be of interest to you that I might mention.

Two cables came in yesterday from Switzerland which indicate, first, that the Germans have stopped coal deliveries to Italy; and, second, that labor trouble has stopped production in two of the largest rayon plants in Italy, a very important industry for Italy.

There is another cable showing a very sharp drop in the quotations for mark currency in Switzerland. Mark currency in Switzerland is two point three cents a mark for small notes.

H.M.JR: What would be the official?

MR. BERNSTEIN: Forty cents if there were no restrictions on getting back the marks into Germany.

MR. PAUL: I don't get that. What percent depreciation is there?

MR. BERNSTEIN: Two point three cents for a small mark note as compared with forty cents which would be normal. It is down to about one-fifteenth or one-sixteenth.

It needs a further qualification. It is against the law to import mark currency into Germany. In other

- 10 -

words, they used to be at ten, twelve, and fifteen cents, and--

MR. PAUL: But it depends--

MR. BERNSTEIN: It depends on how far back you go. Our own currency notes are selling about sixty percent of par.

H.M.JR: How do you interpret it?

MR. BERNSTEIN: I think it means that there is a feeling that mark currency is nowhere near as good as it was a month ago.

On the exports of coal and cotton to Italy, after you spoke to Secretary Hull he called up two of his staff and had them talk to the interdepartmental committee working on Italy.

They went to work immediately, spoke to Army people, and they prepared a memorandum on the subject.

They have been informed by the Army people that they are very glad - the Army is - that you called attention to this problem because it has resulted in getting some definite action in a field that was being neglected. The State Department people feel much the same way.

H.M.JR: Would you explain something for my benefit and anybody else's that is interested? What I can't get through my head is that the McCloy committee, which seems to be running the occupation - I mean, after they take, say, Sicily, they go in and provide the civilian administration for, say, Sicily. I don't know what they call that.

MR. BERNSTEIN: AMGOT.

H.M.JR: And McCloy seems to be running that through this general who is over here and seems to be in charge. What is his name?

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MR. BERNSTEIN: Hildering.

H.M.JR: There is that committee, which I can understand, but what the hell are they doing over in the State Department?

MR. BERNSTEIN: After the military government period is finished there is a period of civil government under civil administration. That is under the State Department. To bring the two periods together, to see that plans work, Hildering is on that over-all committee, too.

Now, there is an area committee representing the various departments, and the Treasury is one of the departments.

H.M.JR: On which of these committees do we sit?

MR. BERNSTEIN: We sit on the civil affairs committee of occupied areas, which is under the State Department.

H.M.JR: But we don't sit on the McCloy committee?

MR. BELL: Well, we do from time to time when we are involved. We have been on it right along on Sicily since the latter part of March.

H.M.JR: Who in the Treasury sits?

MR. BELL: I sat on the first ones, and then afterwards Harry, and Taylor went with him, also.

H.M.JR: I have never met Taylor.

MR. BELL: I thought you talked with him after he came back.

H.M.JR: No. I wish you would bring him in some time.

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MR. SULLIVAN: Walter Lippmann has an editorial that--

H.M.JR: I read it. It is very good.

MR. BERNSTEIN: The effect has been very desirable all around, and we have been so informed.

H.M.JR: You mean my calling?

MR. BERNSTEIN: To your call, yes, sir.

H.M.JR: I spoke to Governor Lehman yesterday. He said he knew that the Army had agreed to go in for six months, then turn things over. I didn't gather that when I saw him last week. Maybe I didn't understand. But the Army has fixed a period of six months that they will run Italy, then they will turn it over to the State Department.

MR. BERNSTEIN: The fact is they haven't any preparation - they haven't made satisfactory arrangements for that period when the civil affairs will be under the State Department.

H.M.JR: Just to show you how loose things are, I had - this is very amusing, and I did it purely without thinking.

I had this talk with Hull in the morning, and I had Harold Ickes for lunch. Just to make conversation, I was talking about how the Army said they were going to supply Italy with two hundred fifty thousand tons of coal a month. They are now getting a million tons a month. Ickes said, "Over my dead body. I'm not going to let the people here freeze to keep the people in Italy warm." I said, "Calm down" and so on. But the point is they are figuring two hundred fifty thousand tons of coal, and they don't even speak to the coal administrator.

MR. BERNSTEIN: The coal is going to come from England and South Africa rather than from the United States, Mr. Secretary.

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H.M.JR: What I would like to know - how can I find out what happened that afternoon when they talked to the English about this?

MR. BERNSTEIN: It may be Mr. Taylor will know and I will ask him.

H.M.JR: They were to have a meeting that afternoon with the English. Do you know, Dan?

MR. BELL: No, I understood there was some question about the English having enough coal to supply Italy.

H.M.JR: O.K. I will get in on some of this stuff this week.

Paul?

MR. PAUL: I had a conference Saturday afternoon - a tax conference - with Vinson.

H.M.JR: With Vinson?

MR. PAUL: Yes. He called me up. I had gone home for the afternoon and he called up and said there wasn't much doing around there and could I have a chat with him. (Laughter)

MR. BELL: Incidentally, take up taxes, huh? (Laughter)

MR. PAUL: I went down and talked with him. I don't know how much detail you want to go into until tomorrow. He took occasion to say that he considered his function in the tax picture only to be one of help.

H.M.JR: Well, that is very interesting.

You people that were helping me on that letter--

MRS. KLOTZ: I showed it to Kades and Paul.

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MR. PAUL: He had heard something about that picture.

H.M.JR: Something about--

MR. PAUL: That picture that you were concerned, and he didn't say exactly what, but he was obviously intending to reassure me that his function was only one of help.

H.M.JR: Well, my inclination is to see Vinson, the sooner the better, and have a talk.

MR. PAUL: He spoke Saturday about seeing you on compulsory saving. I have a luncheon engagement with him today.

H.M.JR: Do you want to ask him?

MR. GASTON: You saw that--

MR. PAUL: Is that that Whaley-Eaton letter? (Whaley-Eaton letter dated July 31, 1943, handed to the Secretary by Mr. Gaston.)

MR. GASTON: Yes. That other thing is a Times editorial saying the thing is for the Treasury to submit an exact schedule of what they propose on taxes.

H.M.JR: Just look at the leaks out of the White House.

Why not, Paul - I can either call him up direct or do it through you, and say I would like to see him.

MR. PAUL: I should think it might be well to do it direct because I wouldn't know just what your schedule was.

H.M.JR: I will call him.

That thing in that Whaley-Eaton - certainly the President doesn't see Whaley-Eaton--

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MR. PAUL: I don't know whether it is that one - I think it is the Kiplinger that just came in today that has some of Vinson's ideas exactly on the detailed tax program.

H.M.JR: I will call him up a little later.

MR. PAUL: I was supposed to see Stam--

H.M.JR: What did he say to you - that his position was what?

MR. PAUL: He heard that you were concerned - he didn't refer to any correspondence. He said he wanted me to understand that his position was only one of helping.

H.M.JR: Well, when this meeting is over I will have a talk with him.

MR. PAUL: Then I made this luncheon engagement for today with him.

Stam and I are supposed to see Doughton. He called me this morning. Doughton wants us to tell him how we are getting along. But if you are seeing Doughton at three--

H.M.JR: Doughton called me. I didn't call him. He kind of fooled around - should I come up there or should he come down here. He said it didn't make any difference. I said, "O.K., come down here." I mean, that is the mood I am in as long as it didn't make any difference.

MR. PAUL: I have a memorandum here on the Crowley picture - trying to help him. (Laughter) (Memorandum dated July 30, 1943, handed to the Secretary.)

H.M.JR: I wish you and Blough would be in your offices from three o'clock on.

MR. PAUL: Will you let me know as soon as you are through so I can see Stam and Doughton up on the Hill?

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H.M.JR: I am having you come in. Don't rush it. I am going to get on a personal basis with him, and everything else.

MR. PAUL: I want to make a recommendation to you that somewhere in the Italian field where they are short of men they certainly ought to be using the former Treasury employee, Bob Eichholz. He is just doing nothing in the Navy.

H.M.JR: Should I give this to-- (Indicating memorandum dated August 2, from Mr. Paul to the Secretary.)

MR. BELL: Give it to Bernstein. (Memorandum handed to Mr. Bernstein.)

H.M.JR: How pressing is that - to give them a man over there?

MR. BELL: The top man is pretty pressing. They want him the 15th of August.

MR. PAUL: McCollester is supposed to give his answer to the State Department today whether he will go over as Area Director.

H.M.JR: This is the finance man.

MR. GASTON: We have copies of all those returns if you care to look at them.

H.M.JR: Are you all right?

MR. PAUL: Yes.

H.M.JR: If you will just be around - you and Roy - from three o'clock on.

MR. PAUL: All right.

H.M.JR: George?

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MR. HAAS: I have nothing this morning.

CAPT. KADES: Mr. McConnell reported yesterday morning. He is in room 275.

H.M.JR: Is he busy?

CAPT. KADES: He is busy becoming acquainted with the members of the staff and chatting with them. He saw George yesterday afternoon - spent some time with him. He has had a chat with Dan. As soon as Roy is free he is going to talk to Roy.

MR. GAMBLE: There are several things; one, if you can give us a--

H.M.JR: You kind of nurse him along, will you?

CAPT. KADES: Yes.

MR. GAMBLE: If you can spare a few minutes, Mr. Gaston, Mr. Bell, and I would like to talk to you about Massachusetts.

H.M.JR: Oh, gawd - what do you want me to do? Give me the bad news. (Laughter)

MR. GAMBLE: We want you to call Channing Cox.

H.M.JR: Can't I telegraph him?

MR. GAMBLE: I think not. I am acting on a recommendation of this committee that I talked to yesterday in Boston.

H.M.JR: I don't know the man. Call the man up out of a clear sky?

MR. GAMBLE: I think we have gotten down to the point where we can't afford to miss this last fellow.

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We are going to have to go up and set up a mechanical organization to do the job.

H.M.JR: Do you know whether he is interested?

MR. GAMBLE: Yes, sir.

H.M.JR: All right. (Laughter) That is what the President said when he signed the Proclamation.

MR. GAMBLE: The second thing, we have, tomorrow, all of these State chairmen coming in. We will start out the meeting in the morning at ten o'clock. If you would, we would like to have you give them a few minutes.

H.M.JR: Three-fifteen - how long?

MR. GAMBLE: That won't take over ten minutes - fifteen at the outside.

The only other matter--

H.M.JR: What is this fellow's name?

MR. GAMBLE: Channing Cox.

H.M.JR: What am I to ask him to do?

MR. GAMBLE: Ask him to accept the chairmanship of this.

You might say to him that he has been recommended by this committee of people, including Mr. Paddock and Mr. Stubbs.

You might also say that people who worked in the Second war Loan have indicated a willingness to continue if a man of his caliber is selected as chairman.

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H.M.JR: I still say if he turns you down there are some very good financial people and good citizens in western Massachusetts.

MR. GAMBLE: Without even knowing, I am convinced there are better citizens in Boston. (Laughter)

H.M.JR: I'll bet Peter could give you a couple of names in western Massachusetts. What is the name of the president of Smith?

MR. BELL: Davis, I think.

H.M.JR: You want somebody - you know--

MR. GAMBLE: We have walked right into the enemy's camp up there. The situation wasn't helped by Paddock or Stubbs. We have gone right into their own camp and tried to put them all together - select the leader that they have all worked for. It is a tough way to do it.

H.M.JR: I tell you who would do it for you - he would love to get back in the limelight - that is the president of Amherst.

MR. PAUL: He would be good in the sense that he comes from eastern Massachusetts, and he is in western Massachusetts.

H.M.JR: He is a former businessman - shoe manufacturer.

MR. GAMBLE: Stanley King would probably do it. Joe Kennedy has been mentioned by several people as wanting to get back into the limelight. (Laughter)

H.M.JR: Colonel McCormick wanted to get on our committee, too, of the Second War Loan in Illinois. (Laughter)

MR. GAMBLE: I didn't know Kennedy was in the same class.

H.M.JR: Practically, as far as I am concerned.

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MR. SULLIVAN: Me too.

H.M.JR: That makes it unanimous. (Laughter)

Stanley King wouldn't be bad. Do you agree?

MR. SULLIVAN: I haven't seen him for ten years. He was a very able fellow.

H.M.JR: He would love it. You could do lots worse.

MR. GAMBLE: I agree with you. I like King. I have seen him in the last eighteen months. He is very active.

H.M.JR: You could do lots worse.

If he won't do that, we will get Stanley King.

All right?

MR. GASTON: I don't know Stanley King.

H.M.JR: You Amherst?

MR. PAUL: Yes.

H.M.JR: He is a go-getter; he makes a good speech.

MR. GASTON: Is he the president of Amherst now?

MR. SULLIVAN: If you can't get that Dartmouth man he would be all right. (Laughter)

H.M.JR: Williams - Baxter is down here with Donovan, or used to be. (Laughter)

MR. GAMBLE: Just one other matter. There was a press release both Fred and I have gone over for the retailers. It came to your desk and was returned. I wondered if there was any reason for it being returned. We will send it back.

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H.M.JR: Let me see it. (Draft of press release handed to the Secretary by Mr. Gamble.)

I don't think it had your initials on it, for one thing.

MR. GAMBLE: It had Smith's, I believe.

H.M.JR: Yes, but this is War Bonds.

MR. GAMBLE: Yes, that may have been the only reason.

MR. SMITH: I think you gave it to me and just didn't put your initial on it.

MRS. KLOTZ: You said you wanted that held up - I think that is the one - and sent out when the general release went out. Then you told me to send it back to Ted Gamble because he hadn't seen it, and for him to talk to you about it.

H.M.JR: Do you still want it?

MR. GAMBLE: Yes, sir.

H.M.JR: There was no indication you had seen it.

MR. GAMBLE: That was our error. (Draft of press release approved by the Secretary.)

That is all I have.

MR. SULLIVAN: Nothing.

H.M.JR: Did they acquaint you with my activities while you were gone?

MR. SULLIVAN: They did.

H.M.JR: I hope you approved.

MR. SULLIVAN: No, I did not.

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H.M.JR: That is your privilege.

MR. SULLIVAN: That is all right.

H.M.JR: Even Norman Cann said we did a good job on simplification of the statement - of the form. He is pleased.

MR. SULLIVAN: The form? I thought everybody agreed on that.

H.M.JR: What else was there?

MR. SULLIVAN: I thought there was a good deal of discussion about a letter.

H.M.JR: Oh, well--

MR. SULLIVAN: No, I think you did a swell job on the form.

H.M.JR: On the letter part, the only difference--

MR. SULLIVAN: That form was while I was here.

H.M.JR: The letter thing, I think now the Bureau has found - as far as I know is happy about the letter, now. It is just a question of timing. They will get it out just as quick.

(The Secretary held a telephone conversation with Mr. Channing Cox.)

Any other pleasant chores for me? (Laughter)

MR. GAMBLE: Not today, sir.

MR. GASTON: I haven't anything.

You asked me about the situation up there at Hyde Park about the guards. I can tell you now or later.

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H.M.JR: Now is all right.

MR. GASTON: They had a force of ten guards up there on the rolls as assistant agents. They decided they weren't doing anything useful in view of the number of soldiers up there, and decided just to take the whole - bring the whole force back. They were guards, and they were on the rolls up there as assistant agents. One man is being left up there. It will result in the reduction of pay of one of the men who is brought back. It will cost him something like fifty dollars a year. When they come back here he will be on a different status.

H.M.JR: They told me that everybody was cut five hundred dollars.

MR. GASTON: That isn't true.

H.M.JR: They also said there were a couple of trouble-makers up there.

MR. GASTON: I think there has been some friction up there in that guard force, partly due to the fact that there wasn't much for them to do. They are just bringing them back, putting them back in the status of guards. They are not agents.

H.M.JR: What do the poor soldiers do up there? They have a couple of hundred soldiers up there.

MR. GASTON: Yes, that was the reason for bringing these guards back. I don't know what they do.

I had some further information for you on Mr. McConnell's tax record, but I don't think - it goes into considerable detail, and I don't think you care about it. The substance of the matter was that he was assessed deficiencies for 1933, '34, and '35 in the amount of some two hundred thousand dollars, which he paid, and interest ran on it.

Later that whole case was settled by stipulation in the tax court, and under that stipulation he paid about

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ninety-five thousand dollars more taxes for himself, his relatives, and his corporations than he had originally returned. But there was refund because of his having paid an assessed deficiency, an excessive deficiency, of two hundred thousand dollars for those years.

H.M.JR: Would you say the whole thing was an honest mistake?

MR. GASTON: The Bureau was of that opinion. That is, his tax was reduced by this device of going through a personal corporation, but there was no proof that that was for the intent of avoiding taxes, and the Bureau at no time attempted to assert fraud in connection with the transaction.

H.M.JR: Do you know any reason why he shouldn't work here?

MR. GASTON: No, I don't know any reason.

H.M.JR: Do you recommend it - I mean, as far as taxes are concerned?

MR. GASTON: As far as taxes are concerned I don't see any obstacle.

MR. PAUL: I concur there. I went over that picture before I was here.

H.M.JR: You were his attorney - I thought you said so.

MR. PAUL: No, it was before I came here.

H.M.JR: Weren't you his attorney?

MR. PAUL: He consulted me. I wasn't his attorney of record. He consulted me, and there is certainly nothing in the case that would be any reason why he shouldn't come here.

- 25 -

H.M.JR: Even though you were his attorney.
(Laughter)

MR. PAUL: They usually didn't come to me unless
it was desperate. (Laughter)

MR. GASTON: The report seems to indicate that his
dealings were very straightforward and that he made com-
plete disclosures. There was no question raised about
any evasion.

H.M.JR: I have been joking. On the serious side,
as far as his tax goes, all right?

MR. PAUL: Entirely all right.

MR. GASTON: This is merely an ordinary dispute
about tax liability over a period of years.

MR. PAUL: Technically, they did assert fraud. They
had no business doing it; it was abandoned.

MR. GASTON: They agreed in the final disposition
of the case that there was no basis for fraud.

MR. PAUL: There was never any basis for fraud charges.

H.M.JR: Somebody said they wanted to see me after-
wards.

MR. BELL: I did.

H.M.JR: What was the subject?

MR. BELL: About this Italian thing. I just wanted
to give you the background.

H.M.JR: All right.

Treasury Department
Division of Monetary Research

122

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Date August 2, 1943 19

To: Secretary Morgenthau

From: E. M. Bernstein

A cable from Switzerland states that Italian banks have tried to unload in Zurich their holdings of marks and escudos. Their orders were not executed.

It is also reported that German coal deliveries to Italy have stopped. Labor trouble has forced the closing of large rayon plants.

Another cable from Switzerland shows no significant change in the quotations for lire currency last month (cross rate for small notes about .7 cents per lira). Quotations for mark currency dropped about 25 percent in the past month (cross rate for small notes about 2.3 cents a mark).

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATE: July 30, 1943
NUMBER: 4602

CONFIDENTIAL

The American Consul General at Basel has received the following unverified report from reliable Basel and Zurich bankers:

Today the five big Italian banks telegraphed Zurich banks urgently instructing the latter to unload the former's holdings of marks and escudos. The Zurich banks refused to execute this order allegedly because of the poor market.

It is also reported by Basel that according to the assistant manager of Snia Viscosa (just arrived from Italy) Germany has stopped deliveries of coal to Italy. The assistant manager also states that the Snia Viscosa plant at Turin and Pirelli's plant (locations not specified) have been closed because of labor trouble. Marionotti, the manager of Snia Viscosa, is in hiding according to the word of the assistant manager.

HARRISON

Copy:bj:8-2-43

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MEM

PLAIN

Bern

Dated July 29, 1943

Rec'd 6:35 p.m.

Secretary of State,
Washington.

4569, twenty-ninth

Swiss franc exchange rates per 100 units foreign
banknotes July 27th compared June 30th;

Italy large denominations 2.50, 2.80 compared 2.30,
2.50; 10 lire 2.50, 3.10 compared 2.60, 3.10

Germany: 9.25, 9.75 compared 11.50, 13.

France: 2.30, 2.45 compared 1.90, 2.05.

HARRISON

GSE

Copy:bj:8-2-43

Distributed to: Mr. D.W. Bell (Mr. Dietrich)
Mr. Paul
Mr. White (Mr. Fisher-orig.)
Mr. Lurford
Mr. Fisher
Mr. Glendinning
Mr. Ostrow
Mr. Tomlinson
Mr. Southworth
Mr. Knocks
-Mr. E.M. Bernstein
Mr. Taylor

(From E. Hynes - Rm. 225)

August 3, 1943
11:13 a.m.

125

Channing

Cox: Hello.

HMJr: Mr. Cox.

C: Yes, sir.

HMJr: This is Morgenthau speaking.

C: How do you do, sir?

HMJr: Fine. How are you?

C: Oh, getting along.

HMJr: Well, Mr. Cox, we've been trying to get the best man in Massachusetts to be chairman for our Third War Loan and all the various interests up there seem to think that you're the best man for the job.

C: You know how to approach subjects, do you not?

HMJr: I hope I do - and we're very anxious to get you and get started and the Federal Reserve and all the interests up there, I can assure you, will get behind you if you would head it up.

C: Well, I'll tell you, Mr. Secretary, I will have to let you know later in the day. At present I'm the chairman of the Governor's State Committee on Public Safety....

HMJr: Yes.

C:and that has been a real tour, as you know....

HMJr: Yes.

C:and I've got to see how this would fit in with that. I'd like to do it if it seems possible but I think I owe it to everybody to see how that fits in.

HMJr: I should think the two things would dove-tail.

C: Well, everything dove-tails but there are only twenty-four hours in the day.

HMJr: Well, anyway....

August 3, 1943
11:13 a.m.

125

Channing
Cox: Hello.

HMJr: Mr. Cox.

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C: Well, everything dove-tails but there are only twenty-four hours in the day.

HMJr: Well, anyway....

- 2 -

C: I don't think there is any inconsistency - I mean....

HMJr: Yeah.

C:when we're both working for the same end, but if I'm doing all I can, I can't do much more. That's all.

HMJr: Well, supposing you give it a look and will you call me back this afternoon?

C: Well, yes - or probably a telegram would be better, wouldn't it?

HMJr: Either way that's easier for you.

C: You know Jeff Coolidge who is associated with me has had an attack?

HMJr: I only heard it the other day.

C: And that makes it doubly hard for me.

HMJr: I see.

C: He's Chairman of the Old Colony - and the President - and he's out of commission for several weeks at least.

HMJr: Yeah.

C: And that makes another embarrassment.

HMJr: How is Jeff getting along?

C: Well, it's one of those - uh - thrombosis and it just takes time at best.

HMJr: Yeah.

C: And it was the real thing.

HMJr: Yeah.

C: Well, I appreciate your asking me and I will talk with my associates and see whether I can do it and I'll give you an answer right after lunch.

HMJr: I hope it will be "yes".

C: Well, I'll do it if I can honorably see my way clear.

HMJr: Thank you.

