

DIARY

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August 18, 1943  
9:00 a.m.

INTERNATIONAL STABILIZATION FUND

Present: Mr. Bell  
Mr. White  
Mr. Crowley  
Secretary Jones  
Mr. Berle  
Mr. Eccles  
Mr. Pasvolsky

H.M.JR: I don't know whether Mr. Eccles will get here or not.

I don't know how long ago it was that we had a meeting of this committee which authorized the Technical Committee to go ahead with this question of stabilization of currency. They proceeded, and then a number of countries sent delegates here who have consulted with us. We made considerable progress, so much so that we felt that we could give out a release, which we are proposing to do tomorrow.

The most recent development is that England has advised the State Department that they are sending a group over here the middle of September - a very important group - to talk about the question of world trade and financial matters, and Mr. Hull referred the British people to the Treasury to continue as they have before on financial matters.

We will go forward and then you can ask White all the questions. He has all the answers.

We would like this committee to authorize the so-called Technical Committee to begin a study so we will be at least partly ready to discuss the question of exchanges when the English come.

Have I covered it all, Harry?

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MR. WHITE: Yes. I thought you planned to talk it over with the Congressional Committee. You promised them that after there had been some progress you would come to them again and keep them informed. We plan to do that after Congress reconvenes - merely give them a brief summary of results of the discussions, and inform them that it is still at the discussion stage; and at what point you are going to see the President, I don't know.

H.M.JR: Do you have something to give these people?

MR. WHITE: Well, the revised draft which I think most of them have had already - the press release--

H.M.JR: They like to get something when they come to the Treasury. You can't give them a twenty-dollar gold piece, so you have to give them something. (Laughter)

The press release will consist of this same document with a preliminary statement by the Secretary. I will get them over to you.

(Mr. Eccles entered the conference.)

(Copies of booklet entitled "Preliminary Draft Outline of a Proposal for an International Stabilization Fund of the United and Associated Nations" distributed by Mr.White.)

MR. WHITE: Practically the only country we haven't heard from, or hasn't participated in the discussions, has been Russia.

MR. JONES: Who?

MR. WHITE: Russia. They have repeated that they are very interested and that they will send representatives, but so far they have never arrived. They had an observer at the discussions.

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H.M.JR: Can I interrupt you to tell a story on that - a very amusing one?

I was up in Buffalo - went through the Bell Aircraft - and Larry Bell said, "I may have done something I had no right to do, but I wanted to get some of my mechanics to see how my planes are doing." He said, "We tried every way". He heard somebody was going to Russia so he wrote a letter, "My dear Mr. Stalin: You have some of my planes. I would like to send some of my men over to see how they are going."

Within a week or ten days he got a letter saying, "Sure, send them over."

So maybe we should sit down and write a letter - "Dear Joe"-- (Laughter)

MR. BERLE: Well, you might try. I am a little less optimistic about it, in that case.

H.M.JR: Go ahead, Harry.

MR. WHITE: With that exception, all the countries - practically all the countries - seemed to be in fairly good agreement with the revisions which were suggested. Many of them were suggested by delegates from those countries and some of them were included to meet their objections. Some of the countries definitely stated already that they would go along.

China so informed us, with one reservation, which I think arose from their misunderstanding of the proposal, and not any objections, so that I think after the thing is made clear to the people back in China, they will find themselves in agreement.

The changes which were made were in part, also, a result of a number of lengthy discussions we had within our own Technical Committee, and particularly with representatives of the Federal Reserve Board who wanted us to move more in the direction of larger gold contributions,

and we did move in that direction. I think the technical men on the Board are satisfied that we have gone as far as is practical or feasible in that direction, so that the present draft is the basis of agreement of the technical men of the United States and a substantial measure of agreement among the delegates of various countries who were here.

In some cases the financial ministers themselves happened to be here and indicated their general adherence. What differences will crop up if there is a formal discussion, I don't know, but on the major matters I doubt whether there will be any substantial difference. So this draft represents something that should closely approximate what the countries might agree on with the exception of the British.

The British are coming with some counter suggestions. What they are, I don't know. But they are coming with some counter suggestions, and they have accepted - the technical men have accepted much of our program, but not all, and they have gone back to their governments to discuss the thing carefully, and I understand from our men in London that they have been discussing this at very considerable length, and they are coming back with some provision. What that will be, I don't know. They are supposed to be here before the middle of September.

MR. BELL: What about Canada?

MR. WHITE: Canada is pretty much in agreement.

MR. BELL: Will they come out with a separate proposal?

MR. WHITE: Their proposal, in a sense, was a separate proposal, but it was a proposal which they told me was an attempt on their part to bring together the differences between the British plan and the American plan.

Now, they also had some very excellent suggestions. They had some very good men here. They had some suggestions of their own, but this plan was an attempt to

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bring together both plans, but it more closely approximated the American plan. They are more in favor of the American approach, but being part of the British Commonwealth, they probably didn't go as far as to authorize our plan publicly as they might have done, but in the discussions it was revealed that they are very much in agreement with our approach.

Mexico is, of course--

MR. PASVOLSKY: Keynes' letter refers to this draft, doesn't it?

MR. WHITE: Yes.

MR. PASVOLSKY: That was a very encouraging letter - an extremely encouraging letter. The differences indicated can certainly be easily ironed out.

MR. WHITE: The cable from Keynes, I think, also was encouraging, because it contained the statement that in a week end we could iron out our differences. That seemed to suggest that the differences are not basically profound.

MR. PASVOLSKY: As I read that Keynes statement, there are going to be just those two points; how much gold, and what to do with foreign exchange control.

MR. WHITE: And the latter - I don't think there is any difference between us in the latter - foreign exchange control. They might want to move further in that direction than most countries would care to.

On the contrary, the domestic press, such as there has been of it - some of the comments - you may not have heard them - border all the way from facetious to outright hostility. There are a few articles which are not of that character - rather, they seem to favor it.

Most of the discussion in the press and most of the criticism in the press springs from a complete ignorance

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of the plan, or misunderstanding. And I think that is largely our fault, and designedly so. We haven't attempted to supply to them very much, or discuss the matter with them very much, because we have been waiting until there was agreement - a measure of agreement among ourselves and among the other countries, so we won't be explaining and defending some kind of a proposal which we ourselves would want to back away from. That is why there is a very considerable misunderstanding. I don't mean all the opposition springs from a misunderstanding, because there will be definite opposition from some people even if they understand it - or they may not care to understand it. And on the part of some sincere people there will be opposition. But the more they understand it, I am convinced, the less there will be any basis for criticism, because we take care of most of it. It is merely because they don't understand it.

But in pursuance of that line of thought, we had already had some conferences with banking groups, and are arranging more with the banking groups through the Federal Reserve Board, and we find that in the few meetings we have had, the reactions are much more favorable to the proposal after they have talked with us than before. They have told us so, and we have not had any extensive conferences - only one on the revised plan - so that the revised plan has considerable improvement, even from their point of view. I should expect that we will get more favorable reaction from businessmen, from exporters, importers, and bankers, but there still will be criticism.

MR. JONES: Mr. Secretary, could I interfere just a minute? I wonder if you could tell me, in short, what is in this (indicating preliminary draft) - a short digest. I haven't kept up with it very well.

H.M.JR: We have the time.

MR. JONES: Just very shortly.

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MR. WHITE: The plan calls for participation by the United and Associated Nations and each nation that subscribes to the plan makes a contribution determined by a pre-agreed-upon quota, and their contribution is measured by a number of things - their gold holdings, their importance in trade, and their disequitable balances, payments, and so forth.

MR. JONES: That is the world bank?

MR. WHITE: No, this is the Stabilization Fund. I will give you some idea of contributions as worked out by the formula.

The United States would participate to the extent of almost three billion dollars - maybe a little less. The British Empire as a whole would be a little less than that - maybe two and a half or two and a quarter, depending on some adjustments to be made.

China had a contribution which was rather small. We had to up it. They wanted it increased because they felt they wanted to be one of the big four. A good many of the smaller countries' participations run to twenty-five, fifty, and one hundred million dollars. Their participation or contribution - it really isn't contribution because it represents their own assets, even though it is in the Fund - is partly in gold, partly in their own local currencies - of course, to us it doesn't make any difference, but to most countries it does - and partly in their own bonds which they can replace with currency if needed and as the time goes on.

Now, the amount of gold which they contribute is based on the amount of gold that they have, so that a country with very little gold is permitted to put in a small amount, and a country with a large amount of gold is permitted to put in a larger amount. Each country becoming a member subscribes to certain principles that it will abide by - non-discriminatory trade practices, the liberal commercial trade policies that we stand for and they will cooperate with, and so forth.

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The privilege that each country then has is to buy foreign exchange from the Fund up to a certain amount without many conditions. The amount that they can buy is not very great without conditions.

In other words, Brazil could apply to the Fund and say, "We want so much sterling and so many dollars," and they could buy it up to a certain amount without many conditions. As they go above that amount, they can buy it only with the approval of the Fund and that approval is given only if the conditions of the country - the economic and financial conditions - are such that there is an expectancy that they will be able to retire that foreign exchange within a reasonably short time.

As they apply to the Fund more and more, then the conditions are made more and more stringent, so that the Fund is able to protect itself that way. That enables, however, a country like Greece, let's say, that has practically no foreign exchange, to purchase foreign exchange provided she needs the foreign exchange for trade - that is, she can't do it without capital.

MR. JONES: What do they buy it with?

MR. WHITE: They buy it with their own currency so that the International Fund gets their local currency and gives them the exchange - the foreign exchange that they want, either dollars, sterling, or francs - and the Fund, therefore, always has the same assets because any exchange loss has to be made up by the country that is responsible for it.

The Fund, presumably, never loses or gains, but those assets are not made up the same way they start - with a lot of gold, a lot of dollars, a lot of sterling, and others - but as time goes on the character of those assets will change.

Much of the gold will be expended in this country probably to buy dollars, and more of the local currencies will come into the Fund, but as that happens the operation -

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the administration of funds begins to tighten up.

If, as may well occur, the Fund runs out of any particular currency - and it is likely to run out, or likely to run short of dollars - not dollars, but dollars get low after a year or two or three - then the Fund has the power to raise more of any currency if it wishes.

Supposing the Fund feels that it wants more dollars to satisfy what they regard as the reasonable legitimate demands of members of the Fund; it can attempt to raise those dollars by going to our open market and borrowing on its own bonds, which is certainly not practical to begin with, because their prestige and status will probably not be very high to begin with, and it can do so only with the consent of the United States - only through its representative - or it can borrow from the central bank. It can come to Marriner and say, "We would like to borrow so many dollars for such a period," or it can sell securities which it has, again with the consent of the United States.

In short, those are ways of raising dollars, but always with the country in question - in this case the United States - having the final say whether they will get it or not get it. That means that so far as the resources of the bank are concerned, they are flexible. They can be increased, provided the United States wants to increase them with its dollars, or provided England wants to increase it, if the demand is for sterling.

They cannot demand dollars unless dollars are going to be used in trade between the United States and a particular other country.

MR. JONES: They buy the dollars to spend here?

MR. WHITE: That is right. They buy the dollars to spend here, or for expenditures that have already been made, or probably interest payments, or investment, and so forth.

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So from the point of view of sources of the Fund, it is so devised that it is fairly flexible. You can increase the resources, but always with increasing opposition.

From the particular point of view of the country being a member, they can only get as much as they need with this very important consideration, provided that at each stage they meet the conditions imposed upon them by the fund so that a small country might find itself in a position in which it is demanding dollars and the Fund would say, after consideration of the situation, "We feel that before you can get any more dollars you ought to do thus and so."

Now, I have only touched upon some of the high spots.

MR. JONES: What is the approximate total of the Fund?

MR. WHITE: If all the countries were to join, which would include the neutral countries that haven't been asked yet, and possibly the enemy countries at some time in the future- provision has been made that they can - the amount will be approximately ten billion dollars.

I have left out the most important thing of the Stabilization Fund, and that is a question of exchange rates. There would be agreement on the exchange rates which should prevail at the beginning of the Fund. Thereafter, no exchange rate can be changed by the Fund without the permission of the country in question, and without permission of three-quarters of the members' votes of the countries, with the exception of certain occupied countries who can get it changed with a majority vote.

There are certain differences, depending upon--

MR. JONES: With the permission of the country?

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MR. WHITE: And the Fund. That is, a majority of voters couldn't say to the United States, "You change your rate," or even three-quarters couldn't say that, but the United States couldn't alter its value in terms of other currencies of any other country without approval of the Fund.

MR. JONES: What is the management?

MR. WHITE: The management consists of a board of directors to which each government delegates a member. The day-to-day and effective work is done by an executive committee, if you like, that is in constant session, of about ten or eleven members. They have certain powers which are slightly less than the powers of the board.

The vote on most of the matters is not one vote to one country, but it is a vote which is larger for the country with the greater participation, and smaller for the country with smaller participation, but in exact proportion, so a small country starts with little power.

MR. PASVOLSKY: Harry, it might be worth while to mention the sliding scale device for borrowing and lending countries.

MR. WHITE: Yes, we took that idea from the Canadians, modified it, and what it does is, it gives the country whose currency is being demanded more votes as the currency is being demanded, and the country who is demanding it, less.

Supposing Greece is coming to the Fund for more and more dollars or sterling, or any other currency; as she takes more and more, her voting power gets less and less. On the contrary, if all the countries are coming to the United States for more and more dollars, then the United States gets more votes.

MR. ECCLES: The right of each country to borrow from the fund is limited to the amount of its contribution?

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MR. WHITE: Yes, that is right. It sounds a little better than it actually is. The way it reads you would think - the quick reader would think they have rates which are far in excess of - they are tied up pretty tightly. They can get their quota, but their quota really consists of - the amount they can get really consists of the gold they put in. Anything they get beyond that is only with the approval of the fund.

During the first year they can get fifty percent more than their quota; during the second year, one hundred percent. But as I say, under conditions presumably satisfactory to the Fund.

MR. JONES: How is the management selected?

MR. WHITE: The executive committee, we presume, would be elected by the board. It would have, as it is now, I think, either nine or eleven members, to make sure the four big countries, of course, have a member on the executive committee. And there will be some half a dozen smaller countries that will have a member on it.

Voting will be on almost all question, with the exception of one, in proportion to the number of votes the country has. The large countries would have a number of votes. The board member, in voting, would cast his country's vote. The one exception is the one which was rather insisted upon by Mexico, and we incorporated it, namely, it is in the matter of dropping a country from the fund, stating that they have been in default, for example, which should be, according to the Mexican view, a very serious political matter. They feel that each country ought to have one vote.

It isn't tremendously important because if a country is in default they can't get any money.

H.M.JR: All right?

MR. JONES: Yes.

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H.M.JR: Does anybody else want to ask any more questions?

MR. ECCLES: Harry, I understand that it is a right of a country in three years to change. After that it can only be changed with the approval of three-fourths vote.

MR. WHITE: That is very important and will come up for a good deal of discussion. I would like to give a slight background of that.

We, in our original demand didn't give a change without approval of the Fund. The British plan called for a change of five percent if a country was losing gold, or if the balance of payments was against - for a number of reasons, which I presume we don't want to discuss here, now, we were opposed to that, but many of the countries favored that - and Canada likewise - and many of the countries favored a larger percentage. I mean, they wanted to have a possibility of changing the bonds up to a certain amount.

Well, we finally agreed to permit a ten percent change, but we made this important modification - important from the United States point of view - we said, "There shall be no criteria - no conditions under which the change can be made other than consultation."

In other words, if any country wants to alter during the first three years - because that will be a very disturbed period - they can change up to ten percent after consultation with the Fund, but not approval.

Now, having removed the criterion, we put the United States in a position of being able to do the same thing, and thereby being able to neutralize any other. If we hadn't put that in - if we accepted the British plan - then we would never be in a position to alter, because there is no danger we would ever have an adverse balance of payment.

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Let me take a practical instance. Suppose sterling decides to drop from four dollars to three dollars and sixty cents. Under the provision it would have a right to do it after consultation. But supposing, for some reason, that the United States, after having a consultation, decided that that was unwarranted, that repercussions were too great on us. We would be in a position to neutralize her change.

MR. JONES: Without showing cause?

MR. WHITE: Yes, it is merely up to consultation. I very seriously doubt if we would take any step unless there was excellent reason for it, but the mere fact that we have the power gives us protection.

MR. JONES: You mean, after consultation and agreement?

MR. WHITE: No, not the ten percent; anything beyond that, or after three years, yes.

MR. JONES: Why the consultations?

MR. WHITE: Merely to tell them we object. The attitude of one country among the major countries is important. Let's say Canada was to come to us and say, "We are planning to reduce the rate to eighty cents." If we had been represented, and thought there might be many ways in which we could get Canada to change her mind--

MR. JONES: It would give us a chance to change their mind.

MR. BERLE: Harry, I think one thing ought to be said at this time, that this document does recognize that when one country changes its rate of exchange, that is a matter of concern to all other countries. That is, the control of our own currency rate may hit somebody else so hard that they are entitled at least to talk about it. That works both ways, of course. In the main, I think we feel we are very much the gainer by that.

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MR. WHITE: There is a change in principle of the thing. It seemed to be warranted by the facts and experience, and seems to be to our advantage. I should think that would be extremely important.

MR. PASVOLSKY: That is a direct descendant of Tripartite?

H.M.JR: I was going to say that.

MR. PASVOLSKY: That is the first time the principle is really recognized.

MR. WHITE: The whole thing is an expansion and extension of that principle.

There are a number of other points which would doubtless interest you. For example, the countries have to buy - in buying back their exchange which they sold to the fund, they are required to buy it back with fifty percent gold if they accumulate gold. They can't use the fund, in other words, as a device to get rid of their currencies and they get the gold.

MR. BERLE: Harry, if I may, there is one other thing worth noting. This does contain the provision by which the blocked balances can be unblocked, particularly, blocked sterling, but that is the least of our worries. The drafters of this plan did put in a provision by which those could be gradually unblocked so that they can't become the foundation for new German bilateral tying of trade to balances. That provision is likely to be immediately a pretty important provision.

MR. WHITE: There is one area we haven't explored to our own satisfaction and haven't come to any agreement on, and that is the relationship of members of this fund with non-members.

In other words, the resources of the fund can't be used for the benefit of non-members, but to what extent other relationships can be made, we don't know.

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Some of us thought that we ought not to permit any non-member - Government, I don't mean individual, but any Government - to be able to borrow or obtain any credit from a member Government. That is, private individuals continue to function, but for instance, the British Government ought not to extend a loan to, say, Argentina - to the Argentine Government - if the Argentine Government weren't a member.

MR. JONES: If Argentina were a member or not?

MR. WHITE: Were not a member. Well, that wouldn't necessarily be true, but that would be the realization of justification. But there are other relationships. Many of the countries wanted us to be very tough with non-members. Some of the countries wanted us to - Holland was worrying about Switzerland in case Switzerland didn't become a member.

H.M.JR: Are you--

MR. JONES: Do you want to put in a release?

H.M.JR: I just want to know if you are satisfied.

MR. JONES: I think so.

H.M.JR: We would like to make a release of this thing tomorrow.

MR. JONES: The total--

H.M.JR: The plan, yes.

MR. WHITE: Some of it will probably leak out because we have sent it to the Congressmen and Senators. In pursuance of the promises the Secretary made to them, we sent it out a couple of weeks ago. And rather than have it leak out and get misunderstood, we want to explain it to the press.

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MR. ECCLES: I can't see any harm in releasing it. There will be a lot of discussion of it yet, and inasmuch as the original plan has been modified to the extent that it has, it seems to me that it is appropriate to release the modified plan in order to reduce the confusion as much as possible. I think it is good.

MR. WHITE: And it is made clear that it is not an official document, yet.

MR. JONES: That is the only way you can get a discussion of it. Put it out and maybe you will get some suggestions.

H.M.JR: And Harry says we have given all the Senators and Congressmen on this committee copies, and we ought to do as much for the public.

Is everybody agreeable that we give it out?

MR. BERLE: I think you have to. It is a question of whether you put it out or whether somebody else puts it out.

MR. PASVOLSKY: I think it will eliminate a lot of difficulties to put it out.

H.M.JR: If nobody objects, then, we will go ahead and put it out.

Now, the next thing, Harry - Berle, particularly, has been pressing me for a year to go forward. We have been a little bit slow and couldn't do more than - we didn't any more than get this far. But we would like to have the technical group - of which I think you (White) are chairman, and you are a member, Leo, and various people are members - proceed now to study the next step which - let's call it anything you want to except a world bank, which deals with long-term credits, which this Stabilization Fund cannot do. We think we should begin this study very promptly in view of the English coming here in September. If it meets with the approval - everybody here has representation on that committee, isn't that right, Harry?

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MR. WHITE: Yes, definitely.

I presume that Lauch Currie will continue. He is very valuable, particularly on this range of problems. Mr. Crowley has a couple of men coming, and the State Department has been participating very actively.

H.M.JR: You had better tell him; he may or may not know--

MR. WHITE: Well, they have had Coe. He used to be with them; he is not working with them now.

MR. CROWLEY: Coe?

H.M.JR: Yes, Frank Coe.

MR. BERLE: In that regard, Mr. Secretary, I would like to make one point. No stabilization fund will work unless there is a balance of trade and long-term credits. For that reason a good many of the countries - not only the British - have said that in the long run they can only make a start; the rest of the story has to be filled in. This investment or long term credit picture is a new one over there, and consequently when this group arrives in September one of the problems which will be raised will be to modify their ideas of anything like this. So besides getting at it as a forced move - by more pressure, as Mr. Morgenthau puts it - it is not due to any upsurge of trying to get at--

H.M.JR: I think you have been right, but I think you also have to get this through the works, as that is very difficult. White has done a wonderful job.

MR. WHITE: It has been a joint job.

H.M.JR: We have had wonderful cooperation in the whole Department. I have to go up on the Hill and try to sell it with the help of the Department; I can't do it alone.

We are now ready to do the other thing, but we just couldn't move forward on both fronts. Maybe we should

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have, but we are ready now.

MR. WHITE: I don't think any of us thought it was propitious.

H.M.JR: I think you (Berle) have been right, and I am just explaining why I don't think we could have moved any faster. I don't know whether you agree.

MR. BELL: In fact, Mr. White and I talked it over, and agreed we had to get this thing in the works.

MR. WHITE: Our plan has the full agreement of the State Department.

MR. ECCLES: The way I feel about this thing is, the question of stabilization is necessary all right, but it is only incidental to the broader picture; and any effort you put forward here is certainly going to be wasted unless in connection with this you consider you rehabilitation, your relief program, your long term investment program, and your commodity stabilization, it will result in just fanning out; it can't succeed. What will happen is that we as the creditor will finally get the gold - the five billion of gold - get it into the fund and then that is all. We will just get that, plus the rest of the gold that might come in here - we will be right where we were before. It will be a one-way street with us getting the gold - that is all there is to it.

MR. WHITE: It is going to be that anyway, and we are trying to modify it.

MR. ECCLES: Yes, we are trying - it will be that anyway. As Harry knows, I wanted to go considerably farther on the question of gold. I won't go into the reasons and details of it.

MR. WHITE: I think we have gone a long way.

MR. ECCLES: Yes, we have gone a long way.

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H.M.JR: If there are no other questions, is it all right to go ahead?

MR. WHITE: One other question - will Clayton - you might want to get additional help from the Import-Export Bank. The more help, the better.

H.M.JR: That is you, isn't it, Crowley?

MR. CROWLEY: Yes, we will get together on that.

MR. ECCLES: There is, as Harry knows - I don't want us to shut our eyes to it, but there is very formidable opposition to any world program of stabilization. People like Burgess and John Williams and those people have been opposing the whole idea very vigorously.

MR. JONES: This idea?

MR. ECCLES: Yes, and they have a very formidable following, and they put up a pretty plausible convincing case.

MR. WHITE: Not Burgess, but Williams.

MR. ECCLES: They made quite an impression.

MR. WHITE: Burgess?

MR. ECCLES: I haven't heard it, but I understand that Burgess and Williams pretty largely agree on that. I don't think we will get anywhere with any kind of a program without Congressional approval; and if Congress is going to give a lot of attention to a lot of what they look upon as experienced groups in the international financial field and in the import and export field - those groups have other ideas - people who have been engaged in this field for a good many years. Congress is going to give them a lot of attention; and I think that to the extent we get a program worked out you have got to try to at least compromise the differences if possible, because I just don't think we can get through Congress if the formidable opposition that is now in existence continues.

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MR. JONES: Well, you can't get through until you try.

MR. ECCLES: No, but I think you want to know the size of the opposition before you go.

MR. WHITE: What Marriner says, I think, is true. I think part of the opposition will disappear when they understand it more. But part of their opposition will never disappear because it is not based on the matter of any plan; it is based on the philosophy and principle that they subscribe to, that they don't want to do anything of that character.

MR. ECCLES: Aldrich, for instance, and his group are in a perfectly ridiculous extreme position. Now, Williams and Burgess - those fellows are much more intelligent.

MR. JONES: Who?

MR. ECCLES: Aldrich - the Chase people - they take, what seems to me, a perfectly hard case. Now, Williams and Burgess are in a much more rational position, and it is a much more dangerous one to go up against.

MR. PASVOLSKY: It is a much more dangerous position because it is plausible. All they say is that you don't have anything as far as this--

H.M.JR: It is the pocketbook, isn't it, when it all gets down?

MR. ECCLES: That doesn't affect them.

MR. JONES: There will be a lot of prejudices and there will be a lot of fuss until it gets out.

H.M.JR: Now, if it is agreeable to you and the other departments, we will go ahead with the preparation of this and you can come back when we have something to report.

MR. ECCLES: Harry, your plan is so darned complicated I asked our people to put down briefly in layman's language

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so I could understand the darned thing, just what it means, so they did. It isn't very long, just five pages. It takes, for instance, the United States' contribution to the fund, voting power, lending obligations of member countries, possible demand, influence of the fund on policies of the member countries, exchange rates, the international capital movements, a non-technical summary. If you want copies--

MR. JONES: I would like a copy.

MR. ECCLES: We just got this, but I will send you a copy.

MR. WHITE: We have a preliminary draft, but we should like very much to have this so we can use it.

MR. PASVOLSKY: Will you send us one?

MR. ECCLES: Yes.

August 18, 1943  
10:21 a.m.

HMJr: Hello.

Operator: Go ahead.

Ed  
Stettinius: Good morning, Henry.

HMJr: Hello, Ed.

S: How are you, sir?

HMJr: Fine.

S: Dean has a new draft of that raw materials matter....

HMJr: Yes.

S: ....and Harry White has been working with him on it.

HMJr: Yeah.

S: Now, I don't think it will be necessary for me to bother you. I think Harry can present a draft of the thing to you....

HMJr: Sure.

S: ....and if it is satisfactory, you can tell Harry and Harry can tell Dean and I think we're through.

HMJr: Well, that's good enough.

S: I think that - I understand now that you fellows and State and my fellows are all together....

HMJr: Yeah.

S: ....and they think they've got it back on the line and I'm told that you, Dean and I will be able to approve the thing within the next twenty-four hours.

HMJr: Well, I'll pass it along to Harry and see if we can't get cleared in the Treasury today.

S: Good.

HMJr: I'll see if we can't get it cleared today.

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S: And Harry - I think that Harry will be able to explain the whole thing - whole business in satisfactory form.

HMJr: Righto.

S: How are you?

HMJr: I'm just a jump ahead of the sheriff.

S: Just a jump ahead?

HMJr: Yeah.

S: Take it easy.

HMJr: Thank you.

August 18, 1943  
10:35 a.m.

TAXES

Present: Mr. Bell  
Mr. Currie  
Mr. Gaston  
Mr. Smith  
Mr. Paul  
Mr. White  
Mr. Sullivan  
Mr. Blough  
Mr. Shere  
Mr. Murphy  
Mr. Surrey  
Mr. Shoup  
Mrs. Klotz

H.M.JR: There is a memorandum on the way to you, Harry, from Stettinius.

Well, Paul, make it short and sweet.

MR. PAUL: I understand the purpose of this meeting is to find out how to talk at the meeting this afternoon.

H.M.JR: The purpose of this meeting is to bring me up to date so I know how to act this afternoon. I haven't had time to see what you circulated. Do you want to tell me about it briefly?

MR. PAUL: There are a number of questions designed to elicit answers from these people from the inflation standpoint, prosecution of war standpoint, and from the post-war standpoint.

Now, I think that if we go into those questions which are very broad we will spend all the afternoon on the first two of them. They are all designed to get suggestions from

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these agencies as to conditions peculiar to the particular situation, and what we ought to do from their standpoint. They can advise and inform.

I therefore think at the meeting this afternoon we ought to admit frankly at the start that we can't cover them all and would welcome memoranda on any not covered.

I think we ought to concentrate on two or three points. First, we should stick to our twelve billion on this. I think we ought to start and get a response from these people on the basic questions and the size of the program - we have submitted a twelve-billion-dollar program - find out what they think of it, and what they think of the constituency - what they think should be the makeup of such a program.

Then I think we ought--

MR. BELL: Are you going to ask what they think about the amount?

MR. PAUL: Yes, amount and constituency.

MR. SULLIVAN: They haven't seen any schedules, have they?

MR. PAUL: Yes, some of them have.

H.M.JR: Whaley-Eaton had the whole thing.

MR. PAUL: Not from us, either.

MR. GASTON: I think somebody took notes.

H.M.JR: I saw one person taking notes; that was Whiteside.

MR. PAUL: That is about it.

Why not let's be frank with the people, if you don't mind my saying so.

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H.M.JR: You are influenced on sort of pulling in what Vinson told you at lunch, isn't that right?

MR. PAUL: No, I am not very much influenced. What Vinson told me at lunch was that he wasn't in favor of having any big meeting, but deciding everything at small committee meetings.

H.M.JR: Vinson didn't want me to come over. I offered to do what we are doing here before his whole committee, but he didn't want that.

MR. PAUL: He bases that on the grounds that it will get out to the newspapers and reports will be circulated which will be embarrassing to Congress later.

H.M.JR: My feeling is that I would like to go ahead with the schedule. I think we have made real progress this past week. I think it is a good way; I like to work that way. If Mr. Vinson doesn't that is his privilege. I would like to go ahead.

MR. PAUL: I don't mind going ahead with these, but I would like to concentrate on some of the more important questions so we don't--

H.M.JR: I have no objection to that. Say to the people, "If we don't cover the waterfront and you have something special that you want to say to us, give it to us in writing." But, I would like to go ahead. I think we made progress last week, and I think everybody in the Treasury agrees. I think the meeting yesterday was a swell meeting. I think the way you nailed Dan Bell down was marvelous. (Laughter)

MR. HAAS: Fred Smith didn't get nailed down. He contrived to be out of the room.

MR. SMITH: He slept. (Laughter)

MR. PAUL: There is one further suggestion I would like to make to you and Fred, and that is, inevitably

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about nine-thirty tomorrow morning the reporters will be around to my office to find out what we did at the meeting. I think we ought to issue something.

MR. SMITH: Yes, if we have to do something about it, I think we ought to make a story about what went on and have it released in the press room and not have them come kibitzing around for odds and ends.

H.M. JR: You had a large job last week, and they gave you a decoration.

MR. SMITH: They were very satisfied with what they got last week, and they didn't get anything. (Laughter)

MR. PAUL: One of the stories was that the War Department and Navy Department--

MR. SMITH: That was just kibitzing.

MR. PAUL: But in order to prevent that kind of story, we have to have something for them.

MR. SMITH: You can't head off everything that comes up, because lots of these guys have to fill a column.

MR. GASTON: They have that problem. They all got that wrong impression.

MR. WHITE: I think it would be a mistake not to continue these and not to have them often. I think that is moving in the direction which the Administration ought to move, to have this type of discussion. I think there should even be a third one if they don't cover the ground on this one.

Most of the people who were here are people of some competence who thought about these problems. Their comments should be valuable, and there should be opportunity in a joint group like that to permit them to express themselves. And the fact that they didn't do that the last time doesn't

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mean that they won't do it now.

MR. PAUL: I would like to raise one specific point. Do you want to bring up the Smith letter, or let him bring it up?

H.M.JR: I wouldn't, and I feel - if somebody would prod me, I would like to say at this meeting what I said to you gentlemen about compulsory savings. "As far as I am concerned that is a closed book until the War Loan Drive is over, and I am going to ask you to support me in the light of the President's proclamation." I will say, too, "I will be very glad to sit down with anybody after the Third War Loan is over. We will analyze and see where we got the money, how successful it was," and so forth, and so on, "and study the thing when it is over."

I am going to ask them lightly but firmly to get behind the President's proclamation until the Third War Loan is over. If Smith wants to read his letter, he can.

MR. PAUL: That leaves open the technical matter of refundable taxes.

H.M.JR: Leave it open.

Please give me a little memo so I will be sure and say that, plus the President's proclamation.

MR. PAUL: Harry says he doesn't think there is any danger you will forget. (Laughter)

H.M.JR: Harry has been trying to pick a fight with me since ten of eight when I called him "sleepy." We won't fight today, because I am sleepy. (Laughter)

MR. GASTON: I think there is one thing that we haven't considered fully enough, and that is whether we are going to go for these Social Security proposals under the

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Wagner Plan and the effect of that on our proposed taxation of the pay roll groups, because they are going to be terrifically heavy, six percent on the gross pay roll. It makes a tremendous difference.

MR. PAUL: It does, and I have the actual figures, which are rather astonishing. The increase in taxes under the eight billion seven schedule - the increase in taxes for a married person with no dependents--

H.M.JR: Talk a little louder back there.

MR. GASTON: Take the two-thousand-dollar man.

MR. PAUL: The two-thousand-dollar man - the surtax schedule would increase his payment to one hundred thirty-eight dollars.

MR. SULLIVAN: On what?

MR. PAUL: Under the Wagner Act. This is proposed income and Wagner--

MR. GASTON: Wagner would add one hundred twenty, wouldn't it?

MR. PAUL: Present income taxes and Wagner--

MR. BLOUGH: These are all increases. The one hundred thirty-eight under the tax schedule alone - there is an increase in taxes of one hundred eleven dollars under the Wagner Act alone. For a married man with no dependents and fifteen hundred dollars of income the tax schedule would increase his taxes by eighty-eight dollars. The Wagner Act Schedule alone would increase his taxes by eighty-three dollars.

MR. PAUL: The Wagner Act is pretty much the same as this schedule without any addition.

MR. BLOUGH: On one thousand dollars the wagner Bill would increase taxes fifty-six dollars.

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H.M.JR: Under which schedule?

MR. BLOUGH: The eight point seven billion schedule.

MR. PAUL: In other words, the eight point seven schedule in the very lowest brackets constitutes no increase, whereas under the Wagner schedule alone there would be a substantial amount. If you add any increased taxes to the Wagner schedule, they will be much larger.

H.M.JR: This is the way I feel - let's be very honest with each other - I will try to be honest with you. Before I say what I sort of discovered myself, I will just go back. Do you or don't you think we should go ahead with the full discussion this afternoon?

MR. CURRIE: Yes, I think so.

H.M.JR: Do you, or don't you think we should?

MR. CURRIE: Along the lines Randolph suggested, yes.

H.M.JR: This is the result of discoveries I made here in the Treasury. I have a group here in the Treasury who honestly believes that we should have compulsory savings.

Other people here think that in the lower income groups we should refund some, because it bears down too heavily on them, but Sullivan said that that was the opening door for forced savings anyway.

Now, here I come along and say - well, I am very much inclined towards Social Security. Social Security doesn't have the objections, from my way of thinking, that forced savings has. According to these figures it goes very far, see, and it doesn't have the objection this fellow thought it would have - Mr. Sullivan - that it opens the door to compulsory savings.

I don't see why you fellows who want compulsory savings don't get on board the Social Security thing, which doesn't have any of the objections, to me, that compulsory savings has.

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MR. PAUL: I would like to answer that specifically. I am very strong for the Social Security, but I have two answers to that, two points of consideration.

The first is that there is such a prejudice in Congress politically you may get nothing out of Social Security. Maybe that is all right; maybe you want to go down with that banner above you, but from the standpoint of getting results on the anti-inflation front, you may not get too much.

The other point is, you can have at the present moment with our high tax schedules - you can get so much benefit for a man when he is old, but he has nothing to eat when he is young. You can take so much away from a man in the lower brackets when he is young, particularly when you are associating Social Security with a high tax schedule that - and you say he builds up benefits. He doesn't get them until he is old. I don't want to starve people now and feed them when they are old.

MR. GASTON: They won't get old, so your problem is settled. (Laughter)

H.M.JR: That is wonderful. These ideas of yours, Herbert, are grand. (Laughter)

MR. GASTON: I think it is possible that when we take this eight point seven program and apply it to wage groups and at the same time apply your six percent, there has got to be alternatives.

H.M.JR: Can I go a step further? I am thinking out loud. I think I am on a good track for me. I think I can get my people together. What's-his name, if I understood him correctly yesterday - Vinson - is for six billion dollars' worth of taxes and six billion dollars worth of forced savings.

Now, six billion dollars of forced savings - all that will do is completely ruin our voluntary plan and won't do anybody any good. Where have I got a volunteer? How much

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forced savings do we have to get from the standpoint of the voluntary boys to do as good a job as they say they can do?

MR. BLOUGH: They have been talking in terms of twenty-five or thirty billion dollars.

H.M. JR: Now, if you do the Vinson thing and do just what these people like Vinson - I mean, the politicians - I think we can get away with just a little forced savings - six billion - and we won't have anything.

Now, just to divert a minute - I don't see why I can't say what Gilbert told me. Gilbert came in here and told me that if we hit the people in the two or three thousand dollar class any harder than we have we may jeopardize the election - just in the room here - and we shouldn't attempt to hit them any harder. Then he went on and gave me some figures - you check me - but for this year the civilian goods we will produce, instead of eighty-five billion dollars' worth, will be ninety-five billion dollars' worth - ninety one this year and ninety six next year. Isn't that what he said?

MR. BLOUGH: Yes.

H.M. JR: And then he has the same figures that we have. He uses the same guess as to what munitions production will be, so there is a difference there of twenty-five or thirty billion dollars that we have got to get down to. Everybody be thinking about that. He has been worried about it, and he gave me a long treatise on the war. He thinks the war isn't going to last more than a year.

But the thing is sort of getting around to the fact that - go to Detroit and talk to the people, and see how they feel about it. I called up this morning and tried to get a date with Reuther. That is what Gilbert will say at a big meeting, but he also is doing a lot of guessing. He hasn't got anything other than a year old from the field as to what the family budgets are. But he also says that he feels that the prices are going to go up, and you can't hold the line.

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MR. PAUL: When he says that, it is not because we have too much spending power, it is because there is too much political pressure. So whatever we did, the prices would still go up.

H.M.JR: It all boils down to the fact that eight billion of taxes is too high. So I came back after boxing the compass to where I was yesterday; and while the Wagner thing may be too tough, it is at least socially correct. While it may be too tough to take that much, I would rather move in that direction than I would on the six billion dollar tax program, because six billion of forced savings - I think I am on much safer ground.

MR. GASTON: I don't think from the fiscal point of view it makes much difference - if you are for the benefits and post-war relief, to my way of thinking, it doesn't make a great deal of difference from the Treasury standpoint whether the revenue to support the benefits comes in income taxes or pay-roll taxes under the Wagner plan. In fact, what we did in 1939 indicates that we leaned toward general taxation to support those extraordinary benefits rather than the Wagner taxes, but I don't think the two can be combined. It seems to me that our position ought to be that we want additional taxation in that area - in the low and middle groups - in some form, and not above a certain limit - within certain minimum and maximum limits - but you can't double it up. You can have so much of one kind or the other, or a combination.

MR. WHITE: With respect to your first point, Herbert, I think it might be pointed out that the benefits which are payable after the war under the Wagner plan are far less than the taxes, and in that sense it is different from forced savings. That is the point that Randolph was making.

MR. GASTON: I am afraid, though, that as the Wagner plan leans toward the actuarial scheme of computing taxes, and, therefore, having crossed that hurdle in 1939, we are not going to get very far in straight pay-roll taxation to support benefits.

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MR. BELL: Are you going to try to get the benefits without the taxation?

MR. SMITH: Did you see the Gallup survey on that? The Gallup survey pointed out that the public was pretty much for the six percent.

H.M.JR: Well, what I was going to say was this, Randolph - I would like to find out - you can't do it between now and this afternoon, but you can find out between now and next week - really find out from labor - not just a fellow in Washington sitting here - but let them go down to some of the locals and find out how far they will go in supporting the Wagner Bill or a modification of the Wagner Bill.

MR. PAUL: I can do some of that. I planned to have a meeting with a lot of labor leaders in Chicago Monday. The CIO is away on a vacation; you can't do much this week.

H.M.JR: Labor may say, "We are perfectly willing to have so much taken out of our pay roll, but we are not willing to have our taxes increased."

MR. PAUL: They may not, but I would like to do it. If they say, "We will go so far in supporting the Bill, but we won't take an increase," then again we have made progress. Then we will at least know where we are instead of guessing.

MR. CURRIE: That is right. That is an excellent suggestion.

H.M.JR: I would like to know, and not just from a few fellows here at the top either - they could go out and send out questions to locals, get shop foremen and shop stewards, have a couple of discussions, and find out how far they will go in publicly supporting additions to the pay-roll tax.

MR. PAUL: I will collect some information.

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MR. BELL: There can't be but one answer as between the Social Security on their part and taxes. It seems to me they ought to go to Social Security, because they will get some benefit.

MR. BLOUGH: A great portion of that increase is to go to health, hospitalization, and other benefits; the tax will be anti-inflationary only for the first year.

H.M.JR: Just a minute, Dan, nobody has put the question to them, "Supposing you can have either?" That is my point. There are really three, a very powerful compulsory saving, some taxes and some compulsory, or have a very strong Social Security program and continue on the voluntary. I mean, I would give them alternatives. That has never been put to them.

MR. BELL: I thought it was just between taxes and Social Security.

H.M.JR: Let him do the questions like he did for us here. Then let him come back with information, not just what the Washington leaders of CIO have to say, but put it up to their shop stewards. Have a couple of meetings - the way I attended that one meeting - have a two-hour discussion, and I think we can make progress. I don't know how they feel; I have got to guess. But all this is going on assumption - somebody will go along with you.

The net to the Treasury, as Gaston said, will be just as good.

MR. BELL: Just as good in terms of money, but not just as good from the fiscal point of view of keeping down the debt. Of course, you get more taxes and payments from the second year. You get some gain.

MR. BLOUGH: Oh yes, but about half of the increase in taxes will be in the second year and will be offset by Government expenditures for hospitalization and that sort of thing.

MR. GASTON: It might be very timely.

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MR. BLOUGH: I am not objecting to it at all.

MR. GASTON: I am just making that suggestion that it might be defined. I don't think they very clearly defined the issue on compulsory savings; I don't know whether you want to or not. It seems to me the issue is not one necessarily of justice to the compulsory saving people - I don't think that they would say that if you are to make compulsory useful you have to have compulsory savings in denominations of twenty-five, thirty, or thirty-five billions of dollars in order to replace entirely your voluntary individual subscriptions to bonds.

The real question is not whether a lesser amount in compulsory savings - six, eight, or twelve billions - would admittedly give you money from people who are not now voluntarily subscribing, but the question is whether a moderate compulsory savings is likely to increase your net tax or not, whether it will actually supplement your voluntary lendings or tend to put them down or do nothing for you, and I think that is the point where we break.

I am inclined to think that these moderate compulsory savings will so tend to hinder the voluntary savings plan that there will be no net gain.

MR. WHITE: But why use figures such as were suggested this morning that in order to get a net gain you have to have a compulsory savings plan of twenty-five or thirty-five thousand dollars?

MR. GASTON: In my mind, that is not the issue. The issue is whether a compulsory savings plan in a lesser degree would actually supplement an increase in your net tax, and reduce the purpose of voluntary subscriptions. O.K., we can wait, and so on. That is the question, whether it will be three billion, four billion, five billion, six billion, eight billion, ten billion, or twelve billion.

I am inclined to suggest that the resistance you set up will make a compulsory savings program in that range

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practically useless. I doubt if you will have any net supplemental figures in your borrowings, and I think you set up tremendous resistance to your voluntary plans.

MR. SULLIVAN: Mr. Secretary, there is one set of figures I would like to see. I think it would be very helpful if we could agree on how much compulsory savings we need to accomplish the same result as we would through a heavy influenced voluntary savings.

MR. BLOUGH: We can't agree on that.

MR. SULLIVAN: We can certainly agree within a range. I would like to see a set of schedules worked out and see what it does to the fellow in the two thousand dollar and five thousand dollar brackets, and see how much of a sock it would be to him if this were put through on a compulsory basis.

H.M. JR: I think Lindow has that.

MR. SULLIVAN: It stands to reason, Harry, that the big wallop has got to be on the little fellow, because the rates are so very high on the big fellows under the present tax that you can't double them, and you can't triple them. So you add it to the little fellow to make up for the fact that you can't make it up from the big fellow.

We are all astonished at these figures that Randolph read on the increases under the Wagner Bill, which would raise the six billion dollars, but those figures are very much smaller than they would be under compulsory savings.

MR. GASTON: I think we would make some progress if we agreed that the compulsory plan cannot substitute our voluntary plan. We still have to have some voluntary subscriptions from individuals to maintain your income. If we start from that basis it is pretty certain you still have to carry on your campaign for funds.

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The question is, will it be, or will it not be a supplement? I think some combination of figures such as John suggested might be very useful from that standpoint. I am inclined to think you will get some money from people who are not just coming in under the voluntary plan, but I am inclined to think that in getting that money you would set up some handicaps and cause such a great amount of switches from present investments and savings in order to meet the compulsory that it won't offset what you would gain by your supplemental compulsory plan.

MR. SMITH: In that connection Beardsley yesterday in his speech said that we were going to have twenty billion dollars of excess money instead of forty-five billion. The way he got that was by assuming our present bond sales would be maintained as normal savings. He just says what we are selling in bonds is normal savings and will go on regardless, which I don't believe.

MR. BELL: Twenty-five billion normal savings to go into bonds.

MR. SMITH: Figured at the present rate of selling, plus what is going into the banks, which makes twenty-five billion.

MR. WHITE: I thought forced savings was out. We all agreed that there was going to be no discussion of that and no policy made with respect to that.

MR. GASTON: It is bound to come up, and I thought we might have a little clarification.

H.M. JR: Well, gentlemen, am I stopping anybody? All I can say is this, that I think we will go ahead this afternoon with the letter. I will make my little statement provided Harry and Paul remind me. Then I would very much like Randolph to get just as much through AF of L and CIO down to the shop steward level, and if possible, from men on the bench. Give them certain alternatives in a way that they can understand it so that the man in local union number so and so can conduct a discussion and get these

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people asking questions. If necessary, I think it would be darned good for one of our men to go to one of these local unions and stand up there and take these questions. I will go to one myself. I will agree to go to one right now. My going to Pontiac was the best thing that ever happened.

I would love to go to a meeting and sit there in the back for two or three hours and listen to these shop stewards and these questions, and so forth. I will go next week. I would love to go next week and listen to it myself and get it right from the bench up. I mean, you say we can't get support from Congress; granted. We can't get support from the Board, so the only place we can get any support for a thing like that is from labor. Why not let's find out what they want. If it is good, let's get together on it.

MR. WHITE: Right.

H.M.JR: Let's get together with them. That is not politics; that is practical stuff.

MR. CURRIE: That still leaves one question open, Mr. Secretary.

MR. BLOUGH: They want the moon with a ring around it, and that is what they will tell you - labor.

H.M.JR: That means rain. (Laughter) That is what I want. I want a moon with a ring around it on my farm.

MR. GASTON: I was about to say, "Don't they all?"

H.M.JR: At least let's find out.

MR. BLOUGH: I agree; I think it is an excellent idea.

H.M.JR: We were talking - what is the average family budget? We don't know, so let's find out. That is why I

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am for these meetings. It makes me think; it makes everybody else think; and we have something to go on rather than all of us doing what we honestly think is best without getting down to the grass roots.

MR. BLOUGH: I don't think anybody in this country wants higher taxes, Mr. Secretary.

MR. PAUL: We have one - a poll - eighty percent don't want it.

MR. WHITE: There are a lot of us who want higher taxes.

MR. BLOUGH: I personally wouldn't want higher taxes.

MR. PAUL: We had five thousand questionnaires in an OWI polling.

MR. WHITE: What did they think?

MR. PAUL: Eighty percent against any increase.

MR. GASTON: We had a meeting in Cedar Rapids in which a man said, "We ought to have higher taxes," and they applauded him.

H.M.JR: Who was that, Herbert?

MR. GASTON: He was a banker. I forget his name.

MR. PAUL: He meant taxes on the other fellow.  
(Laughter)

MR. BLOUGH: I would like to follow my statement up. I think the people of this country can be made to want higher taxes.

H.M.JR: Well anyway, I think we have gone as far as we can up to this afternoon at four o'clock. Will you be ready?

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MR. PAUL: Do you want me to conduct the meeting?

H.M.JR: Yes.

MR. PAUL: O.K.

H.M.JR: Any afterthoughts?

MR. CURRIE: I am a little bit puzzled about what the real issue here is as to Social Security and income taxes in the lower brackets.

H.M.JR: I wanted Paul to set up a number of combinations, Social Security and taxes, a number - let them think up some combinations afterwards. Let's find out what the fellow in the two, three, and four thousand dollar - from two to five thousand dollar working class, working at a bench - how he reacts to it, that is all - a number of combinations. He may put up four or five combinations.

MR. WHITE: You can meet Roy's point by asking - assume that the choice is not between no increased payments and some increased payments, but rather between increased payments and a combination of forms of increases in other forms.

MR. BLOUGH: That is right, you have to put it in that form.

H.M.JR: We all think here that you have to have increased taxes, but just how much - there is a hell of a lot of difference between four billion and six billion.

MR. CURRIE: I was just thinking of those earlier schedules he read on those low brackets, whether you consider the increase in taxes and payments--

H.M.JR: If there is nothing more, let's meet at four o'clock.

8/18/49

OFFICE OF  
THE SECRETARY OF THE TREASURYLUNCHEON WEDNESDAY

Chester La Roche  
 Col. Dupree - Army Press Relations  
 Palmer Hoyt - OWI Domestic Dir.  
 Mark O'Day - Public Relations  
 Maritime Comm.  
 Capt Reed-Hill - Public Relations  
 Coast Guard  
 Comdr. Courtney - Public Relations  
 Navy  
 N.L. Quinn - WPB - Labor Management

Lewis Lyons  
 Al Siegel  
 Oscar Doob  
 Fred Smith  
 Gamble

} Treasury

2 Incentive officers from  
 Navy.

August 18, 1943  
3:19 p.m.

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HMJr: Hello.

Operator: Mr. McNutt is out of the city until about 12:30 tomorrow.

HMJr: Who's there?

Operator: Just a minute. (Pause) Mr. Lawrence Appley is acting.

HMJr: Okay.

Operator: Will you talk with him?

HMJr: All right.

3:21 p.m.

HMJr: Hello.

Operator: Mr. Appley.

HMJr: Hello.

Lawrence Appley: Hello.

HMJr: Morgenthau speaking.

A: Yes, Mr. Secretary.

HMJr: Mr. Appley, I was up last Friday in Buffalo and I went through both Curtis and Bell, and while I don't pretend through one visit to know all the facts but I wanted to get to Mr. McNutt the thing which he may or may not know that they are in a very tight labor situation up there and I've checked my facts and unless something is done there the plane production in both Curtis and Bell from now until the first of the year is going to steadily fall off. Both plants are short of help. (Pause) Hello.

A: Yes.

HMJr: It's really a very critical situation. Both are making planes which are terribly important and I don't know all the facts but one of the things that I - if you don't mind my making a suggestion for your consideration - is that they are letting men be drafted from both plants and if - until they get the thing straightened out, they

HMJr:  
Contd.

might freeze the drafting of people for sixty days - it would help them to get turned around.

A: Yes, well, I - I don't want to bore you with too long a story - I just want to say that this is our Number 1 problem here....

HMJr: Yes.

A: ....and one that was a little more serious was on the Pacific Coast....

HMJr: Yes.

A: ....and we sent General Hershey out there and have stayed induction for - until October 1st....

HMJr: Yes.

A: ....and are now - right now - considering the necessity of doing it in several of the other spots.

HMJr: Yes.

A: Now, in Buffalo the situation with Curtis and Bell....

HMJr: Yeah.

A: ....is a particular situation and we have asked the procurement agencies and WPB there to tell us exactly how to allocate labor and where to allocate it....

HMJr: Yeah.

A: ....and they have had to give us a priority in Buffalo because of the shortage. There just isn't enough labor. They need everybody - and Curtis and Bell were held up on some small-parts manufacture until some of the small plants got some help and it's an over-all situation which we are trying to....

HMJr: Yeah.

A: ....break loose right at this moment.

HMJr: Well, I say, I don't attempt to know - I just got the thing on the ground and I thought you'd be glad to have my impression.

A: We certainly are.

HMJr: And particularly, I didn't - as the President asked me what my impressions were and I told him.

A: Uh huh.

HMJr: I said, "Do you really want to know?" And I told him.

A: Yes.

HMJr: And I thought you'd like to know that. Now is it at all possible - I don't want to press - to give them this sixty days deferment?

A: Well, I'd say it is possible.

HMJr: Yeah.

A: Now, whether or not it is advisable is always a question of many factors....

HMJr: I appreciate that.

A: ....as you might know.

HMJr: I appreciate that.

A: Some of these situations are very difficult....

HMJr: Yeah.

A: ....and labor isn't utilized the way it ought to be....

HMJr: Yeah.

A: ....or available people on the labor market are not recruited. Some industries, as you know, get rather particular in the kind of people they want....

HMJr: Yeah.

A: ....and I'd certainly say this - that if the circumstances prove on our present investigation to justify it as it is on the Pacific Coast, we'll do it.

HMJr: Well, is it - would this be a matter of days coming to a decision?

A: Uh - I - when you say days - it might be the rest of this week, yes.

HMJr: Yeah. Well, would you mind when you do make up your mind one way or the other to let me know?

A: You bet I will.

HMJr: And I hope you don't mind my calling you.

A: Well, I appreciate it very much because we are anxious to get all angles on the situation.

HMJr: Well....

A: I'll let you know just as soon as we 've decided what we can do on it.

HMJr: Thank you so much.

A: Yes, and thank you for calling.

HMJr: Good bye.

cc-Mr. Gamble

August 18, 1943  
3:48 p.m.

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HMJr: Hello.

Operator: Mr. Welles is expected tomorrow.

HMJr: Well, get me Mr. Hull and if he's not there, I'll talk to Mr. Stone.

Operator: All right.

HMJr: Please.

Operator: Go ahead.

HMJr: Hello.

Geo. M.  
Renchard: Yes, sir, Mr. Secretary.

HMJr: Mr. Renchard, I want some help from Mr. Hull. I'll tell you what I want. For our Third War Loan....

R: Yes, sir.

HMJr: ....I'd like to get from England some people who recently escaped from occupied Europe - some Frenchmen or Norwegians or some Czechs or somebody like that who could come over and go around the country and tell the people in this country how the Germans treat their people, you see?

R: Uh huh.

HMJr: Now, do you suppose that Mr. Hull could get off a cable tonight to Mr. Winant to corral a half a dozen or dozen such people who could come over and bring home to the American people what the Germans are doing, you see?

R: Uh huh. Yes. I've read recently there are a number of those people over here.

HMJr: Well, I wanted some that came out recently. I don't know who to go to and I was thinking that - you see, we need them by the first week of September.

R: Yes, sir. Well, may I make this suggestion? I'm wondering whether these missions here such as Ambassador Fotitch and the Free French - the French Committee of National Liberation - people like that would have people here already that would save you that trouble of bringing them over here.

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HMJr: Well, have you got somebody that you could designate to call these people for me?

R: We'll look into it, Mr. Secretary, and call you back.

HMJr: Could you move fairly fast on it?

R: We'll do the very best we can.

HMJr: Because we....

R: As soon as possible.

HMJr: Time is short.

R: Yes, sir. You say the first week in September?

HMJr: Yeah.

R: Yes, sir.

HMJr: And I want the people who have recently come out of their countries to get on the platform and say, "This is the way the Germans are treating our people."

R: Uh huh.

HMJr: See?

R: All right, sir. I'll look right into it.

HMJr: And you'll let me know.

R: Yes, sir.

HMJr: I thank you.

R: All right, sir.

HMJr: Good bye.

## OFFICE OF WAR MOBILIZATION

WASHINGTON, D.C.

August 18, 1943

W. A. F. Byrnes  
Director

Dear Henry:

I have your letter of the 17th.

You call attention to the statement in my speech of Monday night that "For our own protection, we must drain off by taxation or freeze by enforced savings". I do not understand why you should be shocked by this statement. You knew that was my view. Last November on the Herald-Tribune Forum program I made substantially the same statement. You then came to see me and stated that my mentioning the words "enforced savings" would hurt the bond campaign scheduled to begin in December. You requested then as you do now, that I make some statement correcting it. I told you I would not consider doing it and I advised you that you were mistaken in believing that it would hurt the bond campaign. I know you must remember the occasion. I called your attention to the fact that Senator George had only a few days before issued a press statement in favor of compulsory savings. You told me you thought of asking Senator George and Congressman Doughton to refrain from making any statement about taxation during the drive. I advised you not to do it. That was good advice.

You state in your letter that the bond salesmen will have to work against great handicaps, such as "tax discussions on the Hill". Now I offer you unsolicited advice, that you do not try to censor the tax discussions on the Hill. The intelligent and patriotic people of this country will not refrain from buying bonds because of my statement or taxation discussion on the Hill.

A few days after you spoke to me, just as the December bond drive was opening, I received a copy of the speech made by the General Counsel of the Treasury, Randolph Paul, on November 30, 1942, in which, among other things, he made a splendid argument in favor of compulsory savings. In my 25 years service in the Congress I have known many tax advisors of the Treasury and I know the Treasury has never had a tax expert more competent than Randolph Paul. I am enclosing copy of his speech with the statement about compulsory savings.

Neither the speech of Mr. Paul, the statement by Senator George nor the statement by me hurt the bond drive. You later announced that the drive was a great success.

I am not now Director of Economic Stabilization. The Executive Order creating this office provides that it shall be the function of the Office, subject to the direction and control of the President:

"(a) To develop unified programs and to establish policies for the maximum use of the nation's natural and industrial resources for military and civilian needs, for the effective use of the national manpower not in the armed forces, for the maintenance and stabilization of the civilian economy, and for the adjustment of such economy to war needs and conditions;

\* \* \*

"(c) To issue such directives on policy or operations to the Federal agencies and departments as may be necessary to carry out the programs developed, the policies established, and the decisions made under this Order. It shall be the duty of all such agencies and departments to execute these directives, and to make to the Office of War Mobilization such progress reports as may be required."

This order places upon me the over-all responsibility for policies in the matters referred to and I am not only interested in, but responsible, in a general way, for the success of the war bond drive, and any other policy affecting the maintenance and stabilization of the civilian economy and other purposes mentioned in the order. This responsibility of mine is subject only to the direction and control of the President.

I have not formally adopted a policy in favor of enforced savings and have not issued a directive to support it. In fact, because I follow the policy of not interfering with the administrative decisions of any department unless it is absolutely necessary, to date I have not issued a directive to the Treasury on any subject. Because the Treasury is operating with such efficiency, I have not had occasion to do it.

As to your request that I amend my statement by saying my words have been misinterpreted, you know from my statements last fall and from the fact that my statement on Monday was made in a prepared speech, that my words were misinterpreted and that the statement in my speech represents my views. Under the circumstances, you should make such a request is not flattering but that is not important.

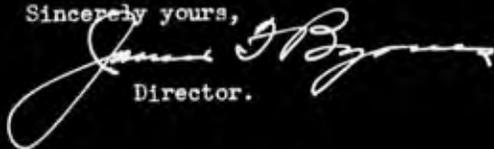
The President has said several times that the inflationary gap should be closed. He has never said it should be closed only if it can be closed by taxation and voluntary savings. In his veto message of July 2 the President stated "an enlarged inflationary gap would make the fiscal situation of absorbing excess purchasing power by higher taxes and enforced savings unmanageable." Such a statement does not commit him to approving

enforced savings program if the Congress should refuse to levy sufficient taxes to close the gap. He is free to take any position he may deem wise under the present circumstances after conferring with the Congressional leaders.

I recognize that you have a responsibility in this matter. So does the Economic Stabilization Director, and so do I. In your absence I would not speak to the President about it. But when he returns, I shall suggest to him that he ask you, Judge Vinson and me to discuss the matter with him.

Should he ever take the position that enforced savings shall not be resorted to even as an alternative, I certainly shall not advocate enforced savings. He is the President. He is primarily responsible and, with me, his decision is final.

Sincerely yours,



Director.

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

## TREASURY DEPARTMENT

Washington

(The following address by Randolph E. Paul, General Counsel of the Treasury, before the American Academy of Political and Social Science, Philadelphia, is scheduled for delivery at 8:15 P.M. Eastern War Time, Monday, November 30, 1942, and is for release at that time.)

## FISCAL POLICY AND INFLATION

Stabilization of prices is essential to the efficient working of a war economy. The rising cost of living, which is a sign of instability, has been a source of major concern for many months. Congress has had the problem under consideration almost continuously since the ~~fall~~ of 1941. Its first direct action took the form of the First Price Control Act, under which the Office of Price Administration established ~~general~~ price ceilings. The problem of inflation was constantly in the background while the Revenue Act of 1942 was taking form. Another frontal attack on inflation was made two months ago by Congress in its passage of the Second Price Control Act and by the President in creating the Office of Economic Stabilization.

But the battle against inflation will not be won without the enactment of measures more fundamental than any yet adopted. It will not be won without heavy reliance on fiscal weapons. Price ceilings and wage controls, by themselves, will check, but not halt, the upward course of prices. Price and wage controls will be successful only if they are buttressed by fiscal measures designed to restrict civilian spending and thereby to relieve the tremendous pressure of consumer purchasing power on prices. Such measures are an essential part of a comprehensive anti-inflation program.

What specific measures should be adopted is no longer a hypothetical question to be faced in the dim future. It is an urgent problem which is fully upon us. The vast volume of actual and potential spending being generated by our total war effort threatens to play havoc with price ceilings and economic stability. One of the most pressing problems confronting the new Congress when it convenes a month hence will be that of drafting a fiscal program to meet the needs of war. The problem before Congress will not be merely how to finance the war, but how to do it in an equitable and anti-inflationary way. There is no question but what the war will be financed. The all-important issue is the ways and means of financing.

Tonight, then, I address my remarks primarily to the fiscal ways and means of coping with inflation. But to set the stage for that discussion, I should like to say a few things about inflation itself. An analysis of the inflation problem requires consideration of the process that produces inflation, of the evils that attend it, of the evidence that inflation exists or threatens, and, finally, of the steps that must be taken to prevent it.

I need not detail the evils of inflation to this audience. Its inequity, its costliness both in conventional monetary and in actual economic terms, and its disorganizing effect on our economy during and after the war, are undoubtedly apparent to all of you. The nature of the inflationary process is equally clear. When an excessive and growing supply of consumer purchasing power rushes to a market having available a shrinking supply of consumer goods and services, inflation is in the making. It may be useful, however, to cite the evidence of that process in order to clarify the nature of the measures that must be adopted to cope with inflation.

### The Threat of Inflation

The magnitude of the inflationary threat for the future is evidenced not so much by the 17 percent rise in the cost of living that has already taken place during the past two years as it is by the relationship between the flow of purchasing power and the supply of available consumer goods. The most optimistic estimates indicate that not more than \$70 billion, at present prices, of consumers' goods and services will be available for purchase in the calendar year 1943. In the same period, consumers will receive incomes totalling \$125 billion. Personal taxes of Federal, State and local Governments, including the taxes levied under the Revenue Act of 1942, will take away not more than \$15 billion of this amount. Therefore individuals will have about \$110 billion at their disposal, or at present prices about \$40 billion over and above the supply of goods and services available to meet civilian demands.

That \$40 billion is the inflation potential from 1943 income. Unless much of it is withdrawn or immobilized, the rush of spending power to the market will break through price ceilings on a broad front. Black markets will mushroom; evasion and dealer favoritism will become commonplace; and empty shelves and illegitimate profits will become the order of the day. In such a situation distribution of the short supply of the necessities of life will be wasteful and inequitable. Competition to buy the means of living will be reduced to a disorderly, time-consuming scramble, and goods will go not to those who need them most but to those who are least bound by limits of time, money, and scruples. Severe hardships will be suffered, especially by families in the low income groups.

To safeguard against the chaos of inflation, consumers must be induced, whether by additional taxation or by other measures, to refrain from spending some \$40 billion, or \$4 out of every \$11 of income at their disposal after payment of existing taxes.

Fiscal measures are indispensable in meeting the threat of inflation, partly because they perform certain functions better than other measures, but, more important, because they do a job that other controls cannot do. Taxes and other fiscal instruments which are tax-like in their degree of compulsion strike at the purchasing power root of inflation. The establishment of price ceilings resists the upward pressure of prices by pushing down on them from above. Relief of the upward pressure itself is a vital part of the anti-inflation program. Wage controls and fixed farm prices offer partial relief by preventing the creation of some purchasing power.

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But constant wage rates and constant farm prices are not the same thing as constant incomes. Farm income is a function not only of farm prices, but also of the volume of farm goods marketed. Wage income is a function not only of wage rates, but also of the total volume of employment and of the volume at each wage level. As the volume of farm output responds to military demands, farm income will grow apace regardless of price controls. And the lengthening of working hours, the up-grading of workers into higher-wage jobs, and the employment of more women in industry, will spawn greater total wage payments even in the face of rigid wage rate controls. Direct control of farm prices and wage rates does not prevent the creation of an overflow of purchasing power. Taxation and related fiscal measures must step in to impound such spending power before it flows to the market.