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HON HENRY MORGENTHAU

SECRETARY OF THE TREASURY

REGRET THAT PRESENT PUBLIC WORK TOGETHER WITH ILLNESS OF
BUSINESS ASSOCIATES MAKES IT IMPOSSIBLE FOR ME TO DO AS
REQUESTED BY TELEPHONE THIS MORNING

CHANNING H COX.

306P

August 3, 1943
11:55 a.m.

TAXES

Present: Mr. Bell
Mr. Gaston
Mr. Sullivan
Mr. Helvering

H.M.JR: This is something that I want you (Bell) to do for me as Under Secretary. Norman Cann is handing in his resignation and one of the reasons is that he took the blame on this question of a complicated form - the form that went out on the withholding tax. It was all cleared here in the Treasury. The reason I am asking you to do it is everybody is sort of involved except you and he claims he cleared this thing. I haven't got the time. It would take a half a day to sit as a judge and take the evidence.

MR. HELVERING: Could I interpose there?

H.M.JR: Yes.

MR. HELVERING: The main objection he has to it is that representatives of the Treasury were over and went over there and then after they all approved it and came over here and the eruption happened about it, then that the Treasury boys, as I get the idea - he didn't say this in so many words - disclaimed they had anything to do with it - that it was all his. He shouldered the whole blame for it. He didn't feel that that was justifiable action.

MR. GASTON: That is the September 15 return?

MR. HELVERING: Not the return; it is the instructions.

- 2 -

MR. GASTON: The letter to the taxpayer - that last letter to the taxpayer?

MR. BELL: No, I understand it is the original form.

MR. HELVERING: The declaration form and the instructions that go with it. Of course, I agree that the original one they got was too complicated and told them so before I left, and told them to simplify it. I told the Secretary that when he called me.

H.M.JR: I would like to - as soon as the people saw I got excited, everybody washed their hands of it.

MR. HELVERING: The whole thing is, as I take his point of view, Mr. Secretary--

H.M.JR: You told me you thought it was too complicated, too.

MR. SULLIVAN: I am the one that brought it to your attention, too. I thought you meant I had washed my hands of it.

H.M.JR: No, you said it was too complicated. I would like Bell to sit there and get everybody interested in whether Norman Cann stays or doesn't stay - he makes this statement and I think he should have his day in court. I am not arguing whether he should or should not stay, but I would like to get to the bottom of it.

MR. HELVERING: I would like to say this in connection with him. I took this (indicating Mr. Cann's resignation), and told him I wanted to look it over; but I would like to be clear with you that if I designate him some place, it would be satisfactory to you.

H.M.JR: Entirely. I take it, it would be with you.

- 3 -

MR. SULLIVAN: I didn't quite get that, Guy.

MR. HELVERING: Norman filed his resignation as Assistant Commissioner. I told him to give it to me, that I wanted to hold it because I was going to see the Secretary and wanted to talk to him about it.

Now, what I want to do - I think he is too good a man to lose--

MR. SULLIVAN: I agree, thoroughly.

MR. HELVERING: I wanted to have the Secretary's approval, if there opened up a place as head of some technical staff in a big division, or some big agent's job, I wanted to know if it was agreeable - if he insists on this being done - that I could transfer him there without any question.

MR. SULLIVAN: Certainly. I hope he will stay.

MR. HELVERING: But he is hurt. He feels badly about this.

H.M.JR: He feels badly about this form. Now, let Bell - could you do it Friday afternoon, Bell?

MR. BELL: I can do part of it today.

H.M.JR: You and I have a lot of stuff. Do you want to set two-fifteen Friday?

MR. BELL: You mean to report to you?

H.M.JR: No, no, to hear this thing.

MR. BELL: You don't want me to hear them all together? You want me to hear them individually?

H.M.JR: Any way you want.

MR. BELL: I will do it before the week end.

- 4 -

H.M.JR: I think the fellow should have his day in court. As long as there is something going on that he has cleared - all this stuff - and the boys over here have washed their hands of it, that isn't fair. I mean, no matter what happens, he ought to have his day in court.

MR. HELVERING: He feels that when representatives of the Tax Research and the Counsel's Office sitting in on drafting this - they all agreed to it - that then for it to be turned down the way it was and him blamed for it--

H.M.JR: That is, what I am suggesting is fair, isn't it?

MR. HELVERING: Yes, that is all right.

H.M.JR.: Now, the thing that is bothering the Commissioner the most is this political situation in Massachusetts, and I told him I would settle it now, today. He has been very patient. Do you mind reviewing it once more? You (Bell) can sit in on it or not.

MR. BELL: No.

(Mr. Bell left the conference.)

MR. HELVERING: I just called the Secretary's attention to this memorandum I sent over on the 25th of February, in which I set out a statement quite in detail of the situation in our Boston collector's office.

Now, of course, I know--

MR. GASTON: That is as relates to Hassett?

MR. HELVERING: Yes. At the time it didn't affect any office but his, but there is a tendency, now, in several other offices to refer to things that he does that we don't allow other offices to do, and so it is spreading. I think it ought to be stopped and stopped right now.

- 5 -

MR. GASTON: I don't think I have ever seen that February memorandum, have I, Guy?

MR. HELVERING: I don't know. Didn't you (Sullivan) send this in?

MR. SULLIVAN: Yes. I thought that was what was referred to you in the first instance.

MR. GASTON: No. I talked to you about the Hasset situation late in June.

MR. HELVERING: Just this morning I get a letter from him.

H.M.JR: You want to get rid of him, don't you?

MR. HELVERING: It is a deplorable situation.

H.M.JR: Let's get rid of him. What the hell - why fool around? Let's just go ahead and do it; that is all. Do you ask for his resignation?

MR. HELVERING: Yes.

H.M.JR: Let's do it. I have got to hold you responsible. You recommend it. Let's get rid of him. Let the chips fall where they may.

MR. HELVERING: We can't do, in his office - for instance, Mr. Ireys's men - you can verify this--

H.M.JR: Your word is good enough.

MR. HELVERING: Mr. Ireys's men can't go into his office and make an investigation without going to him.

H.M.JR: I say you go ahead if you want to get rid of him.

MR. GASTON: I think the man needs to be removed. What we will have to do is get a man for his place. We could ask the President to ask for his resignation.

- 6 -

MR. HELVERING: Yes, that is the way to do it.

MR. GASTON: And we can tell him that a new appointment is going to be made. The President can appoint somebody as his successor and he is out.

MR. HELVERING: Under the present situation that couldn't be handled that way for the reason that the man couldn't take office until he is confirmed, and Congress isn't in session. So you will have to ask - the President will have to ask for his resignation--

MR. GASTON: He could take office without--

MR. HELVERING: And his assistant - I will send over a recommendation as to who his assistant shall be.

H.M.JR: Isn't it enough if I ask for his resignation? We have done it that way before, haven't we?

MR. HELVERING: Well, I don't know.

MR. HASTON: He can be appointed--

H.M.JR: The President will be on notice if I ask him to do it.

MR. GASTON: Guy, the vacancy occurs during the recess; he can be appointed and he can draw his pay, but he will be subject to later confirmation, so that we will have to fix it uppolitically before we make an appointment.

The other thing to do is ask for his resignation, get him out, and leave a vacancy until somebody is appointed.

MR. HELVERING: Put the assistant, or somebody, in acting during that period?

MR. SULLIVAN: I think that naming the man is better in this instance because McCormack objects to Buckley.

- 7 -

MR. HELVERING: That is only temporary.

MR. SULLIVAN: I know, but he objects to that.

MR. GASTON: He objects very fiercely to Buckley. I don't know what has happened about this man Delaney - whether they have taken care of him or not. I think that John McCormack would accept Delaney in place of Hassett if we gave him Burke. It is tied in with the Collector of Customs thing.

MR. SULLIVAN: Breaking in at this time might be a good way to get away from the tie-up between the two.

H.M.JR: Aren't you people political, anyway?

MR. GASTON: Yes.

MR. SULLIVAN: I don't think I am on.

MR. HELVERING: I don't think John was ever formally appointed.

H.M.JR: Well, you are on it now. I am telling you, get rid of it. Do it in the way, if you can, that will leave McCormack happy, and the three of you have got the power to act. Now, what the hell more do you want?

MR. HELVERING: I don't think John McCormack is going to be so hard about it if we don't put Buckley in this.

H.M.JR: Who is Buckley?

MR. HELVERING: He is the assistant.

H.M.JR: Why put him?

MR. GASTON: Dave Walsh wants Buckley.

H.M.JR: As between the two, I am for McCormack.

- 8 -

MR. HELVERING: So am I.

MR. GASTON: Except that John McCormack is the most troublesome man we have in the way of political meddling in offices.

H.M.JR: But McCormack also interferes in taxes and Walsh doesn't bother me. McCormack would bother me a lot. So as between the two--

MR. HELVERING: McCormack may bother you, but at the same time he will go along and do a job on a lot of things you want done.

H.M.JR: He is a nice fellow. If you have to displease somebody, I would displease Walsh. I don't think the Senator will be displeased about whatever we do. The only thing is, I know--

MR. SULLIVAN: They are both strong for Delaney, and want him for Customs or OPA or Internal Revenue.

H.M.JR: Is Delaney all right?

MR. SULLIVAN: I only saw him once. He looked all right.

H.M.JR: Can you make him Collector?

MR. GASTON: I think so. The trouble is that McCormack is trying to exact the price of having a man named Burke appointed Collector of Customs. Burke is a political bum. I hate to do it.

H.M.JR: Look, I have got three good friends here. The thing that he (Helvering) is interested in - he has been very patient - is to get rid of this fellow, Hasset. I think we ought to do it.

MR. HELVERING: I would like to do it right now.

H.M.JR: It suits me. If you want me to sign something else, I will sign it. O.K.?

- 9 -

MR. HELVERING: All right.

MR. GASTON: The President - I think the process is for us to tell him we want his (Hassett's) resignation.

August 3, 1943
12:14 p.m.

137

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Fred
Vinson: How are you, Mr. Secretary?

HMJr: I'm all right. Fred, I wondered when you and I could get together and have a little talk - uh - what time and what place would be convenient for you?

V: Well, what time would suit you?

HMJr: Well, I like the first thing in the morning. I don't know whether that's good for you or not.

V: Well, what time? Nine o'clock in the morning?

HMJr: Yeah.

V: Well, let's make it nine o'clock. At your office?

HMJr: Fine. Tomorrow?

V: Yes. Nine o'clock tomorrow.

HMJr: That will be fine. Just you and....

V: I'll be right there.

HMJr: Just you and me.

V: All right, sir.

HMJr: Thank you so much.

V: All right, Good bye.

August 3, 1943
4:45 p.m.

TAXES

Present: Mr. Paul
Mr. Smith
Mrs. Klotz

H.M.JR: Tell us about your lunch.

MR. PAUL: I had a long session with Vinson. The only other person there was Holland.

H.M.JR: Who?

MR. PAUL: Holland - no - an assistant of his - he is kind of a non-entity. I don't know his name now. He is losing Prichard, by the way, into the Army.

H.M.JR: Good.

MR. PAUL: I don't think so. Prichard was a pretty good friend.

We talked about a number of items. The thing most significant is that he talked quite directly about us presenting a tax bill.

H.M.JR: What did he say?

MR. PAUL: He said - I said that I had repeated to you his words about being of help, and I was a little more direct about saying that as I understood it we would go up with a tax bill just as previously.

He said that was right, and it was completely his understanding. Of course, that was only sandwiched in along - I was there until nearly three.

H.M.JR: You look tired.

- 2 -

MR. PAUL: I have been on the train two nights and played around with the dentist yesterday.

We talked about a number of items. We had a conversation about the credit. He has fallen for the same proposal that credit - that personal exemption be changed to a tax credit. You just get so much no matter what your income; you get the same amount if your income is a hundred thousand as if it were two thousand.

H.M.JR: Do you mind my interrupting you? All I want tonight is--

MR. PAUL: We talked about a number of items.

H.M.JR: He evidently is very conscious of the fact that--

MR. PAUL: That is right, and he mentioned the subject of compulsory saving.

I said, "I think you ought to talk to the Secretary. You ought to talk to him tomorrow morning about it in detail."

He said that he was going to tell you tomorrow that you were going to find a weak sentiment for additional taxes and a strong sentiment up on the Hill for compulsory savings. He said he was going to tell you that.

H.M.JR: I am going to confine myself tomorrow to trying to come to an understanding with him. Mr. Doughton said that we are in charge - should be glad to have advisors, but that we are in charge.

The interesting thing, which I want to put on the record, in my talk with Mr. Doughton - I sort of fooled around and asked about where Vinson stood and we stood versus the White House. His answer, very correctly, was that - "After all," he said, "I can't decide that; it is the President's decision." But, he said, "when I came here to meet and discuss taxes with you, George, and

- 3 -

Jere Cooper I found Mr. Vinson here. I didn't ask for him. Who asked him to be here?"

I said, "Well, I did."

He said, "That is the first I knew that he was going to sit in on a tax program."

MR. PAUL: Vinson made specific reference today to the fact that he had not inspired any of these stories. He explained that. He said that there has been a lot of unfortunate business in the press, and he said, "I want you to know that I didn't have anything to do with it."

I said, "Of course I realize that."

Then he wanted to know what specific program we had. Well, of course, I always have a specific program in my pocket, because you are never going to ask me about a tax program and find that I haven't one. I have one all the time.

I said, "I have one here, but I can't show it to you because I haven't shown it to the Secretary yet. I mean, I can't let you have it."

I refused to let him have a copy of this thing I had.

H.M.JR: Well, I don't know how long a talk we will have tomorrow, but just as soon as it is through I would like to go in and sit down with you and Blough.

MR. PAUL: You don't want me in at the conference?

H.M.JR: I would like to have you in your office.

MR. PAUL: You are starting this at nine?

H.M.JR: Yes.

MR. SMITH: You don't think we would be stretching things too far to have another release ready for Mr. Vinson when he leaves?

- 4 -

H.M.JR: No.

MR. PAUL: It wouldn't be the thing to do with him.

H.M.JR: No. Well, I am all right. I think I had better do this with him alone. He may want to say things, and I may want to say things. We may want to cuss each other out a little bit.

Do you think it would be helpful to have you here?

MR. PAUL: I don't know. Why don't you have him alone?

H.M.JR: I am thinking out loud. Maybe I am wrong. What do you think, Fred?

MR. SMITH: My hunch would be to have him alone.

H.M.JR: What do you think?

MRS. KLOTZ: I agree. Just between two people you can say a lot of things to him and he can say a lot of things to you.

MR. PAUL: Of course, if you get to talking about a specific program--

H.M.JR: No, no, it will just be personal relationships. The minute he gets on the program I will send for you.

All right.

August 3, 1943
5:02 p.m.

HMJr: Hello.

Operator: Go ahead.

Ed
Stettinius: Henry?

HMJr: In person.

S: How are you, sir?

HMJr: Okay.

S: Going to be here tomorrow?

HMJr: Yeah.

S: The British have agreed to both of these things,
you know.

HMJr: Well, they have, as our people say "yes and no" -
as Mrs. Kessler says.

S: "Yes and no" is right.

HMJr: Yeah.

S: But I wanted to check with you tomorrow afternoon....

HMJr: I do, too.

S:as to the handling of the whole matter.

HMJr: That suits me.

S: Can I call you tomorrow afternoon?

HMJr: Well, don't you want - if you want to see me you'd
better make a date because....

S: Well, give me a date for early afternoon now.

HMJr: Well, the earliest I could make it is 3:30.

S: 3:30, Henry. I'll be there tomorrow afternoon, sir.

HMJr: Are you bringing anybody with you?

- 2 -

S: I'm coming alone.

HMJr: Brave man.

S: Brave man, always.

HMJr: All right. I will not be alone.

S: How's your wife?

HMJr: She's getting along fine.

S: Okay, old boy.

HMJr: Thank you.

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

E. R. STETTINIUS, JR.
ADMINISTRATOR

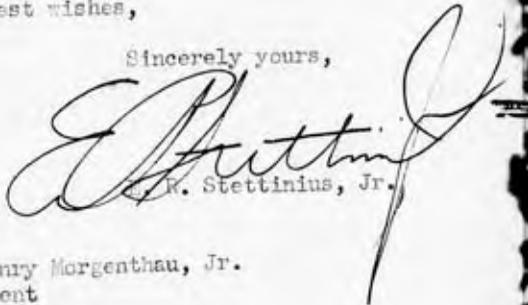
August 3, 1943

Dear Mr. Secretary:

Thank you very much for arranging to have photostatic copies of the letter of July 30 addressed to you by Mr. R. I. Campbell, and Ambassador Winant's cable of July 29 sent to me. *sub 654 p. 165*

With best wishes,

Sincerely yours,



E. R. Stettinius, Jr.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1943

TO Secretary Morgenthau
FROM Mr. E. M. Bernstein

Subject: The British Reply on Lend-Lease in Reverse.

In accordance with your instructions, I spoke to Mr. Stettinius regarding the British reply on reciprocal aid. Mr. Stettinius had just looked through the note quickly and he told me that his first impression is quite favorable. He said members of his staff are now studying it and that a group of them would go over it together this afternoon.

Mr. Stettinius suggested I speak to Mr. Denby who is following this matter for him. Mr. Denby thought that on the whole the British reply is as good as could be expected. I asked him what his view is on the proposal that the reciprocal aid apply only to contracts entered into after October 1, 1943. Apparently the importance of this point had not occurred to Mr. Denby. He said he would find out how far our purchases are already covered by contracts and therefore will not come under this arrangement for some time.

I also asked about private purchases and restriction of reciprocal aid to purchases on public account. Mr. Denby is uncertain as to the significance of this point. Mr. Denby will let me know of any further developments in their views.

Paraphrase of a telegram dated August 3, 1943 from the
American Ambassador at London

For the Secretary of the Treasury

No. 5047

"I was told by the Chancellor this evening
that he will transmit to you tomorrow a favorable
reply for you. It will be at once cabled to you."

25

August 3, 1943

Dear Dr. Clark:

In pursuance of the exchange of correspondence between you and Mr. White, I am attaching a list of munitions and other war goods approximating \$90 million in value which the United States expects to procure from Canada in the near future and which it would be most desirable from our point of view to resell to your Government for assignment by the Canadian Mutual Aid Board.

The suggested list of items has been approved by the various U.S. Government agencies concerned. The estimated value of deliveries is based upon Army and Navy schedules. We have added a supplementary list of items which may be drawn upon in case deliveries of goods on the first list do not come up to expectations.

Very truly yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury.

Dr. W. C. Clark,
Deputy Minister of Finance,
Ottawa, Canada.

File returned to White's office.

Copy of ltr. and photo of enclosure
in Diary.

Enclosure

*File Copies not to
White's Office*

TMC:rl 7/30/43

RECOMMENDATION OF RESELL TO CANADA OF WAR GOODS
 PROCURED BY THE U.S. WAR AND NAVY DEPARTMENTS:

Expected Payments on Deliveries During the 3 Months
 Beginning July 1 or August 1, 1943¹

Contract No.	Description	Value of Expected Deliveries (\$U.S.)
WBL	U.S.	
<u>U.S. War Department</u>		
Ordnance Department		
7219) 72-324)	DAM-ORD-13) W-648-ORD-775)	3.7" AA Complete Equipment
		3,400,000
72-26) 72-188)	W-ORD-729) DAM-ORD-30)	75 mm. Smoke Shell
		2,295,000
72-250) 72-251)	W-648-ORD-739) W-648-ORD-740)	Universal Carriers
		5,300,000
72-323	W-648-ORD-774	.303 Rifles (Lee Enfield)
		2,700,000
72-80	DAM-ORD-69	Scout Cars and Spare Parts
		3,630,000
72-495	W-374-ORD-5516	25 PDR Gun Motor Carriage T 51 and Parts
		6,030,000 ²
Army Air Forces		
72-16) 72-263)	DAM-535-AC-215) W-535-AC-31737)	AT-16 Airplanes and Parts
		6,000,000
72-116	DAM-535-AC-1308	Universal Bomb Carriers
		290,000
72-305	W-535-AC-30110	PT-26 Airplanes and Parts
		4,400,000
<u>U.S. Navy Department</u>		
Bureau of Ships		
72-245	NObs-273	Twin Screw Corvettes
		6,600,000
72-284	NObs-744	Algerine Mine Sweepers
		3,120,000
		<u>Total</u>
		51,765,000

Supplement: If schedule changes make it impossible to realize \$50,000,000 from the above expected payments to War Supplies Limited, the following expected payments on deliveries may be drawn upon:

<u>U.S. War Department</u>		
Ordnance Department		
72-495	W-374-ORD-5516	25 PDR Gun Motor Carriage T 51 and Parts
		6,030,000 ²
72-207	W-648-ORD-702	.55" AP Cartridge
		100,000
<u>U.S. Navy Department</u>		
Bureau of Ships		
72-246	NObs-274	Single Screw Corvette
		1,240,000

¹For U.S. War Department, Ordnance Department, expected payments are in terms of the three months beginning Aug. 1, 1943 whereas all other expected payments are in terms of the three months beginning July 1, 1943. However, in most cases payments during October will be at levels comparable to those in September, 1943.

²One-half the expected payments during the three months beginning August 1, 1943.

Treasury Department
Division of Monetary Research

O

Date July 31, 1943 19

To: Secretary Morgenthau

From: Mr. E. M. Bernstein *E/M B*

The Canadians have agreed to repurchase \$50 million of goods produced in Canada on U.S. Government contracts as a means of reducing their gold and U.S. dollar balances.

The attached memorandum explains the situation.

There is also attached a letter from you to Dr. Clark, Deputy Minister of Finance of Canada, enclosing a list of suggested items for resale to the Canadian Government.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 30, 1943

TO Secretary Morgenthau
FROM Mr. E. M. Bernstein

Attached is a letter for your signature to Dr. W. C. Clark, Deputy Minister of Finance of Canada, transmitting a suggested list of munitions and other war goods for resale to the Canadian Government.

You will recall that on March 2, 1943, the President approved the recommendation of the Cabinet Group on the Dollar Position of the United Nations that appropriate action be taken to maintain Canada's gold and U.S. dollar balances, exclusive of net proceeds from security sales, at not less than about \$300 million and not more than about \$350 million.

Since March 2, we have conferred both with the interested U.S. Government procurement agencies and with the appropriate Canadian officials on the procedure to be used to implement this decision. It has been agreed by all concerned that the simplest procedure would be for this Government to continue to receive from the Canadian Government the goods produced on U.S. contracts and, from time to time as financial arrangements necessitate, to resell various items to the Canadian Government for assignment by the Canadian Mutual Aid Board. ~~That~~

While the discussions on the method of implementation were in progress, we consulted with Dr. Clark on the amount by which Canada's U.S. dollar receipts should be reduced in pursuance of this agreement.

On June 30, the Canadian Government's gold and U.S. dollar balances, exclusive of net proceeds from security sales since the beginning of this year, amounted to \$452 million or roughly \$100 million in excess of the maximum agreed upon as appropriate for this Government to assist the Canadian Government to maintain. The Canadians anticipate a deficit of roughly \$50 million over the next 9 months and on this basis Dr. Clark, in a memorandum submitted on June 8, suggested that an original adjustment of \$50 million be undertaken. He has written that upon receipt from us of a list of suggested items for resale he would endeavor to put the new procedure into operation as quickly as possible.