#### The role of voluntary saving

Voluntary savings will do part of the job that confronts fiscal policy. Such savings are now being made at an unprecedented rate. During the second quarter of this year they were running at an estimated annual rate of \$24 billion, or approximately twice the rate for the same quarter of 1941. This rapid acceleration of savings cannot be attributed solely to the large increase in individual incomes. In considerable part, it is due to maximum price regulations and to the inability to buy automobiles, refrigerators, and certain other consumer goods. The hard facts of war which put many goods out of the reach of civilians provide an almost automatic stimulus to savings. The campaign for reduced spending carried on in connection with the sale of war bonds has been another potent inducement to greater savings.

Increased savings have been expressed in a growing volume of government bond purchases, insurance premium payments, currency and deposits, debt repayments, and the like. Whether this volume can continue to grow during 1943 in the face of heavier taxes and the higher living costs is open to question. Without strong governmental action it is doubtful that the rate of saving in 1943 can be maintained, let alone, increased. Yet, if consumer spendings are to be brought into line with the value of supplies available at present prices, government action must immobilize \$16 billion of consumer income in 1943 over and above the \$24 billion current rate of saving. Our fiscal policy must be framed with that end in view.

Gross savings of \$40 billion out of next year's incomes will, of course, not suffice. Those consumer savings must be net, that is, they must total \$40 billion after taking account of the fact that some people will eat into their savings to maintain current consumption. If, for example, some persons draw down their savings to the extent of \$10 billion, others will have to save \$50 billion to give us net individual savings for the economy as a whole, of \$40 billion.

Although a high rate of saving is an effective deterrent to inflation, savings are not an unmixed blessing. The fund of capital assets which represent accumulated savings is itself a dangerous pool of potential consumer purchasing power. The \$13 billion of United States Savings Bonds could be presented for redemption on short notice. Billions of dollars of other securities in the

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In waging fiscal war on inflation, additional taxes can and must play a prominent part. We can hardly have begun to reach the economic limits of taxation and it would be sheer folly to abandon taxes in favor of its alternatives. In the withdrawal of excessive purchasing power taxes have three important advantages over alternative measures.

First, taxation reduces the need for costly administrative controls. It is excessive money in people's hands that occasions many of those controls. Taxes thus reduce the overhead of wartime government and increase the freedom of individuals.

Second, taxes restrict the accumulation of public debt, and thus ease the problem of post-war debt management. By reducing the interest burden, taxes give the Government greater fiscal freedom to cope with the economic problems that will arise in the post-war period.

Third, at the same time that they aid in preventing wartime inflation, taxes strike at the roots of potential post-war inflation. If consumers, especially those in the middle and lower income groups, accumulate great quantities of war bonds and other forms of savings, there may be a dangerous surge of purchasing power immediately after the war. People may redeem their bonds and express their postponed demands in such volume that the rigid controls of wartime may have to be extended into peacetime. Insofar as taxes facilitate the removal of price and rationing controls at the end of the war, they help restore the free economy we are fighting to retain.

Notwithstanding these telling advantages, it would be highly unrealistic to rely on taxation along traditional lines to absorb the entire excess of civilian spending which threatens runaway inflation. Even a doubling of the present \$15 billion of personal taxes would fall far short of the goal, for if anything like \$15 billion of new personal taxes were enacted, the level of voluntary savings would surely fall below the current level of \$24 billion annually. Unaided by other fiscal measures, personal taxes would have to be increased by more than \$20 billion to complete the absorption of \$40 billion of excess spending power. Such a volume of taxes appears not to be politically feasible and may not be economically desirable. Other measures must be adopted to restrict spending.

The restriction of spending is, of course, a by-product of price control and specific commodity rationing. But, as we have noted, price controls cannot operate successfully without a diversion of purchasing power from consumer markets. Although eventual adoption of specific rationing on a wide scale may be necessary, the extension of such rationing sufficiently to cover the bulk of consumer spending would be costly and irksome. We must look to other measures to achieve the necessary curtailment of consumer spending.

The Treasury has examined four general measures, any of which could contribute substantially to price stabilization and to an equitable distribution of the short supply of civilian goods. Each would also give substantial direct or indirect assistance to financing the war. These four measures are compulsory lending, compulsory saving, expenditure rationing, and expenditure taxation.

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which I should like to discuss with you tonight in that order.

#### Compulsory Lending and Compulsory Saving

There is a marked tendency in current discussion to use the terms "compulsory lending", "compulsory saving", "forced loans", and "minimum savings" as if they were interchangeable. Actually, compulsory lending is quite different from compulsory saving, both in nature and in effect. The legal obligation to lend to the Government an amount equalling a specified fraction of income, expenditure, or other base is quite different from the legal obligation to save a specified fraction of income. By drawing on previously accumulated assets, an individual can lend to the Government and yet not save. Or, he might save and yet lend nothing to the Government.

A small-scale example of compulsory lending is the post-war credit under the Victory tax. However, the offsets against such lending for various forms of saving such as the payment of insurance premiums, the repayment of debt, and the voluntary purchase of eligible war bonds convert the Victory tax credits very largely into an example of compulsory saving. One should note, perhaps, in citing this example that compulsory saving on so modest a scale is unlikely to do more than replace a part of voluntary saving. Both compulsory lending and compulsory saving can be made progressive in their incidence through the use of exemptions and graduated rates. Assuming that income should be used as the base for either measure, one might, for instance, set up a schedule requiring no lending or, alternatively, no saving, for the first \$1,000 of income received by a married person without dependents; an amount equal to 20 percent of the next \$1,000, and perhaps 40 percent of the third \$1,000, and so on, might be required either as a compulsory loan to the Government, or as some type of savings if compulsory saving were adopted. Special provision for fixed commitments or extraordinary expense could be made under either measure by allowing offsets for such things as personal taxes, rents, medical expenses, debt repayments, and the like.

Both plans contribute to the control of inflation in much the same way as taxation, namely, by immobilizing the spending power at the disposal of consumers. Compulsory saving is a more effective immobilizer than compulsory lending, as we shall see in a moment, but the two instruments enjoy certain common advantages over taxation.

The advantage most urgently claimed for both compulsory lending and compulsory saving is that, as compared with taxation, ~~it~~ preserves the incentive to work. Workers will be more willing to work harder and longer if they feel that they are only temporarily deprived of the fruits of their labor, and that they may enjoy these fruits after the war when goods are once more abundant. Similarly, the promise of future rewards inherent in compulsory lending or compulsory saving justifies a greater restriction of consumption among the lower income groups than would be justified under outright taxation. A third advantage follows from the first two, namely, that larger total levies on all income groups become more acceptable when a promissory note is substituted for a tax receipt. Finally, the compulsory lending and saving schemes would create a

reserve of individual purchasing power for the post-war period.

In the immediate job of reducing civilian spending, compulsory lending is likely to be considerably less effective than compulsory saving. This is true because it is directed to only one segment of saving while compulsory saving comprehends all forms of saving. To a considerable extent, especially among lower income groups, the compulsory lending obligation would be met out of accumulated savings or out of current income that would have been saved anyway. Only those persons who did not normally save anything, did not have capital, and could not obtain credit, would be compelled to reduce spending by an amount corresponding to their lending. Since, in general, it is the lowest income groups who save little, have few assets, and have limited credit, it is among those groups that the real impact on consumption would be concentrated. It follows that any compulsory lending schedule would in practice be less progressive in its incidence on consumption than would appear at first glance.

Compulsory saving is more direct and positive in controlling consumer spending than either taxation or compulsory lending. It in effect tells people outright how much they can spend out of a given income, and can even be produced to a point where the spending of further increments of income would be prohibited. We have noted that compulsory lending requirements can be met by liquidating capital assets or drawing upon normal savings. Taxes can similarly be paid from these sources; however, taxes, unlike forced loans, are not a substitute for other forms of saving; if people want to maintain their customary rate of saving in the face of taxes, they must cut their spending. So taxes will more effectively cut consumer spending than compulsory loans.

Compulsory saving, however, is not subject to the loopholes of liquidation and substitution. It fixes a net savings requirement for each income recipient. That requirement can be met only out of income, not out of the sale or conversion of assets. The form in which the savings are held is immaterial so long as no form can be converted into current spending. The vital point is that the saved dollars would not be competing for goods in the market. The Government could without fear of inflation spend an amount equal to the income imposed by compulsory saving. War finance would be automatically simplified, since investment in war bonds would be stimulated, and the margin of taxable capacity would be extended.

In principle, then compulsory saving could provide a comprehensive solution to the problem of inflation. The total amount of consumer spending could be pitched to the available supply of consumer goods and services. This could be done by requiring that the difference between total individual income and the value of available supplies be saved in one form or another.

However, compulsory saving is beset with administrative difficulties. Merely to legislate that each person with a given income shall save a specified amount is not sufficient. Nor is a knowledge of each person's income any guarantee of success. It is absolutely crucial to this plan to obtain in addition a snapshot of each individual's capital position at the beginning and at the end of the period in which he was obligated to save. Such balance sheets -- or that is what the snapshots would amount to -- would be the only means of

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protecting the compulsory saving plan from being undermined by the use of existing balances and credits. The compulsory savings requirement must be in terms of net savings, and net savings can be determined only by subtracting sales of assets, declines in deposits, and so forth from the gross savings represented by savings credits and purchases of assets. To obtain a picture of changes in capital position would be a new and difficult, though not an impossible, administrative task.

Another complicating factor is that compulsory saving requires a certain amount to be saved out of income concurrently with the receipt of that income. It would not, like present income taxes, be a liability that falls due in the year following the receipt of income. Quarterly returns would probably be necessary to keep individuals posted on their savings liabilities. Even then, unanticipated fluctuations in income or in expenditure needs might upset people's calculations. In any case, they would not know for sure that they had complied exactly with the savings requirement until after the event.

One method of enforcing the savings requirement would be to issue each consumer a license to spend only a specified amount on consumer goods and services; in this event, compulsory saving would become expenditure rationing. Or, if a graduated schedule of penalties for spendings above an exempt minimum were utilized, compulsory saving would become a type of expenditure taxation.

#### Expenditure Rationing

Expenditure rationing limits total consumer spendings by fixing the maximum amount that every family or single individual is allowed to spend on rationed goods. It may quite properly be thought of as the reciprocal of compulsory saving, which specifies the amount which people must save. If the amount of spending on rationed goods is fixed, saving, in effect, becomes compulsory.

The spendings allotment, like the savings requirement, would be fixed on the basis of family status and current income. Rationed goods would include almost all consumers' goods and services that have any current cost in labor, materials, or facilities. Rents, tuition, medical care, and a few other selected items might well be placed beyond the pale of the expenditure ration. Except for those items, however, consumers' goods could be bought only with one's ration allowance. Within the allowance the consumer would be free to allocate his expenditures as he pleased. And, of course, people would be free to use income without restriction to make gifts, pay taxes, pay insurance premiums, buy real estate or securities, or to save in other ways. In fact, the very essence of expenditure rationing is to force diversion of income into such non-inflationary channels.

The over-all ration allowance for the entire economy during any given period would be determined by the demands of price stability. The object would be to limit the amount of rationed expenditure to the estimated value of the supply of rationed goods available during that period. In estimating that value, one would apply whatever price level it was desired to maintain. Flexibility would

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be a cardinal feature of the plan, for it would be relatively easy to change the total expenditure ration as more accurate data became available or as the expected supply position changed.

By its direct attack on the problem of excessive consumer purchasing power through the limitation of expenditure itself, this plan is capable not only of dealing inflation a body blow, but also of allocating the economic sacrifices of war in a fair and precise manner. The allotment of spending power to individuals or income classes cannot be very precise under a program of taxation or compulsory lending. Taking away income by taxes or enforcing loans to the Government does not necessarily force a reduction in consumption expenditure throughout the income scale. But direct limitation of spending facilitates both the over-all reduction in spending that is needed and the distribution of the reduction in the manner that is desired.

Those of us who have examined this instrument of control realize that the plan would require elaborate administrative machinery. The ration limit could be enforced only through the use of a license to purchase, in either coupon or other form. The coupons would represent that part of income which was expendable on ration goods, and might even be identified with money. Coupon distribution would be an enormous task, but it could probably be accomplished through the active cooperation of employers, ration boards, banks, and other institutions. This brief mention of administration is not intended to do more than indicate that the problem has been under consideration. If Congress wished to adopt a plan for expenditure rationing and the American people were willing to accept it, a tolerable scheme of administration could surely be developed.

#### Expenditure Taxation

A plan which minimizes the administrative problems of direct control by relying largely on inducement rather than on compulsion has been drafted and recommended to the Congress by the Treasury. I refer to the spendings tax which the Treasury submitted to the Senate Finance Committee during consideration of the Revenue Bill of 1942.

The spendings tax base is consumption rather than income. As its name indicates, this tax would be imposed on expenditures for consumer goods and services. It is not imposed on income received, and it specifically exempts income saved. The spendings tax, in fact, looks to the difference between income received and income saved. Its base is arrived at by subtracting from each person's income his net savings as evidenced by additions to his capital assets and reduction of his debts. Further deductions such as rent, medical expenses, and tuition can be allowed if desired, and the regular income tax would, of course, be deductible.

Except for the difference in base, the spendings tax structure strongly resembles that of the income tax and has much in common with that of the compulsory lending and compulsory savings devices we were considering a few minutes ago. Exemptions according to family status would be provided, and

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steeply graduated rates would be applied. For example, the first \$1,000 spent on goods and services by a married man without dependents might be exempt. A tax penalty of 20 percent might be placed on the second \$1,000 of consumption expenditure, 30 percent on the third \$1,000, and successively steeper taxes on additional increments of spendings. Rates might rise to 100 percent or more, depending on the desired restriction of spending. Part of the tax could be treated as a post-war rebate, if it were desired to combine compulsory lending with the tax on spending.

The spendings tax would reduce spending not only by directly withdrawing income in the form of taxes, but also by powerfully stimulating saving through its drastic penalty on spending. This penalty would not be levied indiscriminately on all spenders, but rather on those spenders that could best afford to pay and on that segment of spending which could best be reduced or eliminated. The differentiated exemption would enable persons with small incomes to obtain basic subsistence needs free of tax, while steep graduation would bring the full weight of the tax to bear on comforts and luxuries rather than on necessities. The highest penalty rates would apply to those who were trying to obtain a disproportionate share of the short supply of civilian goods. The spendings tax serves the interests of equity as it goes about its task of preventing inflation.

At the same time, the spendings tax provides revenue for war finance both by the revenue it collects and by the saving it stimulates. Although the savings induced by the spendings tax would not necessarily be paid over to the Treasury, they nonetheless would be removed from the spending stream and would be added to the pool of unspent income available, directly or indirectly, to finance the war.

The spendings tax would be administered within the framework that exists for the income tax. The taxpayer would fill out a combined income and spendings tax form and would pay the two taxes together. Detailed records of expenditures would not be needed to enforce the tax. The total spendings figure on which the tax is based would be derived indirectly by deducting from the total amount of available funds, the amounts devoted to purposes other than personal consumption. To the data already required under the income tax would have to be added enough information to determine what changes in capital position take place during the period to which the tax applies. Immediate impact on spending could be assured by collection at source of a substantial part of the tax.

Expenditure taxation is particularly well adapted to the job of coping with inflation. Without imposing irksome administrative controls, and without itself requiring elaborate administrative machinery, it can drastically cut spending and can distribute that cut equitably.

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Conclusion

I have outlined this evening a broad complex of fiscal tools with which a forceful anti-inflation program may be fashioned. Each has its shortcomings, but each is vastly superior to inaction. The important issue at stake is to make a choice and to make it now. Swift action is needed to put into effect that measure or that combination of measures which will meet the problem of inflation four-square. "Too late" can be just as disastrous as "too little."

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE

August 18, 1943

TO ~~Frank Smith,~~  
FROM The Secretary.

I hope that you gave Mrs. Klotz all the copies on the various drafts of my letter to Jimmy Byrnes. If you haven't try to get them all together, beginning with the original draft that I dictated and please follow that practice from now on. Maybe you have done it. Maybe I'm doing you a grave injustice. I hope not.

I have them all together.

I follow that practice.

You are doing me a grave injustice.

TRd

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AUG 18 1943

Dear Judge Vincent:

This is in reply to your letter of August 6 to Mr. Randolph Paul, in which you suggest that the Treasury Department sell voluntary annuities, both as a way of siphoning off excess purchasing power and of providing a suitable means by which those able to do so might make provision for their old age.

As you mention in your letter, a proposal for the sale of voluntary annuities by the United States was incorporated in the Social Security Bill considered by the Ways and Means Committee in the spring of 1935. This provision was stricken by the Ways and Means Committee, however; and, although restored by the Senate, was eliminated in conference. A portion, although not all, of the objectives sought to be accomplished by the provision were achieved by the enactment on February 4, 1935, of the Act providing for the sale of United States savings bonds, which bonds provided for the first time a practicable and popular mode for the regular investment of small savings in United States securities in times of peace.

The sale of voluntary annuities by the Treasury Department would, of course, require legislation. The Treasury Department has given consideration to requesting such legislation from time to time since 1935. The principal argument for the sale of voluntary annuities in times of peace has been that it would provide a convenient and economical mode for prudent persons to make provision for their old age. The principal arguments against such sale have been that the total volume of business would be small unless the annuities were substantially subsidized, and that such a subsidy would be improper since the major portion of its benefit would be received by well-to-do persons not in need of public bounty. The experience of foreign countries has been that relatively few voluntary annuities can be sold without a popular sales campaign, even when offered at very attractive rates involving a real subsidy on the part of the issuing government.

The considerations just mentioned apply, of course, primarily to times of peace and might be considerably altered if voluntary

By Messenger

Sturgis 506

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annuities were offered as an alternative type of United States security in a popular sales campaign in time of war or were available as a substitute for regular war bonds in connection with the payroll savings plan. An argument for the sale of annuities at the present time is that they would be less likely to be cashed in after the war than the regular type of savings bonds.

So far as I know the experiment of using the sale of voluntary annuities as an important instrument of war finance has not been tried in any of the major belligerent countries. While there might be some opposition on the part of private insurance companies to trying it in this country, I do not believe that this should stand in our way if we feel that the plan would be of social benefit.

About a year ago, I requested my research staff to draw up a suggested plan for the sale of voluntary annuities which could be integrated with the sales program for United States securities. I am enclosing a copy of this memorandum.

I shall be glad to reconsider the whole matter of sales of voluntary annuities in the light of your letter and present conditions. If you have any further thoughts in this connection, I should be glad to hear from you either by letter or personally.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Fred N. Vinson  
Director, Office of Economic Stabilization  
Washington, D. C.

Enclosure

HM:jam  
6/13/45

*Blough*

OFFICE OF ECONOMIC STABILIZATION  
WASHINGTON, D. C.

August 6, 1943

FRED M. VINSON  
Director

56101

Randolph Paul, Esq  
General Counsel  
Treasury Department  
Washington, D. C.

Dear Randolph:

You will recall that we discussed the voluntary annuity program that was considered by the Ways and Means Committee in 1935 while it had under consideration the Social Security Bill. The more I think about this plan the more I believe in its possibilities.

The majority of persons who would avail themselves of this opportunity would come from that group whose earning capacity has been greatly increased due to the times, and who are in the brackets of potential spenders - such a plan would not only siphon off considerable of the excess purchasing power but it would, at the same time, provide a financial position upon which these folks may rest during their declining years.

Sincerely yours,

*Fred M. Vinson*  
Director

Enclosure



*v-1*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 20, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Suggestions for a Government Annuity Certificate with an instalment purchase feature by means of a proposed Annuity Savings Bond.

In accordance with your request, we have outlined the principal features which might be incorporated in a Government Annuity Certificate. To facilitate the instalment purchase of such annuities, we have suggested a type of long-term Annuity Savings Bond.

The Annuity Certificate itself would be sold only on a single premium basis, either for cash or in exchange for Annuity Savings Bonds. Three different types of annuities are suggested as follows:

- (1) Straight life annuity (see Schedule A attached hereto).
- (2) Life annuity with a provision that payments would be continued in any event for a period certain varying from 10 years to 20 years (see Schedule A attached hereto).
- (3) Joint and survivorship annuity providing for the continuance of three-fourths of the annuity to the purchaser's beneficiary if alive at his death (see Schedule B attached hereto).

The annuity prices shown in Schedules A and B are based upon an interest rate of 3 percent, compounded annually, and the "1937 Standard Annuity Mortality Table", a table which has recently been adopted by a number of the larger insurance companies as the basis for their annuity prices.

The following limitations are suggested in connection with the sale of the Annuity Certificates:

- (1) That each annuity payment must be at least \$10.00.

Secretary Morgenthau - 2

- (2) That the annuity be payable either on a monthly, or quarterly basis, and that a small administrative charge, say 1 percent, be made if the annuity is paid monthly.
- (3) That the maximum annuity be \$3,000 per year.
- (4) That the purchaser of an annuity certificate be at least 50 years of age; purchasers at age 80 or over would be charged the premium applicable to age 80.

The Annuity Savings Bonds are designed primarily as a medium for accumulating the purchase price of an Annuity Certificate by means of systematic savings over a considerable period of time. They might be issued in denominations (in terms of issue price) of \$25, \$50, \$100, \$500, \$1,000, and \$5,000. Of course, postal savings stamps could serve as a medium of instalment purchasing in the same manner as for the Series E savings bonds.

The proposed Annuity Savings Bonds are similar in nature to the Series E and F savings bonds in that they appreciate in value at an increasing rate. However, there are two significant differences: (1) a much longer period to maturity; and (2) in addition to a scale of cash redemption values there is also a scale of "annuity exchange values". The higher annuity exchange values offer an incentive for the purchase of an annuity and, of course, the relatively low cash redemption values would discourage the use of these bonds for ordinary investment purposes. However, the Annuity Savings Bonds should provide for redemption at the exchange values in event of the death of the holder.

A long period to maturity is believed essential in connection with this proposed Annuity Savings Bond because the purchase of an adequate old age retirement income requires a long period of systematic savings even in the case of those whose financial resources are substantially greater than average. Moreover, the necessity of reinvestment present in the short maturities is eliminated, thus reducing the opportunities to abandon the long-term program.

If the Series E savings bonds were used as a medium of savings for the purchase of an Annuity Certificate, the purchaser would find it necessary to reinvest the proceeds of each maturing bond and at the time of purchase of the Annuity Certificate he would be obliged to redeem most of his bonds at values which would cut his overall yield rate substantially below the 2.9 percent realized on only those bonds which are held to maturity.

Secretary Morgenthau - 3

The annuity exchange values of the proposed Annuity Savings Bond would provide an interest yield of 3 percent per annum, compounded semiannually, regardless of the period held. The cash redemption values are approximately 95 percent of the annuity exchange values except that in no case is the cash redemption value less than the issue price. This results in yields increasing from .00 percent during the first 1-1/2 years to 2.48 percent after 10 years, 2.72 percent after 20 years, and 2.88 percent after 45 years. Schedule C, attached hereto, shows a table of the proposed cash redemption values and annuity exchange values, together with yields for period held. This table covers a term of 45 years, which may be varied without affecting the basic idea of the plan.

The proposed Annuity Savings Bonds might be issued with a call provision to be exercised by the Treasury upon six months' notice, through drawings or otherwise, in the event it became desirable to reduce such long-term debt bearing a then-high interest rate. New offerings of the bonds would be discontinued. However, such provisions would not materially decrease the attractiveness of the program if the holder of bonds called for redemption were given the option of taking cash at the exchange value (so that he would not suffer by comparison with the purchaser of Series E bonds), or of exchanging for an annuity, either deferred or immediate. Under no other circumstance would deferred annuities be issued. In no event would Annuity Certificates already issued be subject to cancellation or revision, so that a purchaser would be assured of establishing a life income even though its amount might be limited by the length of time the Annuity Bonds were available. This is a great advantage not possessed by the present savings bond program, under which a periodic income cannot be assured in the absence of guaranteed future offering of savings bonds.

The form and general provisions of the Annuity Savings Bond would be similar to the Series E and F savings bonds. However, the Annuity Savings Bond should contain tables showing the amount of each type of annuity which could be purchased at each age per \$1,000 of aggregate annuity exchange value held by an individual. The three schedules, A, B, and C, attached hereto, would appear on each bond, along with the necessary explanation of each table. Therefore, considerably more printed matter than appears on the Series E and F bonds would be necessary, and for this reason a bond folded once to provide, in effect, four separate pages, might be a practicable solution to this difficulty.

Secretary Morgenthau - 4

The Annuity Certificate would be relatively simple in form as no schedules of redemption or other tabular values would be necessary. Payments under the straight life annuity would terminate on the death of the annuitant. The life annuity in combination with a certain period would require that a beneficiary be designated (subject to change) to whom the payments would be continued during the remainder of the certain period in event the purchaser did not live to the end of such period. However, the joint and survivorship annuity would require that a beneficiary be designated, not subject to change, to whom, if then living, would be paid three-fourths of the purchaser's annuity beginning at the death of the latter. Should the beneficiary pre-decease the purchaser, no adjustment in the purchaser's annuity would be made nor could a new beneficiary be designated.

There are admittedly greater administrative difficulties involved in the annuity program outlined herein than in the present savings bond program. For example, proof of age would be required on issuance of an Annuity Certificate, since the annuity purchasable with a given sum varies by age of purchaser, and in the case of the joint and survivorship annuity, age of beneficiary is also a factor.

Attachments

## SCHEDULE A

Proposed Annuities Purchasable with  
Exchange Values of Annuity Savings Bonds

quarterly annuity payment per \$1,000 of annuity exchange value,  
payable (1) for life, with a certain period; or (2) for life,  
without a certain period.

Age of purchaser		Certain period	Quarterly annuity payment 1/	
Male	Female	(years)	For life with a certain period 2/	For life without a certain period
-	50	20	\$12.74	\$17.52
-	51	20	12.90	17.89
-	52	20	13.07	18.16
-	53	20	13.24	18.45
-	54	20	13.41	18.75
50	55	20	13.58	19.02
51	56	20	13.75	19.41
52	57	20	13.92	19.77
53	58	20	14.09	20.14
54	59	20	14.27	20.53
55	60	20	14.43	20.95
56	61	20	14.60	21.32
57	62	20	14.75	21.70
58	63	20	14.92	22.07
59	64	20	15.08	22.44
60	65	20	15.23	22.82
61	66	19	15.70	23.26
62	67	18	16.21	23.67
63	68	17	16.75	24.02
64	69	16	17.37	24.36
65	70	15	18.04	24.68
66	71	14	18.77	24.98
67	72	13	19.56	25.26
68	73	12	20.47	25.52
69	74	11	21.46	25.77
70	75	10	22.55	26.00
71	76	10	23.68	26.21
72	77	10	24.83	26.40
73	78	10	26.03	26.57
74	79	10	27.27	26.72
75	80	10	28.51	26.85
76	-	10	29.83	26.97
77	-	10	31.13	27.07
78	-	10	32.41	27.15
79	-	10	33.67	27.21
80	-	10	34.91	27.25

1/ Monthly payments are equal to 33 percent of quarterly payments.  
2/ Payments are continued to a beneficiary for the remainder of the certain period if the purchaser dies before the expiration of such period.  
3/ Beginning date of purchase.

Interest - 4% compounded annually. Mortality - 1937 Standard Annuity Table.

SCHEDULE B

Proposed Annuities Purchasable with  
Exchange Values of Annuity Savings Bonds

Quarterly annuity payment  $\frac{1}{4}$  per \$1,000 of annuity exchange value, payable until the death of purchaser, with three-fourths of such payment continued from that time until the death of a beneficiary designated at date of purchase.

Age of Beneficiary $\frac{1}{4}$	Sex	Age of Purchaser $\frac{2}{4}$								
		50	55	60	65	70	75	80	85	
25	Female	10.35	10.50	10.85	11.12	11.38	11.53	11.68	11.84	12.10
25	Male	10.54	10.93	11.22	11.52	11.81	12.10	12.37	12.65	12.92
30	Female	10.95	11.30	11.65	11.99	12.33	12.66	12.97	13.27	13.57
30	Male	11.30	11.72	12.13	12.45	12.76	13.04	13.31	13.57	13.84
35	Female	11.36	12.16	12.84	13.48	14.12	14.75	15.37	15.97	16.57
35	Male	12.02	12.83	13.55	14.23	14.91	15.51	16.11	16.71	17.31
40	Female	12.35	13.09	13.86	14.65	15.45	16.22	16.99	17.75	18.51
40	Male	12.65	13.52	14.45	15.45	16.42	17.42	18.42	19.42	20.42
45	Female	12.81	13.91	15.03	16.26	17.56	18.87	20.14	21.41	22.61
45	Male	13.12	14.24	15.53	17.01	18.63	20.24	21.85	23.46	25.07
50	Female	13.29	14.50	15.95	17.67	19.64	21.81	24.02	26.23	28.44
50	Male	13.40	14.70	16.28	18.21	20.51	23.17	25.11	27.05	29.00
55	Female	13.49	14.84	16.52	18.62	21.22	24.32	27.37	30.42	33.47
55	Male	13.54	14.93	16.69	18.91	21.72	25.23	28.54	31.85	34.97

$\frac{1}{4}$  Monthly payments are equal to 33 percent of quarterly payments.

$\frac{2}{4}$  Age at date of purchase.

Interest - 3% compounded annually. Mortality - 1937 Standard Annuity Mortality Table.

SCHEDULE C

Proposed Annuity Savings Bonds

Schedule of annuity exchange values and cash redemption values with yields for period held 1/

Semi-Annual periods held	Exchange value	Cash value	Yield on cash value during period held	Semi-Annual periods held	Exchange value	Cash value	Yield on cash value during period held
1	\$101.52	\$100.00	.00%	46	\$198.36	\$187.60	2.75%
2	103.04	100.00	.00	47	201.32	190.40	2.76
3	104.56	100.00	.00	48	204.36	193.24	2.76
4	105.12	100.64	.32	49	207.40	196.12	2.77
5	107.72	101.32	.53	50	210.52	199.04	2.77
6	109.36	102.24	.74	51	213.58	202.00	2.78
7	111.00	103.40	.96	52	216.88	205.00	2.78
8	112.64	104.80	1.18	53	220.16	208.04	2.78
9	114.32	106.40	1.38	54	223.44	211.12	2.79
10	116.04	108.16	1.58	55	226.80	214.24	2.79
11	117.80	110.04	1.75	56	230.20	217.40	2.79
12	119.56	112.00	1.90	57	233.64	220.60	2.80
13	121.36	114.00	2.03	58	237.16	223.84	2.80
14	123.16	116.00	2.13	59	240.72	227.12	2.80
15	125.00	118.00	2.22	60	244.32	230.44	2.80
16	126.88	120.00	2.29	61	248.00	233.80	2.80
17	128.80	122.00	2.35	62	251.72	237.20	2.81
18	130.72	124.00	2.40	63	255.48	240.64	2.81
19	132.68	126.00	2.45	64	259.28	244.12	2.81
20	134.68	128.00	2.48	65	263.20	247.64	2.81
21	136.72	130.00	2.51	66	267.16	251.24	2.81
22	138.76	132.00	2.54	67	271.16	254.92	2.81
23	140.84	134.00	2.56	68	275.24	258.68	2.81
24	142.96	136.00	2.58	69	279.36	262.52	2.82
25	145.08	138.00	2.59	70	283.56	266.44	2.82
26	147.28	140.00	2.61	71	287.80	270.44	2.82
27	149.48	142.00	2.61	72	292.12	274.52	2.82
28	151.72	144.04	2.62	73	296.48	278.68	2.82
29	154.00	146.12	2.63	74	300.88	282.92	2.82
30	156.32	148.24	2.64	75	305.32	287.24	2.82
31	158.64	150.40	2.65	76	309.80	291.64	2.82
32	161.04	152.60	2.66	77	314.32	296.12	2.82
33	163.44	154.84	2.67	78	318.88	300.68	2.82
34	165.88	157.12	2.68	79	323.48	305.32	2.82
35	168.40	159.44	2.68	80	328.12	310.04	2.82
36	170.92	161.80	2.69	81	332.80	314.84	2.82
37	173.48	164.20	2.70	82	337.52	319.72	2.82
38	176.08	166.64	2.71	83	342.28	324.68	2.82
39	178.72	169.12	2.71	84	347.08	329.72	2.82
40	181.40	171.64	2.72	85	351.92	334.84	2.82
41	184.12	174.20	2.73	86	356.80	340.04	2.82
42	186.88	176.80	2.73	87	361.72	345.32	2.82
43	189.68	179.44	2.74	88	366.68	350.68	2.82
44	192.52	182.12	2.74	89	371.68	356.12	2.82
45	195.44	184.84	2.75	90	381.88	362.64	2.82

1/ Yield on exchange value is 3 percent regardless of period held. Yields are nominal annual rates compounded semiannually.

August 18, 1943

Dear Prentiss:

It occurs to me that the letter I wrote to you on July 29 may have gone astray somewhere between my office and yours. I have not had a reply to it, and I am, therefore, sending you a copy of what I wrote you on the subject of the point rationing system in connection with hotels and restaurants.

I shall be very glad to hear from you as soon as you have had an opportunity to give the matter some thought.

Sincerely,

(Signed) H. Margathan, Jr.

Hon. Prentiss Brown  
Administrator, Office of Price  
Administration  
Washington, D. C.

GEF:mn

Enclosure

By Messengers 4:30  
Gierges

TO:

Mrs. McHugh

75

The Secretary signed these two circulars this morning and Mr. Bell said to give you copies.

ew

Office of the Under Secretary

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1964-69

Dated and bearing interest from September 15, 1943

Due December 15, 1969

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND  
AFTER DECEMBER 15, 1964

Interest payable June 15 and December 15

1943  
Department Circular No. 719

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, September 9, 1943.

Fiscal Service  
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2-1/2 percent Treasury Bonds of 1964-69. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF BONDS

1. The bonds will be dated September 15, 1943, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable on a semiannual basis on December 15, 1943, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1969, but may be redeemed at the option of the United States on and after December 15, 1964, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

76 ✓  
8/18 ✓

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will not be acceptable to secure deposits of public moneys before September 15, 1953. They will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury, except that they may not, before September 15, 1953, be transferred to or be held by commercial banks, which are defined for this purpose as banks accepting demand deposits. However, the bonds may be pledged as collateral for loans, including loans by commercial banks, but any such bank acquiring such bonds before September 15, 1953, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

5. Any bonds issued hereunder which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment, Provided:

✓ An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.

- (a) that the bonds were actually owned by the decedent at the time of his death; and
- (b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at \_\_\_\_\_ for credit on Federal estate taxes due from estate of \_\_\_\_\_". Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date; <sup>2/</sup> bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the full six months' interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782 <sup>3/</sup>, properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than six months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

<sup>2/</sup> The transfer books are closed from May 16 to June 15, and from November 16 to December 15 (both dates inclusive) in each year.

<sup>3/</sup> Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

6. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

### IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before September 15, 1943, or on later allotment; provided, however, that bonds allotted to life insurance companies may be paid for, in whole or in part, at par and accrued interest, at any time or times not later than November 1, 1943. One day's accrued interest is \$0.068 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

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## V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

## UNITED STATES OF AMERICA

## 2 PERCENT TREASURY BONDS OF 1951-53

Dated and bearing interest from September 15, 1943                      Due September 15, 1953

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND  
AFTER SEPTEMBER 15, 1951.

Interest payable March 15 and September 15

1943  
Department Circular No. 720

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, September 9, 1943.

Fiscal Service  
Bureau of the Public Debt

## I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2 percent Treasury Bonds of 1951-53. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

## II. DESCRIPTION OF BONDS

1. The bonds will be dated September 15, 1943, and will bear interest from that date at the rate of 2 percent per annum, payable semiannually on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1953, but may be redeemed at the option of the United States on and after September 15, 1951, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys. They will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. An offering of securities of identical or similar tenor to those offered by this circular will be made for the exclusive subscription of commercial banks shortly after the conclusion of this offering. Until such offering has been made and the books thereon closed, or until ten days after the subscription books close on this offering, whichever is earlier, commercial banks are requested not to purchase and subscribers are requested not to trade in the securities offered by this circular. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

#### IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before September 15, 1943, or on later allotment; provided, however, that bonds allotted to life insurance companies may be paid for, in whole or in part, at par and accrued interest, at any time or times not later than November 1, 1943. One day's accrued interest is \$0.055 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES E-1944

Dated and bearing interest from September 15, 1943

Due September 1, 1944

1943  
Department Circular No. 721

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, September 9, 1943.

Fiscal Service  
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series E-1944. These certificates will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated September 15, 1943, and will bear interest from that date at the rate of 7/8 percent per annum, payable on a semiannual basis on March 1 and September 1, 1944. They will mature September 1, 1944, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer certificates with interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. An offering of securities of identical or similar tenor to those offered by this circular will be made for the exclusive subscription of commercial banks shortly after the conclusion of this offering. Until such offering has been made and the books thereon closed, or until ten days after the subscription books close on this offering, whichever is earlier, commercial banks are requested not to purchase and subscribers are requested not to trade in the securities offered by this circular. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of certificates applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

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## IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder must be made on or before September 15, 1943, or on later allotment. One day's accrued interest is @0.024 per \$1,000. Any qualified depository will be permitted to make payment by credit for certificates allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

## V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

**UNITED STATES OF AMERICA**  
**2½ PERCENT TREASURY BONDS OF 1964-69**

Dated and bearing interest from September 15, 1943

Due December 15, 1969

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND  
 AFTER DECEMBER 15, 1964

Interest payable June 15 and December 15

1943  
 Department Circular No. 718  
 Fiscal Service  
 Bureau of the Public Debt

TREASURY DEPARTMENT,  
 OFFICE OF THE SECRETARY,  
 Washington, September 9, 1943.

**I. OFFERING OF BONDS**

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2½ percent Treasury Bonds of 1964-69. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

**II. DESCRIPTION OF BONDS**

1. The bonds will be dated September 15, 1943, and will bear interest from that date at the rate of 2½ percent per annum, payable on a semiannual basis on December 15, 1943, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1969, but may be redeemed at the option of the United States on and after December 15, 1964, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will not be acceptable to secure deposits of public moneys before September 15, 1953. They will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury, except that they may not, before September 15, 1953, be transferred to or be held by commercial banks, which are defined for this purpose as banks accepting demand deposits. However, the bonds may be pledged as collateral for loans, including loans by commercial banks, but any such bank acquiring such bonds before September 15, 1953, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

5. Any bonds issued hereunder which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment, *Provided:*

<sup>1</sup> An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.

- (a) that the bonds were actually owned by the decedent at the time of his death; and  
 (b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue as agent for credit on Federal estate taxes due from estate of \_\_\_\_\_." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date; bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the full six months' interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782<sup>1</sup>, properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than six months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

6. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

### IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before September 15, 1943, or on later allotment; provided, however, that bonds allotted to life insurance companies may be paid for, in whole or in part, at par and accrued interest, at any time or times not later than November 1, 1943. One day's accrued interest is \$0.068 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,  
 Secretary of the Treasury.

<sup>1</sup> The transfer books are closed from May 10 to June 15, and from November 15 to December 15 (both dates inclusive) in each year.

<sup>2</sup> Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

## UNITED STATES OF AMERICA

### 2 PERCENT TREASURY BONDS OF 1951-53

Dated and bearing interest from September 15, 1943

Due September 15, 1953

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER SEPTEMBER 15, 1951

Interest payable March 15 and September 15

1943  
 Department Circular No. 228

Fiscal Service  
 Bureau of the Public Debt

TREASURY DEPARTMENT,  
 OFFICE OF THE SECRETARY,  
 Washington, September 9, 1943.

### I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2 percent Treasury Bonds of 1951-53. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

### II. DESCRIPTION OF BONDS

1. The bonds will be dated September 15, 1943, and will bear interest from that date at the rate of 2 percent per annum, payable semiannually on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1953, but may be redeemed at the option of the United States on and after September 15, 1951, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys. They will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. An offering of securities of identical or similar tenor to those offered by this circular will be made for the exclusive subscription of commercial banks shortly after the conclusion of this offering. Until such offering has been made and the books thereon closed, or until ten days after the subscription books close on this offering, whichever is earlier, commercial banks are requested not to purchase and subscribers are requested not to trade in the securities offered by

this circular. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

#### IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before September 15, 1943, or on later allotment; provided, however, that bonds allotted to life insurance companies may be paid for, in whole or in part, at par and accrued interest, at any time or times not later than November 1, 1943. One day's accrued interest is \$0.055 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,  
*Secretary of the Treasury.*

## UNITED STATES OF AMERICA

### $\frac{7}{8}$ Percent Treasury Certificates of Indebtedness of Series E-1944

Dated and bearing interest from September 15, 1943

Due September 1, 1944

1943  
Treasury Circular No. 794  
Federal Reserve  
Banks of the United States

TREASURY DEPARTMENT,  
OFFICE OF THE SECRETARY,  
Washington, September 9, 1943.

#### I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated  $\frac{7}{8}$  percent Treasury Certificates of Indebtedness of Series E-1944. These certificates will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

#### II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated September 15, 1943, and will bear interest from that date at the rate of  $\frac{7}{8}$  percent per annum, payable on a semiannual basis on March 1 and September 1, 1944. They will mature September 1, 1944, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer certificates with interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

#### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. An offering of securities of identical or similar tenor to those offered by this circular will be made for the exclusive subscription of commercial banks shortly after the conclusion of this offering. Until such offering has been made and the books thereon closed, or until ten days after the subscription books close on this offering, whichever is earlier, commercial banks are requested not to purchase and subscribers are requested not to trade in the securities offered by this circular. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of certificates applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

#### IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder must be made on or before September 15, 1943, or on later allotment. One day's accrued interest is \$0.024 per \$1,000. Any qualified depository will be permitted to make payment by credit for certificates allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

**HENRY MORGENTHAU, JR.,**  
*Secretary of the Treasury.*

quite  
12  
August 18, 1943

Mrs. Klotz:

The Secretary told me the other day that he wanted three complete sets of all the posters on savings bonds, as far back as possible, set aside - one for himself, one for the President's Library, and one for the Library of Congress.

Mr. Harris in War Finance says that the Secretary at one time requested that 100 of each poster be set aside, and that has been done ever since Baby Bonds were first issued.

Does the Secretary wish to have War Finance continue to set aside 100 of each poster or does he only want three of each?

Mrs. McHugh

Phoned Mr. ~~Gambx~~ Harris, War Finance, on 8/24/43 and told him the Secretary wants 12 of each poster on War Bonds held for him. This includes 12 of each poster since the start of Baby Bonds. - McH

August 16, 1943

Dear Frank:

As you know, the Government is now spending at the rate of \$1 1/2 billions a month for war purposes; in order to reach the Budget estimate these monthly expenditures will have to average \$6 1/2 billions. During the Third War Loan Drive, which commences September 9, the Treasury will undertake to raise the large sum of \$15 billions to take care of the major part of the financing of the war during the next few months. Of the \$15 billions, about \$5 billions must come from individuals and personal trust accounts. To get this money, we must reach every person with an income or with extra money from any source.

During the last six months of this calendar year, we must sell nearly twice as much in bonds to individuals as we did in the first half of the year. We will have to sell to nearly every man, woman, and child in America. We must go from house to house, from bench to bench in factories, and from desk to desk in offices.

An undertaking of such magnitude requires the fixing of quotas for the various states and local communities. These quotas necessarily must take into account sales by the Government to its own employees.

The gross monthly pay roll of the Government for civilian employees is approximately \$522 millions. This amount will undoubtedly be augmented in many cases by income and extra cash, however small, which had accumulated from previous earnings and other sources. To reach our goal we must sell about \$156 millions of war bonds to Federal employees during September, of which roughly \$40 millions will come through pay-roll allotments and the balance of \$116 millions from extra cash sales during the drive.

In order to place all departments of the Government on a uniform basis, these \$116 millions have been allocated to the various departments, the Navy Department's share being \$25,790,000.

- 2 -

Proportionately, this quota is somewhat less than the per capita amount which we must get from individuals generally, allowance having been made for circumstances surrounding Government employment and the fact that Government employees have not benefited so greatly through salary increases during the war.

I realize that we are asking for a lot of money, but the demand is not out of proportion to the need, and certainly the inconvenience which an extra bond purchase may cause is by comparison small indeed to the sacrifices which are being made every day by our armed forces on the battle fronts.

I would appreciate it greatly if the Navy Department would make an effort to sell an extra bond during the September Drive to each of its civilian employees, and also if the necessary facilities should be provided during the drive for the sale of an extra bond for cash to the uniformed personnel of the Navy. The Treasury has had considerable favorable experience with the fine and efficient officers who have charge of the bond organization of the Navy Department, and I am convinced that they are capable of reaching this quota without causing undue hardship to individuals. To do this, of course, would require your sanction and encouragement. That's what I am calling upon you for now.

Most sincerely yours,

(Sgd) H. MORGENSHAU, Jr.  
[Signature]

Secretary of the Treasury

Honorable Frank Knox  
Secretary of the Navy  
Washington, D. C.

KTBartelt:hw  
8/16/43

August 18, 1943

Dear Henry:

As you know, the Government is now spending at the rate of  $\$7\frac{1}{2}$  billions a month for war purposes; in order to reach the Budget estimate these monthly expenditures will have to average  $\$8\frac{1}{2}$  billions. During the Third War Loan Drive, which commences September 9, the Treasury will undertake to raise the large sum of  $\$15$  billions to take care of the major part of the financing of the war during the next few months. Of the  $\$15$  billions, about  $\$5$  billions must come from individuals and personal trust accounts. To get this money, we must reach every person with an income or with extra money from any source.

During the last six months of this calendar year, we must sell nearly twice as much in bonds to individuals as we did in the first half of the year. We will have to sell bonds to nearly every man, woman, and child in America. We must go from house to house, from bench to bench in factories, and from desk to desk in offices.

An undertaking of such magnitude requires the fixing of quotas for the various states and local communities. These quotas necessarily must take into account sales by the Government to its own employees.

The gross monthly pay roll of the Government for civilian employees is approximately  $\$522$  millions. This amount will undoubtedly be augmented in many cases by income and extra cash, however small, which had accumulated from previous earnings and other sources. To reach our goal we must sell about  $\$156$  millions of war bonds to Federal employees during September, of which roughly  $\$40$  millions will come through pay-roll allotments and the balance of  $\$116$  millions from extra cash sales during the drive.

In order to place all departments of the Government on a uniform basis, these  $\$116$  millions have been allocated to the various departments, the War Department's share being  $\$44,345,000$ .

- 2 -

Proportionately, this quota is somewhat less than the per capita amount which we must get from individuals generally, allowance having been made for circumstances surrounding Government employment and the fact that Government employees have not benefited so greatly through salary increases during the war.

I realize that we are asking for a lot of money, but the demand is not out of proportion to the need, and certainly the inconvenience which an extra bond purchase may cause is by comparison small indeed to the sacrifices which are being made every day by our armed forces on the battlefronts.

I would appreciate it greatly if the War Department would make an effort to sell an extra bond during the September Drive to each of its civilian employees, and also if the necessary facilities should be provided during the drive for the sale of an extra bond for cash to the uniformed personnel of the Army. The Treasury has had considerable favorable experience with the fine and efficient officers who have charge of the bond organization of the War Department, and I am convinced that they are capable of reaching this quota without causing undue hardship to individuals. To do this, of course, would require your sanction and encouragement. That's what I am calling upon you for now.

Most sincerely yours,

(Sgd) H. MORGENTHAU JR.

Secretary of the Treasury

Honorable Henry L. Stimson  
Secretary of War  
Washington, D. C.

EFBartelt:hy  
8/16/43

August 18, 1943

TO HEADS OF BUREAUS AND OFFICES,

TREASURY DEPARTMENT:

I am enclosing for your information and guidance a message to employees of the Treasury Department regarding the Third War Loan Drive. Please see that this message receives appropriate distribution.

As you know, the Government is now spending at the rate of \$7½ billions a month for war purposes. During the Third War Loan Drive, which commences September 9, the Treasury will undertake to raise the stupendous sum of \$15 billions to take care of the major part of the financing of the war during the next few months. Of the \$15 billions, about \$5 billions must come from individuals and personal trust accounts. To get this money, we must reach every person with an income or with extra money from any source.

During the last six months of this calendar year, we must sell nearly twice as much in bonds to individuals as we did in the first half of the year. We will have to sell bonds to nearly every man, woman, and child in America. We must go from house to house, from bench to bench in factories, and from desk to desk in offices.

An undertaking of such magnitude requires the fixing of quotas for the various states and local communities. These quotas necessarily must take into account sales by the Government to its own employees.

The gross monthly pay roll of the Government for civilian employees is approximately \$522 millions. This amount will undoubtedly be augmented in many cases by income and extra cash, however small, which had accumulated from previous earnings and other sources. To reach our goal we must sell about \$156 millions of war bonds to Federal

- 2 -

employees during September, of which roughly \$40 millions will come through pay-roll allotments and the balance of \$116 millions from extra cash sales during the drive.

In order to place all departments of the Government on a uniform basis, these \$116 millions have been allocated to the various departments, the Treasury Department's share being \$3,147,000. A breakdown of this by bureaus and offices is enclosed. Proportionately, the Federal quota is somewhat less than the per capita amount which we must get from individuals generally, allowance having been made for circumstances surrounding Government employment and the fact that Government employees have not benefited so greatly through salary increases during the war.

Consideration should immediately be given to the setting up of an organization in your bureau to carry on the Third War Loan Drive similar to that which was set up to handle the Pay-roll Savings Campaign in May of 1942 with which we had so much success. You are requested to designate the most capable official available to head up the organization in your bureau or office, and have him attend a meeting of all representatives of Treasury bureaus and offices at 3 o'clock Saturday afternoon, August 21, 1943, in room 394, Treasury Building to discuss the campaign plans.

It is my desire that the head of every bureau and office of the Treasury Department give personal attention to this matter to the end that every officer and employee under his jurisdiction will clearly understand his interest in the success of the Third War Loan Drive.

(Sgd) H. MORGENTHAU Jr.

Secretary of the Treasury

Attachment

KFB:hbw 8/14/43

August 18, 1943

TO ALL EMPLOYERS OF THE TREASURY DEPARTMENT:

I address you today for two reasons - first, to express my appreciation for your help in the financing of the war, and second, to bring to your attention a matter which is of vital concern to each and every one of us.

Shortly after Pearl Harbor, when America was still on the defensive, you were asked to buy war bonds through the pay-roll savings plan. You were asked to put at least 10% of your gross pay into war bonds every pay day.

And you did it! Ninety-six out of every 100 employees of the Treasury Department are investing more than 1% of their gross pay in war bonds every pay day. You and your fellow workers in the other departments of the Federal Government are buying enough bonds to purchase 90 Flying Fortresses every month. If you could actually see 90 Fortresses flying overhead every month on their way to Germany and Japan, you could more fully appreciate the significance of your united effort.

But, this is not a 10% war. It is total war. The Government needs more money. The only place to get it is from the American people. Now that you have done your bit by reaching the 10% goal, I am asking you to figure out how you can do your best -- how much more you can put into war bonds -- for your country -- for your own future financial security.

Our boys are on the march to Victory. We must **BACK THEM UP** WITH MORE WAR BONDS.

During the Third War Loan Drive, commencing September 9, the Treasury must raise the large sum of 15 billions of dollars for carrying on the war. Of this, at least \$5 billions must be obtained from individuals. To do this, we must reach every person with an income or with extra money from any source. During the September drive, we must sell an extra bond to nearly every man, woman, and child in America. We must go from house to house, from bench to bench in factories, and from desk to desk in offices.

- 2 -

The quota for employees of the Treasury Department for extra bond purchases during the September drive has been fixed at \$3,147,000. Within this total amount, a separate cash quota has been fixed for the employees of each Treasury bureau and office. These quotas and your progress in their attainment will appear on an attractive "scoreboard" at the Fifteenth Street entrance to the Treasury building. I shall watch with interest the progress of your office in relation to that of other Treasury offices, and I hope you will do your utmost to put your office and your department on the HONOR ROLL.

Your Minute Man will call on you during the drive. I ask that you listen to him patiently. Remember, he will not be asking you to do something as a favor to himself. He has been called upon by his Government to do a job — to enlist your aid in the support of your country and your comrades, relatives, and friends on the battle fronts. You may think that he is asking you for a lot of money, but remember, the demand is not out of proportion to the need. And certainly, the inconvenience which the purchase of an extra bond may cause us at home is by comparison small indeed to the sacrifices which are being made every day by our armed forces on the battle fronts.

So I appeal to you; buy an extra bond in September — not the smallest bond, but the largest you can afford.

LET IT NEVER BE SAID THAT YOU DID NOT DO YOUR PART.

Sincerely yours,

(Sgd) H. MORSETHAU Jr.

Secretary of the Treasury

EFBartelt:jm  
8/16/43

AUG 18 1943

Dear Eleanor:

I have your letter of August 11, 1943, enclosing a letter from Mrs. Robert Trusdell, 45 Exchange Street, Rochester, 4, New York, transmitting check in the amount of \$15.00 as a voluntary contribution to the Government.

The Treasury for a great number of years has been receiving contributions to the Government and these are deposited as "Miscellaneous Receipts, Donations to the United States". If they are freely given and not subject to any conditions or restrictions as to the purposes for which the money may be used. Voluntary contributions to the Government may be forwarded to the Secretary of the Treasury by check or money order payable to the Treasurer of the United States.

Shortly after Pearl Harbor a number of persons indicated their desires to make voluntary donations to the Treasury to aid our war program by specifying that their money be used for particular purposes, such as building airplanes, battleships, etc. As a matter of policy we thought it desirable to make it possible to accept such gifts and recommended legislation for this purpose.

Under Title XI of the Second War Powers Act, 1942, approved March 27, 1942, the Secretary of the Treasury is authorized to accept on behalf of the United States any gift of money or other property, real or personal, even though it is made on condition that it be used for a particular war purpose. Since that time we have received every conceivable kind of material and large sums of money. Thus we have made it possible for many people to give physical expression of their desires to help in the war program even though they cannot actively participate in war plants or in the armed forces. From the standpoint of morale I think this is a good practice.

Heretofore the Treasury has adopted the position that it will not authorize private persons or agencies to conduct special campaigns to raise funds from the public for donation to the Government. The Treasury

- 2 -

has also taken the position that it does not look with favor upon persons or organizations advertising their products or activities with a statement that part of the sales price or proceeds is being donated to the Treasury. I am sure you appreciate the fact that if private persons are permitted to solicit voluntary contributions for the Government, this would afford a lucrative field for dishonest persons to profit under the guise of helping the Government.

We have also adopted the position that the Government should not undertake or encourage campaigns to raise funds by voluntary contributions because such action may tend to give the impression that the task of financing the war is of lesser magnitude than is actually the case and may lead individuals to believe that they have done their share by making relatively small contributions when actually they have fallen far short of it.

I am placing Mrs. Trussdell's letter in the usual channel and an acknowledgment of her contribution will be forwarded in regular course.

Sincerely,

(Signed) H. Morgenthau, Jr

Mrs. Eleanor Roosevelt  
The White House

by Messenger *A. Brown 8/18/43 12:55 p.m.*

WTH:mlb 8-17-43

THE WHITE HOUSE  
WASHINGTON

*bw Rec*

August 11, 1943

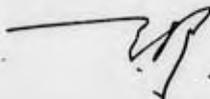
Dear Henry:

This I think, carries out your idea on voluntary subscriptions, and is perhaps one more field you might tap.

I do not know where to send the check, but as it is made out to you, I think it had better go to you and you can put it to any use you think wise.

Will you please write the lady?

Affectionately,

A handwritten signature in dark ink, appearing to be 'F. D. Roosevelt', written in a cursive style.

Mrs Hobart Truesdell

45 Exchange Street  
Rochester, 4, New York  
July 26th, 1943

Dear Margaret,

You will be surprised to be receiving a second letter from me, but it has occurred to me that you are just the person to get ideas to official sources if you feel they have any merit, and so I am sending you this one for what it is worth.

For some time it has made me quite sad to see so much of the appeal to buy bonds and win the war, based on the mercenary motive of having the bond buyers have so much more money to spend after the war. When the drive started for the carrier *Shangri La*, I thought, "Now at last, a gift from people who love their country to their country". I am disappointed to find it is only another bond and stamp buying idea.

It seems to me that the generous American people, who heap a small fortune on a woman who misses a radio prize, to give only one example, would be only too happy to have the opportunity to feel themselves, through a gift a part of a special ship, or a special unit that would have a strong appeal and that people would get a great thrill in being through their gifts a part of some particular effort. I think we have not begun to tap the possibilities of outright gifts on a big scale. A few cities have done this with ships named for them, but this is the only publicized thing of this kind that I know about.

As a concrete bit of evidence of my own feeling, I am enclosing my check for a small amount which I wish could be many times its size, but that perhaps can be one of the first contributions toward a gift to the country from people who wish to show their appreciation of all our country has done for us, is doing and, we hope, will continue to do for our children.

With warm personal regards,

Sincerely

Julia Brooks Truesdell

New St. Leonard Court  
 July 18/63  
 Supreme Court of the United States  
 Washington, D. C.

Dear Henry:

Where next we meet -  
 Either over bad food in  
 the austere chambers of  
 the Supreme Court or over  
 good food on the gay  
 ground floor of the hearney.  
 You'll tell me things  
 and I'll tell you things  
 In the meantime I want  
 to tell you what a good  
 job you did!  
 Give & love Harriet &  
 my best. We hope she is  
 convalescing rapidly.  
 Yours truly,  
 J. M. W.



THE SECRETARY OF THE TREASURY  
WASHINGTON

AUG 18 1943

The authorization of July 21, 1943, to Mr. Randolph E. Paul, General Counsel, to supervise and direct the policies and activities of the Attorney for the Government and the Committee on Practice is hereby supplemented to provide that the assignment of the Committee to the administrative supervision of Assistant Secretary Gaston, as directed in Treasury Department Order No. 26 of October 17, 1939, shall remain in effect. The authority delegated to the General Counsel by the Order of July 21, 1943, is not to affect the Committee's responsibility to Assistant Secretary Gaston or his authority with respect to its orders.

A handwritten signature in cursive script, reading "H. H. Thornton Jr.", written in dark ink.

Secretary of the Treasury.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 18, 1943

TO Secretary Morgenthau

FROM Mr. McConnell

The following seems to express the concensus of intelligent opinion in analysis of post-war planning in World War I. The explanation for the non-existence of a constructive plan to meet the change at the end of World War I is:

- 1) concern that post-war planning during the conduct of the war would divert attention from the primary necessity of winning the war.
- 2) lack of Presidential support for a domestic program. The President was engaged in directing the war effort and in making plans for world peace.
- 3) failure to denote a single agency to conduct a program. No decision concerning whether the responsibility rested in the legislative or executive branch of Government was made.
- 4) failure to anticipate the early ending of the war.
- 5) failure to comprehend the importance of creating intelligent public opinion in order to win support for a readjustment program.

To some extent, at least, the same confusion exists today that existed in the summer of 1918. This confused thinking of post-war procedure is similar in some ways to the confusion of war preparedness in 1941. It would seem evident that it is going to be impossible to deal soundly with any one problem unless we make a determined effort to see our problem as a whole.

It would seem that some Department of Government should undertake the task to bring together the scattered activities of the several Government agencies and try to develop a consistent over-all policy.

*R. E. M.*

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE August 18, 1943

TO Mrs. McHugh  
FROM Mr. Tickton *for Mr.*  
Subject: Cancellation of British Contracts

In accordance with the Secretary's request about a month ago, I checked on the cancellation of British contracts. I talked to Mr. Mack, Director of Procurement, and to the Contract Section of Lend-Lease Administration. I was informed that there had been no wholesale cancellation, but that instead, certain commitments placed which had been made sometime ago were readjusted to current requirements. This readjustment procedure goes on all the time.

I had asked Mr. Fitzgerald for an opportunity to tell the Secretary the foregoing sometime ago, but the Secretary was tied up on something else and we just let the matter ride.

If the Secretary would like something further, I can write an official letter to the Lend-Lease Administration for details. Please advise my office in my absence and the arrangements will be taken care of. *Phoned*

*Secretary's office to get this inf. - 8/19/43*

8/18/43-107

AIIDE-MEMOIRE

The request made of the British Government by the Government of the United States for the provision as reciprocal aid of raw materials from the British Empire to a value from \$200,000,000 to \$300,000,000 a year was designed to carry the principle of common pooling of the resources of the two countries a substantial step forward toward complete realization. This principle is widely and favorably accepted in the United States and the extent of British reciprocal aid to the United States has made a highly favorable impression. Both informed and partially informed circles, however, both in Washington and elsewhere in the United States, find it difficult to understand, in view of the value of lend-lease aid being extended to the British Empire, why cash payments by the United States Government for raw materials obtained from the British Empire should continue to be necessary.

The proposal set forth in the British Aide-Memoire of August 2, 1943 is a welcome contribution to the purpose mentioned above, although its details seem unduly restrictive.

1. The United States Government has separate reciprocal aid agreements with the governments of Australia and New Zealand, and is negotiating such an agreement with the Government of South Africa. The situation in regard to India is different. The United States Government does not have a reciprocal aid agreement with the Government

As submitted to the British by the State Department, 8/18/43, P.M.

- 2 -

of India and does not consider that it would be practicable at the present time to conclude such an agreement. The United States Government would, however, be prepared to advise the governments of Australia, New Zealand, South Africa and India of the procurement program which it desires be transferred to a reciprocal aid basis, it being understood that such financial arrangements as may be necessary to permit this to be done would be for discussion between the governments of the United Kingdom and the other British Empire governments concerned.

2. Many United States Government contracts for materials from British Empire countries do not terminate until sometime after October 1, 1943. The suggestion of the British Government that the arrangement apply only to contracts made on or after October 1, 1943 would therefore mean that during the immediate future the reciprocal aid extended in the form of raw materials would fall short of the amount deemed desirable. For this reason, the United States Government suggests that all of its raw material contracts in the United Kingdom, Southern Rhodesia and the Colonies either in effect on or signed after July 1, 1943, be brought within the scope of the program and that arrangements be worked out whereby as the need arises, the necessary means of payment would be made available to the United States Commercial Corporation or any other agency designated by the United States Government to pay for any deliveries made on these contracts on or after July 1, 1943. This would permit the two governments to

- 3 -

announce that since July 1, 1943 the United States Government has been receiving without charge and as reciprocal aid all raw materials procured by it in the United Kingdom, Southern Rhodesia and the Colonies.

3. The Embassy's Aide-Memoire states that the decision of the British Government to supply as reciprocal aid the raw materials purchased by the United States Government from the United Kingdom, Southern Rhodesia and the Colonies on contracts signed on or after October 1, 1943, is made on the assumption that the list and valuation accompanying the letter from Mr. Stettinius to the late Sir Frederick Phillips of June 26 "represents roughly the effect of what is proposed and that no major item will be added". This tabulation was submitted to Sir Frederick only as a rough indication of the scope of the contemplated program. It was not meant to be taken as a definitive list of either the quantities or the specific commodities which this Government might wish to bring within the program. It seems desirable because of constantly changing war conditions that, like lend-lease, the arrangement be kept as flexible as possible in this respect. The United States Government, therefore, urges that the agreement not be restricted to a particular list of items or quantity thereof.

4. The United States Government appreciates the willingness of the British Government to meet its suggestion that monetary figures for reciprocal aid be announced. It is hoped that this publication may be made at an early date, and it is further hoped that subsequent

- 4 -

periodic publication may be in such form as will permit the United States War Department either to withdraw or to modify the instructions issued in June 1943, so that it will not be necessary for the War Department to make its own independent evaluation of reciprocal aid received in the United Kingdom, in Southern Rhodesia, or in the colonies.

Department of State,

Washington.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: August 18, 1943, 8 p.m.

NO.: 1504

This is message TF-152 from Mr. Adler for the Secretary of the Treasury, referring to the Department's cable of August 13, no. 1102.

1. The board has never given any information to the press except its rare official releases and secrecy as to its operations has been consistently preserved.

2. It is public knowledge that American soldiers, especially in Kunming, have made up to 400% profit out of transactions in US dollar backed certificates, and the soldiers themselves have never tried to keep this a secret. With respect to the 30 to one exchange rate, knowledge is inevitably widespread since missionary relief and educational organizations, diplomats and journalists as well as soldiers are entitled to receive it.

3. Because of my resignation from the board action on applications for US dollars was temporarily stopped by the chairman on August 3, and it was not resumed until August 16. The non-action of the board soon became widely known because applicants could not obtain US dollars. This brought about much outside conjecture and speculation which spread rapidly in China. About two or three days later the rumor was prevalent in Kunming that the board was dissolving. The gossip there linked the cessation of sale of savings certificates, the closing of black market for foreign currencies and the non-action of the board on applications for US dollars. As for knowledge regarding the state of fund, on April 17 both the Central News Daily English Bulletin and the Chinese Press printed the secretary's statement before the Senate Banking and Currency Committee of April 16.

4. With respect to the despatch you refer to it would appear that the factual matter contained therein was pretty widely known in Chungking and that comments and opinion therein were common gossip here.

ATCHESON

NOT TO BE RE-TRANSMITTEDCOPY NO. 713

SECRETARY GENERAL  
 BRITISH MILITARY SECRET  
 OFFICE  
 AIR OPERATIONS  
 TREASURY DEPARTMENT  
 14  
 19 AUG 1943  
 OFFICE NO. 272

Information received up to 10 a.m., 18th August, 1943.