AUG 3 1943

My dear Mr. Acheson:

This is to acknowledge your letter of July 27, 1943 enclosing a memorandum on a conversation between the Netherlands Minister of Finance and representatives of the State and War Departments regarding monetary arrangements that the Dutch are desirous of effecting now to take place when the Allied occupation forces begin operations in Holland.

I agree with you that these are matters that should be discussed directly between the Minister of Finance and this Department. As soon as Mr. von Der Broek gets in touch with us, the discussions will proceed. You will be kept advised of developments in this respect.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable Dean Acheson,
Assistant Secretary of State,
Washington, D. C.

File returned to White's office
Sent by Messenger Simmons 5:05 pm
Photo of incoming and enclosure
and copy of reply in Diary.

Drl -7/29/43



DEPARTMENT OF STATE
WASHINGTON

and refer to
A

July 27, 1943.

My dear Mr. Secretary:

The Minister of Finance of the Netherlands having expressed a desire to discuss certain monetary matters with General Hiltiring, Head of the Civil Affairs Section of the War Department, a meeting was arranged in this Department for preliminary discussion. I transmit herewith a memorandum as regards that meeting. You will see that the representatives of both State and War Departments believed the conversation should be carried forward directly between the Minister of Finance and the Treasury Department, and it is expected that the Minister of Finance will approach the Treasury Department for this purpose in the very near future.

Sincerely yours,

Dean Acheson
Assistant Secretary

Enclosure:
Memorandum of Conversation,
July 26, 1943.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

DEPARTMENT OF STATE

Memorandum of Conversation

DATE:

July 26, 1943

SUBJECT:

ARTICIPANTS: Mr. T. K. Finletter, Mr. Herbert Feis, State Department; General Hildring; Mr. van Der Broek, Minister of Finance, Netherlands; Mr. de Jongh.

COPIES TO:

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The meeting was arranged as a result of the Minister of Finance's desire, as expressed to Assistant Secretary Acheson, that he have the opportunity to discuss certain urgent monetary matters with General Hildring. It was held in Mr. Finletter's office.

The Minister of Finance stated that he had had meetings with the Minister of Finance of Belgium, and that they had agreed on identical lines of policy as regards exchange rates, the provision of currency for use in the event of reoccupation, etc. He was desirous of explaining his program to the American Government, with the view of securing agreement and of working out any arrangements that were necessary.

The Minister of Finance presented his prospective policy on three main matters:

1. He stated that of course during the German occupation the quantity of guilder currency in circulation in the Netherlands had tripled, or more. He said that his Government intended, upon securing control, to exchange new government bonds for a large part of this currency, in order to reduce its quantity greatly and thereby forestall any marked inflation. Later on, in

response

response to Mr. Feis' quizzing, he made clear that the Dutch Government, before giving bonds for currency, intended carefully to examine the means by which people in the Netherlands had come into increased possession of it. (Incidentally, the same investigation is apparently planned as regards bank balances and securities.) He was informed by Mr. Feis that the Netherlands policy in this regard would be regarded by the State Department as the business of the Dutch Government. The Minister incidentally stated that he estimated that with these new bond issues the total debt burden of the Dutch Government would be about one-fifth of their budget.

2. He said that the Dutch Government was undertaking to have printed (I believe in the United States) guilder currency for both the Netherlands and the Netherlands East Indies. They intended to place this in use upon reoccupation.

It was pointed out to him that in the event that reoccupation in the Netherlands was carried out by American or British armed forces, or both, the necessity would present itself to secure advance agreement between the Netherlands Government and the Governments of the United States and Great Britain as to the many questions which would arise in regard to the use of this currency, such as (a) whether it should be used immediately upon the entry of armed forces; (b) whether it should be used by the armed forces; (c) whether the Netherlands would expect payment for this currency, etc.

A discussion ensued as to how the Minister of Finance could best proceed to clarify these questions. It was agreed that they would properly be decided by the Army, State, Treasury Committee that has been meeting under the Chairmanship of Assistant Secretary of War McCloy to discuss similar matters in other areas. It was further decided, with General Hildring's full approval, that in order to expedite the conclusions of this Committee on these matters, the Secretary of Finance might well discuss them direct with the Treasury, which in turn would bring them before the Committee through General Hildring.

3. The Minister of Finance pointed out that at the time when this new guilder currency was issued it would be necessary to determine an exchange rate vis-a-vis the

pound

pound and dollar. He said that the Netherlands Government desired to set that rate at 12-1/2 guilder to the pound -- which would roughly reestablish the dollar-guilder relationship in terms of their old gold value.

Mr. Feis stated that subject to any opinions that the Secretary of State might have he believed this would be acceptable to the State Department. There was general agreement, however, that this matter of exchange rate was one of primary interest to the Treasury, and that therefore it was essential that the Dutch Government reach agreement with the Treasury.

It was suggested and approved that, in order to facilitate prompt advancement of these discussions the State Department would make a memorandum of this discussion and transmit it to the Secretary of the Treasury, with a short covering note stating that it was expected that the Minister of Finance of the Netherlands would very shortly seek to enter into discussion with the Treasury as regards to the matter covered by this memorandum.

August 3, 1943.

To: Secretary Morgenthau
From: Mr. Helvering

The participation in the payroll allotment plan by the Bureau of Internal Revenue at this time is:

Percentage of employee participation ----- 97.6%

Percentage of payroll participation ----- 11.4%



TREASURY DEPARTMENT
WASHINGTON



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

June 25, 1943.

Memorandum for all Officers and Employees of the Internal Revenue Service:

I am writing this memorandum to each of you as a message which I wish it were possible for me to discuss with you personally. It concerns War Bonds — the Bonds you receive on payday bought with the well earned dollars that you have put to work in as important a part of our war effort as the weapons of warfare which they purchase.

First I would like to tell you that the Bureau is genuinely appreciative of your truly fine record of participation in the War Bond program over the past 12 months. This participation has been substantially more than 90% throughout the year and stands now at 97.8% which represents 35,368 of the Bureau's 36,149 employees buying shares in victory and security every payday. Your investments over this period including purchases of \$519,228 in the Second War Loan Campaign amount to approximately \$8,780,000. Translated into weapons of war these fighting dollars are equivalent to 20 Flying Fortresses razing the war industry centers of Nazi Europe — or — 68 dive bombers and torpedo planes — the kind that turned into shambles the Jap fleet at Midway — or — 57,150 Garand rifles, 15,000 machine guns and 1,500,000 bullets, the same guns and bullets your boys or your neighbors' kids count on to defeat their enemies so that they can come back to their homes and families and the America for which they fight — and die.

This investment represents a patriotic achievement of which each of us whose dollars made it possible may be justifiably proud.

I know of course that each of you will do his very best to maintain a record he has helped to create. We in the Bureau of Internal Revenue are naturally much concerned with meeting our responsibility fully because we are a part of the Treasury which obviously must show the way to the country at large and in particular to all other agencies. You can appreciate this concern when it is observed from the attached reports of Treasury participation that almost one-half of the total employees in the Treasury Department are in the Bureau of Internal Revenue; that is to say, as the Bureau goes, so goes the Treasury.

Today some may doubt their ability to allot as much for bonds due to the withholding tax deduction which takes effect in July. Although this new method of tax collection, which I might point out does not add one extra dollar to your 1943 income tax liability, may require adjustments in your



TREASURY DEPARTMENT



payday expenditures, it should not however necessitate a reduction in your war bond pledge which was authorized when your income tax liability was just the same as it is today.

Talk with your Minute Man if you feel that you must reduce your allotment for withholding tax deductions. After the new collection method has been explained I feel certain that you will find that you will still be able to buy the same amount of bonds in addition to paying your current tax every payday as the income is earned.

In fact I am confident you will want to review your finances to determine how it will be possible to increase your allotment. In saying this I am not unmindful of the sacrifices already made necessary by your investments in war bonds. Rather it is this very willingness to sacrifice and meet your fair share and more of all appeals, so characteristic of Bureau employees, which in itself creates confidence that this spirit will not fail to respond to the increasingly heavy demands of the war regardless of its effect upon us as individuals.

Ray H. Heberling
Commissioner.

-PAY ROLL SAVINGS PLAN-
Field and Departmental (Combined)
UNITED STATES TREASURY DEPARTMENT

DEPARTMENTAL AS OF MAY 25, 1943

FIELD AS OF MAY 15, 1943

Bureau, Division or Office	Employees 1/		Percentage of Participation		Semi-monthly		Percentage of Semi- monthly Pay Roll	
	Number on Roll to be Considered	Number Part- icipating	Pledged	Actual	Gross Pay Roll	Allotment Deductions	Pledged	Actual
Office of the Secretary	220	214	90.7	97.3	\$ 50,702.38	\$ 5,267.98	11.6	10.6
Division of Research & Statistics.....	117	114	87.8	97.4	14,917.11	1,727.92	11.9	11.26
Office of the General Counsel	172	166	97.7	96.5	26,508.02	2,758.93	12.3	10.4
Division of Personnel	84	82	96.5	97.6	8,638.51	1,060.74	11.6	12.3
Office of the Chief Clerk	182	171	98.6	94.0	15,961.69	1,662.75	10.3	10.4
Office of Superintendent of Treasury Buildings	285	278	98.5	97.5	22,111.17	2,336.42	11.0	10.6
Bureau of Accounts	2,420	2,522	93.0	96.0	218,811.65	25,603.36	10.5	11.7
Bureau of Public Debt	7,486	6,896	94.1	92.1	570,472.78	61,412.69	10.4	10.8
Treasurer of the United States	5,026	2,723	93.4	90.0	230,138.00	21,747.00	9.8	9.4
Bureau of Customs	8,397	8,041	91.9	95.8	895,967.89	109,203.09	10.6	12.2
Comptroller of the Currency	1,045	1,034	98.3	98.9	119,369.00	17,398.00	11.9	11.6
Bureau of Internal Revenue	36,119	35,368	96.4	97.8	4,129,873.00	443,169.00	10.9	10.7
Bureau of Narcotics	316	306	96.5	96.8	43,771.72	4,763.24	10.7	10.9
Bureau of Engraving & Printing	7,496	6,677	93.3	89.1	786,895.92	79,656.75	10.7	10.1
Secret Service	875	775	90.3	88.6	92,454.95	9,082.33	10.6	9.8
Bureau of the Mint	2,113	2,080	98.4	96.8	193,098.00	23,136.00	10.9	12.0
Investment Division	3,049	2,896	95.6	95.0	305,819.12	33,168.03	10.3	11.0
Division of Monetary Research	96	48	84.3	85.7	8,284.65	899.42	13.3	10.4
Division of Tax Research	49	45	90.4	91.8	7,233.00	837.00	10.7	11.6
Pay Savings Staff	1,158	1,146	95.4	97.0	138,103.96	16,420.60	12.8	11.9
Foreign Funds Control	406	376	96.4	96.7	100,721.86	10,336.02	11.4	10.3
Total	74,601	72,266	95.2	95.6	7,987,452.98	870,225.57	10.8	10.9

1/ Excludes temporary employees and new employees with delayed pledges.

2/ As of April 30, 1943 and May 31, 1943.

OK ~~FS~~
(Handwritten initials)
TREASURY DEPARTMENT
Washington

Press Service
No.

sales quota equal to \$200 in Series E War Bonds for every retail employee in the country has been set by the nation's retailers as their goal during the Third War Loan Drive, which begins September 9. The quota was agreed upon at a meeting of the Retailers War Campaign Committee and representatives of the Treasury Department and the Office of War Information recently held in Chicago.

Since there are approximately 5 million persons currently employed by retail organizations in the country, the retailers are undertaking to sell a total of one billion dollars in E Bonds and Stamps during the September drive.

In addition, the Retailers War Campaign Committee adopted a resolution recommending that at least 10 percent of all retail advertising for the month be devoted to War Bonds and Stamps. This would amount to an advertising expenditure of \$1,500,000, it was said.

"The retail people are setting a fine example for other patriotic groups in taking for themselves a billion dollar quota in E Bonds during the Third War Loan," Secretary Morgenthau said today in commenting upon the plan. "The retail organization has worked with us since the beginning of the War Bond Program, and judging from past experiences, I have no doubt that they will reach their quota. The recommendation of the leaders of the retail group that approximately a million and one-half dollars be spent in advertising in behalf of the Third War Loan is another example of how this splendid group is cooperating with the Treasury Department in its War Financing efforts."

A task force of leading retail advertising and merchandising men also made plans at the meeting for a complete month's activities in September consisting of advertisements, window displays, special events, etc., all based on the theme - BACK THE ATTACK - WITH WAR BONDS.

Handwritten:
O. M. H. 1943
ans

August 3, 1943

Re: Proposed statement to be issued by
State Department and Foreign Office
in regard to the Jewish question.

Sam Rosenman told me on the telephone today that his conclusion is that the War Department is being used in this matter. He is seeing Hull and General Strong of G-2, who is supposed to be the source of information.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

161

OFFICE OF TREASURY
SECRETARY OF TREASURY
BRITISH MOST SECRET
U.S. SECRET
OPTEL No. 2
NAVAL
1943 AUG 3
TREASURY DEPARTMENT

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

One of H.M. Submarines off CORSICA sank 2 motor mine sweepers, 1 anti-submarine steam yacht, 1 minelayer and 1 trawler. In BAY OF BISCAY on the 2nd aircraft sank 2 U-boats. 15 bodies and wreckage were seen from one and 40 survivors and wreckage were seen from the other.

2. AIR OPERATIONS

WESTERN FRONT. 2nd. Escorted Marauders dropped a total of 48 tons at airfields at MERVILLE and ST. OMER. Special Beaufighters in a low level attack on a convoy off TEXEL sank a 3,000 ton ship, damaged an escort vessel and set fire to 2 other escort vessels. Escorting Spitfires destroyed 4 enemy fighters. Hampdens torpedoed a 4,000 ton ship which was left aground with decks awash off NORWAY. Mosquitos probably destroyed 2 armed trawlers off LORIENT. A F.W. 200 was shot down in the BAY OF BISCAY by Beaufighters.

2nd/3rd. 800 aircraft despatched - HAMBURG 740 (30 missing); DUISBURG 5; sea mining 6 (1 missing); Leaflets 12; Intruders 31; anti-shipping 6. Preliminary report weather en route and over HAMBURG unfavourable with unusually severe icing and electrical storms. HAMBURG was hidden by clouds.

SICILY. 31st. 198 bombers with 81 fighters dropped 70 tons on ADRANO and attacked other points near CATANIA. 7 aircraft missing.

31st/1st. Wellingtons dropped 25 tons at ADRANO and RANDAZZO.

1st. Mitchells attacked MILAZZO. Enemy bombers attacked PALERMO,

2 JU 88's were shot down.

ITALY. 1st. 70 Fortresses bombed NAPLES docks and CAPODICHINO airfield. 7 enemy aircraft destroyed, 1 Fortress missing.

August 4, 1943
10:30 a.m.

TAXES

Present: Mr. Gaston
Mr. Paul
Captain Kades
Mrs. Klotz

H.M.JR: Mr. Vinson was here, and I showed him these various clippings, and so forth and so on.

He was half an hour late. He said his child was sick. But he didn't let me know.

He said Crider came over, that he begged Crider not to write the kind of article he was going to write, and so forth.

I showed him this morning's Tribune.

MR. GASTON: The Post has a story, too.

H.M.JR: I didn't bother with that one. The one in the Tribune was more pointed.

Then I showed him the Whaley-Eaton thing. When he read that he said he hadn't seen it. It said Morgenthau had gone to the White House to protest that Vinson was interfering on taxes. Then he got kind of oratorical. He wanted to know whether I said that, to give him a single instance that he had interfered, you see.

I said I didn't know whether he had interfered and I had not said he had. Then I read this thing afterwards, and I didn't realize what this letter (indicating letter to the President) said. I am glad I didn't show him this letter.

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But he at various times got kind of excited. He said I had asked him over at this meeting with George, and so forth and so on. He said his only attitude was to be helpful.

MR. PAUL: Those were his words to me.

H.M.JR: So I agreed with that, but I said, "You will have to admit that all the articles in the newspapers are one way. No article says I am trying to infringe on your authority." I never raised my voice. I said, "All of them say that you are trying to infringe on us."

He said, "You are too sensitive. You called me up before I went before the Ways and Means on coal and wanted me to tell the newspapers I hadn't talked on taxes."

So we went on and on, his always protesting that he just wanted to be helpful.

I said, "How about making a joint statement with me saying what you are saying here, that you just want to advise and be helpful, that the responsibility is mine."

He said, "No, I won't make any joint statement. I won't do that."

MR. PAUL: I didn't hear that last.

H.M.JR: He said, "I won't make any joint statement. I am not going to answer you. You are too sensitive about the newspapers."

I said, "I have been here ten years." I said, "The President could say something just by a drop of his hat - he could say something."

I showed him a copy of the statement I sent to the President. He said, "If the President wants to make that, it is all right with me." He said, "It is

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all right with me if I have nothing to do with taxes. I have too much to do, anyhow. I am getting along fine over there."

I said, "You won't make it, so I am going to insist that the President make a statement." I said, "My organization is completely disorganized. We don't know where we are at. I don't know where I am at."

He said, "For the Secretary of the Treasury to have to ask the President to say he is the chief fiscal officer is ridiculous. You should just take that for granted." He said, "It just weakens your position."

I said, "It didn't weaken Hull's position when the President made it very clear after the Crowley appointment that Hull was in charge of foreign affairs, and nobody said that it weakened Hull - was beneath his dignity. On the contrary, everybody said it strengthened it. Frankly, I got the idea that from having the President say that that it strengthened him." I said, "All he has got to do is say something and clear it up."

So I think that Doughton must have said something to him on what I had said with Doughton, that these orders coming down, you see, make it difficult for us, where they demand information from various people.

So he said, "The Congress by sending these orders down asking for tax information is simply dividing the Administration and making it worse at this end, and Congress is doing the very thing to the Administration that Congress is criticizing the Administration for - that they are not together."

So I said, "I can't ask the Director of the Budget, Eccles, and all these other people what they have sent up on the Hill. They will tell me I just haven't got the authority."

He said, "If I were Secretary, I would go right ahead and make them all tell you."

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I said, "If I had the President back of me - if I knew he was back of me" -- I didn't say that; that was in my mind -- "what I would like to do is tell these people not to send anything up until they talk with me."

MR. GASTON: This was with Doughton?

H.M.JR: No, Vinson. I said, "I would like to tell all of them, Eccles and all, that they should not send anything up on the Hill. That is the way it was last year."

I said, "Paul is so upset about this thing, and unless the thing is clarified he is talking of resigning." Maybe I shouldn't have said it.

I said, "My whole organization, including myself, is demoralized." I said that if the President wanted to give - I said, "Unless we can formulate the policy, with the advice and consultation, we will not present it."

He said, "Oh, that is the trouble with you", and so forth and so on.

So I said, "I am willing for the President to give you the whole thing."

He said, "You would have apoplexy."

I said, "That would be nonsense."

MR. GASTON: He would have apoplexy?

H.M.JR: No. He said, "Morgenthau, you would have apoplexy."

I said, "That is nonsense. Take the thing away from us, and we would go on. We might even get popular. Somebody else around town would get unpopular."

He said, "You would have apoplexy."

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I said, "I won't have apoplexy or anything of the kind. I want this thing cleared up."

I was very quiet. I stuck by my guns. I was very quiet. I didn't pound the desk. He got excited two or three times. The more excited he got, the calmer I got. As he got excited, I would get calmer. But I stuck by my guns.

I wanted him to make a statement with me, which he refused to do. I then said, "All right, then I am going to insist that the President do it. I am going to see him."

He said, "When you go to see the President, I would like to go with you."

Then this is the final thing, which was the most amazing thing. I said, "When you asked me to act as chairman of your committee while you went to the White House I made the statement while you were gone that I would like to come before your committee in August and lay the whole Treasury program before you."

He said, "Don't do it - the worst mistake that you can make."

I said, "Why?"

He said, "In the first place, it would be out, all kinds of discussions; everybody would have an opinion. 'There are not taxes enough.' It is the worst mistake you could make, to lay your program before my committee."

How do you explain that?

MR. GASTON: The point is he wants it laid before him, not the committee.

H.M.JR: I said to him two or three times - I said, "Fred, all I can say is all the newspaper stories build you up." And he kept coming back to this Whaley-Eaton article. He said, "I don't get excited when they say

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you go to the White House and say Vinson is interfering with taxes." He was just looking for something to hang on to.

He said, "Does Paul represent you?"

I said, "Completely."

He said, "When he talks, does he talk for you?"

I said, "Completely."

He said, "I have told him everything."

I said, "You see Doughton, and we don't know what goes on. We don't know what goes on when you see them on the Hill."

He said, "I told them I was only selling Doughton the Treasury plan as I understand it." He said, "I have done you more good. If it weren't for me, they wouldn't be considering a tax program early this year."

That was just the bunk. So about all I get out of it is--

MR. PAUL: I am surprised - he purports to tell me what he says up there.

H.M.JR: Well, his attitude here is he is trying his best to help us to get more tax dollars. If I don't want him to do that, all right, he has got lots of business he can go on and attend to.

So I left it this way, that when the President gets back I am going to insist that the President clarify this thing.

Did I make any mistakes?

MR. GASTON: I don't think so. I got the impression from the Whaley-Eaton letter and from the

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circumstances of Doughton's coming to see you that - and from what Vinson told Randolph - that he was only trying to be helpful, his calling Randolph over on Saturday and making the point that he was trying to be helpful - I got the distinct impression that the President had spoken to Byrnes or to Vinson and had shown them something. It seems to me that is quite plain.

Then he goes and gums it up by - somebody gums it up by this story about how Doughton saw Vinson after seeing you.

H.M.JR: Who gummed it up?

MR. GASTON: I don't know who did it, whether Vinson did it or the newspapermen simply discovered that he had been to see Vinson.

H.M.JR: Well, I didn't want to argue too much, but this Whaley-Eaton item - certainly I didn't give that out because it reflects on me.

MR. PAUL: Nobody here has given anything out.

H.M.JR: I am not saying that. I mean, it would be stupid for me or anybody associated with me to give that sort of thing out. I just think the only thing is to wait until the President comes back and ask to see him.

MR. PAUL: Do you know about when he will be back?

H.M.JR: Sometime next week.

CAPT. KADES: Mr. Secretary, I am not clear on why he wasn't willing to make a joint statement. Did he give you any reason?

H.M.JR: No. The only thing was that he had made one statement and he wasn't going to just keep denying newspaper stories all the time.

MR. GASTON: I would, myself, have doubt as to the usefulness of any joint statement. I don't like the idea.

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H.M.JR: Well, I think this, from my standpoint, because I have talked with Sam Rosenman - when we came down together I told Sam a little bit about this, and Sam said, "Have you been to see Vinson?"

I said, "No."

He said, "I think you ought to see Vinson, see if you can't get together."

Well, I have done that now. I have done what you (Kades) suggested. And it is good, for this reason, that if when I go to the President the President says, "Henry, why don't you try to get together with Vinson?" I will say, "I tried to, and I couldn't get anywhere."

Oh, yes, I told Vinson - I said, "The President could have stopped the Wallace-Jones thing any time during the last eighteen months."

He said, "This isn't analogous at all. That was a fight over power" and so forth. He said, "I don't want anything."

I can see what is happening. I am not a complete fool. The way it is now, he has an approachment. I mean, Doughton wants to see Vinson - you see, Doughton isn't as innocent as he seems on the surface.

MR. PAUL: I know that.

H.M.JR: And Doughton isn't sure who represents the President, so he sees both Vinson and me.

MR. GASTON: That is it.

H.M.JR: So he sees the two of us. He doesn't know. Now, he has got all these cards in his hand, and I am playing against them. I don't know what the hell is in those cards. I can't send a round robin to everybody in Washington, "Before you send anything up on the Hill I would like to see it."

- 9 -

MR. PAUL: I did get Marriner Eccles to show me, but I haven't gotten anything out of Budget. I got Dick Gilbert, and he has sent nothing.

H.M.JR: It is a mess, and the President has got to straighten this out.

MR. GASTON: Of course if the President wants Vinson to have something to say about taxes - and perhaps as Economic Stabilization Director he ought to have something to say about taxes - it should be done in this way. It should be done solely through contacts with you and your staff. He should not have any contacts with the Hill. He should not have contacts with other agencies in forming a tax program. His discussion should be with you only, giving you his advice, and so on.

MR. PAUL: I don't agree with that.

H.M.JR: I don't agree with that. He said to me, "You say to me I shouldn't have contact on the Hill?" I said, "No."

MR. PAUL: If Vinson were another fellow you could imagine him being of great help by having contacts.

MR. GASTON: I don't think he ought to have those contacts unless it is by agreement, that he says to the Secretary, "I think I can be helpful if I go and talk to Doughton" and the Secretary agrees that would be all right, but not to have independent lines of negotiation with Congress and with the other agencies. You never can have any orderly arrangement if that is the case.

Anything he should do should be by understanding with the Secretary of the Treasury, in the way of outside contacts.

H.M.JR: Incidentally, Fred Smith is over with the Commissioner, and would you (Gaston) tell him about this.

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I had this thought in mind. I want you people to think this over. It is easy to get a question or I may get a question at my press conference tomorrow.

Now, I could do this. I could do what B. M. Baruch advised me to do. He said, "Don't pay any attention to anybody. Your pastures look green. You are doing a good job. Don't worry, just go ahead." Of course that is what Vinson says.

Now, what I could do when they ask me, "Are you in charge, or aren't you in charge?" is say, "I am in charge of preparing the tax program and presenting it on the Hill, that is my understanding. I am glad to get the advice and to consult with everybody and anybody who works for the President, but I am in charge."

That is one tactic. That is the positive one. The other one I could take is - I can do two things tomorrow at my press conference. I can say, "I am in charge of the program. I am glad to get Mr. Vinson's advice, Mr. Eccles', OPA's, Senator Brown's - anybody's. I am in charge to prepare and present a bill - the Treasury is."

Or I can do another thing. "I don't know, gentlemen, whether I am in charge or not. You will have to ask the President of the United States."

That forces his hand. It throws it into his lap.

CAPT. KADES: I would rather see, Mr. Secretary, you take the first approach. You have talked to Vinson now, and you have written to the President, and the field is clear, it seems to me, for you to take the position that you are in charge. In other words, what I have in mind is that you would say--

MR. PAUL: Of course you could force Vinson's hand in the same way.

H.M.JR: What is that?

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MR. PAUL: By doing that, you could force Vinson's hand. If they wanted to confirm the thing, they could go right over to Vinson. You could say, "Why don't you ask Mr. Vinson?"

MRS. KLOTZ: Supposing you say you are in charge and then the President doesn't back you up?

MR. PAUL: Got to take that risk. That is the risk you have got to take.

CAPT. KADES: I would say what the order says, Mr. Secretary, that, "As the chief fiscal officer of the Government I am in charge of the tax program."

MR. PAUL: That is another example of the President having no clear directive.

H.M.JR: Now let me just talk a minute. Hull has told me at different times that he hasn't been in charge, that the President has been in charge. Of course he tells that to anybody who will listen to him, but he doesn't say so publicly. But anybody comes in his office, he will go into great length and tell them how the President and the Secretary of State, and so on, but he doesn't do it publicly. But then he gets it - he gets the President to do the thing. I don't know how he gets him to do it.

MRS. KLOTZ: I think if the President hadn't gone fishing you would have gotten it.

H.M.JR: Hull doesn't pound the desk in his press conference and say, "I am in charge of foreign affairs."

MRS. KLOTZ: Must you make a statement?

H.M.JR: No.

MR. GASTON: I wouldn't stimulate anything. In the first place, I think there is a different course to take. I wouldn't stimulate any questions in the

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press conference at all on this subject. If they asked a question, I would say something like this: "On your referring to some of these newspaper stories, we are too busy in here to pay very much attention to newspaper stories. I am going ahead to discharge the responsibilities that I have always had. I don't know of any reason why I should not."

H.M.JR: You see, our story yesterday would have been perfect if it hadn't gotten out that Doughton went to see Vinson.

MR. GASTON: Yes. The sole question in my mind is, how did that get out.

MR. PAUL: I knew he was going.

H.M.JR: How did you know he was going to see Vinson?

MR. PAUL: Vinson told me. That is why I said to you that it was out of the horse's mouth.

H.M.JR: I didn't know which horse. (Laughter)

CAPT. KADES: If, Mr. Secretary, you could say something just like Herbert said, it would be all right except that there is kind of an equivocal tinge to it. It doesn't seem to me there should be any doubt about the fact.

I mean, when you (Gaston) ended up by saying, "I haven't heard anything to the contrary" you leave it a little bit open. If you could leave anything like that off--

MR. GASTON: Say something like this: "I don't know of any change in my responsibilities as to taxes. I don't know of any change. We are going ahead as we always have."

CAPT. KADES: It will be the President's program, as it has always been.

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H.M.JR: I would rather do it even more positive. If they ask me the question - which they may not, as they are trying to build up this trouble - I will simply say, "As chief fiscal officer, I am in charge of this program, and we are going ahead with developing it" period.

"Now, I can't pay any attention to a lot of dope stories." And I can say off the record, "If you don't believe it, go over and ask Vinson."

CAPT. KADES: Does Vinson have press conferences?

H.M.JR: No. He has only had one. There is no question, he sees newspapermen all the time.

The only advantage of having seen him this morning is that when I see the President and he says, "Now, Henry, you go and get together with Vinson" I say, "Mr. President, I have done that, and I am not going to do it again."

That is what he always says in these things. "You fellows go in and lock yourselves in a room." I have done that, so that is over. It has weakened me versus Vinson, as though I was pleading with him, but versus the President it has strengthened me.

MR. GASTON: I don't think I would say anything to lead the boys to believe the matter has been taken up with the President and that he has made a definite decision you are to go ahead with it.

I think your position should be: "I am going ahead with what I have always done. I have no information to the contrary."

H.M.JR: I never say I am in charge of something unless I am damned sure of it. Then I don't get thrown down.

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MRS. KLOTZ: Why do you have to make any statement?

H.M.JR: I don't.

MRS. KLOTZ: I wouldn't make any until the President comes back.

CAPT. KADES: It seems to me it is good sense not to stimulate a question, but, on the other hand, a question might be asked without any stimulation.

MR. GASTON: It might very well be asked, and my hunch would be to reply simply that we haven't time to pay attention to rumors and newspaper stories, that we are going ahead to carry out our responsibilities as we have always done.

If they don't know what that means, it means that we are preparing a tax program for presentation to Congress and expect to present it.

H.M.JR: You see, my record and Paul's record versus Vinson is excellent because we have done everything possible to work with him. Isn't that right?

MR. PAUL: Yes. I have seen Vinson no less than six times.

H.M.JR: What is the trouble? Hasn't he got enough to do over there? I should think he would be snowed under.

MR. PAUL: He works in a very disorganized way. I had to wait yesterday nearly forty minutes, and I carefully called up before I went to see exactly what time. While you are in the room with him he takes all the telephone calls. When you or I have a conference or when any man who has been in business or practicing law has a conference, he only takes calls that are absolutely necessary.

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Saturday when he called me he said, "Things are very quiet here, and this ought to be a good time to get together." That was Saturday afternoon.

H.M.JR: It is in a beautiful mess now. You go up there, and you don't know what plan from whom they will flash on you.

MR. PAUL: Marriner Eccles has a plan which we have got to stop.

H.M.JR: You don't know what it is?

MR. PAUL: Yes, I know, as far as you can get it from him by his rambling description. He said he would show it to me before he sent it. It is a kind of a luxury sales tax.

MR. GASTON: Did you see the Post's reply to George this morning?

H.M.JR: No.

MR. GASTON: It is quite interesting.

H.M.JR: What does it say, Herbert?

MR. GASTON: George expressed concern for the middle class. The Post says that the middle class can be a lot more hurt by inflation than they can by any prudent tax program and that George is doing a very great dis-service by this sort of talk.

H.M.JR: Well, anyway, we will see. We will go on. This just ruins me.

When is your next meeting?

MR. PAUL: I am seeing Doughton at eleven-thirty, and Fred Smith gave me a statement. I didn't like it. Nobody liked it. I drew up another one, which is very simple, and I haven't been able to get hold of Fred. It is very simple. I think it is about all you can say.

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H.M.JR: I wanted him to go over and show Helvering what was done on the publicity on the withholding tax.

(Draft of letter to members of Ways and Means Committee handed to the Secretary by Mr. Paul, copy attached.)

H.M.JR: It is all right with me.

MR. PAUL: The more you explain it, the worse it is.

H.M.JR: I am putting you down for eleven tomorrow on taxes. Have you anything at eleven?

MR. PAUL: No. Do you want Roy in on that?

H.M.JR: Yes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

August 4, 1943

TO Secretary Morgenthau

FROM Randolph Paul

The attached copy is the form of the letter sent by Chairman Doughton to the members of the Ways and Means Committee. After the conference this morning, Mr. Doughton changed the form of letter approved by you as indicated.



copy

August 4, 1943

Dear Mr. _____:

There has been a slight change in the schedule tentatively fixed by the Committee before the recess. It is now planned that hearings on the tax bill will start on or about September 15th. However, the Committee will meet on September 8th, as originally planned. After discussing the matter with the Treasury and with Mr. Disney, it is my thought that we should devote the intervening week to a consideration of the problems of renegotiation which have been under study by a subcommittee headed by Mr. Disney.

I trust that you are getting a good rest from taxation. Looking forward with pleasure to seeing you on the reassembly of the Committee on September 8th, I remain,

Very cordially yours,

Robert L. Doughton
Chairman

As revised by Mr. Doughton and sent to all members of the Ways and Means Committee.

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To Members of the Ways and Means Committee:

There has been a slight change in the schedule tentatively fixed by the Committee before the recess. It is now planned that hearings on the tax bill will start on September 15th. However, the Committee will meet on September 8th, as originally planned, and it is my thought that we should devote the intervening week to a consideration of the problems of renegotiation which have been under study by a subcommittee headed by Mr. Disney.

Sincerely,

Robert L. Doughton
Chairman

As approved by the Secretary.

August 4, 1943

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This was prepared by Mr. Smith, but
Mr. Morgenthau did not show it to Judge
Vinson.

The following joint statement was made today by Secretary Morgenthau and Fred M. Vinson after a consultation at the Treasury.

"We are in complete agreement that the 1940 tax program should be designed not simply as a revenue raising measure, but also as a measure to control inflation. The fact that taxes are one of the soundest ways to control inflation is a view long held by the Treasury, and is believed to be fundamental by the Office of Economic Stabilization.

There has been a great deal of speculation about the amount of money that should be raised, and the amount of money which taxpayers can afford, without going into bankruptcy. It is fully recognized both by the Treasury and by the Office of Economic Stabilization that the need exists for more money to help pay for the war out of current income; but also that there are definite limitations on the ability to pay, particularly among people whose incomes have not risen since the war.

We can report that work on the new tax bill is under way. It is being coordinated ~~by~~ ^{under} the direction of Secretary Morgenthau, and various agencies of the Government are cooperating. The function of the Office of Economic Stabilization is one of expediting the job and contributing heavily in the considerations having to do with inflation.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 4, 1943

TO Secretary Morgenthau

FROM Fred Smith



YOU are going to be asked tomorrow Who's Who in the tax situation. The White House reporter for I.N.S. (query: did Vinson send him:) tackled Randolph Paul today for the information, saying that he wanted a scoop because he knew that "the Secretary is going to have to answer the question at his press conference tomorrow."

This may mean that the I.N.S. man himself is going to come over and ask him, according to Charlie Shaeffer.

Seems to me that you could indicate that the Treasury, as usual, is up to its eyes in research, plans, and debates about the various methods of raising the necessary taxes, not only for revenue purposes but for purposes of combating inflation.

You might say that you intend to have a proposal ready when the Committees are ready for it; and, subject to the approval of these proposals by the President, you expect to present them in the usual way. You can point out that you have had no orders to the contrary, and other departments of the Government are cooperating, as they always have, in setting up prospective tax proposals for consideration.

FR

August 4, 1943
11:17 a.m.

HMJr: Hello.

Operator: Mr. McCloy.

HMJr: Hello.

Jack McCloy: Hello.

HMJr: Jack?

M: Yes.

HMJr: Henry Morgenthau.

M: How are you?

HMJr: Fine. Jack, I wondered whether you would care to come over and see me Friday morning on these plans that you are making where they affect at the Treasury for North Afri - for Italy.

M: Yes, sure. I'd be glad to.

HMJr: And....

M: Now, let me - just a second - (Asks aside: When do we leave? Answer: Friday morning) You couldn't make it tomorrow? I'm going to go off to the - I find I'm scheduled to go Friday morning to the Aleutians.

HMJr: Well.

M: Could I make it tomorrow?

HMJr: Yeah. Well, why don't you take me with you?

M: Oh-h-h-h, oh-h-h-h, well....

HMJr: I can't go so you can say "yes". You don't need....

M: (Laughs)

HMJr:to be polite.

M: I was just toessing over in my mind whether it wasn't feasible.

- 2 -

HMJr: You be - you can be - you can be very enthusiastic about my going with you.

M: I see - because it's impossible to go?

HMJr: Yeah.

M: Oh, well, I was just wondering whether - was beginning to think - as to whether it might not be feasible.

HMJr: Well, thanks anyway. Well, Bell won't be here but I....

M: Yeah.

HMJr:Dan Bell - but I'd like very much to see you. I could make it - say around three o'clock - is that a good or bad time?

M: That's all right. Three o'clock tomorrow.

HMJr: Yeah. Now, I've never met this General Hilldring.

M: I'll bring him along.

HMJr: Would you?

M: Sure.

HMJr: And the thing I want to talk, as I say, is about the financial arrangements and who you want from the Treasury, and that sort of thing.

M: Yeah. Now....

HMJr: You see....

M:let me check up with the three o'clock date....

HMJr: Yeah.

M:with him to see whether that's okay. If it's not, I'll call you right back.

HMJr: Yeah. Now, he - he's the man, isn't he?

M: Yeah. He's the man.

HMJr: I don't know who contacts Bell but he would know.

M: Uh - well, it's Major - I know who it is - it's Major Hilliard.

HMJr: That's the fellow.

M: Major Hilliard.

HMJr: Yeah.

M: You want me to bring - I'll bring him, too.

HMJr: Yeah, because he's been contacting Bell.

M: That's right.

HMJr: Yeah.

M: Now, let - can you let me check up on the....

HMJr: Sure.

M:on the date and I'll let you - on the time and I'll let you know.

HMJr: Well, if I don't hear from you....

M: You'll know that three o'clock is all right but I'll see if - I'll let you know very shortly.

HMJr: Good. I thank you.

M: Fine. Okay.

August 4, 1943
11:45 a.m.

RECIPROCAL AID (BRITISH)

Present: Mr. Smith
Mr. Bernstein
Miss Kistler

H.M.JR: I thought you (Smith) might listen to this because it is a white paper and we might have to answer it, and so forth, and so on. It is an entirely new field for you. It is a very interesting one.

I did read that thing (indicating Aide Memoire, copy attached) last night, Bernstein, and one of the segments I have got to do is - let me just take a chance. Let me answer first Winant's telegram to me.

MR. BERNSTEIN: We have a letter drafted for that.

(Draft of letter to Mr. Winant handed to the Secretary, copy attached.)

H.M.JR: No. Where is the cable?

(Copy of cable from Mr. Winant dated July 29 handed to the Secretary, copy attached.)

H.M.JR: "Your telegram was referred by me to Harriman, since it appeared to involve lend-lease matters," - just that first part, it is such a peculiar way to answer me.

What did the first cable say?

MISS KISTLER: The original cable as it was decoded in London is as we originally sent it to the State Department, but the paraphrase we received--

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H.M.JR: Did I ask him to do anything about it?

MISS KISTLER: You asked him to - either he or Harriman to discuss it.

(Cables to Mr. Winant dated July 8 and July 10 handed to the Secretary, copies attached.)

H.M.JR: That isn't what I want (indicating draft of letter to Winant.)

I want to say, "Dear Gil: I am writing you this personal letter because, frankly, I did not understand why you cabled me the way you did on July 29.

"Going back to the time that Averell Harriman called on me, at which meeting Harry White was present, Harriman's chief interest was to inform me what was going on to try to get the English to place a dollar value on Lend-Lease. I told Harriman that I was glad to be informed but that I was taking no part in that endeavor.

"I then said that I would like him to know what we were doing in regard to trying to get the English to give us raw materials under Lend-Lease in Reverse, but to the best of my knowledge - and I have checked this with Harry White - I did not ask for this assistance at that time. So much for that.

"Next, I telegraphed you on July 10. In the last sentence of this cable I say, 'If you can do anything to hasten a reply by the British, I should appreciate it.'

"Not having had a reply to my cable of July 10 from either you or Mr. Harriman, I wrote a personal letter to Secretary Hull, as follows, in which I forwarded my proposed cable to you. Certainly Mr. Hull ought to know what is the correct procedure for the Secretary of the Treasury to contact the American Ambassador to Great Britain.

"You will be furthermore interested in knowing that before my cable went, Dean Acheson telephoned to me for my approval as to what Mr. Hull proposed to say to you, and I gave him my approval.

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"I am giving you the chronological order of what happened because, frankly, I do not understand why you wanted to point out to me that inasmuch as this involved Lend-Lease you were not informed."

He was trying to slap Hull down. What I think is, he uses this to slap down Hull, to say he is not informed. Certainly I informed him. It went through Hull's office, was checked by Acheson.

"To be less formal, I have always felt that with you in London the Treasury has had a good friend, and I want to continue to feel that way, if you will let me. But, frankly, your cable upset me, and I am sure there are always two sides to every story. And if you care, I would be glad to hear your side of the story as one friend to another. With kind regards, Yours sincerely,"

MISS KISTLER: Yes, we had it wrong.

H.M.JR: "I think he is telling Mr. Hull, 'I don't know anything about Lend-Lease. Harriman is over here as Ambassador for Hopkins,' and so forth, and so on. But if he doesn't know, it isn't my fault. I want to let him know that I did the usual thing of sending it to Mr. Hull's office. Now, that takes care of that."

What is going to happen this afternoon when Stettinius comes to see me? I have read this thing, and I can't make out - somebody said they were going to give us seventy million dollars.

Supposing you start.

MR. BERNSTEIN: The more we read the message, Mr. Secretary, I think the less we feel satisfied with it.

The British have done this - they have agreed with a very qualifying statement, which is a little disturbing - they have agreed with this statement: "On the assumption that the list and valuation accompanying the letter from Mr. Stettinius represents roughly the effect of what is proposed and that no major item will be added" - then they agree to Reciprocal Lend-Lease for these raw materials. They can only accept, they explain, for

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themselves and for the Crown Colonies and Southern Rhodesia, which covers on Stettinius' list a little under seventy million dollars' worth of goods.

There is a hundred and twenty-two million additional, and they say you get that from the Dominions and India by going directly to them. They use the word "directly."

Now, Mr. Acheson has already expressed the view that we should not go to Australia for additional reciprocal aid.

H.M.JR: Does Acheson handle this?

MR. BERNSTEIN: Yes, for the State Department.

It is a hundred and twenty-two million, approximately, from the Dominions other than Canada and India. Now, out of the hundred and twenty-two million almost nothing is left that we feel certain of for this reason: Mr. Acheson has said, "Don't ask Australia." That more than covers twenty-four million, and eighty-seven million comes from India. And we have already been informed by the State Department in connection with lend-leasing silver that it is not altogether legal for us to have a separate agreement with India, so we may get the run-around as far as India is concerned, for the time being at any rate.

H.M.JR: Let me interrupt you. Other than holding up that silver arrangement for India, everything else had gone forward - when I went up before McCarran?

MR. BERNSTEIN: Yes.

H.M.JR: All those other countries?

MR. BERNSTEIN: Yes. The Netherlands have already gotten theirs. The United Kingdom and Australia are getting theirs in a day or two.

H.M.JR: What you are telling me - I wish you could give me on one sheet of paper the things that England

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said they agreed to. In the first column, the things we asked for - this is the list of Stettinius' - then on the other side, if you have a red ribbon, put down the things they have agreed to. Then I can see what the shortages are.

MISS KISTLER: The picture is rather confused because of the--

(The Secretary held a telephone conversation with Mr. Stone, Mr. Hull's secretary, as follows:)

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MISS KISTLER: Is Stettinius going to be disappointed?

H.M.JR: I don't care. This is too important. Stettinius has unquestionably talked to the State Department; he unquestionably talked to the British and said what they should say to me.

You (Smith) don't know the way these fellows move. It is amazing. It is a little exaggeration, but not too much.

MR. BERNSTEIN: You have it precisely right this time, because Mr. Waley was telling me that he had an appointment with Stettinius to talk about this whole business and couldn't come to talk to us on another matter.

H.M.JR: It is amazing. This is a part of the Treasury you have never seen. (Indicating Smith)

MISS KISTLER: What I was going to say, Mr. Secretary, is that our request to the British was very simple. It was for two hundred to three hundred million dollars' worth of raw materials within a year. But the important thing is what the committee's intentions and hopes had been - the inter-departmental committee. The letter to Phillips was merely exploratory, so I think the note should be reviewed more in terms of how it meets the committee's expectations or what the committee had hoped for.

H.M.JR: I want a definite list of what Stettinius gave me.

MISS KISTLER: There is difficulty with the list in that the committee's intentions had not been to limit the program to public purchases. In fact, we definitely considered possibilities of such things as Australian wool, which is coming in on private account.

H.M.JR: To go back, there was a list which either Stettinius or you gave me.

MISS KISTLER: Mr. Stettinius submitted it to the British, and the British have centered their note about it,

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but our request to the British - Mr. White's letter - was not in terms of any list and did not mention specifically public purchases, but merely two hundred to three hundred million of raw materials.

H.M.JR: Did we break it down?

MISS KISTLER: No, it was just very vague.