WESTERN FRONT. 16th/17th. TURIN. 208 tons dropped. Weather cloudless but near ground haze hampered observation of results. Bombing well concentrated, several fires reported including a large one near the main station. 8 Stirlings attacked FIAT Aero-Engine works which could be identified in the moonlight. Only 4 aircraft missing.

17th. 142 Fortresses were sent to attack the Messerschmitt Fighter Assembly Factory at REGENSBURG. Photographs taken by a Mosquito shortly afterwards indicate that the attack was very successful. 112 aircraft have been landed safely in Northwest AFRICA. 30 are outstanding including 2 landed in SWITZERLAND and 7 believed fallen in MEDITERRANEAN. 230 more Fortresses were sent to attack the Ball-bearing Factories at SCHWEINFURT east of FRANKFURT. 189 attacked dropping 397 tons. Moderate A/A fire and strong fighter opposition. 36 Fortresses missing. The pilot of a Mosquito three quarters of an hour after attack reports considerable smoke rising from the objective to 20,000 feet. Fighters which supported these operations destroyed 33 enemy fighters for the loss of 5. Medium and Fighter Bombers attacked airfields in Northern FRANCE and the Low Countries and railway yards at CALAIS.

17th/18th. 661 aircraft sent out: Peenemunde Experimental Station 60 miles Northeast of STETTIN - 586 (41 missing), BERLIN - 8 (1 missing), Intruders - 67. Weather clear over PEENEMUNDE. Preliminary reports suggest successful attack in spite of effective smoke screen. Enemy fighters very active. 49 enemy aircraft flew over East and Southeast ENGLAND. Enemy casualties 6. 2. 1. Bombs were scattered in various Coastal Areas between YORKSHIRE and SUSSEX. Little serious damage and few casualties.

ITALY. On 15th and 16th, Medium Bombers in night and day attacks dropped about 350 tons on road, rail and other objectives on both sides of the toe of ITALY. Fighter bombers continued to attack small craft in the STRAIT OF MESSINA. On 16th, 84 Liberators dropped 150 tons on airfields at FOGGIA with good results. Out of about 100 intercepting enemy fighters, 43 reported destroyed, 8 Liberators missing. Bombers torpedoed two 4,000 ton ships off NAPLES.

## CONFERENCE MEMORANDUM

August 19, 1943.

Memorandum of conference between  
the Secretary, Judge Rosenman, Mr. McConnell and Mr. Lynch  
at the White House, 9:30 A.M. to 10:00 A.M.

The conference was called to consider the necessity of establishing over-all responsibility in some agency with regard to the many problems involved in transition from a war-time to a peace-time economy.

Judge Rosenman stated that as a result of Secretary Morgenthau's memorandum to the President concerning the activities of Federal Agencies in this field, the President had asked Judge Rosenman to inquire into the subject and make recommendations.

Judge Rosenman stated that he had already conferred with several agencies, including War Department representatives, who were General Tompkins, General Clay and Colonel F. Trubee Davison. He said he had also talked with Jesse Jones, who is to report to him later. He also had conferred or would confer with Donald Nelson. He received a statement of War Department activities in this field, which he said were very extensive.

The Secretary reviewed his recent discussion with the President on this problem, during which the Secretary recommended that the President bring the problem out into the open and advise the public as to what measures were being taken so as to relieve the present anxiety and disturbance of both labor and industry. The Secretary related his recent discussion with officials of the Bell Aircraft Company at Buffalo, and their concern over the precarious situation of that company with its present huge bank of orders and limited capital and consequent jeopardy to continued operation unless well worked out measures are undertaken promptly for Armistice day. The Secretary suggested that the President speak directly to the country as he did in his last fireside address regarding demobilization of soldiers. Judge Rosenman appeared to share the same view. Judge Rosenman said that the President intends to send the recent report on demobilization and readjustment to Congress.

Judge Rosenman inquired as to the functions of the Treasury in normal course relating to this problem. The Secretary emphasized tax policy as of prime importance, particularly with

-2-

reference to reserves or credits for post-war adjustment and dismissal pay or unemployment compensation. The Secretary stated that he was inclined to favor liberalized unemployment compensation for a period of 26 weeks, which would have to be undertaken more directly by the Federal Government, rather than being left to the States as under present procedure. The Secretary said that he had discussed this problem with Mr. Altmeyer and, to some extent, with Mr. McNutt. The Secretary said that from these discussions he received the impression that not much progress had been made in plans along this line.

The Secretary emphasized that the problem of post-war conversion is largely a fiscal one, calling for the establishment of fiscal and taxation policies that would permit the most rapid and adequate conversion. He pointed out that the larger war contractors had substantially all their capital tied up in war production and faced a serious problem in not having available the funds necessary for conversion. He gave as an example the Bell Aircraft Company, which had \$800,000,000 of orders and only \$11,000,000 of capital. They were very apprehensive that companies like General Motors, which had substantial capital, would do all the aircraft business after the war.

Another Treasury function discussed was the disposal of surplus war materials. It was pointed out that this is a regular function of the Treasury Department, and that there is pending legislation which would continue that function in the Procurement Division. Some discussion ensued as to the methods of disposal of surplus property following the last war, which were said to have shown lack of preparation and lack of adequate policy which caused great confusion, delay and disturbance to the general economy.

Judge Rosenman, in reviewing the problems, first omitted to emphasize the importance that taxes would play. Mr. McConnell stated that while the most immediate problem may be the policy adopted as regards the cancellation of contracts, yet the largest problem facing industrialists appeared to be taxes and the establishment of some policy as regards alleviation of the excess profits taxes in order that there will be an incentive for capital to be employed again in peace-time production.

Judge Rosenman inquired as to what historic material was available regarding the procedure at the end of World War I. Mr. McConnell stated that it would seem that four or five reasons could be given for the cause of confusion and delay which occurred at that time:

- (1) Concern over diverting attention during the war to post-war planning.
- (2) Occupation of the President with war problems and peace plans.
- (3) Diffusion of authority among agencies and between the legislative and executive branches.
- (4) Failure to anticipate the early end of the war.
- (5) Failure to create intelligent public opinion supporting a readjustment program.

During the course of the discussion, Judge Rosenman raised the general question as to the manner in which the over-all problem should be handled: whether a new demobilization agency should be created, patterned somewhat after WPB; whether WPB should be given the task, which he did not think was advisable; whether some person should be set up in the White House to handle the problem; or whether one of the regular agencies of Government should undertake the task. The Secretary strongly recommended that one of the regular agencies of Government be designated, in the interest of getting back to normal peacetime procedures of Government. The Secretary, in the course of this discussion as to where the problem should be placed, stated several times that he was not pressing the suggestion that the Treasury should undertake the work, but he believed it was equipped to do so and was available for that purpose if the President desired him to act.

At the conclusion of the conference, the Secretary told Judge Rosenman that Mr. McConnell and Mr. Lynch would be available to do any "spade work" for Judge Rosenman.

*R. E. ...*  
*[Signature]*

August 10, 1943 - SECRETARY'S LUNCHEON

Paul Miller	- A. P.
Julius Frandsen	- A. P.
Seymour Berkson	- I. N. S.
Douglas Coulter	- C. B. S.
Earl Gammons	- C. B. S.
Phillips Carlin	- N. B. C. (Blue)
George W. Johnstone	- N. B. C. (Blue)
Tom Slater	- Mutual
Miller McClintock	- Mutual
Frank M. Russell	- N. B. C.
Syllis Cooper	- N. B. C.
Willard D. Egolf	- National Assoc. of Broad. <sup>h</sup>
Palmer Hoyt	- O. W. I.
Donald Stauffer	- Chief, O. W. I. Radio
George Zachary	- O. W. I. Radio

FROM TREASURY

Mr. Gamble	Mr. Bridge
Mr. Doob*	Mr. Max Cook
Mr. Callahan	Mr. Fred Smith
Miss Spriggs	

Conference in Secretary Morgenthau's Office  
August 19, 1943  
2:45 P.M.

Present: Secretary Morgenthau  
Mr. Gromyko  
Mr. White

The Secretary had asked Mr. Gromyko to call. The Secretary said that we had not as yet received word whether the Russian Government had appointed any technicians to discuss with the Treasury the postwar monetary problems, in response to the letter which we had sent to the Finance Minister of Russia. Mr. Gromyko replied that he had communicated with his Government that it was our desire to have delegates sent and that he had added that it was his own personal view that it was important that such delegates be sent. However, he stated that he had not yet had any reply from his government.

The Secretary said that he thought it would be an excellent thing if the Russians could send their delegates inasmuch as the Press was constantly pressing the question as to whether or not the Russians had sent a delegation and were making much of the fact that they had not. Mr. Gromyko repeated that his own personal view which he had communicated to his government was that he hoped they would send the delegation. The Secretary said that Mr. White was to hold a Press conference this afternoon on the stabilization fund and that if the Press were to ask him about Russia would it be possible for Mr. White to reply that the Russian Government was very interested in the proposal but because of difficulties of transportation they had not been able to send the delegates as yet. Mr. Gromyko said that the first half of the statement was certainly correct but he doubted whether it would be wise to say the second part. It was then agreed that Mr. White should say that the Russian Government was very interested in the proposal and had had an observer present during all of the discussions.

The Secretary then asked Mr. Gromyko whether he couldn't communicate to his Minister of Finance the Secretary's personal request, urging them to send technical men to discuss the stabilization fund with us. The Secretary said that Russia was the only important country that had been invited that had not sent delegates here. Mr. Gromyko wanted to know exactly how many of the United Nations had not come. Mr. White replied that there were just a very few small ones and that he would telephone Mr. Gromyko the exact ones. Mr. Gromyko then said that he would get a cable off to his government conveying the Secretary's request at once.

The Secretary told him the story of the airplane manufacturer who had written a letter direct to Stalin and gotten an immediate response. Mr. Gromyko said he knew of the incident.

H. D. White

August 19, 1943  
3:13 p.m.

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Eddie  
Greenbaum:

Yes, Henry.

HMJr:

Eddie, I just wanted to make sure that they got through to you that at the Maritime Commission they've got twelve ships standing by waiting for you to designate the ports.

G:

Ten ships.

HMJr:

Ten?

G:

Yeah.

HMJr:

God, we're slipping.

G:

Yes, we lost two ships.

HMJr:

Yeah.

G:

Yeah. And I also got the baseball letter so I'm working on both of them. We may not need the ships because we've got a hell of a lot of stuff that I've found that wasn't in the category we were talking about that we brought back as salvage....

HMJr:

Oh.

G:

....and it's very possible that we'll - I'm having a report made to me this afternoon just how much we have.

HMJr:

Yes.

G:

It's possible that we have a hell of a lot more there than was thought of but I don't know - but if not, then we are going to wire over about the ships.

HMJr:

But you mean you have the stuff here and Colonel Dow didn't know about it?

G:

Yes, he did. He knew about it but he wasn't authorized to - he didn't know how much we had and he wasn't authorized to say it could be for that purpose because it was for salvage stuff.

HMJr:

Oh.

G: So he had to clear with our Materiel Division as to whether we could let you have it. I've got that cleared, yes; but there is a question of how much it is and all that.

HMJr: Right.

G: I'll....

HMJr: But you're on it.

G: On it. Right.

HMJr: Thank you.

G: Okay.

AUG 19 1943

Dear Frank:

As you know, the Government is now spending at the rate of \$7 1/2 billions a month for war purposes; in order to reach the Budget estimate these monthly expenditures will have to average \$8 1/2 billions. During the Third War Loan Drive, which commenced September 9, the Treasury will undertake to raise the large sum of \$15 billions to take care of the major part of the financing of the war during the next few months. Of the \$15 billions, about \$5 billions must come from individuals and personal trust accounts. To get this money, we must reach every person with an income or with extra money from any source.

During the last six months of this calendar year, we must sell nearly twice as much in bonds to individuals as we did in the first half of the year. We will have to sell bonds to nearly every man, woman, and child in America. We must go from house to house, from bench to bench in factories, and from desk to desk in offices.

An undertaking of such magnitude requires the fixing of quotas for the various states and local communities. These quotas necessarily must take into account sales by the Government to its own employees.

The gross monthly pay roll of the Government for civilian employees is approximately \$922 millions. This amount will undoubtedly be augmented in many cases by income and extra cash, however small, which had accumulated from previous earnings and other sources. To reach our goal we must sell about \$156 millions of war bonds to Federal employees during September, of which roughly \$40 millions will come through pay-roll allotments and the balance of \$116 millions from extra cash sales during the drive.

In order to place all departments of the Government on a uniform basis, these \$116 millions have been allocated to the various departments, the Post Office Department's share being

- 2 -

\$15,000,000 for the field service and \$67,000 for the departmental service. Proportionately, this quota is somewhat less than the per capita amount which we must get from individuals generally, allowance having been made for circumstances surrounding Government employment and the fact that Government employees have not benefited so greatly through salary increases during the war.

I realize that we are asking for a lot of money, but the demand is not out of proportion to the need, and certainly the inconvenience which an extra bond purchase may cause is by comparison small indeed to the sacrifices which are being made every day by our armed forces on the battle fronts.

I would appreciate it greatly if the Post Office Department would make an effort to sell an extra bond during the September drive to each of its employees. The Treasury has had considerable favorable experience with the fine and efficient officials who have charge of the bond organization of the Post Office Department, and I am convinced that they are capable of reaching this quota without causing undue hardship to individuals. To do this, of course, would require your sanction and encouragement. That's what I am calling upon you for now.

Most sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Frank Walker  
Postmaster General  
Washington, D. C.

EFBartelt:mvm  
8/17/43

AUG 19 1943

25

Dear Mr. Giegengack:

As you know, the Government is now spending at the rate of \$7½ billions a month for war purposes; in order to reach the Budget estimate these monthly expenditures will have to average \$8½ billions. During the Third War Loan Drive, which commences September 9, the Treasury will undertake to raise the large sum of \$15 billions to take care of the major part of the financing of the war during the next few months. Of the \$15 billions, about \$5 billions must come from individuals and personal trust accounts. To get this money, we must reach every person with an income or with extra money from any source.

During the last six months of this calendar year, we must sell nearly twice as much in bonds to individuals as we did in the first half of the year. We will have to sell bonds to nearly every man, woman, and child in America. We must go from house to house, from bench to bench in factories, and from desk to desk in offices.

An undertaking of such magnitude requires the fixing of quotas for the various states and local communities. These quotas necessarily must take into account sales by the Government to its own employees.

The gross monthly pay roll of the Government for civilian employees is approximately \$522 millions. This amount will undoubtedly be augmented in many cases by income and extra cash, however small, which had accumulated from previous earnings and other sources. To reach our goal we must sell about \$156 millions of war bonds to Federal employees during September, of which roughly \$40 millions will come through pay-roll allotments and the balance of \$116 millions from extra cash sales during the drive.

In order to place all departments of the Government on a uniform basis, these \$116 millions have been allocated to the various departments, the quota of the Government Printing Office

- 2 -

being \$417,000. Proportionately, this quota is somewhat less than the per capita amount which we must get from individuals generally, allowance having been made for circumstances surrounding Government employment and the fact that Government employees have not benefited so greatly through salary increases during the war.

I realize that we are asking for a lot of money, but the demand is not out of proportion to the need, and certainly the inconvenience which an extra bond purchase may cause is by comparison small indeed to the sacrifices which are being made every day by our armed forces on the battlefronts.

I would appreciate it greatly if you would make an effort to sell an extra bond during the September Drive to each of your employees. The Treasury has had considerable favorable experience with the fine and efficient officers who have charge of the bond organizations of the various departments, and I am convinced that they are capable of reaching their respective quotas without causing undue hardship to individuals. To do this, of course, would require the full support and interest of the heads of the agencies concerned. That's what I am calling upon you for now.

Most sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable A. E. Giegengack  
Public Printer  
Washington, D. C.

EBBartelt:ek  
8/17/43

AUG 19 1944

Dear Mr. Young:

As you know, the Government is now spending at the rate of \$7½ billions a month for war purposes; in order to reach the Budget estimate these monthly expenditures will have to average \$8½ billions. During the Third War Loan Drive, which commences September 9, the Treasury will undertake to raise the large sum of \$15 billions to take care of the major part of the financing of the war during the next few months. Of the \$15 billions, about \$5 billions must come from individuals and personal trust accounts. To get this money, we must reach every person with an income or with extra money from any source.

During the last six months of this calendar year, we must sell nearly twice as much in bonds to individuals as we did in the first half of the year. We will have to sell bonds to nearly every man, woman, and child in America. We must go from house to house, from bench to bench in factories, and from desk to desk in offices.

An undertaking of such magnitude requires the fixing of quotas for the various states and local communities. These quotas necessarily must take into account sales by the Government to its own employees.

The gross monthly pay roll of the Government for civilian employees is approximately \$522 millions. This amount will undoubtedly be augmented in many cases by income and extra cash, however small, which had accumulated from previous earnings and other sources. To reach our goal we must sell about \$156 millions of war bonds to Federal employees during September, of which roughly \$40 millions will come through pay-roll allotments and the balance of \$116 millions from extra cash sales during the drive.

In order to place all departments of the Government on a uniform basis, these \$116 millions have been allocated to the various departments. Using the same basis as that applied to

- 2 -

Federal employees the quota of employees of the District of Columbia would be \$1,040,000. Proportionately, this quota is somewhat less than the per capita amount which we must get from individuals generally, allowance having been made for circumstances surrounding Government employment and the fact that Government employees have not benefited so greatly through salary increases during the war.

I realize that we are asking for a lot of money, but the demand is not out of proportion to the need, and certainly the inconvenience which an extra bond purchase may cause is by comparison small indeed to the sacrifices which are being made every day by our armed forces on the battlefronts.

I would appreciate it greatly if you would make an effort to sell an extra bond during the September Drive to each of your employees. The Treasury has had considerable favorable experience with the fine and efficient officers who have charge of the bond organizations of the various departments, and I am convinced that they are capable of reaching their respective quotas without causing undue hardship to individuals. To do this, of course, would require the full support and interest of the heads of the agencies concerned. That's what I am calling upon you for now.

Most sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable John Russell Young  
President, Board of Commissioners,  
District of Columbia  
Washington, D. C.

KFBartelt:ac  
8/17/43

STANDARD FORM NO. 14 A  
APPROVED BY THE PRESIDENT  
MARCH 10, 1935

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

STRAIGHT TELEGRAM

MR. ARTHUR HAYS SULZBERGER  
THE NEW YORK TIMES  
NEW YORK NEW YORK

THE WAR BOND ORGANIZATION WOULD GREATLY APPRECIATE HAVING YOU LEND  
US LUCY GREENBAUM FOR FOUR WEEKS STARTING MONDAY AUGUST TWENTY-THIRD  
STOP I ENJOYED YOUR COMPANY THE OTHER NIGHT AND HOPE YOU WILL  
REPEAT IT SOON

HENRY MORGENTHAU JR

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TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE 2-14117

AUGUST 19 1943

The New York Times  
Times Square

NEW YORK, N. Y.

August 18, 1943

Dear Henry:

A Mr. Louis Lyons called up Edwin James today and said that he was conveying a request from you to me for the loan of Lucy Greenbaum for four weeks during the forthcoming bond campaign. Will you be good enough to confirm that this is true?

Needless to say, our organization is down to rock bottom and we would prefer not to spare her. On the other hand, we are as interested in selling bonds as you are. It is just a question of balancing things these days, so if you will let me know that you really do want her I can tell you in advance that the answer will be in the affirmative.

Hope I wasn't too serious the other evening.

Yours,



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

L

# Grand Jury To Examine Bribe Cases

Guilty Fleeing State  
Lovett Declares;  
Rushton Asks Action

A grand jury investigation of graft during the last three sessions of the Legislature was started in Lansing today by Atty. Gen. Rushton.

Immediately thereafter, William P. Lovett, executive secretary of the Detroit Citizens League, who first proposed the inquiry, charged that legislative bribers are fleeing the state and that "the main payoff man already is out of the country."

In spite of the exodus, however, Lovett predicted sensational developments and "indictment of several wicked men."

## GRANTED AUTOMATICALLY

Rushton announced he will file the grand jury petition in the Ingham County Circuit Court. A request of this nature automatically is granted when made by the attorney general or a prosecutor.

It is anticipated in Lansing that the inquiry will be conducted by Circuit Judge Leland W. Carr, one of the state's most able jurists and senior member of the Ingham bench.

"Judge Carr will produce results," Lovett said. "He has backbone. And he will have plenty to work on, for nearly every one in Lansing knows who has been going on in recent years."

## SAYS HE HAS EVIDENCE

Although Lovett's petition to Rushton specifically mentioned graft in connection with the anti-chain banking bill passed in 1941 and vetoed by Gov. Van Wagoner, he said today he has evidence of payoffs in connection with many bills and that this evidence has been submitted to the attorney general.

He refused to make this evidence public, commenting:

"We are not going to conduct this inquiry in the newspapers. You can't catch ducks with a brass band."

## TOLD OF BRIBE

Rushton's decision followed a claim by Rep. William C. Stenson that he was paid \$1,000 in con-

(Continued on Next Page, Col. 2)

nection with the bank bill and returned the money to a man he doesn't know and can't recognize from photographs of capitol lobbyists.

Rushton said his decision was made after a conference with Gov. Kelly "in the interests of clean government."

The petition, he said, will be filed in Ingham County circuit court in a few days.

## CITIZENS AROUSED

"A verbal request has been made by certain citizens, as well as by members of the Legislature, that a grand jury be called to investigate rumors current throughout the state that lobbyists and others have been corrupting or attempting to corrupt members of the Legislature," he said.

"As to the truth of these rumors or statements, I have no knowledge. One member of the House of Representatives has told me that he had been offered money to influence his vote.

"The people of the state are entitled to know if this is true and if it is true, the offenders should be punished.

## WANT NAMES CLEARED

"This investigation will not cast reflection on any innocent legislators. But certain of them feel their names should be cleared and that the guilty, if any, be brought to justice.

"I have been assured by Gov. Kelly that the necessary funds to cover expenses attendant upon such an investigation will be forthcoming, and that he is in full accord with the investigation."

The anti-chain banking bill was introduced in January of 1941 by Senator D. Hale Brake, now state treasurer. It was backed by the Michigan Bankers Association, and fought by the Michigan National Bank, a chain with branches in six cities.

After a bitter fight in the Senate, the bill got the necessary two-thirds vote and quickly passed the House. Then it was vetoed by Gov. Van Wagoner.

Small bankers opposed to chain banking censured Gov. Van Wagoner for this action because his legal advisor, Byron L. Ballard, was at the time a member of the board of directors of the Michigan National Bank.

A second attempt to get the bill passed was made during the 1943 session, but it failed to get the votes.

**TREASURY DEPARTMENT**  
**INTER OFFICE COMMUNICATION**

DATE

TO Secretary Morgenthau  
FROM Randolph Paul

AUG 19 1943

You may be interested in hearing that we have been informally advised that Lazard Freres & Co.'s latest plan of reorganization contemplates the complete elimination of Frank Altschul from the firm. It was originally intended that he would resign as a general partner and become a limited partner. We understand that Mr. Altschul plans to go into the publishing business and that Harper's Magazine is receiving his active consideration.

We expect that Lazard's new program will be formalized in a supplemental application which is to be filed later this week. When such application is filed we will submit to you a resume of the whole situation as well as our recommendations.



CANADIAN LEGATION

Washington

August 19, 1943

Dear Dr. White:

I transmit herewith two copies of a memorandum on "Canada's United States Dollar Exchange Position in July 1943".

Yours truly,

/s/ A. F. W. Plumptre

A. F. W. Plumptre  
Financial Attache

Dr. Harry White,  
The Treasury,  
Washington, D. C.

COPY

U.S. DOLLAR EXCHANGE POSITION IN JULY, 1943  
(millions of U.S.\$)

	Total	Excluding net proceeds from security sales	
1. <u>Spot Position</u>			
<u>Assets</u>			
of gold, U.S. Treasury bills	568	452	
balances at June 30, 1943			
of gold, U.S. Treasury bills	<u>600</u>	<u>469</u>	
balances at July 31, 1943			
Increase during month	<u>32</u>	<u>17</u>	
2. <u>Important Factors in Total Position Change</u>	<u>Increasing Position</u>	<u>Decreasing Position</u>	
War Supplies Ltd. deposits	51		
Payment of prior advances to W.S.L.		20	
Deposits to U.S. government accounts	8		
Sales of mint gold to FECC	9		
Newfoundland net receipts	2		
Other net current deficit		37	
Net proceeds from security sales	15		
Export-Import bank loan to Aluminum Co.	3		
Other net capital receipts	<u>1</u>		
	<u>89</u>	<u>57</u>	
	<u>57</u>		
Net increase in position, as above	<u>32</u>		
3. <u>Reconciliation with May Forecast</u>	July Actual	1/3 of 3Q '43 Forecast	Difference (excess of actual over forecast)
Net surplus	<u>32</u>	<u>-51</u>	<u>83</u>
Forecast pay'ts for tanks and PEY's, not made		-22	22
Items not forecast:			
Net proceeds from security sales	15		
War Supplies Ltd. deposits	51		
Payment of advances to War Supplies Ltd.	-20		
Deposit by U.S. Army Transport Div.	4		
Export-Import Bank loan to Aluminum Co.	3		
	<u>53</u>		<u>53</u>
Comparable Net Surplus	<u>-21</u>	<u>-29</u>	<u>8</u>
Net current deficit (incl. special receipts from U. K. and net surplus from Newfoundland and other non-sterling areas, but excl. above items not forecast)	-22	-31	9
Net total surplus (excl. security transactions and loan to Aluminum Co. above)	<u>1</u>	<u>2</u>	<u>-1</u>
	<u>-21</u>	<u>-29</u>	<u>8</u>

10, 1945

8/19/49 - 132 ✓  
**STRICTLY CONFIDENTIAL**

H. D. White

Proposal for a  
Bank for Reconstruction and Development  
of the  
United and Associated Nations

At the end of the war we shall be confronted with an unprecedented foreign demand for capital. Throughout the areas of conflict factories, mines, dams, power plants, public utilities, transportation systems, docks, bridges, public buildings will have to be repaired or restored. Foreign trade will need financing. Monetary systems will have to be reestablished and strengthened. Industry now producing war goods must be transformed to produce peacetime goods. Finally, large investment sums will be needed to help raise the very low productive level of countries in the Far East, South America, in the Balkans, and the Near East. All of this will require many billions of dollars.

Much of the necessary expenditures for these capital goods can and must be financed by each country with its local funds, but a large portion can be financed only with foreign capital. Part of the foreign capital needed will be short-term investment funds, but the bulk of it will be of long-term character.

Doubtless private financial agencies will supply most of the needed short-term capital. When the shipping situation is improved and peacetime industry here and abroad hits its full stride, the number of corporations eager to sell their products abroad at reasonable and even generous credit terms will be legion. And once peace is assured American, British, Canadian and Swiss banks will hasten to reopen or establish branches everywhere. These banks, together with the exporting and importing

- 2 -

houses eager to develop foreign markets, will probably take care of a goodly portion of the short-term capital needs of capital poor countries.

The resumption of peace will be soon followed also by flows of long-term investment funds from the capital rich to the capital poor countries. In the beginning, these foreign investments will take the form more likely of branch plants, outright purchase of mines, factories and plantations, and some acquisition of shares in well established foreign corporations. As confidence in continued peace and monetary stability is strengthened, the foreign investments will assume more and more the form of loans to governments, municipalities and to foreign public utilities and corporations. This flow of private capital to war stricken countries will be hastened by an adequate program of relief and rehabilitation, while the existence of an international agency designed to promote stability of foreign exchange rates and freedom from restrictions on the withdrawal of earnings will do much to enhance the attractiveness of foreign investments in all countries cooperating with such an agency.

But during the earlier years at least, the flow of capital to countries greatly in need of foreign capital is likely to be far too small. Asia, Europe, Africa and South America can for many years profitably use for the creation of capital goods \$5 to \$10 billion of foreign capital each year provided they can get it on reasonable terms. Private capital will be much too timid in the years immediately following the war to venture abroad in anything like such large volume. It has suffered too many losses. It has been discouraged by war and by

- 3 -

depreciating currencies, exchange controls and outright defaults. There is little evidence to justify the hope that investors will lend in the earlier years after the war large sums to foreign countries, except possibly at rates of interest so high as to make such loans extremely risky because of the heavy burden they would put on the borrowing country.

Only an international governmental agency equipped with broad lending powers and large resources can both effectively encourage or induce private capital to flow abroad in large amounts and provide a substantial part of the necessary capital not otherwise available.

The aim of such an agency should be first, to encourage private capital to go abroad for productive investment by sharing the risk, by participating with private capital in large ventures, and second, to provide some of the capital needed for reconstruction and development in instances where private capital is unable or unwilling to take the risk. Such an agency should, of course, scrupulously avoid undertaking loans that private investors are willing to undertake at reasonable rates. It should only supplement private financial agencies; it should exist to perform only that part of the job which private capital cannot do.

Should private capital prove to be available in anything approaching magnitudes which are reasonably called for, the international governmental agency should make no loans. But the need for foreign capital will be so gigantic, and the importance of supplying large quantities at reasonable terms so great that it would be extremely shortsighted not to provide an international agency with resources and powers equal to the task of

- 4 -

taking up the slack the private institutions leave. If private capital suffices -- fine. There will then be little for an intergovernmental lending agency to do and its assets could be kept at a low level. If, however, private capital proves, as is likely, to be unable or unwilling to go abroad in large sums, then such an agency could fill the breach until such time as private capital will flow more freely and the demand for foreign capital throughout the world becomes less urgent.

It is imperative that we recognize that it is the proper use of capital that helps a country produce more, that enables it to steadily raise the standard of living of its people. Higher productivity in China or India, or Poland, or Brazil, for example, made possible by the productive use of more capital, means that these countries will be a better market for the world's goods, and will also be able to supply at lower cost more of the goods the world needs.

By helping foreign countries sorely in need of capital to obtain it from capital rich countries, we help the lending countries at least as much as the borrowing countries. If the capital made available is capital we would not otherwise currently employ, and if we make certain that the capital we make available to foreign countries is used only for productive purposes, then the whole world is truly the gainer. Foreign trade everywhere would be increased; the real cost of producing the goods the world consumes would be lowered, and the standard of living of people everywhere would be raised.

Indeed, it is not an overstatement to say that the greatest contribution that we could make to sustained peace and continually rising

- 5 -

world-wide prosperity is to make certain that adequate capital is available for productive uses to capital poor countries on reasonable terms. With abundant capital, the devastated countries can move steadily toward rehabilitation and a constantly improving standard of living. Nothing could be more conducive to political stability and friendly international collaboration. Without adequate supplies of capital available recovery in Europe and Asia will be slow and sporadic; civil discontent and international bitterness would in time assume disturbing proportions.

Provision of abundant capital on reasonable terms is not only a good business policy; it is a decisive factor in preventing civil wars, unending heavy expenditures on armaments, and subsequent clash of foreign policies.

To spend hundreds of billions of dollars to conduct war, and then balk at investing a few billions to help assure prosperity and rising standard of living would be a strange manifestation of wise policy.

The following pages constitute a draft proposal for a Bank for Reconstruction and Development of the United and Associated Nations. The proposal has neither official status nor approval by any official or government department. It is only a personal memorandum drafted for the purpose of stimulating discussion of the problem among the interested technicians, in the hope that such discussion will call forth constructive criticism, suggestions and better proposals for possible later submission to the appropriate officials and to the public. This tentative proposal is here presented in outline form with specific provisions merely to facilitate intelligent discussion. The outline is followed by a brief discussion of the more important points. Reference is made

- 6 -

in the outline at the end of each paragraph in parenthesis to the appropriate paragraph of discussion in the appendix.

The Bank described below is proposed as another in the series of the international agencies needed to help attain and maintain world-wide prosperity after the war. It is designed as a companion agency to an International Stabilization Fund. The establishment of some such Bank would make easier the task of an International Stabilization Fund, and the successful operation of an International Stabilization Fund would enhance the effectiveness of the Bank. The existence of a Fund, however, is not a prerequisite to the successful operation of a Bank; nor is the existence of a Bank essential to the functioning of a Fund. Each could stand and function effectively alone. However, the operations of each would greatly assist the operations of the other. Together they would go a long way toward securing the world prosperity.

Outline of Draft Proposal  
for a  
United Nations Bank for Reconstruction and Development

I. The purposes of the Bank

1. To assist private capital in the reconstruction and development of member countries when such assistance is desired by the private financial agencies.
2. To supply capital for reconstruction and development, under conditions which will amply safeguard public fund, when private financial agencies are unable to supply the needed capital on reasonable terms.
3. To facilitate a rapid and smooth transition from a war-time economy to a peace-time economy in the member countries.
4. To help strengthen the monetary and credit structures of the member countries.
5. To increase the volume of foreign trade among member countries and to reduce the likelihood, intensity and duration of world wide economic depressions.
6. To help raise the productivity and hence the standard of living of the peoples of the member countries.

7. To promote a greater degree of economic cooperation and collaboration among the member countries, and to make easier the solution of many of the economic and political problems that will confront the "peace conference".
8. To enhance the opportunity throughout the world for a healthy development of democratic institutions.

II. Capital Structure of the Bank

1. The capital stock shall be authorized up to a sum equivalent to \$10 billion consisting of 10,000 shares each having a par value equal to one million dollars.
2. The subscription of each participating government shall be determined by an agreed upon formula. The shares of the Bank shall be non-transferable.
3. The initial payments for each country shall be 20 percent of its subscription, some portion of which shall be in gold and the remaining half in local currency. The proportions of gold to local currency may be different for each group of countries according to an agreed upon schedule.
4. The participating governments shall be called upon to make the initial payments, and to pay the remainder of their respective subscriptions in such amounts and at such times as the Board of Directors of the Bank may

- 3 -

determine, but not more than 20 percent of the subscription may be called in any one year, nor shall any be called for unless needed. The proportion of subsequent payments to be made in gold shall be the same as in the initial payment.

5. Each member government agrees to purchase back each year 2 percent of its local currency held by the Bank paying for it with gold.
6. Changes in the proportionate subscriptions of participating governments shall be permitted only with the approval of a four-fifths vote of the Board of Directors, provided approval of the countries whose proportions are to be increased shall be included in the four-fifths vote.
7. All member countries agree that all of the local currency holdings and other assets of the Bank located in their countries shall be free from any restrictions as to their use.

### III. The International Monetary Unit

1. There shall be established an international monetary unit to be called the Unitas.
2. The Unitas shall have a value equal to that of 137-1/7 grains of fine gold, that is, equivalent to \$10 U.S.
3. The Bank shall keep its accounts in terms of the Unitas.

- 4 -

4. The Bank shall have the power to issue notes, to be expressed in terms of the Unitas. The conditions as to issuance and redemption of such notes are set forth in section B-10, below.

IV. Powers and Operations

The Bank shall have the following powers:

A. For the extension of credit —

1. To buy, sell, hold and deal in the direct or guaranteed obligations and securities of any participating government. (Appendix A-2)
2. To discount and rediscount bills, acceptances and other obligations and instruments of credit for participating governments and fiscal agencies and central banks.
3. To establish and maintain time, demand, and custody deposits and accounts with the central banks and stabilization funds of member countries and with international stabilization funds and banks. (Appendix A-3)
4. To make short-term and long-term loans to any member country and through the government of such country to any of its political subdivisions or to business enterprises therein, provided:
  - a. The payment of the annual interest and the principal of the loan is fully guaranteed by the national government.

- 5 -

- b. The borrower is unable to borrow the funds from other sources even with the national government's guarantee of repayment except at rates of interest or other conditions which in the opinion of the Board are too onerous. (See A-9, below)
- c. A competent committee has made a careful study of the merits of the project and of the loan and, in a written report, definitely shows that the loan would serve directly or indirectly to raise the productivity of the borrowing country and that the country's budgetary and balance of payments prospects are favorable to the servicing of the loan. The majority of the committee making the report shall consist of members of the technical staff of the Bank. The committee shall include an expert selected by the country requesting the loan who may or may not be a member of the technical staff of the Bank. (Appendix A-4c)
- d. The Bank shall make arrangements to assure the use of the proceeds of the loan for the purpose or purposes on the acceptance of which the loan was approved.
- e. No extension of credit shall be made by the Bank to any country or political subdivisions or business enterprises in any country of which the

- 6 -

National government is in whole or partial default on a foreign loan, unless

- (i) The defaulted loan was made between Allies in the conduct of a common war, or
  - (ii) The defaulted government has agreed to renew service of the defaulted debt on a fair and reasonable basis worked out by a special committee, including a representative of the borrowing country, appointed by the Bank for that purpose and approved by the Bank, or
  - (iii) Three-fourths of the member votes approve the loan.
- f. The Bank shall not make any loan to a member country ~~without~~ without the approval of three-fourths of the member votes when the loan is to be used for, or is to make possible, adjustment of a foreign debt.
- g. The Bank shall impose no condition upon an extension of credit or loan as to the particular country in which the proceeds of the loan must be spent.
- h. The loan shall be expressed in Unitas and shall be repaid in gold, or in Unitas, or in other currencies acceptable to the Bank.

- 7 -

5. The Bank shall make loans only at low rates of interest — with a schedule of repayment appropriate to the character of the project and the balance of payments prospects. Loans made for the purpose of providing metallic reserves or otherwise strengthening monetary systems of the borrowing country should ordinarily bear lower rates of interest and may have longer terms of repayment than loans made for other purposes.
6. To guarantee loans made by private investors to or through the government of any member country, provided:
  - a. The payment of interest and principal of the loan is guaranteed by the national government of the member country.
  - b. The Bank shall not guarantee payment of more than 80 percent of the principal and 50 percent of the interest.
  - c. The loan is not for the purpose of repayment of an old loan.
  - d. The rate of interest is not excessive.
  - e. The Bank receives a portion of the interest receipts as payment for its risk.
7. The Bank in making long-term loans shall grant to the borrowing country not more than 75 percent of the

- 8 -

estimated cost of the project. At least 25 percent of the loan must be financed locally in local currency.

Should the technical report indicate that the project necessitates expenditures on foreign goods and services substantially less than 75 percent of the total cost of the project, the proportion of the cost of the project that the Bank should finance should be reduced accordingly. In estimating the proportion of the cost of the project that will be required to be spent on imported goods and services, allowance should be made for the more immediate indirect effects of such a loan on imports.

In special circumstances, where the Bank considers that the local currency part of the loan cannot be financed at home except at very unreasonable terms, it can lend that portion to the borrower out of local currency held by the Bank.

8. To participate up to 60 percent of the loan with private financial agencies in the financing of any undertaking provided all the conditions listed under section 5 above are fulfilled except that the terms can be less favorable to the borrower than would be the case were the Bank to undertake the loan itself.

- 9 -

9. To make certain that the international Bank makes no loans that can be handled by private institutions at reasonable rates, the following conditions of making any loan should be established:
- a. A vote of the Board approving the loan should be followed as soon as possible by the publication of the technical report on which the decision was based, and the publication of the proposed terms and conditions of granting the loan.
  - b. The decision to make a loan shall not become operative until 30 days after such publication, and only if before the end of that 30 days no reliable financial agency is prepared to make a similar loan to the prospective borrower at rates of interest which are not more than one-third higher than the Bank is prepared to charge, and for a period of years that is not more than 10 percent shorter than the period for which the Bank is willing to extend the loan, and the rate of redemption proportionately greater than the Bank is willing to establish.

If a reliable private financial agency indicates its preparedness to provide a loan under the above conditions, it shall be given 60 days in which to implement the arrangement. An appropriate guarantee should

- 10 -

be required by the Bank of the financial agency to assure availability of the Funds.

10. The borrower receives not more than 20 percent of the loan in cash. The borrower may obtain 10 percent of the loan in gold or any currency it desires, the remainder of the cash portion of the loan must be in local currency.

The remaining 80 percent of the loan is in form of a deposit kept with the Bank. The borrowing country draws on that deposit by check or checks drawn in terms of the specific currency needed. The checks are accompanied by invoices or other appropriate evidence of foreign goods or services purchased.

11. Interest payments due on loans are payable in gold. The Bank may, however, accept local currency instead of gold if its holdings of the local currency are in its opinion inadequate for its needs.

Interest will be payable only on amounts withdrawn.

12. Repayment of the principal of the loan must be in gold or in currency borrowed at the option of the borrower. Sinking fund payments must consist of gold, or of currencies in proportions of each currency borrowed. Repayments of principal and interest payments whether in gold or currency must be equivalent to the Unitas value of the currencies at the time of borrowing.

13. The Bank or any of the officials of the Bank shall scrupulously avoid any interference in the political affairs of any member country, (In the case of an official of the Bank, this prohibition does not apply to the affairs of his own country.)

The Bank shall not be influenced in its decision to grant or withhold loans by the political character of the government of the country requesting a loan. Economic considerations alone should be relevant to the Bank's decisions.

14. To assist in the financing of an International Essential Raw Material Development Corporation for the purpose of increasing the world supply of essential raw materials and assuring member countries an adequate supply at fair prices, provided:
- a. Three-fourths of the member votes approve each separate project and amount invested.
  - b. The product is sold to member countries on equal terms.
15. To assist in the financing of an International Commodity Stabilization Corporation for the purpose of stabilizing the prices of important commodities, provided:
- a. Three-fourths of the member votes approve.

- 12 -

- b. At least five governments participate directly in the management and operation of the corporation and subscribe to part of the capital of the corporation.
  - c. The corporation will undertake to stabilize the price of any specific commodity only with the consent of the Bank.
  - d. The provision for the determination of policies governing the operations of the Corporation give, in the opinion of the Board, assurance of proper regard for the interests of world consumers as well as those of producers.
16. In the event of war:
- a. The Board may suspend payments due it by invaded or attacked countries.
  - b. The Bank shall not extend any financial assistance to any country while it is at war.
  - c. If there be established an international body, agency, league, or court, to which 50 percent of member governments belong, which has the authority to designate certain countries at war as being the aggressor nations, then all the member governments of the Bank undertake:

- 13 -

- (i) To impose at once complete prohibitions on all financial transactions of any character with the designated aggressor nations.
- (ii) To prohibit the extension to the aggressor country of any financial assistance by government or private persons or institutions until after the war, and then only after the aggressor nation shall have fully paid up its obligations to the Bank.
- (iii) To agree that sums due the Bank shall constitute a first claim on the assets, or current income of the aggressor nation and a prior claim to any indemnities or reparation payments.
- (iv) To freeze all assets of the aggressor nation and place such assets in control of the government.

17. If the Bank shall declare any member in default, the member countries agree not to extend any financial assistance to that country, nor permit any of its nationals to extend any financial assistance to that country, until the country has paid sums due the Bank.

B. For the acquisition of additional resources —

18. To accept demand, time and custody deposits and accounts from participating governments and their

- 14 -

fiscal agencies and central banks and from the Fund.

19. To issue and to sell short-term notes, debentures, and other securities and obligations, to obtain assets for the purposes of the Bank.
20. To rediscount with any government or fiscal agency or central bank bills, acceptances and other instruments of credit taken from the Bank's portfolio.

C. To facilitate the rendering of services --

21. To act as a clearing house for checks, drafts, acceptances, funds and balances for the account of participating governments, their fiscal agencies, central banks, and international banks and stabilization funds.
22. To act as agent or correspondent for the governments of member countries and their fiscal agencies, for central banks and for international banks and stabilization funds.
23. To buy, sell, hold and deal in gold and to hold gold under earmark.

- 15 and 16 -

24. To engage in financial and economic studies and publish reports thereof.

D. Limitation of dealings --

25. The Bank shall deal only with or through
- a. the governments of members of the Bank,
  - b. the central banks or fiscal agencies of those countries (and then only with the consent of the member of the Board representing the country in question),
  - c. the United Nations Stabilization Fund, and
  - d. any international bank owned predominantly by member governments.

An exception to the above limitations is that the Bank may, with the approval of the member of the Board representing the Government of the country concerned, sell its own securities or securities it holds to the public or to institutions of member countries.

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IV. Management

1. In all matters voted upon each member government shall be able to cast 100 votes plus one vote for each share of stock held. Thus a government owning one share shall be able to cast 101 votes, while a government having 1,000 shares shall be able to cast 1100 votes. The maximum vote permitted any government shall be 20 percent of the total, irrespective of the sum subscribed.
2. The Administration of the Bank shall be vested in the Board of Directors composed of one director and one alternate appointed by each participating government in a manner to be determined by it.  
The director and alternate shall serve for a period of three years, subject to the pleasure of their government. Directors and alternates may be reappointed.
3. The Board of Directors shall select a President of the Bank, who shall be the chief of the operating staff of the Bank and ex-officio Chairman of the Board, and one or more vice presidents. The President and vice presidents of the Bank shall hold office for four years, shall be eligible for reelection and may be removed for cause at any time by the Board. The staff of the Bank shall be selected in accordance with regulations established by the Board of Directors.

- 18 -

4. The Board of Directors may also appoint from among its members an Executive Committee. The Board may at any meeting, by a four-fifths majority vote, authorize the President or the Executive Committee or any other committee of the Bank to exercise any specified powers of the Board. Such powers shall be exercised only until the next meeting of the Board and shall be exercised in a manner consistent with the general policies and practices of the Board. The Board may also, by a four-fifths majority vote, delegate to designated officers and committees of the Bank, for such periods as it may determine, power to make loans and extend credit in such amounts as may be fixed by the Board.
5. The Board of Directors may appoint advisory committees chosen wholly or partially from persons not regularly employed by the Bank.
6. Except where otherwise provided, decisions of the Board of Directors shall be by simple majority of the votes cast (each member of the Board casting the votes allotted to his government). When deemed by the President to be in the best interests of the Bank, decisions of the Board may be made, without a meeting, by polling the directors on specific questions submitted to them in such manner as the Board shall by regulations provide.

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7. Authorization or approval by two-thirds majority vote of the Board of Directors shall be required for (a) the making and granting of intermediate and long-term loans and credits in excess of \$10 million to any member country during any one year, including the assumption of the obligation of a guarantor of intermediate and long-term paper; (b) the issuance of debentures and other securities and obligations of the Bank; (c) the selection or removal of the President and the vice presidents.
8. A member country failing to meet its financial obligations to the Bank shall be declared in default and may be suspended from membership during the period of its default provided a majority of the member votes so decide. While under suspension, the country shall be denied privileges of membership, but shall be subject to the obligations of membership. When a country has been under suspension for two years, it shall automatically be dropped from membership in the Bank.
9. Any member dropped from membership in the Bank shall automatically be deprived of membership in the International Stabilization Fund.
10. If a member country elects to withdraw or is expelled from the Bank its shares of stock shall, if the Bank has a surplus, be repurchased at the price paid. If the Bank's

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books show a loss, such country shall bear a proportionate share of such loss. The Bank shall have 5 years in which to liquidate its obligations to a member withdrawing from the Bank. Any member that withdraws or is dropped from the Fund, shall forfeit its membership in the Bank unless three-fourths of the member votes favor its remaining as a member.

To be eligible for membership in the Bank a country must become a member of the International Stabilization Fund.

11. The yearly net profits shall be applied as follows:
  - a. Twenty-five percent of the profits shall be applied to surplus until the surplus shall be equal to 20 percent of the paid-in capital, after which all profits shall be distributed in proportion to shares held.
  - b. Profits shall be payable in a country's local currency, in Units, or in gold at the option of the Bank.

KEM

PLAIN

London

Dated August 19, 1943

Rec'd 8:46 a.m.

Secretary of State,  
Washington.

5433, nineteenth.

FOR SECRETARY MORGANTHAU FROM THE AMBASSADOR.

I thought you would like to know that your message  
of sympathy to the Chancellor was very much appreciated.  
It was published in yesterday's LONDON TIMES.

WINANT

WSB

AUG 19 1943

To: Adler, Chungking, China.

From: Secretary of the Treasury.

Reference is made to your cable of August 2, 1943 TF-146

1. The import into the United States of U. S. dollar savings certificates issued by the Chinese Government is subject to the provisions of General Ruling No. 5. Release of such certificates and the payment thereof are subject to license under the Executive Order.

2. The import into the United States of dollar drafts issued in lieu of U. S. dollar savings certificates issued by the Chinese Government is not subject to the provisions of General Ruling No. 5 and such drafts may be freely imported unless for other reasons the import thereof is interrupted by censorship.

3. The Bank of China and other interested paying banks in New York have been notified informally that such drafts may only be paid pursuant to specific license if they have reason to believe that the payee of such drafts or any endorser thereof is a blocked national or if they have reason to believe any blocked national has or has had an interest in such drafts since the effective date of the Order. Drafts not so restricted may be paid pursuant to existing General Licenses. The effect of this is to make freely negotiable those drafts drawn to the order of dependents or other individuals in this country but to subject to specific license payment of drafts drawn to the order of the purchaser in China.

4. Treasury's licensing policy would under ordinary circumstances be liberal in respect to permitting the payment of certificates or drafts

- 2 -

drawn to the order of American soldiers in China presented for payment by their dependents in the United States or by the American soldiers themselves on their return to the United States.

5. American soldiers stationed in blocked countries are, for the purposes of the Executive Order, deemed to be blocked nationals. The operation of the bank accounts within the United States of such soldiers is authorized by General License No. 37.

ISF:ff  
8-13-63

AUG 10 1943

To: Adler, Chungking, China.  
From: Secretary of the Treasury.

Reference is made to your cable of August 4, 1943, #1373, and Treasury's cable of July 26, 1943, #967.

1. If the 1941 Stabilization Agreement is not renewed in its present form or revised form, and your services will no longer be required on the Stabilization Board, you will go to India as soon as present discussions regarding the 1941 Agreement are finished and before assuming your new duties as Treasury representative.
2. If the 1941 Stabilization Agreement is renewed and you continue in your present position on the Stabilization Board, it is presumed here that the question of a vacation or a leave of absence is a matter for discussion between the Chinese and yourself. If, however, it is felt that you should take a vacation in the near future, the Treasury would appreciate your going to India for such vacation and your preparing a report on monetary conditions in India with particular reference to the gold and silver markets.
3. The Treasury Department would, ~~of course,~~ pay the expenses of your trip to India.
4. More details regarding the proposed trip to India will, ~~of course,~~ have to await further developments in the present discussions regarding the 1941 Agreement.

ISF/efs  
8/16/43

AUG 19 1943

To: Mr. Livesey

From: Mr. White

Will you please send the following cable to the American Consul, Bombay, India?

Reference is made to Treasury's cable of April 16, 1942, No. 133, and State Department's cable of January 12, 1943, No. 13.

Until further notice please cable a weekly instead of a monthly report giving the information requested.

ISF/efs 8/18/43

## TELEGRAM SENT

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

August 19, 1943

7 p.m.

AMERICAN CONSUL,  
BOMBAY, (INDIA).

356

Department's 133, April 16, 1942 and 13, January 12,  
1943.

FROM TREASURY

Until further notice please cable a weekly instead  
of a monthly report giving the information requested.

HULL  
(FL)

FD:FL:JD

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NOT TO BE RE-TRANSMITTED

COPY NO. \_\_\_\_\_

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 273

Information received up to 10 a.m., 19th August, 1943.

1. NAVAL

One of H.M. Submarines torpedoed a 6,000 ton ship off BARI on the 16th. One of H.M. Ships bombarded SCALIA on 17th/18th. Another of P.M. Submarines on patrol off COCCICA, has failed to answer signals since 13th and is presumed lost. The Germans claim to have rammed and sunk a submarine and taken many prisoners.

2. AIR OPERATIONS

REGENSBURG. 17th. 27 aircraft still outstanding. Immediate interpretation air photographs shows heavy damage to assembly factory.

PLENELUNDE. 17th/18th. 1757 tons dropped of which 1,480 tons H.B. including 223 4,000 pound bombs. Cloudless and good visibility over objective, visual identification possible at first but later prevented by smoke and smoke screen. Marker bombs accurate resulting in heavy and concentrated attack. Experimental station and assembly plant reported seriously damaged and living quarters burned out. Whole objective left burning fiercely. anti-aircraft fire moderate. Enemy fighter casualties 3.0.1. One Bomber reported missing has since returned safely.

18th. A total of 50 escorted Marauders bombed 2 airfields in FRANCE and the Low Countries dropping a total of 60 tons. 1 Enemy fighter destroyed, 1 escorting Spitfire missing.

18th/19th. Aircraft despatched: Intruders - 2 (1 missing),  
Anti-shipping - 7, Leaflets - 20.

SOUTHERN FRANCE. 17th. A total of 180 Fortresses of which 2 are missing attacked airfields at ISTRES and SALON, Northwest of MARSEILLE. at ISTRES about 150 aircraft on the ground, 15 of them set on fire.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 20, 1943

TO Secretary Morgenthau  
FROM Fred Smith *FS*

Gamble and I are together on the attached. With the Third War Loan on top of us, it would seem advisable not to get into discussion with this man. We think you should take the President's suggestion and ignore the whole business.

*Forget - Per [unclear] - 8/10/43*

August 10, 1943

Mr. Gamble  
Mr. Smith

Secretary Morgenthau

Will you please advise me, in writing, what  
to do about the attached telegram.

THE WHITE HOUSE  
WASHINGTON

August 9, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

For your information. I don't  
think a reply is necessary.

F.D.R.

The White House  
Washington

WB14 82 1 EXTRA

AUG 4 11 40 PM 1943

DALLAS TEX AUG 4 1943 1125A

HONORABLE FRANKLIN D ROOSEVELT

PRESIDENT OF THE UNITED STATES

MY DEAR MR PRESIDENT I HAVE JUST READ ASSOCIATED PRESS  
ANALYSIS OF VICE PRESIDENT WALLACE' SPEECH IN IOWA.  
UNLESS HE IS MUZZLED IT WILL BE IMPOSSIBLE TO SELL BONDS  
NECESSARY TO PROTECT THE LIVES OF THE BOYS WHO ARE FIGHTING  
FOR THIS NATION. HE WAS THE FIRST IN AMERICA TO CURTAIL  
PRODUCTION AND I HOPE YOU WILL CENSOR ANY MORE SPEECHES  
HE MAKES. THIS IS THE SECOND TIME HE HAS ARBITRARILY TAKEN  
IT UPON HIMSELF TO BRING DISCORD IN AMERICA. WITH MY

HIGHEST REGARDS SINCERELY

NATHAN ADAMS CHAIRMAN WAR FINANCE COMMITTEE  
IN THE STATE OF TEXAS FOR SALE OF U.S. BONDS AND  
SECURITIES.

25

August 20, 1943

Dear Mr. President:

I wish to acknowledge receipt of your letter of August 11, 1943, and the attached copy of your letter to the Chairman of the Ways and Means Committee recommending that the Committee consider legislation which would terminate the exemption of the Government from various Federal excise taxes.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House

FHC:k1A  
8-20-43

*Lincoln - 11 a.m.*

THE WHITE HOUSE  
WASHINGTON

AUG 11 1943

My dear Mr. Secretary:

Attached is copy of letter I am transmitting today to Chairman Doughton of the House of Representatives Ways and Means Committee concerning the proposed elimination of the exemption of the Government from various Federal excise taxes.

Sincerely yours,



The Honorable,

The Secretary of the Treasury

Enclosures--2

THE WHITE HOUSE

WASHINGTON

AUG 11 1942

My dear Mr. Doughton:

I recommend for the consideration of the Ways and Means Committee the enactment of legislation which would terminate the Federal exemption from the various Federal taxes indicated upon the attached Schedule. I propose this step for the purpose of saving the very considerable manpower utilized both inside and outside the Government for the administration of these exemptions, and for the further reason that the manpower and expenditure devoted to such administration results in no benefit to the Government. Stated otherwise, the termination of the exemptions will not operate to the disadvantage of the Government inasmuch as the expenditure incurred by the Government in the payment of the taxes in question will be recovered in the collection of those taxes. It may become necessary to provide some agencies with supplemental appropriations to cover the added expense which they will incur through the payment of such taxes; but the elimination of the cost of administration of the exemptions will at least partly offset the sums required to pay the taxes.

At my request, the Director of the Bureau of the Budget took this matter up with the Treasury Department. I attach hereto for your information copy of the Director's letter to the Secretary of the Treasury and the reply of the Acting Secretary of the Treasury together with suggested draft of amendments designed to effect the necessary changes in legislation, as prepared by the Treasury Department.

The Secretary of the Treasury will of course be glad to assist your Committee in any way it may desire in this connection.

Sincerely yours,

FRANKLIN D. ROOSEVELT

Honorable Robert L. Doughton  
Chairman, Ways and Means Committee  
House of Representatives  
Washington, D. C.

Enclosures--4

## SCHEDULE

The termination of the exemption of the Government from the following Federal taxes is proposed:

1. Tax on sale, etc., by manufacturer, producer, or importer, of the following articles:

Automobiles	Electric, oil, and gas appliances
Tires	Electric light bulbs and tubes
Inner tubes	Business and store machines
Gasoline	Pistols
Lubricating oils	Revolvers
Radios	Firearms
Refrigerators	Shells
Bituminous coal	Cartridges
Matches	Luggage
Photographic apparatus	Sporting goods
Toilet preparations	Sugar

2. Tax on the following articles imported into the United States:

Petroleum	Lumber
Coal	Copper

3. Tax on electrical energy sold for domestic or commercial consumption.

4. Tax on amounts paid for the following services:

Telephone	Cable
Telegraph	Transportation of property
Radio	Transportation of persons

5. Tax on the sale at retail of the following articles:

Jewelry  
Furs  
Toilet preparations

## MEMORANDUM FOR THE SECRETARY.

August 20, 1943.

Mail Report

Judging by the attached pages, it would seem that correspondence on "Taxes Unfavorable" had swamped all other mail received here this past week. This is not the case on a strictly numerical count, but certainly the bitterness of the tax mail has caused the letters that were received to stand out as significant and quotable. From their tenor it would seem that there is increasing doubt of the Administration's good faith, particularly in connection with any possible refunds that may be due taxpayers. Letters expressing these doubts came from those who paid their entire tax for this year in March and from those who find that, under Treasury schedules, they are having unduly large deductions made from their current wages. A statement frequently recurs that refunds will not only not be made within a reasonable period, but that the Government may never pay back money thus unfairly collected.

In addition to these specific complaints, there are many vigorous protests of further higher taxes, particularly those which will fall on the "Vanishing Middle Class." There are few actual protests against the withholding tax as it now stands. Toward the end of the week, it became obvious that complaints which had started to come in in connection with the Declaration due in September, would increase as the date draws nearer. The few sample letters received so far explained the writer's inability, for various reasons, to estimate his income for the remainder of this year and protests the injustice of penalties for estimates that are incorrect beyond certain bounds.

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Memorandum for the Secretary. August 20, 1943

The sales tax has the support of several Louisiana citizens, whose letters seem to represent an organized campaign. There were a few scattered endorsements of this form of taxation.

Preparations for the forthcoming War Loan drive led to a small increase in Bond mail for the week. Along with the usual questions and suggestions, there were many telegrams from members of Local War Savings Committees and many letters from radio stations, pledging full cooperation on September 9.

Some 75 Bonds - a sharp upswing over last week's number - were submitted for redemption. Again the Patchogue, New York, postmark appeared on a surprisingly large proportion of them. Complaints from the personnel of the War Department about Bonds not yet delivered to them fell short of 40 for the fourth consecutive week. There were two or three from Navy men, and only one or two from employees of commercial concerns.

Out-of-date checks for reissuance, mutilated money for redemption, and queries about blocked funds on the census of foreign holdings made up the greater part of the miscellaneous mail. There are still kicks on the new penny. The newspaper story about the miscellaneous gifts to the Treasury brought in one request for a personal loan from the funds realized by sale of treasure trove thus contributed.

*Lawrence E. Forbush*

General Comments

Anonymous - Postmarked, Los Angeles, Calif. In reading Frank Kent's article in this morning's Los Angeles Times, I was amazed and shocked. In the last several hours I have been busy among my circle of friends, telling them about the article; and they likewise have been shocked, that is, those who have not seen the article. So far as my friends and I are concerned, we are not going to give the Government another dollar until Senator Byrd gives us more acceptable news. Then, too, we have news coming out of Washington telling of the unbelievable graft and waste on the part of the Government. Surely, a shame all the way around, - and much of this is being engineered in the name of the War effort!!

Ida V. Small, Washington, D. C. It is indeed a pleasure and a privilege to thank you for that beautiful citation. It certainly has been a pleasing surprise. I never dreamt of receiving a thing, especially for the small donation, although small, it was given with a big heart. If all the poor people wait until they are rich to do things well, I assure you they would never do any thing. I am 100% with the President, in all that he may request, for I am confident he will never ask any thing of his people which he thinks they would never be in position to perform. Again, many thanks for the spirit in which you have accepted the small donation. I only wished it was Five Hundred Dollars instead. I am going to frame it, I am so proud of it.

Harry Park, The Clipper Printery, Los Angeles, Calif. Noting with many others the objection to the new One Cent pieces owing to similarity in color and size to the present 10¢ silver piece, I write to inquire if any suggestion has been made to make the penny with six or eight sides with a LARGE 1¢ in the center on one or BOTH sides. In this shape they would stack and wrap as

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readily as the round and could be distinguished instantly by FEEL as well as by sight. I have cataracts over both eyes but separate the new pennies from the dimes by running my fingernail around the edge before passing one out. The milled edge signifies the dime of course -- the penny being smooth on the outer rim. \* \* \*

John A. Stout, Dixie-Portland Flour Co., Memphis, Tenn. Recently in Memphis I witnessed a large hotel employing a considerable crew of men redecorating its ballroom; a large department store painting an outside stucco wall; a railway station removing the smoke from its exterior. No doubt over the entire United States thousands of such jobs are taking manpower that is badly needed for essential jobs. It is a difficult matter to control but I believe a simple remedy would be to remove the incentive for this non-essential work. These people know that this work is a deductible item; consequently operation cost them very little. If they were permitted to set up a reserve to do this work immediately after the war, they would be glad to postpone it and it would create work at a time when it will be badly needed.

(James F. McKinney, Attorney at Law, Pasadena, Calif., sends copy of letter he has addressed to Elmer Davis.) This is the announcement of a one family strike of husband and wife, 70 and 69 years of age respectively. When on Monday last, Fulton Lewis, Jr. read the imperative requests to radio commentators directing them to broadcast, and urge the acceptance of, policies which the "Government" had decided upon, most of which was untrue, my wife and I boiled over. Of course, they will not get away with it because the American people will not submit to dictation. But it is to us the marvel of the ages that these Communi-fascists who are rattling around in high places do not know that John Citizen doesn't want to be "protected" - to be

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told what is good for him - what he must and must not do - to have his money siphoned into the hands of Governmental agencies and squandered in an emotional frenzy to supply a bottle of milk to every Hottentot on the globe. My wife and I have in the last year and a half invested in Government Bonds aggregating in cost more than one and one-half times our total fixed income during that period. That is at the rate of 100% a year. This involved the sacrificing of good investments in order to buy Bonds which for the most part pay us nothing, and which will mature after our death. We have heretofore done it gladly, but if the sort of thing which is evidenced by the "instructions" of last Monday, and the efforts of our "servants" from the top of the heap down to the last small up-lifter is to continue, we (both my gentle wife and her more vociferous husband) intend from now on to look after ourselves and invest in things which will at least help to keep us financially on an even keel until the end.

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Favorable Comments on Bonds

Clarence Epstean, President, The Walker Engraving Corporation, New York City. Our problem has been how to give our men financial incentive, at the same time keeping within the letter of the Law, so far as the "wage-freeze order" goes, and also within the spirit of the Law which is anti-inflationary in purpose. To accomplish this dual purpose, we have purchased Defense Savings Bonds for the key people in our organization whom we feel are entitled to a bonus. Because these Bonds cannot be bought jointly in the name of a corporation and an individual, they have been registered under the names of the President of this Corporation as one individual and of the persons for whom they are intended as the co-owners. In order to be sure that we are living up to the anti-inflationary spirit, it is our earnest intention to retain these Bonds until the maturity date. We put this case before the Salary Stabilization Unit of the Bureau of Internal Revenue in our letters of May 15th and June 3rd. To date, we have had no reply to our letters, probably because this is an unusual case and they have no ruling on it. We shall appreciate attention to this letter and a reply from you at your earliest convenience.

Paul A. Semrad, Chicago, Ill. This year, so far, I have invested over thirty per cent of my earnings in War Bonds which I have put away and intend to keep until maturity. I feel that if they are good enough to buy, they are good enough to keep. I find myself perturbed over the attitude of the various agencies' arguments used in selling War Bonds. Would it not be possible to sell Bonds based entirely on the appeal to patriotism backed by the sound idea of creating an estate for the future? I read and hear the sales talk that right after the War these Bonds can be

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sold to purchase any thing from new clothes to planes. If a large percentage of the purchasers buy with the express purpose of cashing them in at the first opportunity, the Government will find itself in a position of putting money in one pocket and taking it out of the other.

G. W. Brownlee, Ekonomie Binder Co., Atlanta, Ga. You are doing an excellent job in the sale of War Bonds. The results have been marvelous. There is, therefore, no room for criticism. However, I believe that I have a suggestion that will prove helpful. \* \* \*

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Unfavorable Comments on Bonds

Louise K. Dennison, Brooklyn, N. Y. I feel impelled to notify you that the "widow's mite" of \$25 for War Bond pledge for every other month since the first issue, I've had to cancel, and will buy one whenever I can. I waited at the Bank that day one hour for such Bonds to be received from Washington, and as you wrote me a note of thanks, which I've kept, I think I may have been among the early buyers. I am one of those with so-called fixed income which doesn't stay fixed, for a Trust Fund invested in real estate lessens and lessens, and cost of maintenance climbs and climbs. I am most grateful to all who have given so generously to the work of our great President and his helpers. Respectfully and regretfully.