H.M.JR: Still do what I want. Let's take Stettinius' list and see how near they meet that list, just for me.

MISS KISTLER: We can do that.

H.M.JR: They broke it down by countries and by items.

MISS KISTLER: That is correct. But I think there are more important comments to be made on the note.

H.M.JR: I know, but I want to work from - in the White memorandum, did we say that we would limit that to Governmental purchases?

MISS KISTLER: Mr. Stettinius submitted this list, which I take it was given as an indication of what we wanted, but--

H.M.JR: What I don't understand is this: After all, the British Empire doesn't hold any wool or copper.

MISS KISTLER: The British Government purchases all the Australian wool which is exported. They also purchase all the South African wool which is exported.

H.M.JR: But by excluding private purchases, doesn't it exclude an awful lot?

MISS KISTLER: If they exclude private U.S. purchases it does limit the program considerably - or the possibilities. Also the October 1 deadline limits it.

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I spoke to a man in BEW yesterday and asked him. He said that it wouldn't be unusual if half the contracts were extended through 1944, which would mean that in effect we might not be getting very much. They were now negotiating one contract which would terminate in 1947.

H.M.JR: I don't have to have BEW in on this.

MISS KISTLER: No, no, but I am telling you the facts.

MR. BERNSTEIN: They do the buying.

H.M.JR: They do the buying the way Procurement buys for Lehman, but this doesn't mean Procurement sits in on a meeting or makes a policy.

MISS KISTLER: But the significant point is that the British--

H.M.JR: But between now and this afternoon I want the two of you to give me a balance sheet - this is, what Stettinius asked - you may have to do three columns. You can't break it down - you don't know public and private purchases?

MR. BERNSTEIN: We have the lists, yes.

H.M.JR: What is the other thing? What points do you want to stress?

MR. BERNSTEIN: As Miss Kistler pointed out, they have put a time limit for the beginning. We have asked for the fiscal year, but they don't want to start until October 1, and then they make the limitation that it should not apply to private contracts. That may cut down, even if they agree to the whole two hundred million - the whole list, to begin with - which they haven't yet done - it would bring it down to less than half, in all probability.

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H.M.JR: Let me ask you this: When did they say they were going to get out a white paper on this?

MISS KISTLER: It is not on this.

MR. BERNSTEIN: On the reciprocal aid they have given it to us, and it is value by groups and by countries.

H.M.JR: That is the thing Harriman was working on?

MR. BERNSTEIN: Yes.

H.M.JR: That doesn't mean they are going to get a white paper?

MR. BERNSTEIN: No.

H.M.JR: Why did the British ask us to have our Army rescind what they are doing - the Army since the first of July placing a dollar value--

MISS KISTLER: They have never liked valuation of reciprocal aid.

H.M.JR: In other words, they are going to do it instead of having our Army do it.

MISS KISTLER: I think they probably just object to the Army doing it. They don't like the emphasis on the dollar sign.

MR. BERNSTEIN: They have agreed in principle to publish by major groups and by countries the reciprocal aid they have given. But that will be their valuation, for one thing, rather than the valuation we put on the goods, and that may make a difference.

H.M.JR: It is not clear in this white paper that they are going to publish this other thing?

MR. BERNSTEIN: No, sir, they aren't going to publish this other thing. But we will find out, because when

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Stettinius comes around he is going to have a press release, presumably, which will cover the same material as the white paper.

MR. SMITH: Mr. Stettinius is going to make a white paper?

MR. BERNSTEIN: No, that is the British.

H.M.JR: What happened in all these things? Somebody has got to get tough. They are perfectly willing to let me get tough. Somebody had to get tough with the British to get it, and we haven't gotten it yet, and I am not satisfied.

Now, I have a suggestion. What else?

MR. BERNSTEIN: There is one other thing that is of interest. In addition to this note, Sir Ronald Campbell made an oral statement to Mr. Hull in which he said that some quarters of the Administration don't appreciate the seriousness of Britain's position because of its external liabilities and its gold and dollar holdings. When Waley wrote to you he gave you almost the substance of that oral statement but left out that last statement, that some people don't appreciate the difficulties.

H.M.JR: That doesn't bother me.

MISS KISTLER: Would you want to, before reaching a decision or making any - reaching any final decision - know that the committee in making its final deliberations--

H.M.JR: What committee?

MISS KISTLER: Mr. White's committee on the dollar position.

The report which we had drawn up and was circulated, then held in abeyance because Stettinius wanted the whole question reopened, suggested or recommended three possibilities of reducing the balances, one being the reduction of Lend-Lease assistance, so before reaching a decision--

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H.M.JR: What are the other two?

MISS KISTLER: One is the sterling kitty to finance any sort of expenditures in the British Empire, and the third one is this one on reciprocal aid to cover the raw materials.

H.M.JR: I think the thing - if we decide that this is unsatisfactory, I am going to say it is unsatisfactory. I want to tell them that I want to pursue the thing of cutting down - is the Canadian formula any good?

MISS KISTLER: I think so.

H.M.JR: Could we use that?

MISS KISTLER: No, because in Canada we are working under our contracts - in Canada, instead of lend-lease, we place contracts under the Hyde-Park arrangement.

H.M.JR: No good.

Have you people examined to see if there is any place where we can reduce the Lend-Lease aid - tobacco?

MISS KISTLER: There are a lot of civilian goods going to Britain. In fact, when the whole question was up in April I think Lend-Lease did remove tobacco from the list.

H.M.JR: Are things like that - could you give me some more this afternoon?

MISS KISTLER: We can give you, not detailed commodities, but lists of civilian goods, agricultural and industrial goods, as against military.

H.M.JR: Will you do that?

MISS KISTLER: Yes.

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H.M.JR: And how much it amounts to. Does it amount to a fairly good sum?

MISS KISTLER: In the case of England, it is sizable. The foods are very important.

H.M.JR: Well, do that. And then because I have never been satisfied that we couldn't help some way to relieve them of some of their sterling - that is what really worries me.

MR. BERNSTEIN: The stabilization fund plan is one way of helping them, but I don't know if we ought to help them by just giving them more dollars.

H.M.JR: No. No. Isn't there some way that we could take some of their sterling and buy things with it? They will use sterling to buy this stuff, won't they?

MISS KISTLER: They won't be using sterling - well, the Colonies will, but that is one reason--

H.M.JR: Won't they use sterling to buy this stuff to give us?

MISS KISTLER: We will get them directly from the Dominions, and the Dominions won't get sterling.

H.M.JR: Should I continue to hold up doing anything for India until we get this thing straightened out?

MR. BERNSTEIN: I should think you would. They are coming around to talk about other things again. In the meantime, you know, they have given us this sharing in the - sharing in the gold sales, and they have been playing it up a good deal.

H.M.JR: What is that?

MISS KISTLER: They are going to sell gold on joint accounts.

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H.M.JR: In Iran - that was my suggestion. They go in there - go in the black market - there is gold which is at a great premium - they buy a lot of cheap currency in Iran and tell us we have done it. Then our boys are all excited - "They are going to pay their Army and look at the money they make."

I said, "It is simple. Tell the British we are delighted to have a joint account with them." They had to say yes. So every time they spend a million dollars' worth of gold, which we don't have - we don't have any gold we can use - O.K., we take half of it. I thought that was - I was quite proud of that.

MR. BERNSTEIN: I think we should hold up the lend-leasing of silver to India until we get more satisfaction on this, Mr. Secretary.

H.M.JR: O.K. This is all right. I am seeing you all at three-thirty.

MISS KISTLER: Do you want to see us before?

H.M.JR: You might be in five minutes before.

You (Smith) had better see this thing through.

MR. SMITH: All right.

Willard Hotel,
Washington, D.C.,
August 2, 1943.

My dear Mr. Morgenthau,

The Chancellor of the Exchequer has asked me to send you on his behalf a copy of the Aide Memoire which Sir Ronald Campbell on behalf of Lord Halifax gave to the Secretary of State this afternoon, on the subject of Reciprocal Aid figures and of the supply of certain raw materials as reciprocal aid.

The grant of raw materials as reciprocal aid involves a serious additional burden to the financial position of the sterling area already strained by four years of war, and in particular to that of the United Kingdom. I shall shortly be in a position to hand to the United States Treasury for their confidential information a note setting out the facts of our vast and growing external liabilities and our quite inadequate reserves of gold and dollars against these liabilities. I will bring this paper to the Treasury as soon as I receive it, and I shall be very glad to give them any explanations which they may require.

The Chancellor asks me to send you his kind regards.

I am,

Sincerely yours,

S. D. Waley

(S.D. Waley)

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

AIDE MEMOIRE

On June 3rd Sir Frederick Phillips received from Mr. White a letter stating that one of the questions before the Interdepartmental Committee dealing with matters of financial assistance to the Allies was the advisability of bringing within the scope of the Reciprocal Aid Programme purchases of certain goods being made by the United States in British Empire countries. On June 26th Mr. Stettinius sent to Sir Frederick Phillips approximate estimates of the value of purchases by United States government agencies from the British Empire (excluding Canada) of which a copy is attached for convenience of reference.

2. On June 29th Mr. Acheson left with Mr. Opie for His Majesty's Ambassador a memorandum expressing the hope of the United States Government that His Majesty's Government would find it possible to assemble and, to the extent compatible with military security, to make public figures with respect to the cost of goods and services delivered as Reciprocal Lend Lease. The object of these figures would be to indicate the impressive scope of the Reciprocal Aid extended to the United States by the United Kingdom.

3. His Majesty's Government have given careful consideration to these issues. In their view the principle of the unstinted pooling of resources, namely that in a common war all shall give all they can to the common task, which has been adopted by the Governments of the United States and the United Kingdom, clearly goes far beyond the sharing of production and raw materials. Lend Lease and Reciprocal Aid form one element in a larger whole and are one illustration of a significant doctrine. It is with the desire to cooperate with the United States Government in the furtherance of this conception of pooled resources and in the confident belief that that Government will do everything possible to the same end, that His Majesty's Government have considered the requests put forward in Washington for the publication of Reciprocal Aid figures and for the supply of raw materials as Reciprocal Aid.

4. As regards the publication of Reciprocal Aid figures, His Majesty's Government have devoted much thought to devising a way in which the object that the United States Government has in mind could be achieved without incurring the dangers which His Majesty's Government have hitherto felt in the publication of figures. Their feeling has been that there is a risk of

serious misunderstanding in valuing in terms of money the goods and services provided in the pooling of resources. They have felt that the application of monetary values involves bringing back the dollar and sterling signs into these transactions and furthermore that it would be difficult to establish comparative values without controversy. Moreover, they have throughout been impressed with the fact that keeping of detailed accounts must involve for them a diversion of man-power from other war duties which they feel they cannot afford.

5. His Majesty's Government understand that the United States War Department issued instructions in June to all theatre Commanders to report all monetary values of Reciprocal Aid received, these instructions to go into force officially on July 1st. For His Majesty's Government to keep values of all items on the lines contemplated by these instructions would require several thousands of clerks and accountants whom they are unable to spare for the purpose. Further, the Reciprocal Aid furnished by His Majesty's Government does not consist of large block shipments centrally procured and centrally financed but of a wide field of items given in the daily intercourse of the war effort by complete decentralisation of administrative responsibility. Whatever the American forces ask for His Majesty's Government give if they have it and often to the deprivation of the civil population, but they do not enter all these gifts in an exact ledger account.

6. Nevertheless, for the reasons explained in paragraph 3 above, His Majesty's Government are prepared to meet the suggestion that they should announce monetary figures for Reciprocal Aid. They accordingly propose during the week commencing August 1st to present to Parliament a White Paper describing the general principles of Lend Lease and Reciprocal Aid, illustrating the range of help given and containing global valuations for each of the main groups of such services and assistance as can be valued. This paper will set out what His Majesty's Government give to the United States and also what they give to the other United Nations. The contribution is on a very substantial scale especially in the case of Russia. As soon as the White Paper has been presented to Parliament its text will be communicated to the United States Government.

7. It will of course be understood that the White Paper can only deal with the contribution of His Majesty's Government in the United Kingdom, and His

His Majesty's Government assume that the United States Government is asking the Dominion Governments in the sterling area and the Government of India for similar material. In the meantime His Majesty's Government are informing the Dominion Governments of the action they themselves are taking.

In return for this action on their part His Majesty's Government hope that the War Department will find it possible to withdraw the instruction mentioned above. They hope that the United States Government will understand that for the reasons given in paragraph 5 above, they will not give itemised valuations of reciprocal aid in the way the War Department's instructions would imply.

9. His Majesty's Government have in the light of the principle of the pooling of resources given the most careful and sympathetic consideration to the more important request made by the United States Government for the supply by His Majesty's Government, as Reciprocal Aid, of raw materials to a total value of about two hundred million dollars a year. On the assumption that the list and valuation accompanying the letter from Mr. Stettinius referred to above represents roughly the effect of what is proposed and that no major item will be added, His Majesty's Government have taken the decisions recorded in the following three paragraphs.

10. His Majesty's Government will supply as Reciprocal Aid and at the expense of the United Kingdom Government the raw materials called for from the United Kingdom, Southern Rhodesia and the Colonies which are purchased by the United States Government. It is understood that the United States Administration agree that this shall not apply to purchases made through private trade channels. It is proposed that this arrangement shall apply to contracts for the supply of such materials which are made on or after the 1st October, 1943.

11. Australia, New Zealand, South Africa and India either have separate reciprocal aid agreements with the United States or are negotiating them. His Majesty's Government therefore suggest that the United States Government may wish to approach directly the Governments of each of these countries. For their part His Majesty's Government will inform the latter of their decision and of their general policy.

12. In addition His Majesty's Government will defray at their own expense the cost of British shipping services for these materials from all parts of the Commonwealth.

BRITISH EMBASSY,
WASHINGTON, D.C.

AUGUST 2nd, 1943.

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My dear Mr. Ambassador:

I want to let you know that I appreciate the prompt attention you gave to my request in cable No. 4523, of July 28, 1943.

As you know, Sir Ronald Campbell of the British Embassy has delivered an Aide-Memoire on the subject to the State Department in which the British Government accepts the principle of extending reciprocal aid to cover United States imports of raw materials.

I am grateful for the part you played in bringing the preliminary discussions in London to a close.

Sincerely,

Secretary of the Treasury.

Honorable John G. Winant,
Ambassador Extraordinary and
Plenipotentiary,
Embassy of the United States,
London, England.

RMB:TMK:rl 8/3/43

By J. P. 201

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: July 29, 1943, midnight

NO.: 4966

URGENT

FROM THE AMBASSADOR FOR SECRETARY MORGENTHAU

Your telegram no. 4206, July 10, midnight, was referred by me to Harriman since it appeared to involve lend-lease matters on which I was not informed and since it stated that either Harriman or I was to discuss the subject matter with the Chancellor of the Exchequer and Harriman told me he had discussed the situation when in Washington. I intervened last evening and the question was brought up at a late meeting of the Cabinet. It will be necessary to bring the question before Parliament, trusting me to get a favorable answer.

The Chancellor of the Exchequer in the meantime has communicated the reply which will be delivered through the British Embassy in Washington substantially as follows:

"I am sorry to have word from Lord Halifax of your feeling disappointed at the time it has taken for us to reach a decision on the proposal that raw materials should be furnished by us to the United States under reciprocal aid. Our first information of this was when Dr. White at the beginning of June wrote Sir Frederick Phillips that among other suggestions this was being considered by the inter-departmental committee dealing with questions of financial assistance to the Allies. Subsequently the State Department put it to us as a formal proposal together with others relating to lend-lease and reciprocal aid. To a large extent these questions are interlinked and have given us a good deal of thought, not only because they raise large questions of policy but because of the very thorough technical examination they have needed. Necessarily therefore there has been some delay although, I can assure you, the matter has been given my close personal attention throughout. All these questions are now before the cabinet and I think you may be assured that at the beginning of next week Lord Halifax will have received definite instructions on all the outstanding points the State Department has raised with him. The points you have raised will be particularly covered in these instructions, and, I hope, in a way which will be satisfactory to you.

WINANT

July 5, 1943

To: Mr. Livesey

From: Mr. White

4206

To: London

date sent: 7-10-43

Please transmit the following cable to Ambassador Winant from the Secretary of the Treasury.

Halifax has informed me that you or Averill Harriman are to discuss with the Chancellor of the Exchequer the advisability of extending the scope of the reciprocal aid program to cover certain U.S. imports from the British Empire.

For your information, the developments to date have been:

An Interdepartmental Committee consisting of representatives of the Departments of State, Treasury and War, the Office of Lend-Lease Administration and the Board of Economic Warfare was established last December to deal with matters concerning our policy of financial assistance to our Allies. Britain's gold and dollar balances are rising and Lend-Lease Administration is very eager for political reasons to have the British agree to the extension of the reciprocal lend-lease program to cover purchases of certain goods being made by the United States in British Empire countries. After considering the matter from all angles, the Interdepartmental Committee decided to explore the possibility of reducing Britain's current dollar receipts during the coming year by \$200-\$300 million through this procedure. On May 27 we wrote a letter to Sir Frederick Phillips advising him of the Committee's decision and asking him for his views on the subject.

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Phillips had informed us prior to his departure for London that Halifax had received a memorandum from London which he would submit to the appropriate Government official upon his return from the Midwest. Halifax, however, says that Phillips is taking up this matter in London and that he, Halifax, has received a cable to the effect that you or Harriman are to talk to Sir Kingsley Wood about it. I should appreciate anything you can do to speed the British reply.

TME:rl 7/7/43

August 4, 1943 209[✓]
12:05 p.m.

HMJr: Hello.

Operator: Mr. Stone. Go ahead.

John Stone: Mr. Hull is in his press conference, Mr. Secretary.

HMJr: Well, you always take good care of me, Mr. Stone.

S: You are very kind, sir.

HMJr: Mr. Stittinius is coming over to my office at 3:30 to discuss this memorandum on lend-lease in reverse....

S: Yes, sir.

HMJr:Mr. Campbell gave to Mr. Hull....

S: Yes, sir.

HMJr:and I believe I'm correct that Mr. Acheson looks after that for Mr. Hull.

S: He does most of the time, sir. Yes.

HMJr: Well, if I am correct - let's put it whoever Mr. Hull wants....

S: Yeah.

HMJr:but I would like somebody who could represent Mr. Hull to be here at 3:30.

S: Fine. In your office?

HMJr: Yeah, in my office when Mr. Stettinius comes because we've got to make some decisions.

S: All right, sir. I'll....

HMJr: And it's in reference to that long memorandum from Mr. Campbell.

S: Yeah, I know the memorandum in question, Mr. Secretary, and I'll phone your office and let you know who will attend.

HMJr: Would you, please?

S: All right, sir.

HMJr: I thank you.

S: Thank you, Mr. Secretary.

August 4, 1943
2:20 p.m.

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HMJr: This question of these charwomen over at the Bureau of Engraving....

Randolph Paul: Yeah. I meant to - I saw that in the paper the other day and meant to speak to you about it.

HMJr: I'm going to send in the memo that I got from Thompson and I wonder - I'd like to have you appeal directly to the Comptroller General on the - as a matter of human interest. Will you?

P: Uh huh.

HMJr: See if he can't do something different. See?

P: Yeah. I quite agree with you on the public relations angle.

HMJr: Well, I got a memo on it and I'll send it in to you.

P: Okay. I'll be back there in about five or ten minutes.

HMJr: Oh, aren't you at the office?

P: No, I'm in the - we're having a staff luncheon.

HMJr: Oh, well, is Blough there with you?

P: No, he isn't. This is a law - legal staff.

HMJr: Oh, All right. I'll send it to you.

P: All right. I'll be up there in a few minutes.

Operator: Yes, sir.

HMJr: Roy Blough on the phone.

Operator: All right.
(Conversation with Mr. Blough not recorded.)

August 4, 1943
2:50 p.m.

211[✓]

HMJr: Hello.

Ed
Stettinius: Henry:

HMJr: Yeah.

S: These figures on reverse are not as impressive as I thought they were yesterday.

HMJr: No.

S: They're smaller - much smaller than I'd thought.

HMJr: Yeah. I think our boys say they amount to about seventy million.

S: Seven?

HMJr: Oh, no - seventy.

S: Yes, that's on raw materials.

HMJr: Yeah.

S: But on reverse lend-lease.

HMJr: Oh, that I - well, those I haven't seen.

S: Yeah. Well, now when you see those you're going to be disappointed.

HMJr: Yeah.

S: And I think we want to thoroughly consider all angles of this thing when we meet at 3:30....

HMJr: Well....

S:and Dean told me that he was going to be there, too.

HMJr: Well, I asked Mr. Hull to send somebody over....

S: Good.

HMJr:because I was disturbed.

S: Right.

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HMJr: I went into the thing this morning and when I - with the help of my people - and when I saw it I was disturbed and I didn't - I thought it would be helpful to have Dean here.

S: It will be. Now, I'd like your permission to bring with me....

HMJr: Yeah.

S:Phillip Reed, who is Averill's deputy....

HMJr: Yeah.

S:who just got in from London, who knows this whole thing up, across and down the board. Is that all right?

HMJr: Sure.

S: And would you mind if I brought Oscar?

HMJr: No, fine.

S: Because I think we have to reach a quick decision.

HMJr: That's all right with me.

S: I'll be there at 3:30.

HMJr: Now, wait. While I've got you on the phone....

S: Yeah.

HMJr:isn't that Reed of the General Electric?

S: Yeah.

HMJr: That's all right.

S: That's all right, isn't it?

HMJr: Yeah. Now let me - did you get a copy of the cable which came in from Winant in which he said he didn't know anything about lend-lease and as much as to say "Why did I ask him about it?"

S: No.

HMJr: I thought I sent you a copy of that.

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S: A copy that Gil Winant sent you?

HMJr: Yeah.

S: And he said he didn't know anything about it?

HMJr: Yeah. He wasn't handling it.

S: That's Will Averill - Averill, of course, is a special representative of the President. You know.

HMJr: Yeah, but - no, this was in answer to the second cable that I sent through Mr. Hull personally.

S: I remember.

HMJr: And the come-back was, "Well, I don't know anything about it." But anyway, he said that he went ahead that night and looked into it.

S: Yeah.

HMJr: Well, don't you send your cables through Hull?

S: Oh, everything goes through Hull.

HMJr: Well, this was a most peculiar cable from Winant....

S: And Winant gets all copies of everything we send Averill - he gets copies.

HMJr: Well, in this cable he said he knows nothing about this.

S: Well, that's very - that's very surprising.

HMJr: Well, I've written him a personal letter because I don't know what he was shooting at but I - I couldn't understand it.

S: Well, I can't either, Henry. I'll see you at 3:30.

HMJr: Right.

August 4, 1943
3:30 p.m.

RECIPROCAL AID (BRITISH)

Present: Mr. Acheson ✓
Mr. Stettinius ✓
Mr. Smith ✓
Mr. Bernstein ✓
Miss Kistler ✓
Mr. Reed ✓
Mr. Cox ✓
Mr. Denby ✓
Mrs. Klotz

H.M.JR: I went to school this morning, and after I read it (referring to Aide Memoire dated August 2, 1943) I got a little nervous.

MR. COX: Not half as nervous as I did, probably.

H.M.JR: So I called up Mr. Hull and asked him if we could get a little help from the State Department.

MR. STETTINIUS: Mr. Secretary, this issue really goes back to the hearings on the extension of Lend-Lease, which started in January, when we were at that time questioned at great length on the value of reciprocal aid. We stated at that time that we just weren't in a position to give Congress the specific information as to the value of Reverse Lend-Lease, that returns hadn't come in yet, but that some day just as soon as we could estimate that we would give Congress the amount of reciprocal aid we were getting from the other United Nations.

Also the question was touched on at that time of raw materials that were purchased in the British Empire with American dollars, coming to us on Reverse Lend-Lease.

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Since January we have pursued - with your representatives and working with Dean and his staff we have pursued both subjects. The whole situation culminated in a conference that Mr. Acheson, Averell Harriman, and I had in McCloy's office about six weeks ago when Harriman was here, at which time we reviewed the whole situation as far as Reverse Lend-Lease was concerned and as to whether we should ask the British to give us an estimate as to--

(Mr. Smith entered the conference.)

H.M.JR: May I interrupt, just to clear it? When you are talking about Reverse Lend-Lease, you are talking about the price and you are not talking about these raw materials?

MR. STETTINIUS: That is item two.

H.M.JR: You are now on one?

MR. STETTINIUS: Now, I am on the value of the reciprocal aid that the British have given us. We discussed the matter - Mr. Acheson and I - with Mr. Harriman and Mr. McCloy at great length, and finally we concluded that the time had arrived when we couldn't get by with Congress much longer, that Ellender is out to demand these figures, likewise Vorys of the Foreign Affairs Committee, and Mrs. Bolton and some others, and the time has arrived when sometime before very long, which we think will be this autumn, Congress in one way or another will demand knowing the value of Reverse Lend-Lease.

So Mr. Harriman went back and immediately had conferences with the British in London. Mr. Acheson had conferences with the British; likewise, we on the working level. Now, out of it has come an agreement on the part of the British to make a statement.

The Army has agreed to take the estimates of the British and not to have their two or three divisions, as Doug MacKeachie said it would take, to go in and estimate

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in the field, with all the calculating machines and everything, the value of the aid that they received from the British.

Sir Kingsley Wood, the Chancellor of the Exchequer, is tomorrow morning - six o'clock Washington time - going to arise in Parliament, the last day that Parliament sits before arising for their recess for six weeks, to make a statement.

(Discussion off the record.)

(Mr. Denby entered the conference.)

MR. STETTINIUS: Mr. Denby has been working on this statement with the British. We had worked out a plan with the British yesterday.

Sir David Waley, who has taken Freddy Phillips place, and Opie, who is Halifax's economist, as you know, have been working with Mr. Denby on the matter. We had worked up a procedure whereby we would issue a statement tomorrow at nine o'clock following the Parliamentary statement at six o'clock, which would beat the AP and the UP wire services so that our statement that you and the State Department, the War Department, and ourselves would approve would appear in tomorrow afternoon's papers, and it wouldn't just be a headline splash from London.

Now, this statement gives the basic information that Kingsley Wood will give on the floor of Parliament on both subjects, the value of Reverse Lend-Lease and the matter of raw materials coming to us on Reverse Lend-Lease. It is six pages long; single spaced it is really three pages, and I think possibly, so that all our minds can focus on the same issue, it would be wise at this point to read this statement now. Then we can go back and discuss it, because a number of us have certain questions and doubts.

H.M.JR: This was prepared in your office?

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MR. STETTINIUS: This was prepared in our office, but with the War Department, and Mr. Denby working generally around with all concerned.

H.M.JR: Has Mr. Acheson seen it?

MR. ACHESON: I just got it before I came over.

(Draft of statement concerning Reverse Lend-Lease read by Mr. Stettinius, copy attached.)

MR. STETTINIUS: That is the rough draft of this business that Mr. Denby and the members of our staff prepared. I think our time is very short. I think that we must discuss - I know what you have in mind, Mr. Secretary, the raw materials in connection with the expiration of certain contracts and the Dominions not coming in at the same time. It amounts to seventy million where you and I talked about the two hundred million.

H.M.JR: Two or three hundred million.

MR. STETTINIUS: Yes. Also, we have in mind the possible criticism that these total figures of the United Kingdom aid to us are much smaller than Congress and the public expected, and that we might possibly - they and we might be attacked, that this might do harm rather than help. Also, Oscar has quite an important point in view of the fact that airports, barracks, hospitals, and other constructions were put down at two hundred seventy-four million dollars, feeling that some of our isolationist friends could pick us up and attack us on that point.

H.M.JR: How long have you had this information?

MR. STETTINIUS: We have had this what, a day? We got a cable from Harriman this morning, really.

MR. DENBY: We got the figures yesterday.

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MR. STETTINIUS: I got them at four-thirty yesterday afternoon.

MR. DENBY: The cable came in yesterday with the figures. We haven't had them before that.

MR. STETTINIUS: The cable from Harriman yesterday, which is here, was the first time we have received the figures. And you have been working ever since on a--

MR. DENBY: We met with the British right away and worked with Opie and Waley last night.

MR. STETTINIUS: That is the first time we got information - the cable from Harriman.

H.M.JR: I mean, if you want the Treasury to be helpful it is too bad you didn't give us at least a day to turn around. Here we have no time to turn around in. I mean, if these people had had this last night they could have been studying this thing.

My own feeling - as to the ~~over-all~~ statement - I don't think it is good. And as to what they did on the raw materials - I mean, I can't publicly say that I am satisfied, and I will have to say I am dissatisfied. I wish they would leave any reference to raw materials out, because I can't accept it. I just can't accept it. He had better take all references out, because if they stand by this, then I immediately am going to have to take steps to recommend to you to cut down furnishing civilian materials to England - to the President or to you.

MR. STETTINIUS: You mean--

H.M.JR: I mean, their balances are far too great. They have been fussing around with this thing; they have been stalling on this thing, and they haven't done the right thing.

Now, some way or other I have got to discharge my responsibility, and that is that when their balances get

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above six hundred million dollars we begin to cut it down. Now, you can't start cutting down - we hope to cut it down by getting them to furnish these raw materials. We asked for two or three hundred million, and they came through with seventy and it doesn't begin until the last of October. And there are a lot of things which my people can point out in this thing that don't look right.

Then the only thing left if they stand on this thing is for me to take a strong position to begin to cut down Lend-Lease. Now, I can't do it very well on military, so I have to do it on civilian.

MR. STETTINIUS: When I put that question to the British yesterday--

H.M.JR: I mean, if they make this thing and I am asked at ten-thirty tomorrow at my press conference if I am satisfied, I am going to say no, unless - I want Acheson to advise me, and all of you, but he had better take out his reference to raw materials.

MR. STETTINIUS: Henry, I asked the British yesterday - I told them that I was disappointed yesterday at four-thirty when Sir David Waley and Opie came to discuss this matter with me for the first time; and they said that they had done everything over which they had control, that they had agreed to have the U.K. and the Colonies give the raw materials for nothing, but they could not reach the decision for the Dominions. The Dominions would have to reach their own decision. You (Denby) were with me when that statement was made, and they thought they would recommend to the Dominions and they thought the whole matter would be straightened out very quickly whereby we would get all raw materials from the Empire on reciprocal aid very quickly.

H.M.JR: Well, a bird in the hand is worth two in the bush. And what we really got - that is something. But they have never traded like this with me before. I

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don't like to be traded with. The thing is too big to get down to trading like a lot of horse dealers. I have never traded with them as a horse dealer. I don't want to be in the position of trading. I think the thing ought to be kept on a high plane; now it is getting down to pretty petty stuff and they are rushing us. They have had ample time. Good heavens, when did the first memorandum go from here?

MISS KISTLER: Mr. White's letter was May 27.

H.M.JR: Now I get this at three-thirty in the afternoon and am told that at six o'clock the next morning - let's say you and I - you got it yesterday.

MR. STETTINIUS: Didn't you get an Aide Memoire yourself?

H.M.JR: Oh, yes.

MR. BERNSTEIN: That doesn't indicate that the figures on raw materials will be published at all. The statement about a report to the Parliament is contained in item six, before there is any discussion of the raw materials at all.

It says that as soon as the white paper is presented to Parliament its text will be communicated to the United States Government. And there is no statement at all indicating that they intended to cover in the white paper the raw materials.

MR. STETTINIUS: They have never told you that?

MR. BERNSTEIN: There is no indication here.

MISS KISTLER: That is all we have had.

H.M.JR: When did that come in, the Memoire?

MR. BERNSTEIN: This came in on Tuesday morning.

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H.M.JR: So I am on perfectly justifiable grounds. I am not going to say anything about the other thing, because I haven't been in on it, and when Harriman came in, and all that, I said, "I am very glad to listen to it, but I won't take any part. The Treasury isn't taking any part in getting money value on Lend-Lease in Reverse."

MR. ACHESON: I think you are right.

H.M.JR: But this other thing - you asked me to take this other on, and I have taken it on.

MR. STETTINIUS: That is right.

H.M.JR: I hate to use this language, but I think they are just pulling a fast one on us on the raw materials.

Now, this whole question of India - I mean, if we make this statement and I am left in the position that I have no excuse not to do the Indian silver deal, which I don't want to do - and what are the English balances now?

MISS KISTLER: They were thirteen sixteen at the end of June. The balance at the New York Federal had risen about eighty million during the month, so it would be about one point four billion.

H.M.JR: Which is over double what I said that it should be when I would start to cut down.

MR. STETTINIUS: That is right.

H.M.JR: So if this statement goes out, then I come back tomorrow and say, "Look, I am going to write you a letter, Stettinius, recommending that you begin to cut down on civilian Lend-Lease to England," you having issued that statement it puts you on the spot. I don't want to do that.

Just one little thing - that thing right at the end where you said they had three hundred fifty million contracts outstanding, and let you accumulate--

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MR. STETTINIUS: It was three billion five in here. That isn't right, is it?

MR. DENBY: I can't vouch for that figure.

H.M.JR: Right at the end you said something about you would let balances accumulate.

MR. STETTINIUS: It was three billion five in the text. I thought it was three fifty million. This couldn't be right. That isn't right.

H.M.JR: Neither is right.

MISS KISTLER: I doubt if that is as high as three billion five.

H.M.JR: It isn't right, irrespective of the figure. We never let them accumulate that. We couldn't help ourselves.

MR. COX: That is right.

H.M.JR: They paid off the last of those March '41 contracts - liquidated a long time ago.

MR. COX: Most of them.

MISS KISTLER: They are a little bit trailing along.

H.M.JR: Is it fifty million dollars?

MISS KISTLER: No.

H.M.JR: Twenty-five million?

MISS KISTLER: It might be twenty-five million.

H.M.JR: You couldn't say they are letting them accumulate dollar balances to pay that stuff off. Am I right?

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MR. COX: Yes.

MR. STETTINIUS: I agree with that.

MR. BERNSTEIN: Mr. Secretary, there are other things in there - coming from us, a statement from this Government - which are so distinctly wrong and deliberately intended to give the wrong impression that we could never defend it if the facts came out. The statement that we have to get two hundred million dollars in raw materials shortly, without any pay, simply isn't true. "Shortly" may turn out to be a very long time, and the two hundred million may turn out to be a very much smaller sum. It is never qualified satisfactorily.

MR. STETTINIUS: I didn't get that you said that.

"Total purchases by United States Government agencies of supplies of this character in these countries, in the United Kingdom and in the Colonies have been running at the rate of approximately \$200,000,000 a year."

MR. BERNSTEIN: It is intended to give the impression that we would be getting two hundred million dollars' worth of materials. The statement earlier that we will shortly--

MR. STETTINIUS: It will actually be about seventy.

MR. BERNSTEIN: That is right, seventy if we got it all, but then there is the problem that they have said it will not apply to contracts entered into before October 1. And the probability is that the greater part of these materials are already contracted for for a considerable time in advance. We are very unlikely to get as much as half of that ultimately, that is, within the fiscal year. We certainly won't get half of it.

MR. DENBY: But the "shortly"--

MR. STETTINIUS: That is misleading if what Mr. Bernstein says is correct.

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MR. ACHESON: I think it is.

H.M.JR: Then, Bernie, do you mind pointing out - one of you - that thing about the October 1 date and then the difference between public purchases and private purchases?

MR. BERNSTEIN: When we had first made this recommendation we hadn't intended that it should be limited to public purchases. In fact, we had in mind the very large purchases that might be made of wool. And, obviously, we had a figure first of two to three hundred million, which exceeds even this list that you had presented that covers only a hundred ninety-two million.

MR. DENBY: I have to differ with that because the letter of Harry White's mentioned the public purchases. That is all we have ever talked about.

MISS KISTLER: Yes, but it did not limit it to purchases - materials which are now being procured under a public purchase program. That was the point. And at the committee meetings the discussions did turn on the possibility of--

MR. DENBY: But we always talked of a sum in the discussions, you recall, of about two hundred twenty-five.

MISS KISTLER: It was two hundred to three hundred million. That was the recommendation for the remainder of this year, which is - and then in the letter we said during the coming year, but the original figure, in order to get the British balances added to the billion dollars more at the end of the year, was two hundred to three hundred million during this year.

MR. DENBY: That is correct.

MISS KISTLER: This discrepancy is even greater.

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MR. DENBY: Of course we are not committed to accept this. We have indicated to the British that that was to be - to Waley and to Opie - that that was not satisfactory. They said that the first knowledge they had of it was in transmittal of the Aide Memoire; that Opie, when he left England, wasn't aware of any limitation as to October or as to contracts that were running out.

MR. STETTINIUS: Make that clear, because the Secretary must get that.

MR. DENBY: We have never dealt on that basis. The first we heard of it was when the Aide Memoire was presented, and we raised the question with Opie and David Waley, who themselves expressed surprise, or at least they themselves indicated they didn't realize that that limitation had been put on.

MR. STETTINIUS: The point that Mr. Feis made is that Opie has just been back a day. He has been in London working on this thing for three or four weeks, and this contract limitation business was never divulged to him in London.

MR. BERNSTEIN: Mr. Secretary, actually the Aide Memoire puts such stringent limitations upon attempts to extend this thing that it is extremely doubtful that we could even expect very much further if we once agree to their principles.

There is a statement there - and I quote it - "On the assumption that the list and valuation accompanying the letter from Mr. Stettinius represents roughly the effect of what is proposed and that no major item will be added." That statement is there very distinctly. It doesn't even leave open the question of--

MR. STETTINIUS: Of the wool.

H.M.JR: What I would like to do - I don't want to move too fast, but I realize that the clock is ticking against us.

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Dean, I would like to call up whoever the acting ambassador is - is it five or six hours difference? They have double daylight over there.

MR. STETTINIUS: It is six hours.

H.M.JR: And simply tell them that I make the most urgent request that Sir Kingsley Wood withdraw from his statement any reference to raw materials because I am very much displeased about it. I can't accept it, and need time to turn around.

That doesn't spoil your picture if you are satisfied with your picture.

MR. STETTINIUS: I want Oscar to speak up and present a point of view on the other picture.

H.M.JR: Do you mind - it is perfectly proper for me to do that, isn't it?

MR. ACHESON: I think the two things are entirely separable. If we are getting in trouble by anything he is doing, you can do it.

H.M.JR: It is all right? I mean, you don't object if I do this?

MR. ACHESON: No.

H.M.JR: I mean, it is a perfectly proper thing?

MR. ACHESON: Surely.

H.M.JR: Oscar?

MR. COX: I see no objection to that. My only other point before you call them is, I would like to present the other problem, because I think the whole statement ought to be held up.

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H.M.JR: That is something else again.

Why don't I do this: Let me call up - is it Sir Ronald Campbell? - and simply say that we are meeting here, and would he hold himself in readiness, that I have something very important and may want him to come over.

MR. DENBY: The Ambassador is here.

MR. STETTINIUS: The British yesterday emphasized some hocus-pocus on us of the fact that they could not divulge to anybody in the United States anything that was in Sir Kingsley Wood's statement before he started to read it, and that we were pledged to secrecy.

Now, have we heard about the reference to raw materials in his statement other than the secret document that you saw?

MR. DENBY: No, we have not.

MR. STETTINIUS: Therefore, we can't know about it.

MR. DENBY: Except that Harriman informed us. Harriman informed us.

MR. BERNSTEIN: It says there will be a statement - a white paper. The Secretary could very well say to Lord Halifax that he hopes this white paper will not cover the question of raw materials.

H.M.JR: Now, wait a minute. After all, we are either in the official family or we are not. Dean Acheson represents the Secretary of State, and I am the Secretary of the Treasury. I think it is ridiculous that you, as Lend-Lease Administrator, should know something that I can't know. I am talking in the room - I mean towards the British.

MR. STETTINIUS: I am not saying that.

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H.M.JR: I mean, anything that Halifax knows, Kingsley Wood knows, and vice versa.

MR. STETTINIUS: Do you want to make this clear?

MR. DENBY: Mr. Secretary, I think that what Mr. Stettinius meant was this: There is the very strict rule about revealing anything or indicating anything that will be in the white paper. Despite that rule, entirely in confidence, they indicated to us that the reference to raw materials would be in the white paper.

Now, Mr. Stettinius raised the question whether we would be putting them in an embarrassing position by indicating that we do know it will be in. My answer to that is that wholly without reference to anything the British told us, Harriman in the cable told us that the announcement would include raw materials.

H.M.JR: If you don't mind my saying this, you are splitting hairs. Are you a lawyer?

MR. DENBY: I am a lawyer.

H.M.JR: With Cox?

MR. DENBY: I have given up the law, Mr. Secretary, like Dean, here.

H.M.JR: As a farmer, I think you are splitting straws. (Laughter)

MR. STETTINIUS: I just wanted to bring it out.

H.M.JR: But to make him happy, if he has given his word, you have gotten it from Harriman besides. Will you sleep all right tonight? (Laughter)

MR. DENBY: I will sleep, I hope.

MR. STETTINIUS: I am satisfied.

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H.M.JR: Before I call, you may want the whole thing held up.

MR. DENBY: May I make another statement that may throw some light on this? Sir David Waley and Opie indicated in our discussions last night a further point which bears directly on this question.

H.M.JR: Oscar?

MR. COX: I want to be a devil's advocate for a minute in terms of the American political scene. In the first place, the total figure is six hundred ninety-seven million rendered by the U.K. to the United States.

H.M.JR: Say it again.

MR. COX: Six hundred ninety-seven million of Reverse Lend-Lease rendered by the U.K. to the U.S. Of that figure, two hundred seventy-four million is in airports, barracks, hospitals, and other capital installations in the United Kingdom.

H.M.JR: Which they keep?

MR. COX: Yes, which is over forty percent of the figure. We don't know yet whether that is the capital value, the use value, or some other value. We have already had enough earmarks that people will attack you on that basis saying that if it is capital value, that shouldn't be included.

Secondly, these things are built right in England to help defend England, as well as to serve the American national interest. You would have to compare that with over four and a half billion of direct Lend-Lease aid which has been supplied.

And the other attack which I think would be made is that here, after two years, if you exclude the capital stuff - they have supplied about four hundred million dollars of Reverse Lend-Lease aid, and you tend to work it out on a debt basis - that is, we have supplied under five billion and they have supplied some four hundred million.

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Now, I think there is still an awful lot of education to be done before you get into that kind of a thing. If the raw material thing is properly handled, I think it ought to be handled as a separate release, in which you make the central point that each is contributing as much as it reasonably can by exchanging vital war supplies without the payment of cash. Then you may have to take the next step in educating the American public, the payment for guns and tanks and that sort of thing. The first thing the headlines would pick up would be the figures. All the explanation of them is too hard to get across. The figures would be "U.S. supplies four billion six, British supply six hundred ninety-seven million for the same period." Then the criticism as to what you included.

H.M.JR: Now--

MR. COX: My only point is, I think - which will make out a strong case - is that this is untimely in terms of the American scene, quite aside from what the British judgment is.

H.M.JR: Inasmuch as this is public relations, that is Smith's field. What do you think, Fred?

MR. SMITH: I agree a hundred percent with Oscar. I really do. I think this potentially is one of the worst mistakes Great Britain can make, going way back to this presenting the white paper in the first place, because what they are doing - when the American editors start to editorialize, they will start with this thing suddenly appearing which begins to look as though maybe England is trying to get out from under a little bit, and that they are trying to balance the books with six hundred million dollars' worth of goods and four billion dollars' worth of philosophy - which is the same thing this does. I don't think it will go down very well.

If you have got to present the figures, I should think that there would be some little less spectacular way of getting the figures out, and I don't - I think

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that this particular release tries so hard to sell what Great Britain has done - what the United Kingdom has done - that it unsells. It just asks for trouble. You say they contributed so many million dollars' worth of something, but they fought for eighteen months, and every now and then you put down something that isn't very strong and you follow it up with two paragraphs of philosophy.

Now, in all probability some of that kind of thing may creep into this white paper, and if it does we are going to have another situation here similar to the one that we had when Churchill got on the air and said, "At last I have sucked the Americans in."

I think it is dangerous. I think it is very dangerous.

MR. STETTINIUS: Of course this should be said, that I think most of us have been a little bit misled, feeling that the figures were two or three times what Oscar and I both have been thinking, in terms of about two and a half billion dollars rather than under a billion.

Is that it, Oscar?

MR. COX: Except I was always skeptical of that. I never thought they would run that high.

MR. STETTINIUS: We have been led to believe they were that. Now, these figures are only forty percent of that.

MR. REED: Of course the British Government has been definitely opposed to doing anything of this kind right along.

MR. COX: They see the same problem we see, that the first tendency when you have the first figure - the dollar

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figure - is that people tend to acquaint them - particularly where they are so small in relationship to what has been done under Lend-Lease - with the items of controversy in addition. Then you have to be long-winded in trying to defend it.

My own judgment is that that is not the way to educate the American people as to what the problem is.

H.M.JR: Ed, for whatever it is worth, my recommendation is that the Administration ask Sir Kingsley Wood to hold up his white paper and not release it until we have time to turn around.

MR. STETTINIUS: On both subjects?

H.M.JR: On the whole business.

MR. REED: I agree.

H.M.JR: Dean hasn't said anything.

MR. ACHESON: I am a little worried about the first thing because you have pressed him so hard to do this. Now, what you are worried about is that the figures are smaller than you hoped they were going to be, and nobody can do anything about that. The figures have got to stay that way. If he makes the statement, and you don't put out anything about it--

MR. STETTINIUS: We don't comment at all?

MR. ACHESON: You have to do it sooner or later.

H.M.JR: Even though you press them, and we find when we get them that for the whole war effort - I think it is a major blunder.

I am perfectly willing to say to Halifax - or say it in your (Stettinius') company - I don't think I should say it alone--

MR. REED: You are clear that this must be done sometime within the next three or four months?

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MR. STETTINIUS: I am sure that in the autumn Dean and we are going to be pressed by the Foreign Affairs Committee, and the Foreign Relations Committee, and the Appropriations Committee to explain the value of Reverse Lend-Lease. Sometime we are going to have to meet that, there is no question about that.