W. P. Potter, General Manager, Glendale Merchants Association, Ltd., Glendale, Calif. We are enclosing herewith a card on which we have been asked to get information (Citation to Glendale Star). Where an advertising campaign is conducted on a strictly profit basis by any newspaper does your office make it a practice of giving a written endorsement? Were the cards, as enclosed herewith showing the name of the newspaper in large type, printed in the Government Printing Office and is this the common practice and does your office extend such courtesies where advertising is promoted and sponsored on a profit basis for the publication? These questions are not asked with any malice nor with any intention of making an issue in this particular case, but our members are continually being approached by promotional interests and promoters and we do want a frank statement from your office as to policy and also as to whether or not this particular card was printed and authorized.

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James R. Young, Portland, Oregon (telegram). In past eighteen months, several of us as foreign correspondents have actively campaigned for Stamp and Bond drives. In past six weeks I helped sell quantities in New England and Pacific Northwest addressing 10,000 to 65,000 persons daily. Would like to continue this necessary work, particularly help the September Drive. However, am forced to halt. A. F. of L. representative in Seattle demands payment of \$14 for union card in Victory centers, shipyards, theaters. If you will send me check for \$14 payable William Green, will obtain credentials. Otherwise all next month's West Coast shipyard and aircraft employee appeals must stop. I was in Japan 13 years, managing B. W. Fleisher's Japan Advertiser. I know who we're fighting and why we need Bond drives. Am at Hearst Ranch, McCloud, Calif. through Tuesday and St. Francis Hotel, San Francisco, after Wednesday. You can mail check either place. Respectfully

Clarence H. Smith, Charlotte, N. C. April 1941 I went to work at Morris Field and immediately started to buying War Bonds. This is August 1943 and I have yet to receive one Bond. Last February they wrote me that I would get my Bonds not later than April of this year and up to the present time I haven't received any Bonds. A month ago I wrote them but they have not answered my letter. The point I want to make to you is this - I am not the only one, fully 900 employees that they have employed out there are up against the same thing. There isn't any excuse for this, as this Air Base has 900 civilian employees and it never has an average of 1500 soldiers. The reason I think we haven't ever got the Bonds is due to the fact they have about 800 too many employees. \* \* \* What can be done about this? I want my Bonds and any money I have coming to me and want them at once.

Favorable Comments on Taxation

Mrs. Harold D. Ross, Mount Morris, Ill. May I respectfully urge that the Treasury continue to issue Tax Anticipation Bonds in denominations of \$100.00, in order to meet the needs of a large group of income taxpayers. Our wage and salary deductions are at least one thousand dollars per annum below our tax liability. These small denomination Bonds enable us to keep approximately current. We dislike to purchase War Bonds for the purpose of cashing them to pay taxes. Our income has been relatively stable for a number of years and our commitments made before the War make regular saving for income taxes a necessity. The purchase of Tax Anticipation Bonds of thousand dollar denomination, which is, I am given to understand, the lowest denomination, is as difficult as paying the additional income tax in a lump. The issuance of one hundred dollar Bonds would therefore permit us to earmark part of current income, and would be a great convenience, even if no interest were allowed.

A. J. Cottrell, D.D.S., Knoxville, Tenn. We (my wife and myself), both more than seventy years of age, belong to a group which I have heard called rare. In accordance with the best ideas of economics of our day, by industry and careful management, we were able to accumulate sufficient funds, the income from which has, since I became incapacitated seven years ago, been sufficient to provide a modest living for us, but recent decrease in returns and the problems of taxation are proving quite a problem. We have no other income of sufficient moment to be considered. I just wonder what particular niche in the scheme of things folks like us will fit into. Our best wishes to you in the stupendous task which lies before you. We feel it will be well met.

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Unfavorable Comments on Taxation

C. W. Emery, A. M. Somes & Company, Boston, Mass. Form #727 - Treasury Dept. - Internal Revenue Service, covering "Transportation of Property" along with other misc. taxes, has to be notarized, and the taxes must be paid each month. This means that every month we have to find a notarizing officer, which isn't always convenient. Business houses now have a great many forms to be filled out throughout the year and in the interest of expedition, and too, I am a firm believer that the Government would collect their money easier and faster in many many cases if we were permitted to sign many of these returns "under the penalty of perjury" instead of being notarized. I know the Comm. of Mass. permits us to sign many of their forms under the penalty of perjury, and as soon as made out, are immediately signed and go in the mail without delay, along with the remittance. \* \* \*

Milton Karz, Attorney and Counselor at Law, Rochester, N. Y. I represent Captain Ralph Arnold, stationed at Fort Bragg, South Carolina. He had left instructions with his mother to pay his second installment of the 1942 Federal Income Tax. This was done by her check forwarded to the Collector of Internal Revenue at Buffalo, New York, on June 11, 1943. The next day she received a letter from Captain Arnold in which he stated that he had also forwarded a check to Buffalo in payment of the same installment. On that day I forwarded a letter to Buffalo informing the Collector's office there of the facts involved and requested the return of one of the checks. I have received no reply to that letter. Later I was told that Captain Arnold expected to be transferred, probably to foreign service, and desired to put his affairs in order, and for that purpose requested that I straighten out his tax matter with the Buffalo office. I again wrote that office informing them of Captain Arnold's position; that letter was mailed on June 22nd, 1943, but no reply was received. Both checks cleared through the bank. I again wrote to the Buffalo office on July 28th, 1943, addressing the letter to the Collector personally.

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That letter received no more attention than any of the others -- no answer, or even acknowledgment of receipt. The money involved is, of course, of no particular importance, although Captain Arnold might have been in need of the money for all that the Buffalo office knew. \* \* \* Such conduct on the part of your representatives subjects your Department, and Government offices generally, to extremely unpleasant criticism and deservedly so. \* \* \*

C. H. Blackburn, New York City. I look after the investments and the reserve funds of a Cuban sugar factory entirely owned by Americans although incorporated in Cuba. We have had called \$50,000 U.S. Treasury 3-3/8 Bonds and we would like to reinvest this money in Treasury Bonds, and we would also like to invest another \$100,000 in Treasury Bonds, but the difficulty is that I cannot find a Treasury Bond that will give a plus yield after paying the taxes. The Treasury Bonds are first subject to a tax of 30% by the United States Government, and then are subject to a tax by the Cuban Government of .15 of 1% of the market value on the last day of each month for the 12 months of the year, which is equal to 1.8% of the average market value of the Bond on the last day of every month. Then the coupon interest is subject to a tax of 6% on income, payable to the Cuban Government on securities issued by the United States Government, and then if by any chance there should be any money left out of this interest payment, it is subject to a 15% profit tax. Let us take a specific instance of a 2 1/2% Bond which I understand you are going to issue in September at par. Of the \$25.00 interest, the United States Government would withhold 30%, or \$7.50, and if this Bond should have an average market value of par, of \$1,000, on the last day of every month for 12 months, the tax by the Cuban Government on the principal would be \$18.00.

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Then the Cuban Government would assess a tax of 6% on the \$25.00 interest, or \$1.50. This adds up to \$27.00 tax on the \$25.00 interest. I would appreciate it very much if you would be kind enough to advise me in what Government Bond we could invest this money so that we can get enough interest to pay the taxes. I do not ask for one cent of income; all I ask is for enough interest to pay the taxes so that the yield in interest is zero. \* \* \*

Here we are in the situation where Americans, residents, owners of the company, who want to invest their money in Government Bonds, and the American Government is urging them to do so, but at the same time the Government does not issue a Bond with a coupon rate high enough to pay the taxes. Up to the present time, the only thing I can find in which to invest the money is a 4% Canadian Bond which costs 99½ to 100, and the \$40.00 coupon will be subject to a 10% discount, but it will give us \$36.00. The American taxes will not apply to this and the \$36.00 will cover the Cuban taxes. Here we have a situation in which Americans are forced to put their money into Canadian Bonds because there is no American security available which will yield income enough to pay all the taxes. It seems to me that some arrangement should be made whereby a Cuban corporation owned by Americans, after paying all the Cuban taxes, will not be asked by the American Government to pay more tax than there remains of income, so that the yield will be zero, or that the American Government should make a vigorous protest to the Cuban Government so as to do away with the confiscatory tax. \* \* \*

Constance Edgard, Los Angeles, California. I am writing to you on the subject of the 30 per cent Withholding Tax on non-resident aliens as applied to my own case. I am a subject of Gt. Britain, having arrived in this country on October 16, 1940, with my son, Henry. On May 20, 1942, in a communication from the U. S. Department of Justice, Ellis Island, N. Y., I was granted permission by the District Director to accept gainful

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employment in this country. My husband is in the Royal Air Force, and I cannot receive more than \$40.00 monthly for myself and \$12.00 monthly for my son from England, due to the currency laws. I found that employment opportunities were greatly limited, but finally found employment at the Central Casting Corporation in Hollywood, California. I had settled down to this position, when, a few weeks ago, it came as a great blow to learn that I was liable to a 30 per cent withholding tax on my gross salary. This is now being deducted weekly, practically one third of my entire salary. My son was already being maintained separately, for economic reasons, but now this deduction is in the nature of an additional hardship as it is practically impossible to meet expenses, or maintain a reasonable standard of living. I am therefore writing to you in this extremity. \* \* \* I have discussed the matter at length with my employer, Mr. Howard R. Philbrick, and he has very kindly offered to act as the guarantor of the tax, if the Treasury Department will waive the provision of the non-resident alien withholding section of the Revenue law. \* \* \*

Mrs. Ozias Dodge, Asguam Transportation Co., Ashland, N. H. In such discussions of the pay-as-you-go tax plan as have come to my notice, I have found no explanation of what is to be done about the minority who, like myself, paid taxes in full last January. I must confess that I was warned against doing this, but it seemed a patriotic duty to meet the obligation promptly if possible, and I had, and still have, every confidence that the Government would not allow those of us who did so to be penalized. It scarcely seems fair for the taxpayers who have met their full obligation to be treated the same in the matter of a withholding tax as those who have not. If, however, the matter is to be taken care of by credit, it seems

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as if this should be done now, so that the money might be available to us. Some of us would undoubtedly buy Bonds with it, as we are evidently that kind of people! As a firm supporter of the Roosevelt Administration, I am perhaps most concerned as to what to say about this to my Republican friends who urged me last January not to pay in full.

Harold Orthwin, Los Angeles, Calif. As a public accountant, I am writing you, to give you an analysis of the reaction of the public to the withholding feature of the new income tax law. Unfortunately, the reaction of the average wage earner, as I have observed it, is one of resentment, and quite a few workers, especially women, have quit their jobs or are threatening to quit because of same. These same people did not seem to take the same resentful attitude, when they paid their income tax in a lump at the end of the year...Hence this reaction is entirely psychological, especially when it is considered that these people have been forgiven 3/4 of their 1942 tax. I believe that this amendment should take the form of a quarterly return to be made out by every taxpayer, just as every employer now does with the Social Security, etc. It is obvious that if inflation is to be checked on the home front, and if the production of war goods is to be spurred, that we will need the services of every possible worker, man or woman, and to get the highest production from our workers, they must be reasonably contented. I am certain that a change in the present income tax law, as outlined above, would assist in the attainment of that goal.

(Fred A. Geier, Cincinnati, Ohio, sends copy of letter he has addressed to Allis-Chalmers Mfg. Co.) I trust my desire to pursue the question of deducting withholding tax according to law, instead of by schedule issued by the Treasury Department, will not be construed

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as antagonism regarding the payment of direct taxes, stiff though they are in relation to advancing commodity prices. The object of this further communication is to question the validity of the Treasury Department's missile, with its broad span of brackets for collection of taxes, which exacts amounts in many cases in excess of that specified by law, -- and which amounts to a levy without legal authority. My belief always has been that Congress - and they alone - have the right to levy taxes against the people. That we may get a return at the end of the year is beside the point. This sugar-coating is already losing its sweetness by the talk in Washington for an additional tax bill - somewhere in the neighborhood of 12 Billion Dollars. Precious little we can expect as a return on overpayment if the tax framers have such ideas now. \* \* \* The point of my discussion is that the Treasury Department could have and should have narrowed the brackets down to a span which would have caused less dissension and distaste among the workers. To prove my point, that it can be done, I am attaching herewith schedules as it would apply in two specific cases - biweekly. I firmly believe the U. S. Treasury Department deliberately attempts to subvert the law, and supersede an act of Congress. Therefore, I offer this as my formal protest against the use of the Treasury Department schedule instead of the proper application of the law.

Elizabeth A. Holmes, Buffalo, N. Y. Will you kindly issue instructions immediately to have the withholding tax as it now stands on my salary, cancelled. It is a physical impossibility for me to pay this tax and it is creating conditions that are intolerable. My salary is \$25.00 a week and at the present time because of deaths and resulting conditions, I am dependent solely on this salary. Previous to this tax, it was all I could do to meet the most necessary expenses at this time. Will you kindly send me an immediate reply, instructing the discontinuance of this tax at least for the present.

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John Dragan, Detroit, Mich. With the new income tax report to be filed on Sept. 15 I understand that one must estimate his earnings within 20 percent for the remainder of the year and a failure to do so demands a penalty. Such a ruling from your Department has created more absenteeism from War plants than all reasons put together and your Department is sabotaging the War effort. \* \* \* It is an unjust ruling and should be remedied for it's impossible to estimate one's earning power in the future, especially those working on War production, for hrs. vary from week to week. For instance take my case. Work is 48 hrs., which was increased to 9 hrs. per day and many times overtime over that amount. The plant schedule varies and it's impossible to know whether one works Sunday, how much overtime there will be for the week or whether the work day is to be decreased or increased. And raises are given on merit, which is never certain, it's absolutely impossible to estimate one's earnings within 20 percent. As yet I have never refused to work Sundays or overtime but if I'm to be penalized for being unable to estimate earnings within 20 percent, I shall refuse the overtime and the Sunday work when asked in order to be able to estimate earnings within the required limit. \* \* \*

Anonymous - Postmarked, New York, N. Y.

A man stood at the pearly gate,  
His face was worn and old;  
He merely asked of the man of fate  
Admission to the fold.

What have you done, St. Peter asked,  
to seek admission here?  
Why, I tried to estimate my income  
Tax from now to the end of the year.

The gates swung open sharply,  
As St. Peter touched the bell;  
Come in, he said, and take a harp,  
You've had enough of hell.

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Wm. R. Biedermann, Commercial Audit & Appraisal Co.,  
Bernardsville, N. J. You no doubt are aware that  
the WITHHOLDING TAX laws are going to mean that  
there is lots for us to do. The complete laws being  
delayed, also the forms. I have a list of 50 various  
clients of which 40 must file by Sept. 15th and due  
to the lack of gas, it will be hard to get around,  
and in addition I have a crippled foot. My Orange  
Board and the O.P.A. rule this work not essential;  
therefore, many of these taxpayers will not be able  
to file these required reports, and you will then not  
get your Tax money. Now I should think that you as  
the Treasurer of the U.S. funds certainly ought to  
help out men like me who is helping our Government,  
to see that such Tax money and reports reaches you on  
due time. If you do not have the money you cannot  
buy WAR EQUIPMENT, so why is this line of work  
considered not essential. There are ways that the  
O.P.A. can have GAS conserved elsewhere and help us  
out.

Mrs. Edith Jackson, Holley, N. Y. (Letter addressed  
to the President and referred to us by the White  
House.) Inclosed please find check for 24¢. I  
earned \$1.25 at 50 cents per hour, 1 cent out for  
old age insurance, \$1.00 out for Victory tax -  
balance due me 24¢. I paid 10¢ to ride 2½ miles and  
carried my lunch. How much did I get for 2½ hours  
work? I am a woman 58 years old. Result - absenteeism.  
I certainly won't go to work for 2½ hours again -  
neither will lots of others. Result - lots of green  
beans or corn will waste. \* \* \* We are only part time  
workers. We own our little home. And my husband  
and I both work in fruit and vegetables so you see  
we are in the very lowest wage bracket. I have en-  
dorsed this check. You may donate this 24¢ to any  
charity you please. I am a Democrat.

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Anonymous - Postmarked, Raleigh, N. C. I cannot think of anything more important to the proper functioning of Government than the levying and collection of taxes. No Government can survive without taxes. I am of the opinion that 99 percent of the citizens of the United States are honest and want to pay every penny in taxes they are due the Government on their incomes, especially in view of the fact that our country is at war. It is difficult for me to understand why Federal income tax laws are so complicated that only a magician can understand them. Those who write the "instructions" on how to prepare income tax returns should bear in mind that only an infinitesimal portion of the taxpayers are familiar with accounting and high mathematics. It is positively pathetic to see men and women flitting here and there trying to find out how to file their income tax returns. Thousands of them, who are not able to do so, spend money to have their returns filled out by so-called experts, only to learn a few months later that they were improperly done. Little business men, who operating their business with a shortage of help, are now bogged down trying to find out how to file their returns and to pay their taxes. Time spent in their effort to unravel the "instruction" puzzles is a dead loss. Big business houses have to employ an army of auditors, certified public accountants and tax experts to arrive at the income tax due. It is not right, Mr. Secretary, when you consider that it is hard enough to pay the taxes once you find out what they are. No man is sure that he has filed his income return correctly, because of the mass of complications. \* \* \*



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

August 20, 1943.

MEMORANDUM TO THE SECRETARY:

Referring to our conversation of a few days ago in which you suggested that you would like to purchase a complete set of the Allied Military currency and postage stamps, and our discussion of the possibility that this currency and these stamps might be sold to numismatists and philatelists, Mr. Paul has given me an opinion that there is no legal authority in any executive branch of the Government to sell the currency and stamps. He further says that if we do sell them it might have some effect on our authority to provide the currency in the first place under international law.

I have advised the War and State Departments that there is no legal authority for the sale of the currency and stamps and that any inquiries should be answered accordingly.

*sub*  
*AM*



IN REPLY REFER TO SPMC E 726.1-1

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*T. Hines*

*11:45 A.M.*

WAR DEPARTMENT  
Army Service Forces  
OFFICE OF THE SURGEON GENERAL  
WASHINGTON

20 August 1943.

MEMORANDUM for Honorable Henry Morgenthau, Jr.  
Secretary of The Treasury.

Subject: Five day treatment of syphilis.

1. The following information is forwarded at the request of Mr. Fitzgerald, of your office:

a. Use of the five day treatment of syphilis was begun in The Army at Fort Bragg, North Carolina on 22 July 1943. To date 23 cases of infectious syphilis have been treated without serious reaction.

b. While wider use of the method in certain types of cases is anticipated, the present method is not regarded as satisfactory for routine use in The Army.

For The Surgeon General:

*John A. Rogers*  
JOHN A. ROGERS,  
Colonel, Medical Corps,  
Executive Officer.



ALL COMMUNICATIONS SHOULD BE ADDRESSED TO "THE SURGEON GENERAL, U. S. ARMY, WASHINGTON, D. C."

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE August 20, 1943

TO Secretary Morgenthau  
FROM Mr. Schwarz *a*

I have talked with Major Kades and some others with respect to Ladas' book and believe as a result that it is a fairly well accepted work on its subject, but not nearly as important as Mr. Fainberg would seem to indicate.

My own impression from a reading of the excerpts is that Mr. Fainberg has reached conclusions not warranted by the text. The book was published 11 years ago and has not been challenged in that time. Any revision in the text at this late date, especially since the statements are not inaccurate even if they could be more complete, might well stir up a controversy that does not exist.

I am returning herewith the letters to General Greenbaum.

August 10, 1943

Dear General Greenbaum:

Re: Morgenthau Sr.-Ladas' book.

Captain Kades' memorandum bears out my contention:

1. Ladas does not state that "to the best of my knowledge and on information and belief Ambassador Morgenthau did accept and continues to accept the aforesaid salary"; a statement in a book that Ambassador Morgenthau was appointed Chairman at a salary of £2 500 conveys to every reader that he got it too. Ladas also gives the exact date of Morgenthau's resignation (excerpt B) but does not state that no salary was ever paid.

2. Ambassador Morgenthau considered it of basic importance as part of his plan to inspire prostrated Greece with his expression of sympathy, to make all Greece know that he refused his salary; he also assumed all his traveling and other expenses. These facts must have been known to Ladas; Ladas also quotes Ambassador Morgenthau's book "I was sent to Athens" where these matters are dealt at length; accordingly Ladas' treatment of the salary etc. can be characterized as intended suppression of facts pertinent to the very method of Morgenthau's handling the Greek problem.

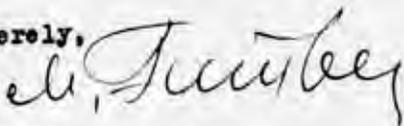
3. Ladas' book is a basic book read by all students.

The above bears out my point that a way should be found to remove the slur of an impression that a rich Mr. Morgenthau gets himself a fat job; £2 500 looms big to military and government employees (especially when the next large salary - that of Sir John Campbell is given at £1 000) and when stated in a book written in a vein that international financiers (and we know what that means) have exploited prostrated Greece.

I wonder what an expert in these matters - like Mr. Ernst would think if he looked over the two books - that of Ambassador Morgenthau and that of Ladas.

Sincerely,

Encl Letter to you of July 6/43



Re: Ataman Semenov-General Vlassov.

In view of Russian military successes the matter seems of no importance right now. I might return to it should occasion require it.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE JUL 28 1943

TO Secretary Morgenthau  
FROM Captain Kades

The attached letter from Mr. M. Fainberg to General Greenbaum apparently refers to Stephen P. Ladas' book entitled "The Exchange of Minorities - Bulgaria, Greece, and Turkey" published in 1932 by the Bureau of International Research, Harvard University and Radcliffe College. There is no reflection upon Mr. Henry Morgenthau in that book and no action on the letter would appear warranted.

The only references to Ambassador Morgenthau in the book are as follows:

1. On page 622, there is a footnote referring to Ambassador Morgenthau's book, "I Was Sent to Athens". An extract containing the reference is attached hereto as "Excerpt A".
2. On page 628, there is a reference to the appointment of Ambassador Morgenthau as Chairman of the Settlement Commission at a salary of £2500 per annum and to his later resignation. An extract containing the reference is attached hereto as "Excerpt A".
3. On page 634, there is a reference to a speech by Ambassador Morgenthau urging the Council of the League of Nations to support a loan to the Greek Government to finance the resettlement of refugees. In subsequent pages, the author severely criticizes the terms of the loan, asserting that the interest charge was exorbitant. However, the author does not identify Ambassador Morgenthau with the fixing of the interest rate or connect his name with the stringent terms imposed by the lending institutions. An extract containing the reference is attached hereto as "Excerpt C".

*L.H.K.*

Attachments

Excerpt A

"\* \* \* The Council voted to set aside 50,000 Swiss francs from the item 'Unforeseen Expenses' of the League budget, in order to enable Dr. Nansen to fulfil the various administrative engagements which he had assumed. At the same time the Greek government, through Mr. Politis, put forward as its own proposal the suggestion of Dr. Nansen for an international loan to Greece for the settlement of the refugees. The Council referred the proposal of Mr. Politis to the Financial Committee of the League for examination and report.<sup>9</sup> At the next meeting of the Council, in April, 1923, a Sub-Committee was appointed, consisting of the British, French, and Italian members of the Council, with authority to invite the Greek government to add a fourth member. This Sub-Committee was to receive the reports of the Financial Committee, which was examining the practicability of floating a loan on the basis of the securities which Greece could offer.<sup>10</sup> The High Commissariat of Refugees was to prepare a general plan for enabling refugees to be settled in Greece on a self-supporting basis.<sup>11</sup>"

<sup>9</sup> League of Nations, Official Journal, March, 1923, pp. 234-235, 383-386.

<sup>10</sup> With regard to the negotiations for the loan see also Henri Morgenthau, I was sent to Athens, New York, 1929, pp. 175 ff.

<sup>11</sup> Ibid., June, 1923, pp. 602-603, 696-703.

Excerpt B

"On September 29, 1923, the Council of the League of Nations appointed Sir John Campbell as League member on the Commission for two years at a salary of £1000 per annum, and Mr. Henry Morgenthau, on the nomination of the Near East Relief, as Chairman of the Commission for two years, at a salary of £2500 per annum. It also approved the appointment of Mr. Etienne Delta and Mr. Pericles Argyropoulos, nominated by the Greek government, as members of the Commission.<sup>19</sup>

"Mr. Morgenthau resigned his post in December, 1924, and was temporarily replaced by Dr. Alfred Bonzon, and permanently by Mr. Charles P. Howland on February 7, 1925.<sup>20</sup> The latter resigned in September, 1926, and was replaced by Mr. Charles B. Eddy as from October 15, 1926.<sup>21</sup> Sir John Campbell resigned his position as member of the Commission on January 15, 1927. He had held this post for more than three years and had formed a valuable element of permanence and stability in the work. In his place Sir John Hope Simpson was appointed from January 16, 1927.<sup>22</sup> Sir John had already served in the Commission as a substitute member."

<sup>19</sup> League of Nations, Official Journal, November, 1923, p. 1357.

<sup>20</sup> League of Nations, Official Journal, February, 1925, p. 156; April, 1925, pp. 437-438, 514.

<sup>21</sup> League of Nations, Official Journal, October, 1926, pp. 1237-38.

<sup>22</sup> League of Nations, Official Journal, February, 1927, pp. 140, 158, 173.

Excerpt C

"In September of the same year<sup>34</sup> the Chairman of the Commission, Mr. Morgenthau, appeared before the Council of the League, and made an address which may be considered a guarded expression of impatience that the Council was not proceeding with due speed in the matter of the Greek loan. He declared that in order to stabilize Greece and to take care of all the refugees a sum of £10,000,000 was needed, of which Greece was prepared to supply one-fourth. He believed that the security given was ample and proper, and that the Greek government was stable. He asked the Council to investigate the situation through the Financial Committee of the League and to put its stamp of approval on the desire of Greece to raise the loan of £10,000,000.

"The amendments to the Refugees Settlement Protocol of 1923, adopted in September, 1924, authorized the issue of a loan up to £10,000,000. The Sub-Committee of the Council of the League found from estimates given it from an authorized source that the revenues assigned by the Greek government had a yield of 700,000,000 drachmas per year, and that the land which was to constitute a guarantee for the loan represented a value of about £10,000,000.

"Encouraged by the support of the League, the Greek government entered into negotiations in London for the floating of the loan. These resulted in the signature of contracts in December, 1924, with Hambros Bank, Limited, in London, Speyer & Co.'s Bank of New York, and the National Bank of Greece. These contracts provided for the issue of a seven per cent loan of £12,300,000, face amount, of which £7,500,000 were to be issued in London, £2,500,000 at Athens and £2,300,000 (in dollars) in New York. The issue took place at the rate of 88. Deducting, however, the British stamp duty of 2% and the expenses of issue and commission of Banks of 5%, the net produce was 81 per cent. Thus the nominal interest of 7% rose finally to 8.71%. This is a tragicomic commentary on the high-sounding discussion of the Refugee Loan

<sup>34</sup> League of Nations, Official Journal, October, 1924, pp. 1299-1302.

- 2 -

as a humanitarian and philanthropic work!<sup>35</sup> Greece could probably have raised such a loan without the intervention of the League. A loan bearing such interest naturally proved entirely successful, the sum required of the public being covered five and a half times at Athens and nearly twenty times in London, and entirely subscribed by Speyer & Co. in New York. The net proceeds of the loan were £9,970,016 6s. 9d."

<sup>35</sup> See A. Andreades et al., Les effets économiques et sociaux de la guerre en Grèce (Publications de la Dotation Carnegie), p. 101.

FROM EDWARD S. GREENBAUM  
3334 RESERVOIR ROAD  
WASHINGTON, D. C.

To

JUST A LINE

① Do you want to do anything  
about this? I've advised  
to tell you should - but  
do not know anyone about  
it. (over)

② We hope Ellie is much  
● better & that I will be  
able to see Bob.

Edith

M. FAINBERG  
410 RIVERSIDE DRIVE  
NEW YORK

July 6, 1948

Dear Mr. Greenbaum:

When I saw you in Washington several weeks ago I felt like the proverbial long distance telephone man who for fear of wasting precious minutes never even touches on the many items ~~who~~ is anxious to discuss.

Now, with my work in Columbia having ended, I want to catch up with various items that were on my mind, and among them the following:

In a book on Exchanged Populations (Greek-Turks-Bulgars) by Stephen Ladas, published by Harvard University, and widely used in the training in International Administration, there is a reference to Ambassador Morgenthau in his activities for Greek Resettlement. To indicate the tenor - it is enough to mention that Ladas states that Morgenthau's salary as Chairman of the Committee was so much (I do not remember whether it was \$1,000 or \$2,000 per annum, but for Ladas it evidently seemed a lot). There is no indication anywhere that Morgenthau never drew his salaries, paid his own expenses connected with this work, and that he did a splendid piece of work. The fact that Morgenthau refused his salary (and I believe donated it to the resettlement activities) is not mentioned by Ladas; it must have been known to him; it is also mentioned in Morgenthau's book "I was sent to Athens"; the refusal of salary was more than a natural gesture of a rich man; it was coupled with a penetrating understanding of the situation, was used to inspire enthusiasm, and was part of Morgenthau's brilliant guidance of the work - where utilization of Greeks and Greek refugees themselves, rather than foreign paid specialists, has contributed so much to the success of the work.

<sup>Ladas's</sup>  
Ladas book ~~is published~~ was published by the Bureau of International Research of Harvard University and his work was financed by them.

I smell an antesemitic angle in this matter. You may remember that several years ago I told you about another book - "Soviet Rule in Russia," by ~~Frank~~ Batsell, published by the same Bureau of Harvard and having unmistakable symptoms of antisemitism (e.g. indicating that such and such Soviet leader was a Jew; that oppression of Jews before the revolution was a "natural" result

X I remember this part of Morgenthau's work especially well, in view of my experience at the National Refugee Service where all my efforts to use German refugees (even in the field where they were so much better qualified than American Social workers - e.g. German law) met with such opposition.

of Jewish subversive activities, that during the war cases of espionage by the Jews were coming up "in the asserted ratio of five Jews to one Russian and many more "Jewish" references even among bibliography-"there are Russian editions of the collected works of Zinoviev, Trotzki, and other Jewish revolutionaries"!)

I wonder if Morgenthau Jr. or other children of Ambassador Morgenthau want to do something -at least to have the slur of a rich man taking salary in a relief work -removed. It should be a lesson to Harvard, how an antisemitic attitude causes research men to falsify facts; and I cannot help thinking that in view of paucity of work in the English language on the problem of EXCHANGE OF POPULATIONS, "adas' s book will be increasingly used by all students of these problems which are bound to come to the front when war nears its end.

If the matter interests you, I shall be glad to look over my references and the books concerned and give you verbatim transcriptions from same or, perhaps, photostats.

Sincerely yours,

*E. Tamm*

Brigadier General Edward S. Greenbaum  
3334 Reservoir Road, N.W.  
Washington, D.C.

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Sincerely yours,

*Ed. Greenbaum*

Brigadier General Edward S. Greenbaum  
3334 Reservoir Road, N.W.  
Washington, D.C.

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS  
Friday, August 20, 1943.

Press Service  
No. 38-16

Secretary Morgenthau made public today a revised draft of the Treasury's tentative proposal for an International Stabilization Fund of the United and Associated Nations.

The revised draft was prepared by technical experts of the Treasury in cooperation with experts of other Departments. The revision followed exploratory discussions that have been going on for more than two months between the monetary experts of this Government and the monetary experts of nearly thirty countries. While suggestions of representatives of other countries have been included in the revised draft, Secretary Morgenthau pointed out that it does not necessarily reflect the views of the experts of any other countries.

The exploratory technical discussions in Washington have been held in response to an invitation Secretary Morgenthau sent late last March to the finance ministers of the United Nations, enclosing for their examination, a preliminary draft of the Treasury's tentative proposal. The finance ministers were requested to submit the draft for study by their technical experts and to send their experts to Washington to discuss the feasibility of international monetary cooperation along the suggested lines.

Secretary Morgenthau said the exploratory discussions have been extremely helpful in clarifying the views widely held by the experts of the United Nations.

"I believe the technical experts are unanimous in their view that international monetary cooperation is essential if we are to avoid the collapse of some monetary systems, to prevent the disruption of foreign exchanges and to facilitate the restoration and balanced growth of international trade," he said.

There will be further discussions with the representatives of other countries who are expected to arrive during the month, Secretary Morgenthau said. He said that no conference would be called until he had had an opportunity to consult with the Congressional committees.

"This revised draft", he said, "is in every sense still a preliminary document. It has not received the official approval either of the Treasury or of this Government."

Secretary Morgenthau pointed out that he is keeping the appropriate committees of the Senate and the House fully informed of the discussions. On April 5 and 6, 1943, Mr. Morgenthau appeared before three committees

- 2 -

of the Senate and three committees of the House to explain the proposal for an International Stabilization Fund. Mr. Morgenthau said he intended to appear before the appropriate committees of the Senate and the House soon after Congress convenes to consult with them further on the proposal.