MR. REED: So the only real question is whether in the interim - certainly the figures won't grow to a point where they will change - you will have to have education and changing the presentation to make it worth while--

MR. STETTINIUS: Mr. Bernstein and Oscar have raised enough questions in this meeting to convince me, Henry, that if Dean would agree that we should take more time and be sure of our whole plan here - unless you think it would have a bad effect on the British--

MR. ACHESON: No, I certainly am not going to interpose any objection. I just do want you to be sure that you see where you are getting off. You have urged the British to give out these figures and the British have now gotten the figures together. They plan to give them out, and you then ask them not to give them out.

Now, later on are you going to ask them to give them out? It is going to be hard to get--

H.M.JR: Could I answer that? Knowing what the figures are, there are enough good public relations people around who could begin to prepare the ground, but to get this thing as a shock - I mean, you could begin to take a month or two to prepare the thing, and so forth and so on, but this way you have no time.

MR. STETTINIUS: No time at all..

MR. ACHESON: Do you think it will be a shock, or will people be surprised that it is as much as a billion dollars?

H.M.JR: No.

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MR. ACHESON: I think most people think we are not getting anything.

H.M.JR: I think it is a shock. I think there are so many things - you haven't got time to turn around. My hands will be tied. I have either got to knock it down tomorrow, and if I do that, hurt it - and it hurts - I mean, after all, the fact that the Administration has been turning them, that is an internal matter. The matters you have been pressing - that is internal, but the minute you pop this thing, then the whole world knows it. Then Halifax comes back and says, "I have given you what you want, now give me the silver for India." I can't give it to him.

MR. BERNSTEIN: The British may be grateful, Mr. Secretary, if we tell them not to issue the paper. They don't want to issue it - are only issuing it under pressure.

H.M.JR: Would this hurt your relationships in London?

MR. REED: I think we ought to inquire - see how far they have gotten, and see how serious it would be to call it off now. I think it is clear the raw materials should be eliminated. That leaves the secondary question of whether the balance should be presented - we have been pressing that, not they. If it hasn't gotten so far that it is embarrassing, we should delay it.

MR. STETTINIUS: My judgment is the raw materials thing ought to come out; also that we are disappointed in the figures, that we feel we must have a little more time to educate the Congress on this whole issue. Then sometime in November, perhaps, I could go up and explain the situation before the Foreign Affairs Committee, who have really been agitating the thing, and then work out some arrangement at that time that would be much more satisfactory than this arrangement.

H.M.JR: All right?

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MR. ACHESON: Yes.

MR. DENBY: I think that if the whole statement can be stopped, all right, but if the statement can't be stopped I think a statement such as this, with suitable editorial change, should be made. I think we have been pretty clearly committed - that we have pressed for it - and that we have stated that we would simultaneously make a statement.

MR. STETTINIUS: Why wouldn't it be perfectly adequate for us to make our statement in the President's report to Congress on August 25 - we have a special section on Reverse Lend-Lease - and not make any statement now, but hold the whole thing for the next Congressional report?

MR. ACHESON: I think that is what you should do, in any event. I would not make this press release at all.

H.M.JR: No matter what they do?

MR. ACHESON: No matter what happens.

MR. DENBY: You can't do that unless Commons is in session. They won't present it any other way - at least they have indicated so far they won't.

MR. STETTINIUS: Our August report goes to press on the 25th - the President's report to Congress on the 25th.

H.M.JR: Has it jelled with you? Is your mind clear?

MR. STETTINIUS: Yes. Charlie, I am--

MR. COX: All Charlie is talking about is if the whole statement isn't killed--

MR. STETTINIUS: You are in favor of the whole statement being delayed?

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MR. DENBY: I am delighted with that if it can be stopped. If it cannot be stopped, I think we have to issue an explanatory statement.

H.M.JR: It can be stopped, I am sure.

MR. STETTINIUS: I think we are all unanimous on that, Mr. Secretary, as far as our fellows--

H.M.JR: Do you want me to call up Halifax?

MR. STETTINIUS: Yes, and you and Dean and I have a chat with Halifax and ask him to phone London.

H.M.JR: And ask him to come right down.

I don't think that if we are going to ask them to kill the whole thing that we should go into details about why we don't like the raw materials, at this time.

MR. STETTINIUS: No.

H.M.JR: Do it on an over-all thing, and we can take up what we don't like on the raw materials - we can take that up at a lower level, don't you think so?

MR. ACHESON: Yes. I suppose the trouble with the raw materials thing, aside from the point of limiting it, is that you wouldn't want them to pay in sterling to the Dominions for the Dominions' contribution.

MR. BERNSTEIN: It would be one way of assuring you could get it more easily from the Dominions.

MISS KISTLER: That is a question we really didn't consider. That is why it is unsatisfactory. There are only two points which make the raw materials thing unsatisfactory from the Treasury point of view. One is this limitation on the number of items which can go into it. That is a matter for negotiation. There are three points. The second one is the October first, and the third is that they have told us to go and talk with the Dominions.

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Now, you would expect them to take care of the Dominions. If the Dominions have to have pay, they get sterling. Now, the British are going to point out, of course, that they are getting tremendous balances. They don't want to do that. That is the area of argument. I think it is too soon to decide it overnight.

H.M.JR: You can't do it. We sent them the first letter May 27. I am supposed to turn around - here it is Wednesday - twenty-four hours. I know my mind, but I can't get at them. I think they knew perfectly well what they were doing when they were trying to rush us.

MR. STETTINIUS: Mr. Secretary, I think in reaching a decision on the number one - of the value - I think that we should ask for postponement on that because I still feel we are going to have to as soon as we can have more time to leisurely work through this problem. Then in September or October we are going to want to ask the British to make public the value of their aid to us.

H.M.JR: Oh, I think that you are on much safer ground if you let the American public know what the facts are, but I think you should have time to carefully consider how you are going to educate the American public, too.

MR. STETTINIUS: On all angles.

H.M.JR: I think you need time to get stories out. You can see feature writers, you know - get out a carefully prepared campaign on the thing. I mean, look at the good job you did on the Hill. I don't know how long it took you to get ready before you went up there, but it must have taken you weeks.

MR. STETTINIUS: About three months, day and night.

H.M.JR: There you are. And this thing needs, I think, certainly a week or two to prepare.

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MR. STETTINIUS: As a matter of fact, Dean Acheson's brother, Ted Acheson, has been in London for the past several weeks for us, and when he gets back he will be able to give us a tremendous lift as to how to handle the situation.

(The Secretary held a telephone conversation with Lord Halifax, as follows:)

August 4, 1943.
4:26 p.m.

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HMJr: Hello.

Operator: Lord Halifax has been with Secretary Hull but they think he is on his way back to the Embassy now and should be there any minute.

HMJr: Well, call up Secretary Hull's office and see if he has left there.

Operator: All right.

HMJr: Will you do that?

Operator: Yes, sir.

4:33 p.m.

HMJr: Hello.

Operator: Lord Halifax.

HMJr: Thank you.

Operator: Go ahead.

HMJr: Hello.

Lord
Halifax: Hello.

HMJr: Morgenthau speaking.

H: How are you?

HMJr: Fine. How are you?

H: I'm well. I just got back this morning....

HMJr: So I heard.

H:from my tour. How is - what news of your wife?

HMJr: She's been home for a week and getting along fine.

H: Oh, she got home.

HMJr: Yes.

H: Well, that's very good.

HMJr: Yes, I mean....

H: Oh, that's awfully good.

HMJr: Yes, it's fine.

H: Well....

HMJr: Mr. Ambassador, Dean Acheson and Ed Stettinius are here in my office now....

H: Yes.

HMJr:and the three of us are very anxious to see you on something that needs....

H: Yeah.

HMJr:talking about right away.

H: Yeah.

HMJr: Would it be at all convenient for you to come to the Treasury? It's quite urgent.

H: Yes, of course, I will. You want me to come right away?

HMJr: Right away.

H: Yes, I will.

HMJr: I'd appreciate it.

H: I will as soon as I can. I'll hope to be down with you if I can get hold of a car quick, in about twenty minutes.

HMJr: Thank you very much.

H: Will that be all right.

HMJr: Uh - whenever - we'll just be sitting here waiting for you.

H: I'll come as soon as I can make it.

HMJr: Thank you so much.

H: All right.

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(Mr. Stettinius, Mr. Acheson, Mr. Reed, Mr. Denby, and Mr. Cox left the conference.)

H.M.JR: Did you ever hear any more bunk - that this fellow couldn't tell me anything?

Anyway, what isn't clear in my mind - what have they offered to do in the way of raw materials?

MISS KISTLER: They have offered to supply us the raw materials which the United States Government will procure in the United Kingdom, Southern Rhodesia, and the Crown Colonies on contracts which would be signed after October one, and that would amount, on the basis of--

H.M.JR: That would be only on new contracts?

MISS KISTLER: That is right. That is the limitation.

H.M.JR: Any contracts now running would run for their life?

MISS KISTLER: That is right. And I was told yesterday it would not be unusual for half of them to run through 1944.

H.M.JR: I haven't had time to get this.

MISS KISTLER: So that the aggregate of our purchases in the U.K. and Crown Colonies and Southern Rhodesia for this fiscal year is seventy million, but of course it doesn't mean, because of the October 1 limitation, that we would procure anything like that under that program.

MR. BERNSTEIN: More like twenty million we would get because a quarter of the year has gone by. Half of that, probably, at least, would not be covered.

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as it was, say, a year ago. So you may run into difficulties.

H.M.JR: I want to put this in the record.

Mr. Acheson said to me here, he said, "I just want you to know I talked this over with Mr. Hull before I came over, and Mr. Hull is in favor of giving these figures out."

He said, "Of course, if you people feel otherwise, he won't object."

Then I said, "Do you want to call him back on this?"

He said, "No, that is not necessary, but I wanted to let you know how Mr. Hull felt."

I said, "Did he know all these new happenings?" He said that he didn't.

This has been what Harriman - they have been trying to drive this thing through, and it is so obvious - I mean, the English waited for the last minute - they knew we wouldn't be satisfied - then they say, "At six o'clock tomorrow the Chancellor is going to give it," so we wouldn't have a chance to turn around. It is a stupid thing; it is worthy of Harriman, who I think is a very stupid person.

I told you it would be interesting.

MRS. KLOTZ: Yes.

MR. SMITH: Yes.

H.M.JR: Would you believe we would be so dumb? The interesting thing - just to philosophize a minute - when I first started dealing with the English - when I dealt with them the President always said, "Remember, Henry, if you throw a stick at an Englishman he will catch two-thirds of it and leave you one-third." He said, "Always remember that. On any bargain he will take two-thirds." That was in the early days.

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MR. BERNSTEIN: Now they are taking three-fourths, Mr. Secretary.

MR. SMITH: They are taking futures, if you ask me.

H.M.JR: The thing, also, I don't understand is this difference between a public contract and a private contract. I mean, how does that affect us?

MISS KISTLER: When we were deliberating we thought some material now being procured by private importers might be amenable to this program and the Government, instead, might--

H.M.JR: What do you mean? What does that mean?

MISS KISTLER: Well, it might be put under this program, I mean, instead of private importers buying, the U.S. Government would step in and do the procuring in foreign governments, and the one item we had thought of was the Australian wool, or the material which the British Government was buying from the Dominions - sold in the Dominions - and it would be very easy for the U.S. Government to purchase a year's supply from the British Government rather than the private importers going into the market.

H.M.JR: Let's use wool. I still don't understand it. What is the situation?

MISS KISTLER: The British say they will limit the program to these estimates which Stettinius gave me, which covered only public purchases for the fiscal year 1944.

H.M.JR: Public?

MISS KISTLER: And no new additions would be made of any significance. Therefore, that would eliminate adding anything which is now coming in on private account.

H.M.JR: Does wool come in private account?

MISS KISTLER: Yes.

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H.M.JR: That I can't understand. I thought Jesse Jones--

MISS KISTLER: No, that was a stockpile, but so far as wool coming in for current use--

H.M.JR: That is excluded?

MISS KISTLER: Yes.

H.M.JR: That would be excluded under this arrangement?

MISS KISTLER: Yes.

H.M.JR: I was under the impression we had bought the wool crop, or rather that England - I thought England bought it - or was it Australia?

MISS KISTLER: Britain is buying the surplus crop - export wool - in South Africa.

H.M.JR: Why is that public buying?

MISS KISTLER: It is British public buying, but when imported to the United States it is private buyers.

H.M.JR: So that is excluded?

MISS KISTLER: Yes.

MR. SMITH: Public selling and private buying is what it amounts to, as against public buying and public selling.

H.M.JR: That is the only thing I never quite go along on with Wallace. He was always pressing for the private importer, on everything, and his whole organization was shot full of importers. Did you know that?

MISS KISTLER: Yes, they consider - the export trade is their baby.

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H.M.JR: The whole organization is filled with those people - dollar a year. He was always looking after them. Isn't that right?

MISS KISTLER: Yes.

H.M.JR: What have I overlooked?

MR. BERNSTEIN: Nothing, but I wanted to emphasize this point in that connection, that they have tied this up in such a way by excluding private purchases that it turns out we get almost nothing from the arrangement they propose, even if we undertake to try it. We have shut off the avenue of correcting it.

We can't say, "There isn't enough public purchases; let's bring in some private business." They have cut us off completely.

H.M.JR: You will have to repeat it again. You fellows have lived with it - you have lived with it each day, and I haven't.

Have I overlooked anything?

MR. BERNSTEIN: I was emphasizing the limitation - how strong it is - that they have put in there. Stettinius presented a list containing less than two hundred million dollars of raw materials purchased, and all by public contract through the United States Government. They have set all kinds of limitations on it.

Now, it may be that, actually, we would only get some twenty-five or thirty million at the most from the part the British have agreed to provide. And then they have said, mind you, "We won't let you add any major items and transfer anything from private to public account," so we couldn't even correct it if the whole thing turned out to be a disappointment.

H.M.JR: When we get through and they say, "All right" - they killed this statement - who is going to trade this thing with the English on the raw material? I had better do this myself.

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MISS KISTLER: It seems to me the ball was pretty well taken out of our hands after we wrote the letter.

MR. BERNSTEIN: May be given back to us by stopping the statement.

H.M.JR: Who took it out of our hands?

MISS KISTLER: State Department - Lend-Lease apparently held discussions with the British. We weren't informed until afterwards. Our letter wasn't replied to - merely formal statements given to the State Department.

MR. BERNSTEIN: Waley did send this directly to the Secretary.

H.M.JR: Acheson is sick over this.

But Cox put his finger on this; he is a smart boy. He hasn't agreed to it yet, but I think--

MRS. KLOTZ: It seems the obvious thing to do. It will always be difficult to give those figures out.

MR. SMITH: I think this thing is sufficiently important that any white paper - any announcement of the figures made in Great Britain should be sent over here ahead of time and the whole approach ought to be treated from here because we are important.

MISS KISTLER: Isn't it significant that they are issuing a white paper? Previously when they wanted to make a statement to Parliament they have always informed us that it was merely a statement being issued to Parliament. If the white paper isn't written and in final form, why wasn't that procedure followed this time?

H.M.JR: Sir Kingsley Wood always before he has made a statement he always submitted it to us. The answer is if he has the nerve. This wasn't Treasury to Treasury. This was State Department to Foreign Office, British Treasury.

S E C R E T

Preliminary Draft of Statement to be issued

August 5, 1943, concerning Reverse Lend-Lease.

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Subject to Revision

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All Figures are Tentative

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OFFICE OF WAR INFORMATION
 OFFICE OF LEND-LEASE ADMINISTRATION

Sir Kingsley Wood, Chancellor of the Exchequer, made public in a statement to the House of Commons this morning a tabulation of part of the cost to Great Britain of its program of reciprocal aid to the United States, to the Soviet Union and to other members of the United Nations fighting the Axis. At the same time, he announced that all raw materials and food now being procured by the United States Government agencies from the United Kingdom and the colonies for shipment to the United States, will shortly also be provided as reciprocal aid without any payment by us.

These announcements are made after extended examination of the problems involved by members of both governments, ~~and the Lend-Lease Administration~~. The Administrator has consistently advised the Congress that they would be kept fully informed of the extent and nature of reciprocal aid. The figures announced today have just become available and a formal report to Congress with respect to the matter will, of course, be made in addition to this statement. ~~The partial figures announced today~~ indicate that the United Kingdom alone ^{has} ~~has~~ ~~up to the end of June~~, spent considerably more than \$2,000,000,000 for direct aid to its allies, of which ^{almost} ~~about~~ half has been

supplies, services and facilities given to United States forces.

\$300,000,000 has already been spent for reciprocal aid to our troops by Australia, New Zealand and India.

The American people understand that lend-lease and reverse lend-lease do not constitute a bookkeeping arrangement under which a balance is struck simply by matching the dollar value of supplies and services given and received. Certainly by far the greatest contribution made by the British Commonwealth can not be measured in dollars at all. For 18 months before we were attacked, the British Commonwealth stood virtually alone against the Axis, and British forces are continuing to play their full part side by side with American troops in offensives jointly undertaken by the United Nations. We are fighting a common war, and, as the President has said, "each nation shall contribute in accordance with its ability" to the common pool of men and supplies.

The partial accounting of the dollar value of Britain's lend-lease aid to us and to our allies has been compiled in the face of great obstacles to obtaining the necessary statistical data. British aid to us is rendered all over the world, generally out of stocks on hand, and under conditions very different from those surrounding the delivery of lend-lease aid from the United States,

which flows from a central source and begins in the procurement stage. Many supplies and services have been given by the British to our forces under battle conditions in North Africa and elsewhere of which no record at all is available.

Moreover, no cost can be assigned to much of the lend-lease aid that we have received. It is impossible to measure in dollars either the cost to the British or the value to us, for example, of British engineering and designs of weapons based on two years of combat experience gained before we entered the war. All this has been freely made available to us in the production of planes, tanks and other weapons in our own factories, and for our own forces. No estimate can be made of the number of American lives that have been saved by equipping our forces with these improved weapons.

The cost to the United Kingdom for the types of reciprocal aid for which

^{Sir} ~~Mr.~~ Kingsley Wood made estimates, as of March 31, 1943, was as follows:

Goods and Services	\$237,770,000
Shipping	185,380,000
Airports, Barracks, Hospitals and other Construction	<u>274,050,000</u>
TOTAL	\$697,200,000

Almost all of this aid was rendered in a period of nine months, since American troops did not reach the British Isles in substantial numbers until the middle of 1942. The cost to the United Kingdom of reciprocal aid to our forces

First quarter of 1943 was \$272,000,000. This represents an annual rate of more than a billion dollars for the calendar year 1943, without including supplies for our forces outside the British Isles, and shipments of raw materials and food to the United States.

The British are also giving free of cost munitions and other fighting equipment to the Soviet Union. The cost of these supplies sent to the U.S.S.R. up to March 31, 1943 only, is estimated by the British Government at more than \$628,900,000. British reciprocal aid and credits to China, to the French, and to the forces of the governments-in-exile are estimated to have cost another \$750,000,000. This brings the total of British reciprocal aid and credits, insofar as figures can be given, to \$2,075,450,000 up to March 31, 1943.

This total represents a considerably greater quantity of supplies than could be purchased for this amount of money in the United States because cost prices in the United Kingdom are generally much lower than prices for the same equipment produced in the United States. Bearing in mind ^{also} that the population and the national income of the United Kingdom are much smaller than those of the United States, the British contribution is impressive.

In addition to the reverse lend-lease aid furnished by the United Kingdom, Australia, New Zealand and India have provided United States forces in those

and substantial aid, including most of their food.

The Australian Government has now officially reported expending for reverse lend-lease aid to us \$196,358,160 up to June 30, 1943. This sum is made up as follows (Australian pounds are converted to dollars at the official rate \$3.23):

Stores and Provisions	\$ 39,021,630
Technical Equipment	7,244,890
Motor Transport	14,360,580
Aircraft Stores and Equipment	15,272,740
General Stores	24,157,170
Transportation & Communication	21,434,280
Shipping	7,141,530
Works, Buildings & Hirings	66,108,410
Miscellaneous	616,930
	<hr/>
TOTAL	\$196,358,160

For the same period, the New Zealand Government has officially reported

having spent \$46,990,997 for reverse lend-lease aid to the United States made up as

follows (New Zealand pounds are converted to dollars at the official rate of \$3.25):

Camps	\$ 6,536,247
Hospitals	3,451,743
Warehouses	4,954,628
Miscellaneous-Building Projects	7,026,259
Miscellaneous-Supplies, Services and Foodstuffs	25,022,120
	<hr/>
TOTAL	\$ 46,990,997

While no official report has yet been received from the Government, our Army reports having received aid in a total of approximately \$56,195,905, divided as follows:

Military stores and equipment	\$ 5,239,777
Transportation & Communications	3,292,169
Petroleum Products	8,582,410
Construction	30,581,549
Miscellaneous Army, May & June, 1943	<u>7,500,000</u>
TOTAL	\$56,195,905

These figures indicate that a very conservative estimate of the cost of lend-lease aid given to the United States by members of the British Commonwealth of Nations to June 30, 1943, would approximate \$1,300,000,000.

Canada also has its own mutual aid program under which it has already expended an appropriation of \$1,000,000,000 Canadian dollars in providing aid without charge to the United Kingdom, to the Soviet Union and to other members of the British Commonwealth. Recently, a second billion dollars was appropriated for the continuation of this program during the current fiscal year.

The decision to provide as reciprocal aid raw materials and food for export to this country which are now purchased by United States government agencies from the United Kingdom and the Colonial Empire is a significant one.

materials will not only be provided without any payment by us - the British will also pay the cost of shipping, when British ships are used to carry them to the United States. This is a further step toward the pooling of the resources of the two countries for the winning of the war. We have paid dollars for these raw materials up to now for the simple reason that the British needed the dollars in order to help complete their payments to us on the \$3,500,000,000 worth of cash orders which they poured into our war production plants before the lend-lease program. Deliveries of the equipment ordered then are ~~now~~ now being completed. Therefore, it is believed that the British are now in a position to take care of the smaller purchases of essential supplies which they are still making in this country for cash outside the lend-lease program.

The British government thus has agreed to send free of charge to the United States vital raw materials like rubber, chrome and asbestos, and foods like cocoa and tea which we need and which they are able to supply.

Conversations will be undertaken with Australia, India, New Zealand, and South Africa with a view to concluding similar arrangements covering their shipments of raw materials and food to the United States.

of purchases by United States Government agencies of supplies of this
in these countries, in the United Kingdom and in the Colonies have been
the rate of approximately \$200,000,000 a year.



August 4, 1948

I explained to Halifax that I thought for the Chancellor to get out this White Paper tomorrow, the reaction in this country would be most unfavorable. Stettinius and Acheson asked me to put it on the basis that we did not have time to talk with them about raw materials and ask them to hold it up on that basis, but instead of that I put it this way: if we could get together on the raw materials, that would greatly strengthen the statement on Lend-Lease in Reverse and that the figures on Lend-Lease in Reverse needed strengthening.

Halifax was very understanding and got the thing very quickly. After he brought Sir David Waley in, Waley immediately took the position that it was impossible; that this was a matter for the Chancellor to settle; that it was a matter between him and his Parliament; the matter had gone too far and he could not retract. He introduced his remarks by saying, "Did I mind his being blunt?" and I said no, that I would be equally blunt; that I disagreed with him and it was a matter of the United Nations and that he should not do it any more than I would make a statement about aid to England without first giving ample time to the Chancellor to let me know if he liked it.

Well, we talked and talked and talked. I finally said, "Well, if you don't mind my saying, I wish you would not be so defeatist and think about a way to do it rather than not do it."

Waley went to get his hat and while he was out of the room the Ambassador turned to me and said, "You certainly gave the shock of their life today to the British

-2-

Treasury." He said it with a laugh, the inference being that he was sympathetic with me and not with the attitude of the British Treasury.

He said, Well, supposing we decide just to drop out raw materials, because it has gone too far, how would I feel about it. I said that was the lesser of two evils.

Then it turned out that this statement of publicity which Stettinius was to give tomorrow had been written by this lawyer Denby, Opie of the British Embassy, and Sir David Waley, and Stettinius said to me as he was leaving, "I just want to tell you, Henry, I never saw that statement until I was on my way over here. It's the damndest statement I ever saw. It was handed to me in the car coming over." He said it was a terrible statement. Well, my comment is, on an important statement like that he should take time to read it.

As they left, Stettinius said, "What do you think the British will do?" I said, "I think the chances are excellent they will drop the whole thing."

The Ambassador will cable, not telephone. He told the story of how he was awakened at five in the morning when he was staying with Churchill by his secretary who said, "I want you to know that Mr. Mussolini has gone into Greece." He said, "What the hell can I do about it? I can't stop it. I told the damn fool never to bother me like that again. If it's a matter of action, to interrupt me. If it's a matter of information, let it wait."

oOo-oOo

9/4/43

Proposal to Extend Reciprocal Aid to Cover U.S. Raw Material Imports
from British Empire

U.S. Request

Mr. White's letter -- extension of reciprocal aid program to cover U.S. purchases of certain imports from Br. Empire aggregating \$200-\$300 million during the coming year.

Mr. Stettinius' tabulation-- apparently submitted in accordance with discussions held at the State Dept. with the British --

U.S. estimated public purchase program for fiscal year 1943-1944 by areas as follows:

(in millions)

U.K. and crown colonies....	\$70
India.....	87
Australia.....	24
U. of S. Africa	9
New Zealand...	2

The British Proposal

1. The Br. Gov. will supply as reciprocal aid raw materials from the U.K., Southern Rhodesia and Crown Colonies (estimated for current fiscal year at \$70 million) with the following limitations:

a. That the list and valuation submitted by Mr. Stettinius represents roughly the effect of what is proposed and that no major item will be added;

b. That the arrangement will not cover purchases made through private channels;

c. That the arrangement will apply only to contracts which are made on or after Oct. 1, 1943.

2. The Br. Gov. will inform the Dominion Governments of its decision and of its general policy.

3. The Br. Gov. will pay the cost of Br. shipping services for the materials supplied under this program from all parts of the Commonwealth.

Comments on British Proposal

1a and 1b. As we recall, it was not the Committee's intention to limit the proposal to those commodities and to those quantities now being purchased by this Gov.; in fact, one possibility mentioned was the placing of purchases of Australian wool, which is being imported on private account to the amount of \$75-\$100 million annually, under this arrangement.

1c. Our information is that it would not be unusual for half of our public contracts in Br. Empire countries to run through 1944. Again, as we remember, the Committee's hope was that the arrangement worked out would provide for the immediate assumption by the British of our financial obligations on these contracts.

2. Various of the Committee members thought that Australia could not be asked to supply us with any more reciprocal aid. Australia accounts for \$24 million of the total.

General. The extension of reciprocal aid to cover imports from Br. Empire countries was only one of 3 possibilities considered by the Committee. The others are: (a) Establishment of a sterling "kitty" by the Br. Gov. for the use of the U.S. Gov. to finance expenditures in the Sterling Area; (b) reduction in our assistance to Br. by the exclusion from lend-lease of the less essential, more politically vulnerable goods for civilian use.

It is suggested that before a decision is reached concerning the Br. reply, the third possibility be given careful consideration.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 4, 1943

TO Secretary Morgenthau
FROM Mr. E. M. Bernstein
Subject: Britain's Dollar Position

On June 25, 1943, the British Government held \$1,316 million of gold and U.S. dollars. The increase in balances held in the New York Federal Reserve Bank since then indicates that current holdings now amount to about \$1.4 billion.

This total of \$1.4 billion represents an increase of \$470 million since the turn of the year. On the basis of British estimates and in the absence of any deliberate measures to reverse the current trend, these balances are expected to rise a further \$260 million by the close of 1943 or to \$1,660 million. This would be \$660 million higher than the \$1,000 million maximum decided upon in January as appropriate for this Government to assist the British Government to maintain.

Since this decision was reached, the British Government has raised the question whether it is appropriate to count \$263 million of the above assets as available. This is the sum of \$216 million of sterling balances which the British Government reports carry specific rights of conversion into gold, and \$47 million of registered sterling accounts which are convertible into dollars on demand. The British assert that these liabilities are a specific claim on \$263 million of gold and dollars and must be deducted from their current holdings to arrive at the figure of their available gold and dollar reserve.

The Interdepartmental Committee on the Dollar Position of the United Nations agreed (1) to postpone reaching a decision on the treatment to be accorded the gold and dollar demand liabilities of Britain to overseas countries and (2) for the time being to limit the proposed reduction in Britain's dollar receipts to an amount sufficient to bring what the British consider their available reserves down to the \$1 billion maximum. It was on this basis that the Committee in May decided to ask Britain for \$200-\$300 million of reciprocal aid in the form of strategic materials during the remainder of this year. At that time, this seemed sufficient to accomplish the end in view.

The decisions of the Interdepartmental Committee were incorporated in a draft report to the President which was circulated to Committee members for their comments and approval. After the report had been circulated, the Lend-Lease Administration suggested

that the entire question of our policy concerning Britain's dollar balances be reopened and reexamined. However, independent of this opinion, Lend-Lease is anxious to receive raw material imports from the British Empire as reciprocal aid. The Committee then instructed the Treasury to send an exploratory letter to Sir Frederick Phillips informing him of the Committee's intentions and asking him for the views of his Government.

Comments on the British reply submitted to the State Department:

1. As we recall, it was not the Committee's intention to limit the proposal, as the British have suggested in their reply, to those commodities and to those quantities now being purchased by the U.S. Government; in fact, one possibility mentioned was the placing of purchases of Australian wool, which is being imported on private account to the amount of \$75-\$100 million annually, under this arrangement.

2. Our information is that it would not be unusual for half of our public contracts in the British Empire countries to run through 1944. Again, as we remember, the Committee's hope was that the arrangement worked out would permit the British to take over our financial obligation on these contracts immediately and thus permit a reduction of \$200-\$300 million in Britain's dollar receipts during the next year.

3. Various of the Committee members thought that Australia could not be asked to supply us with any more reciprocal aid. If Australia is excluded for this reason, this would reduce the program by \$24 million in a full year.

4. The extension of reciprocal lend-lease procedure to cover imports from the British Empire countries was only one of three possibilities agreed upon by the Committee as appropriate devices for reducing Britain's dollar receipts by an amount sufficient to maintain her balances within the \$600-\$1,000 million range decided upon. The other two devices considered as feasible by the Committee are: (a) establishment of a sterling "kitty" by the British Government, for the use of the United States Government, to finance expenditures in the Sterling Area; (b) reduction in our assistance to Britain by the exclusion from lend-lease of the less essential, more politically vulnerable goods for civilian use.

It is suggested that before a decision is reached concerning the British reply, the third possibility be given careful consideration.

TELEGRAM SENT

HEL

PLAIN

August 4, 1943

U.S. URGENT
AMERICAN EMBASSY
LONDON

4705, fourth.

Personal for the Ambassador.

Your 5044, August 3, and 5065, 5066 August 4,
7 p.m.

The Chancellor's reply to Secretary Morgenthau was delivered in an aide memoire from the British Embassy here. In several respects the reply does not meet Secretary Morgenthau's request and these matters he wishes to take up further with the Chancellor. Secretary Morgenthau learned only this afternoon that the Chancellor expected to announce his proposed action on the raw materials question in his statement to Parliament tomorrow. This afternoon Secretary Morgenthau asked Lord Halifax, Sir David Waley, Mr. Stettinius, and Assistant Secretary Acheson to meet with him. Lord Halifax was requested to ask the Chancellor to postpone his statement until Parliament meets again in September for the following reasons.

If the

-2-, #4705, August 4, to London.

If the Chancellor announces his action on Secretary Morgenthau's request regarding raw materials on reverse lend lease, Secretary Morgenthau will be questioned about it, which would cause him great embarrassment. He cannot say that the proposed action is satisfactory and believes that public discussion will greatly impede negotiations. Among the matters which he wishes to discuss are: the scope of raw materials to be covered; the date at which the arrangement goes into effect; and the arrangements regarding raw materials originating in the Dominions. It was also pointed out to Lord Halifax that the public reaction here to an announcement regarding figures of British reverse lend lease would be much improved if at the same time an announcement could be made on a solution of the raw materials matter agreeable to both governments. Since the latter is not at a stage where this can be done, it was hoped that the entire statement would be postponed. In any event, Secretary Morgenthau felt strongly that no statement should be made on the raw materials question at this time.

Lord Halifax

-3-, #4705, August 4, to London.

Lord Halifax agreed to convey these views urgently to the Chancellor. Please inform Harriman from Statinius regarding the above and tell him that Phillip Reed participated in the preliminary discussion with Secretary Morgenthau and approved of the views above stated.

HULL
(DA)

A-A:DA:ECP
8/4/43

Paraphrase of telegram received

From London

No. 5065, August 4, 7 P.M.

From Winant for Secretary Morgenthau.

"Please reply tonight whether you have received through Washington from the Chancellor of the Exchequer a satisfactory answer as to whether the British will supply us during the coming year with between 200 million and 300 million dollars of raw materials in the form of lend-lease in reverse.

August 4, 1948

D. W. Bell
Secretary Morgenthau

If Colonel Foley goes to Italy, he might
want to put this man on his staff.

July 29, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Francis X. DiLucia, a former Narcotics Agent who has been for the last year a representative of O.S.S. in Madrid with the title of Financial Attache, is now here awaiting reassignment by O.S.S. It is probable he will be sent to Italy. DiLucia was formerly Treasury representative in Italy and thoroughly acquainted there. Harry Anslinger suggests that rather than permit him to go back as a representative of the O.S.S. it might be preferable to send him as Treasury representative. It is probable that by the time he could get over there the greater part of the Italian peninsula will be in our hands and we shall have a variety of Customs, Narcotics and other problems which are Treasury responsibilities. Harry has had a talk with the Colonel in the War Department who has most to do with the AMGOT organization and he believes that the Army would be receptive to having an experienced Italian-speaking man go over there as a representative of the Treasury Department to work in liaison with the military occupation authorities. Friction with the State Department was in the main responsible for DiLucia's removal from Madrid. I understand that he furnished information of great military value. I quote from a report made by DiLucia to Harry Anslinger dated May 13:

"In my report of April 27, 1943, under the sub-title 'Italy', I referred to statements allegedly made by Badoglio that if he were to receive assurances from America that Italy would be assisted during her trying period immediately following an armistice, he would direct the Italian Army to revolt against Mussolini and the Fascist Regime. Further reports from this informer now indicate that Senise, who, as you well know, succeeded Bocchini, is closely tied up with

- 2 -

Badoglio's move. Senise resigned his post as Chief of Public Security, in the Ministry of the Interior, because, as he told Mussolini, he could no longer guarantee order in Italy. This Senise-Badoglio combination has sent word, through our informer, that in order to successfully start an uprising in Rome, the Allies must furnish an initial one million Swiss Francs for the undertaking. Delivery and contact to be made in Bern, Switzerland."

I recommend that we consult the War Department for permission to send DiLucia to Italy as Treasury representative attached to the government of occupation with a view to his remaining as Treasury representative when and if the occupation government turns over authority to a purely Italian regime. I think we shall need someone there in his particular sphere of action even though you should later send one or more strictly financial representatives.



AUG 4 1943

My dear Mr. Secretary:

I refer to your letter of July 23, 1943 (Eu 3600.515/108) regarding the request of the Bank of Poland for the assistance of this Government in bringing to this country approximately sixty-five tons of gold belonging to the Polish Government, now stored at Kayes, Senegal, French West Africa.

The Treasury is in full agreement with the State Department that it would be in the interest of the United States to have the Polish gold brought to this country.

It is suggested that the representative of the Bank of Poland be informed that this Government is prepared to facilitate the shipment of the Polish gold to this country at the risk and expense of the Polish Government, the shipment to be made by naval vessel subject to the approval of the Navy Department.

There are two procedures available for the importation of the gold pursuant to the Provisional Regulations issued under the Gold Reserve Act of 1934, a copy of which is enclosed. If the Polish Government desires that the gold be sold to the United States it may be imported under section 40 of the Provisional Regulations and the requirements of that section should be observed. On the other hand, if the Polish Government desires to hold the gold in this country, it should be placed under earmark in an appropriate account at the Federal Reserve Bank of New York in the name of the Government of Poland or the Bank of Poland. In this connection it should be noted that the Bank of Poland maintains an earmarked gold account with the Federal Reserve Bank of New York in which the gold in question

Photo of incoming and copy
of reply in Diary.

File returned to Mr. White.

- 2 -

could be deposited. In the event that the gold is to be held under earmark it should be consigned to the Federal Reserve Bank of New York which holds a license issued by the Secretary of the Treasury authorizing it to import gold to be held under earmark for foreign governments and foreign central banks.

The gold presently held by the Federal Reserve Bank of New York for the Bank of Poland is in an earmarked gold account which has been certified by the Secretary of State pursuant to section 25(b) of the Federal Reserve Act, as amended. The most recent certification of this account is dated July 3, 1943. It might be desirable to follow a similar procedure with respect to the gold in question.

Sincerely yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury

The Honorable

The Secretary of State.

Enclosure.

AM:ec 7/28/43



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Bu 200C.515/108

July 23, 1943

My dear Mr. Secretary:

This Department has received through its representative at Algiers a request from the Bank of Poland for our assistance in bringing to the United States approximately sixty-five tons of gold belonging to the Polish Government now stored at Kayes, Senegal, French West Africa. According to the representative of the Bank of Poland in Algiers, the French authorities there have consented to release to the Polish Government this gold and other miscellaneous assets.

This Department is of the opinion that it would be in the interest of the United States to cooperate in bringing this gold to this country, provided, of course, that the United States Government assumes no responsibility whatsoever in connection with the shipment. In this connection the representative of the Bank of Poland inquired whether the shipment could be made on a United States naval vessel.

It would be appreciated if you would indicate whether you concur in this recommendation and have any suggestions as to the procedure to be followed in this matter.

Sincerely yours,

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





SECRET

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

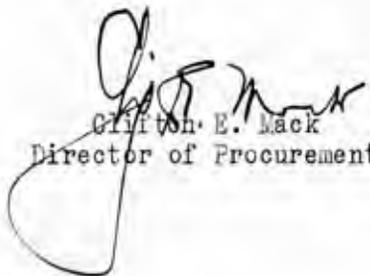
OFFICE OF THE DIRECTOR

August 4, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended July 31, 1943.

We have established a special group of inspectors to survey the condition of Lend-Lease supplies in warehouses and at the ports to determine whether action should be taken to prevent deterioration. It is expected that the group will complete their survey this week of the Northwest Lend-Lease Warehouses and port stocks. Periodic surveys will be made at all storage points throughout the country relative to condition and such action taken as may be necessary.


Clifton E. Mack
Director of Procurement



SECRET

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF JULY 28, 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	\$3873.8 (3863.5)	\$1931.8 (1931.8)	\$1557.0 (1557.0)	\$103.4 (103.4)	\$10.9 (10.9)	\$270.6 (260.4)
Purchase Authorizations (Requisitions)	\$2942.6 (2910.2)	\$1570.4 (1566.1)	\$1216.7 (1190.3)	\$38.3 (38.3)	-	\$117.1 (115.4)
Requisitions Cleared for Purchase	\$2869.6 (2834.5)	\$1538.2 (1523.4)	\$1179.5 (1161.0)	\$38.2 (38.2)	-	\$113.5 (111.8)
Obligations (Purchases)	\$2774.7 (2713.7)	\$1506.6 (1487.1)	\$1108.9 (1097.0)	\$38.2 (38.1)	\$6.8 (6.8)	\$87.1 (84.5)
Deliveries to Foreign Governments at U. S. Ports*	\$1192.2 (1179.8)	\$826.0 (822.9)	\$334.6 (325.5)	\$18.6 (18.6)	-	\$12.9 (12.8)

*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 July 26, 1943.

8/11/43

Mr. Ted Gamble.

The Secretary.

I wonder if we can't get back from Sicily somebody like General Patton or even General Montgomery and then get some of these big stadiums that will hold fifty to one hundred thousand people and only people that buy a \$100 bond can get in to see them and hear them talk. I don't think this is beyond the realms of possibility. The speed at which they are cleaning up Messina - it looks to me that it ought to be well out of the way and we might be able to get somebody like that fresh from the battle front. Try also General Doolittle. I wish you would talk it over with your people and give me your reaction promptly.

Finished -

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

August 4, 1943

TO Mrs. McHugh
FROM Fred Smith

Here is the tentative itinerary of the Secretary's speaking engagements for the Third War Loan.

September 8 - Speech at the front of the White House.

September 12 - Broadcast on "We the People" from Independence Hall, Philadelphia, Pennsylvania.

* September 17 - Broadcast from St. Louis.

September 24 - Broadcast from Los Angeles.

R

* This may be moved to September 16 in order to take over a "March of Time" Broadcast.

25

AUG 4 1943

Dear Mr. Hemingway:

It was certainly not our intention to convey the impression that the American Bankers Association had advised on our War Finance organization. The particular release you refer to was one having to do solely with the goals and the basket. This is what was meant by the "goal" and the "program".

It did not occur to us that any one would dig back into previous releases and assume that we were referring to the entire War Finance operation.

We are very sorry, however, that it appears to you to be misleading, and I can assure you that the statement will not be repeated.

Sincerely,

(Signed) H. Morgenthau, Jr

Mr. W. L. Hemingway
President
The American Bankers
Association
St. Louis, Missouri

Complete file in Diary.

FS:mlf
6-4-43

THE AMERICAN BANKERS ASSOCIATION
OFFICE OF THE PRESIDENT

MERCANTILE-COMMERCE BANK AND TRUST CO.
ST. LOUIS, MISSOURI

W. L. HEMINGWAY
PRESIDENT

July 31, 1943

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

Dear Mr. Secretary:

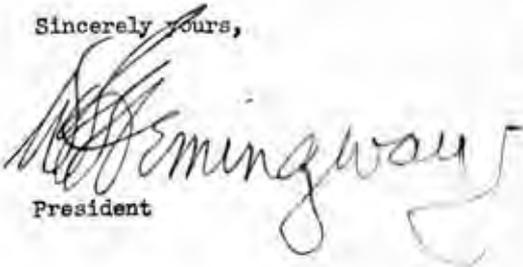
My attention has been called to the Press release of July 22 containing the following sentence:

"This goal and the Third War Loan program was determined by Treasury officials after receiving recommendations from chairmen of the State War Finance Committees, and officials of the Federal Reserve System and the American Bankers Association."

This appears to be misleading because it creates the impression that the officials of the American Bankers Association have made recommendations concerning your new plan of organization of the War Finance Committees. You did not seek our advice on that subject and none was given. I believe it will be well for you to caution your publicity man not to repeat this mistake.

We are bending our efforts to assist in the Third War Loan Drive and sincerely hope that it will be a big success.

Sincerely yours,


President

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 4, 1943

TO Secretary Morgenthau
FROM Fred Smith

NBC has a radio program called "For This We Fight" dealing with post-war problems. It is a round table operation, preceded by one or more speakers.

NBC would like you to head up the program on the evening of September 4. The topic being "Peace -- Promise or Menace." The broadcast would deal with both human and financial problems under the general thesis on how we would translate victory into a happy and prosperous peace.

It is a good program with a good listening audience, and it is a good subject.

It is my feeling, however, that we haven't enough time to do a good job on it and it comes at a bad time -- just four days before launching the Third War Loan. I think Herbert feels the same way. The man wants an answer today, and I promised I would take it up with you, which I am doing.

FB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: August 4, 1943, 10 a.m.

NO.: 1373

This is a strictly confidential message to the Secretary of the Treasury from Mr. Adler, referring to Department's telegrams no. 967, July 26 and no. 997, July 31.

1. I notified Dr. Kung according to instructions when I saw him yesterday. He was taken back at first and then said that it was too bad that just at the time when the Ministry of Finance was about to renew the 1941 agreement, after preparing specific revisions for your consideration, action was being taken. As of August 2 I have submitted my resignation.

2. After being informed the Chairman of the Board said that he assumed that I would participate in the work of liquidating the Board. I told him that before formally agreeing to do so I would prefer your specific authorization.

3. I would appreciate knowing about when I would be expected to take the trip to India.

ATCHESON

OFFICE
SECRETARY OF TREASURY

NOT TO BE RE-TRANSMITTED

1943 AUG 5

PM

12:30
~~55~~

COPY NO.

280
13

BRITISH MOST SECRET
U.S. SECRET

TREASURY DEPARTMENT

OPTEL No. 256

Information received up to 7 A.M., 4th August, 1943.

1. NAVAL

MEDITERRANEAN. 31st/1st. One E-boat severely damaged in an engagement south of REGGIO between 3 M.T.B's and 3 E-boats.

1st. French naval authorities took over control of PHILLIPPEVILLE Harbour. Cargo discharges at AUGUSTA and SYRACUSE reached approximately 8,700 ton and 4,000 tons respectively.

2. MILITARY

SICILY. 8th Army. 2nd. No reports available beyond considerable artillery activity in Coastal Sector south of CATANIA and continued very fierce fighting inland.

7th Army. Several enemy counter attacks against TROINA were repelled. (Force) reached a point six miles southwest of SAN FRATELO and U.S. infantry five miles east of SAN STEFANO.

3. AIR OPERATIONS

WESTERN FRONT. 2nd/3rd. 399 aircraft dropped 1,343 tons at HAMBURG, 124 dropped 402 tons on other areas in North West GERMANY and 187 aircraft made no attack.

3rd. Escorted Whirlwinds bombed building and barracks at air-fields in BREST area. Typhoons attacked a 1,000 ton ship with about 15 escort vessels off LE TOUQUET. Ship was left burning and 7 E or R boats damaged. Casualties - Allied 4, nil, 1. Enemy 2, 2, 5.

3rd/4th. 9 aircraft laid sea mines.

SICILY. 1st. 48 bombers attacked MILAZZO. 1st/2nd. 247 medium and light bombers attacked towns near MT. ETNA.

BURMA. 1st. Mitchells (B. 25) dropped 32 tons on bridge and other targets in SHWELI River area.