"Treasury officials", Mr. Morgenthau said, "are arranging discussions with representative public groups to explain what we are doing, and to get their suggestions. There will be a conference of officers and directors of several Federal Reserve Banks in Chicago next week at which proposals for postwar stabilization of currency will be fully discussed."

The Secretary indicated that similar conferences will be held with other Federal Reserve Banks.

Within the next few weeks Treasury officials will hold conferences with the advisory Council of the American Bankers Association, the New York City banks and other representative banking groups. Arrangements are also being made for meetings with members of the Foreign Trade Council and other organizations representing business men engaged in foreign trade.

Secretary Morgenthau said the Treasury had received a large number of letters regarding the proposal, many of them embodying interesting suggestions. All of these letters are being carefully considered.

oOo

*Preliminary Draft Outline  
Of a Proposal for*

**AN INTERNATIONAL STABILIZATION FUND  
OF THE  
UNITED AND ASSOCIATED NATIONS**

*Revised July 10, 1948*

U.S. TREASURY



WASHINGTON, D. C.

The plan for post-war international currency stability set forth in this pamphlet is a revision of the preliminary draft outline of a proposal for an International Stabilization Fund of the United and Associated Nations made public by the Secretary of the Treasury on April 7, 1943.

The preliminary draft was sent by the Secretary of the Treasury to the finance ministers of the United Nations and the countries associated with them with a request that it be studied by their technical experts. The finance ministers were also invited to send representatives to Washington for informal discussions with the experts of this Government.

Such informal discussions have been held with nearly 30 countries. On the basis of these discussions, the experts of the Treasury with the cooperation of experts of other Departments of this Government have revised the preliminary draft proposal for an international stabilization fund. While suggestions of the representatives of other countries have been included in the revised draft, it does not necessarily reflect the views of the experts of any other country.

This revised draft is in every sense still a preliminary document representing the views of the technical experts of the Treasury and of other Departments of this Government. It has not received the official approval either of the Treasury or this Government.

## FOREWORD

By HENRY MORGENTHAU, Jr., *Secretary of the Treasury*

When the United Nations have brought this war to a successful conclusion, they will be faced with many urgent international economic and financial problems. Some of these are new problems arising directly from this war; others are continuing consequences of failure to solve the problems that have been with us since the last war. The solution of these problems is essential to the development of a sound economic foundation for world peace and prosperity.

All of the important international economic and financial problems are closely interrelated. Monetary stabilization, commercial policy, the provision of long-term international credit, promotion of stability in the prices of primary products, and arrangements for relief and rehabilitation are problems that join at innumerable points. Nevertheless, because of their complexity, they must be taken up separately, although each in turn must be integrated with the rest.

It is generally recognized that monetary stability and protection against discriminatory currency practices are essential bases for the revival of international commerce and finance. For this reason, an appropriate starting point might well be the consideration of post-war international monetary problems. Success in dealing with international monetary problems in the post-war period will contribute toward final solution of the other international financial and economic problems. Despite the technical difficulties involved, the common interest which all countries have in the solution of post-war monetary problems provides a basis for agreement.

It is still too soon to know the precise form and magnitude of post-war monetary problems. But it is certain that we shall be confronted with three inseparable monetary tasks: to prevent the disruption of foreign exchanges, to avoid the collapse of monetary systems, and to facilitate the restoration and balanced growth of international trade. Clearly, such formidable problems can be successfully handled only through international action.

The creation of instrumentalities adequate to deal with the inevitable post-war monetary problems should not be postponed until the end of hostilities. It would be ill-advised, if not dangerous, to leave ourselves unprepared at the end of the war for the difficult task of international monetary cooperation. Specific and practical proposals

must be formulated by the experts and must be carefully considered by the policy-shaping officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in preparation before an international institution for monetary cooperation can begin effective work.

There is another important reason for initiating now concrete discussions of specific proposals. A plan for international monetary cooperation can be a factor in winning the war. It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war. The people in all of the United Nations must be given some assurance that there will not again be two decades of post-war economic disruption. The people must know that we at last recognize the fundamental truth that the prosperity of each country is closely linked to the prosperity of other countries.

One of the appropriate agencies to deal with international economic and monetary problems would be an international stabilization fund with resources and powers adequate to the task of helping to achieve monetary stability and of facilitating the restoration and balanced growth of international trade. A proposal along these lines was drafted by American technical experts and made public on April 7, 1943. There have been informal discussions on this draft in which nearly thirty countries have participated. These discussions have shown that all countries think joint action in this field is necessary for the reconstruction of the world economy.

It is recognized that an international stabilization fund is only one of the instrumentalities which may be needed in the field of international economic cooperation. Other agencies may be needed to provide long-term international credit for post-war reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. There is a strong inclination on the part of some to entrust to a single agency the responsibility for dealing with these and other international economic problems. We believe, however, that an international economic institution can operate most effectively if it is not burdened with diverse duties of a specialized character.

Although an international stabilization fund can provide the facilities for cooperation on monetary questions, the establishment of such an institution would not of itself assure the solution of these difficult problems. The operations of such a fund can be successful only if

the powers and resources of the fund are used wisely, and if member countries cooperate with the fund's endeavors to maintain international equilibrium at a high level of international trade. Such cooperation must include commercial policies designed to reduce trade barriers and to terminate discriminatory practices that have in the past hampered the balanced growth of international trade. The nations of this world can be prosperous only if they are good neighbors in their economic as well as their political relations.

The draft proposals that have been put forward on a tentative basis have received wide publicity in the United States, the United Kingdom, Canada, and in other countries. It is in the best democratic tradition that the people should have the fullest opportunity to express their views and to shape the policies of their Governments on the important problems affecting national well-being. And it is an extension of this tradition that all the United Nations should have an opportunity to participate in the formulation of a program for international monetary cooperation.

This revised draft is published with the hope that it will call forth further comments and constructive suggestions. It aims to present only the essential elements of a workable international stabilization fund, and its provisions are in every sense tentative. Obviously, there are many details that have been omitted and that can be better formulated after there is agreement on the more important points. We believe that a workable and acceptable plan can emerge only from the joint efforts of the United Nations supported by enlightened public opinion.

PRELIMINARY DRAFT OUTLINE OF A PROPOSAL FOR  
AN INTERNATIONAL STABILIZATION FUND  
OF THE  
UNITED AND ASSOCIATED NATIONS

Preamble

1. There is a growing recognition that progress toward establishment of a functioning democratic world in the post-war period will depend on the ability of free peoples to work together in solving their economic problems. Not the least of these is the problem of how to prevent a widespread breakdown of currencies with resultant international economic disorder. We must assure a troubled world that the free countries will solve these perplexing problems, and that they will not resort to competitive exchange depreciation, multiple currency practices, discriminatory bilateral clearing, or other destructive foreign exchange devices.

2. These are not transitory problems of the immediate postwar period affecting only a few countries. The history of the past two decades shows that they are continuing problems of vital interest to all countries. There must be a general realization that world prosperity, like world peace, is indivisible. Nations must act together to restore multilateral international trade, and to provide orderly procedure for the maintenance of balanced economic growth. Only through international cooperation will it be possible for countries successfully to apply measures directed toward attaining and maintaining a high level of employment and income which must be the primary objective of economic policy.

3. The International Stabilization Fund of the United and Associated Nations is proposed as a permanent institution for international monetary cooperation. The re-

(1)

sources of this Fund would be available under adequate safeguards to maintain currency stability, while giving member countries time to correct maladjustments in their balance of payments without resorting to extreme measures destructive of international prosperity. The resources of the Fund would not be used to prolong a basically unbalanced international position. On the contrary, the Fund would be influential in inducing countries to pursue policies making for an orderly return to equilibrium.

4. The Fund would deal only with member governments and their fiscal agents, and would not intrude in the customary channels for conducting international commerce and finance. The Fund is intended to provide supplemental facilities for the successful functioning of the established foreign exchange institutions and to free international commerce from harmful restrictions.

5. The success of the Fund must ultimately depend upon the willingness of nations to act together on their common problems. International monetary cooperation should not be regarded as a matter of generosity. All countries have a vital interest in the maintenance of international monetary stability, and in the balanced growth of multilateral international trade.

#### I. Purposes of the Fund

The United Nations and the countries associated with them recognize, as declared in the Atlantic Charter, the need for the fullest cooperation among nations with the object of securing economic advancement and rising standards of living for all. They believe that attainment of these objectives will be facilitated by international monetary cooperation. Therefore, it is proposed that there be established an International Stabilization Fund with the following purposes:

1. To help stabilize the foreign exchange rates of the currencies of the United Nations and the countries associated with them.

2. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

3. To help create conditions under which the smooth flow of foreign trade and of productive capital among the member countries will be fostered.

4. To facilitate the effective utilization of the blocked foreign balances accumulating in some countries as a consequence of the war situation.

5. To reduce the use of such foreign exchange restrictions, bilateral clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices as hamper world trade and the international flow of productive capital.

#### II. Composition of the Fund

1. The Fund shall consist of gold and the currencies and securities of member governments.

2. Each of the member countries shall subscribe a specified amount, to be called its *quota*. The aggregate of quotas of the member countries shall be the equivalent of at least \$5 billion.

3. Each member country shall meet its quota contribution in full on or before the date set by the Board of Directors for the Fund's operations to begin.

(a) A country shall pay in gold not less than an amount determined as follows. If its gold and free foreign exchange holdings are:

(i) In excess of three times its quota, it shall pay in gold 50 percent of its quota.

(ii) More than two but less than three times its quota, it shall pay in gold 40 percent of its quota plus 10 percent of its holdings in excess of twice its quota.

(iii) More than its quota but less than twice its quota, it shall pay in gold 30 percent of its quota plus 10 percent of its holdings in excess of its quota.

## II. COMPOSITION OF THE FUND

(iv) Less than its quota, it shall pay in gold 30 percent of its holdings.

The gold payment required of a member country substantial parts of whose home areas have been wholly or partly occupied by the enemy, shall be only three-fourths of the above. (For other gold provisions, Cf. v-2-a and v-6, 7.)

A member country may include in the legal reserve account and in the published statement of the reserves of gold and foreign exchange in its Treasury or Central Bank, an amount not to exceed its gold contribution to the Fund, minus its net purchases of foreign exchange from the Fund paid for with local currency.

(b) It shall pay the remainder of its quota in local currency, except that a member country may substitute government securities (redeemable at par) for local currency up to 50 percent of its quota.

4. A quota for each member country shall be computed by an agreed upon formula which gives due weight to the important relevant factors, *e. g.*, a country's holdings of gold and free foreign exchange, the magnitude and the fluctuations of its balance of international payments, its national income, *etc.*

Before computing individual quotas on the basis of the agreed upon formula, there shall be reserved an amount equal to 10 percent of aggregate quotas to be used as a special allotment for the equitable adjustment of quotas. Where the initial quota of a member country as computed by the formula is clearly inequitable, the quota may be increased from this special allotment.

5. Quotas shall be adjusted on the basis of the most recent data 3 years after the establishment of the Fund, and at intervals of 5 years thereafter, in accordance with the agreed upon formula. In the period between adjustment of quotas, the Fund may increase the quota of a country, where it is clearly inequitable, out of the special allotment reserved for the equitable adjustment of quotas.

## II. COMPOSITION OF THE FUND

6. Any changes in the formula by which the quotas of member countries are determined shall be made only with the approval of a four-fifths vote of the Board.

7. No increase shall be made in the quota of a member country under II-4, 5 or 6 without the consent of the representative of the country concerned.

8. The resources of the Fund shall be used exclusively for the benefit of the member countries.

## III. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the *unitas* (UN) equal in value to  $137\frac{1}{7}$  grains of fine gold (equivalent to \$10). No change in the gold value of the unitas shall be made except with the approval of 85 percent of the member votes. When such change is made, the gain or loss sustained by the Fund on its holdings of gold shall be distributed equitably among the members of the Fund.

The accounts of the Fund shall be kept and published in terms of unitas.

2. The value of the currency of each member country shall be established in terms of unitas and may not be altered except as provided in IV-5, below. (Cf. IV-1, 2, below.)

No member country shall purchase or acquire gold, directly or indirectly, at a price in terms of its national currency in excess of the parity which corresponds to the value of its currency in terms of unitas and to the value of unitas in terms of gold; nor shall any member country sell or dispose of gold, directly or indirectly, at a price in terms of its national currency below the parity which corresponds to the value of its currency in terms of unitas and to the value of unitas in terms of gold. (Cf. VII-1.)

3. No change in the value of the currencies of member countries shall be permitted to alter the value in unitas of the assets of the Fund. Whenever the currency of a

## III. MONETARY UNIT OF THE FUND

member country has depreciated to a significant extent, that country must deliver to the Fund when requested an amount of its local currency or securities equal to the decrease in the unitas value of the Fund's holdings of the local currency and securities of the country. Likewise, if the currency of a member country should appreciate to a significant extent, the Fund must return to that country an amount (in the currency or securities of that country) equal to the resulting increase in the unitas value of the Fund's holdings.

## IV. Exchange Rates

1. The rates at which the Fund will buy and sell one member currency for another and at which the Fund will buy and sell gold for local currency shall be established in accordance with the provisions below. (Cf. also III-2 and V-2.)

2. The initial rates of exchange for member countries' currencies shall be determined as follows:

(a) For any country which becomes a member prior to the date on which the Fund's operations begin, the rates initially used by the Fund shall be based upon the value of the currency in terms of United States dollars which prevailed on July 1, 1943.

If, in the judgment of either the member country or the Fund, the above rate is clearly inappropriate, the initial rate shall be determined by consultation between the member country and the Fund. No operations in such currency shall be undertaken by the Fund until a rate has been established which has the approval of the Fund and of the member country in question.

(b) For any member country which has been occupied by the enemy, the Fund shall use the exchange rate fixed by the government of the liberated country in consultation with the Fund and acceptable to the Fund. Prior to the fixing of a definitive rate, operations in

## IV. EXCHANGE RATES

such currency may be undertaken by the Fund with the approval of the Board at a tentative rate of exchange fixed by the member country in consultation with the Board. No operations shall be continued under this provision for more than 3 months after the liberation of the country or when the local currency holdings of the Fund exceed the quota of the country, except that under special circumstances the period and the amount of such operations may be extended by the Fund.

3. The Fund shall not come into operation until agreement has been reached on the exchange rates for currencies of countries representing a majority of the aggregate quotas.

4. The Fund shall determine the range within which the rates of exchange of member currencies shall be permitted to fluctuate. (Cf. VII-1.)

5. Changes in the exchange value of the currency of a member country shall be considered only when essential to the correction of fundamental disequilibrium in its balance of payments, and shall be made only with the approval of three-fourths of the member votes including the representative of the country concerned.

Because of the extreme uncertainties of the immediate post-war period, the following exceptional provisions may be used during the first 3 years of the Fund's operations:

(a) When the existing rate of exchange of a member country is clearly inconsistent with the maintenance of a balanced international payments position for that country, changes from the established rate may be made at the special request of that country and with the approval of a majority of the member votes.

(b) A member country may change the established rate for its currency by not more than 10 percent provided that the member country shall notify the Fund of its intention and shall consult with the Fund on the advisability of its action.

## V. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell and hold gold, currencies, and government securities of member countries; to earmark and transfer gold; to issue its own obligations, and to offer them for discount or sale in member countries.

The Fund shall purchase for local currency or needed foreign exchange any member currency in good standing acquired by another member country in settlement of a balance of payments on current account, where such currency cannot be disposed of in the foreign exchange markets within the range established by the Fund.

2. To sell to the Treasury of any member country (or Stabilization Fund or Central Bank acting as its agent) at the accepted rate of exchange, currency of any member country which the Fund holds, provided that:

(a) The foreign exchange demanded from the Fund is required to meet an adverse balance of payments predominantly on current account with any member country. (Cf. v-3, for capital transfers.)

When the gold and free foreign exchange holdings of a member country exceed 50 percent of its quota, the Fund in selling foreign exchange to such member country shall require that one-half of such exchange shall be paid for with gold or foreign exchange acceptable to the Fund. (Cf. v-6, 7; on gold collateral, see v-2-c.)

(b) The Fund's total holdings of the currency and securities of any member country shall not exceed the quota of such country by more than 50 percent during the first year of operation of the Fund, and thereafter shall not exceed such quota by more than 100 percent (except as otherwise provided below). The total holdings thus permitted are termed the *permissible quota* of a country. When the Fund's holdings of local currency and securities are equal to the permissible quota of a country, the Fund may sell foreign ex-

change for such additional local currency only with the specific approval of the Board of Directors (cf. vi-3-a, below), and provided that at least one of the following two conditions is met:

(i) In the judgment of the Fund satisfactory measures are being or will be taken by the country whose currency is acquired by the Fund, to correct the disequilibrium in the country's balance of payments; or

(ii) It is believed that the balance of payments of the country whose currency is acquired by the Fund will be such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time;

*Provided further*, that when the Fund's holdings of the currency of any member country or countries fall below 20 percent of their respective quotas, the sale shall also require the approval of the representatives of these countries.

(c) When the Fund's holdings of local currency and securities exceed the permissible quota of a country, the Board may require the member country to deposit collateral in accordance with regulations prescribed by the Board. Such collateral shall take the form of gold, foreign or domestic currency or Government bonds, or other suitable collateral within the capacity of the member country.

(d) When, in the judgment of the Fund, a member country, whose currency and securities held by the Fund exceed its quota, is exhausting its permissible quota more rapidly than is warranted, or is using its permissible quota in a manner that clearly has the effect of preventing or unduly delaying the establishment of a sound balance in its international accounts, the Fund may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Fund.

3. The Fund may sell foreign exchange to a member country, under conditions prescribed by the Fund, to facilitate a transfer of capital, or repayment or adjustment of foreign debts, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation, provided the Fund's holdings of the currency and securities of the member country do not exceed 150 percent of the quota of that country. When the Fund's holdings of the local currency and securities of a member country exceed 150 percent of the quota of that country, the Fund may, in exceptional circumstances, sell foreign exchange to the member country for the above purposes with the approval of three-fourths of the member votes. (Cf. v-2-a, above; on voting, vi-3-a, below.)

4. When the Fund's holdings of the currency and securities of a member country become excessively small in relation to prospective acquisitions and needs for that currency, the Fund shall render a report to that country. The report shall embody an analysis of the causes of the depletion of the Fund's holdings of that currency, a forecast of the prospective balance of payments in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The representative of the country in question shall be a member of the Fund committee appointed to draft the report. This report shall be sent to all member countries and, if deemed desirable, be made public. Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

5. Whenever it becomes evident to the Board of Directors that the anticipated demand for any particular currency may soon exhaust the Fund's holdings of that currency, the Fund shall inform the member countries of the probable supply of the currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand for and supply of that currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the foreign balances of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under appropriate conditions which are acceptable to both the Fund and the member country.

To facilitate appropriate adjustment in the balance of payments position of member countries, and to help correct the distortions in the pattern of trade balances, the Fund shall apportion its sales of such scarce currency. In such apportionment, it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

The right of any member country to acquire an amount of other currencies equal to its permissible quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is scarce.

6. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which the member country needs, one-half of the foreign exchange resources and gold it acquires in excess of its official holdings at the time it became a member of the Fund, but no country need sell gold or foreign exchange under this provision unless its official holdings (*i. e.*, Treasury, Central Bank, Stabilization Fund, *etc.*) are in excess of 25 percent of its quota. For the purpose of this provision, only free and liquid foreign exchange resources and gold shall be considered. The Fund may accept or reject the offer. (Cf. ii-3-a, v-2-a, and v-7.)

To help achieve this objective each member country agrees to discourage the excessive accumulation of foreign exchange resources and gold by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately held foreign exchange resources and gold appears unwarranted.

7. When the Fund's holdings of the local currency and securities of a member country exceed the quota of that country, the Fund shall, upon request of the member country, resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange. (Cf. v-14, for charges on holdings in excess of quota.)

8. To buy from the governments of member countries, blocked foreign balances held in other member countries, provided all the following conditions are met:

- (a) The blocked balances are held in member countries and are reported as such (for the purpose of this provision) by the member governments and are verified by the Fund.
- (b) The member country selling the blocked balances to the Fund agrees to transfer these balances to the Fund and to repurchase from the Fund 40 percent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.
- (c) The country in which the blocked balances are held agrees to transfer to the Fund the balances described in (b) above, and to repurchase from the Fund 40 percent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

- (d) A charge of 1 percent on the amount of blocked balances sold to the Fund, payable in gold, shall be levied against the country selling its blocked balances and against the country in which the balances are held. In addition a charge of not less than one percent, payable in gold, shall be levied annually against each country on the amount of such balances remaining to be purchased by it.
- (e) If the country selling blocked balances to the Fund asks for foreign exchange rather than local currency, the request will not be granted unless the country needs the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold, the accumulation of foreign balances, or other capital transactions.
- (f) Either country may, at its option, increase the amount it repurchases annually. But, in the case of the country selling blocked balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.
- (g) The Fund has the privilege of disposing of any of its holdings of blocked balances as free funds after the 23-year period is passed, or sooner under the following conditions:
  - (i) Its holdings of the free funds of the country in which the balances are held fall below 20 percent of its quota; or
  - (ii) The approval is obtained of the country in which the balances are held.
- (h) The country in which the blocked balances are held agrees not to impose any restrictions on the use of the installments of the 40 percent portion gradually repurchased by the country which sold the balances to the Fund.
- (i) The Fund agrees not to sell the blocked balances acquired under the above authority, except with the

permission or at the request of the country in which the balances are being held. The Fund may invest these balances in the ordinary or special government securities of that country. The Fund shall be free to sell such securities in any country under the provisions of v-11, below.

- (j) The Fund shall determine from time to time the maximum proportion of the blocked balances it will purchase under this provision.

*Provided, however,* that during the first 2 years of its operation, blocked balances purchased by the Fund shall not exceed in the aggregate 10 percent of the quotas of all member countries. At the end of 2 years of operation, the Fund shall propose a plan for the gradual further liquidation of blocked balances still outstanding indicating the proportion of the blocked balances which the Board considers the Fund can appropriately purchase.

Blocked balances acquired under this provision shall not be included either in computing the amount of foreign exchange available to member countries under their quotas (cf. v-2, 3), or in computing charges on balances of local currency in excess of the quotas (cf. v-14).

9. To buy and sell currencies of non-member countries but shall not acquire more than \$10 million of the currency of any one non-member country nor hold such currencies beyond 60 days after date of purchase except with the approval of the Board.

10. To borrow the currency of any member country provided the additional amount is needed by the Fund and provided the representative of that country approves.

11. To sell member-country obligations owned by the Fund provided that the representatives of the country issuing the securities and of the country in which the securities are to be sold approve, except that the approval of the representative of the issuing country shall not be necessary if the obligations are to be sold in its own market.

To use its holdings to obtain rediscounts or advances from the Central Bank of any country whose currency the Fund needs.

12. To invest any of its currency holdings in government securities of the country of that currency provided that the representative of the country approves.

13. To lend to any member country its local currency from the Fund for 1 year or less up to 75 percent of the currency of that country held by the Fund, provided the local currency holdings of the Fund are not reduced below 20 percent of the quota.

14. To make a service charge on all gold and exchange transactions.

To levy a charge uniform to all countries, at a rate not less than 1 percent per annum, payable in gold, against any country on the amount of its currency held by the Fund in excess of the quota of that country. An additional charge, payable in gold, shall be levied by the Fund against any member country on the Fund's holdings of its currency in excess of the permissible quota of that country.

In case the Fund finds it necessary to borrow currency to meet the demands of its members, an additional charge, payable in gold, shall be made by the Fund sufficient to cover the cost of the borrowing.

15. To levy upon member countries a *pro rata* share of the expenses of operating the Fund, payable in local currency, not to exceed one-tenth percent per annum of the quota of each country. The levy may be made only to the extent that the earnings of the Fund are inadequate to meet its current expenses.

16. The Fund shall deal only with or through:

- (a) The Treasuries, Stabilization Funds, or Central Banks acting as fiscal agents of member governments.
- (b) Any international banks owned predominantly by member governments.

The Fund may, nevertheless, with the approval of the representatives of the governments of the countries concerned, sell its own securities, or securities it holds, directly to the public or to institutions of member countries.

#### VI. Management

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of 5 years, subject to the pleasure of their government. Directors and alternates may be reappointed.

2. In all voting by the Board, the director or alternate of each member country shall be entitled to cast an agreed upon number of votes.

The distribution of *basic votes* shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of basic voting power would seem to be the following: Each country shall have 100 votes, plus 1 vote for the equivalent of each 100,000 units (\$1 million) of its quota.

No country shall be entitled to cast more than one-fifth of the aggregate basic votes, regardless of its quota.

3. All voting shall be according to basic votes except as follows:

- (a) In voting on proposals to authorize the sale of foreign exchange, each country shall cast a number of votes modified from its basic vote:
  - (i) By the addition of one vote for each \$2 million of net sales of its currency by the Fund (adjusted for its net transactions in gold), and
  - (ii) By the subtraction of one vote for each \$2 million of its net purchases of foreign exchange from the Fund (adjusted for its net transactions in gold).
- (b) In voting on proposals to suspend or restore membership, each member country shall cast one vote, as provided in VI-11, below.

4. All decisions, except where specifically provided otherwise, shall be made by a majority of the member votes.

5. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become an *ex officio* member of the Board and shall be chief of the operating staff of the Fund. The operating staff shall be selected in accordance with regulations established by the Board of Directors.

6. The Board of Directors shall appoint from among its members an Executive Committee of not less than 11 members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be an *ex officio* member of the Executive Committee.

The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

7. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not employed by the Fund.

8. The Board of Directors may at any meeting authorize any officers or committees of the Fund to exercise any specified powers of the Board not requiring more than a majority vote.

The Board may delegate any authority to the Executive Committee, provided that the delegation of powers requiring more than a majority of the member votes can be authorized only by a majority (of the Board) of the same size as specified, and can be exercised by the Executive Committee only by like majority.

Delegated powers shall be exercised only until the next meeting of the Board, and in a manner consistent with the general policies and practices of the Board.

9. The Board of Directors may establish procedural regulations governing the operations of the Fund. The officers and committees of the Fund shall be bound by such regulations.

10. The Board of Directors shall hold an annual meeting and such other meetings as it may be desirable to convene. The annual meeting shall be held in places designated by the Executive Committee, but not more than one annual meeting in any 5-year period shall be held within the same member country.

On request of member countries casting one-fourth of the votes, the Chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

11. A country failing to meet its obligations to the Fund may be suspended provided a majority of the member countries so decides. While under suspension, the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. At the end of 1 year the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member countries.

Any country may withdraw from the Fund by giving notice, and its withdrawal will take effect 1 year from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund.

A country which is dropped or which withdraws from the Fund shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum owed by that country to the Fund. Any losses of the

Fund may be deducted *pro rata* from the contributed quota to be returned to the country that has been dropped or has withdrawn from membership. Local currency holdings of the Fund in excess of the above shall be repurchased by that country with gold or foreign exchange acceptable to the Fund.

When any country is dropped or withdraws from membership, the rights of the Fund shall be fully safeguarded. The obligations of a country to the Fund shall become due at the time it is dropped or withdraws from membership; but the Fund shall have 5 years within which to liquidate its obligations to such country.

12. Net profits earned by the Fund shall be distributed in the following manner:

- (a) Fifty percent to reserves until the reserves are equal to 10 percent of the aggregate quotas of the Fund.
- (b) Fifty percent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in gold at the discretion of the Fund.

#### VII. Policies of Member Countries

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except as provided in IV-5, above.

Exchange rates of member countries may be permitted to fluctuate within the specified range fixed by the Fund.

2. Not to engage in exchange dealings with member or non-member countries that will undermine stability of exchange rates established by the Fund.

3. To abandon, as soon as the member country decides that conditions permit, all restrictions (other than those involving capital transfers) over foreign exchange trans-

actions with other member countries, and not to impose any additional restrictions (except upon capital transfers) without the approval of the Fund.

The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions over foreign exchange transactions, and each member country shall give consideration to such representations.

All member countries agree that all of the local currency holdings of the Fund shall be free from any restrictions as to their use. This provision does not apply to blocked foreign balances acquired by the Fund in accordance with the provisions of v-s, above.

4. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken, such as:

- (a) Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the export of capital except with the permission of the government of that country and the Fund;
- (b) To make available to the Fund or to the government of any member country such information as the Fund considers necessary on property in the form of deposits, securities and investments of the nationals of the member country imposing the restrictions.

5. Not to enter upon any new bilateral clearing arrangements, nor engage in multiple currency practices, which in the judgment of the Fund would retard the growth of world trade or the international flow of productive capital.

6. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy,

the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

7. To furnish the Fund with all information it needs for its operations and to furnish such reports as the Fund may require in the form and at the times requested by the Fund.

8. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund.

TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY

August 20, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended August 11, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

*C. H. B.*

FEDERAL RESERVE BANK  
OF NEW YORK

August 19, 1943.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended August 11, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke  
L. W. Knoke,  
Vice President.

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

Enclosure

COPY

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS  
(In Millions of Dollars)

Strictly  
Week Ended August 11, 1943. Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)									BANK OF FRANCE			
	D E B I T S				C R E D I T S					Net Incr. (+) or Decr. (-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expendi- tures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Transfers from Offi- cial Aus- tralian Account	Other Credits (c)				
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+ 125.9	18.5	4.4	- 14.1
1942													
Sept. 3 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	89.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
1943													
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	- 109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-
Apr. 1 - Apr. 28	37.0	16.3	-	20.7	87.4	-	-	15.1	72.3	+ 50.4	-	-	-
Apr. 29 - June 2	90.4	74.3	-	16.1	103.4	-	-	19.0	84.4	+ 13.0	-	-	-
June 3 - June 30	31.6	11.6	-	20.0	130.7	-	-	20.0	110.7	+ 99.1	-	-	-
July 1 - July 28	33.0	18.2	-	14.8	100.5	-	-	16.0	84.5	+ 67.5	-	-	-
WEEK ENDED:													
July 21	9.4	4.9	-	4.5	23.6	-	-	3.0	20.6	+ 14.2	-	-	-
28	9.3	5.1	-	4.2	28.4	-	-	-	28.4	+ 19.1	-	-	-
Aug. 4	8.5	5.2	-	3.4	14.0	-	-	1.0	13.0	+ 5.5	-	-	-
11	11.0	6.9	-	4.1	34.1(1)	-	-	10.0	24.1(1)	+ 23.1	-	-	-

Government Expenditures Since Outbreak of War  
 (including Expenditures since 1930) \$19.6 million  
 (including Expenditures since 1940) \$27.6 million  
 England (June 20, 1940 to March 12, 1941) \$54.9 million  
 England (since March 12, 1941) 21.6 million

See attached sheet for footnotes.

ANALYSIS OF CANADIAN AND AUSTRALIA ACCOUNTS  
(in millions of dollars)

Week Ended August 11, 1943.

Strictly  
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds	Total Debits	Transfers to Official British A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	
For Own A/C						For French A/C	For Own A/C								For French A/C	
First year of war (a) war period through December, 1940	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Second year of war (b)	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Third year of war (c)	460.4	-	460.4	462.0	216.2	3.4	123.9	85.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
1942	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.3	107.2	37.4	49.8	112.2	17.2	95.0	- 5.0
Sept. 7 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	- 0.4
Apr. 1 - Apr. 28	29.0	-	29.0	39.6	-	-	-	39.6	+ 10.6	16.4	15.1	6.3	19.3	-	19.3	+ 2.9
Apr. 29 - June 2	79.9	-	79.9	95.8	-	-	-	95.8	+ 15.9	21.8	19.0	2.8	20.1	-	20.1	- 1.7
June 3 - June 30	53.8	-	53.8	77.2	-	-	-	77.2	+ 23.4	20.0	20.0	-	27.3	-	27.3	+ 7.3
July 1 - July 28	102.1	-	102.1	61.8	-	-	-	61.8	- 40.3	19.2	16.0	3.2	12.5	-	12.5	- 6.7
<b>WEEK ENDED:</b>																
July 21	11.4	-	11.4	25.0	-	-	-	25.0	+ 13.6	3.0	3.0	-	0.1	-	0.1	- 2.9
28	6.5	-	6.5	9.3	-	-	-	9.3	+ 2.8	0.1	-	0.1	0.3	-	0.3	+ 0.2
Aug. 4	6.1	-	6.1	15.9	-	-	-	15.9	+ 9.8	2.3	1.0	1.3	10.5	-	10.5	+ 8.2
11	5.6	-	5.6	15.6	-	-	-	15.6	+ 10.0	10.3	10.0	0.3	0.4	-	0.4	- 9.9

Average Weekly Expenditures

First year of war 6.2 million.  
Second year of war 8.9 million.  
Third year of war 10.1 million.  
Through August 11, 1943) 9.2 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.  
(b) For monthly breakdown see tabulations prior to October 8, 1941.  
(c) For monthly breakdown see tabulations prior to October 17, 1942.  
(d) Reflects changes in all dollar holdings payable on demand or maturing in one year.  
(e) Does not reflect transactions in short U. S. securities.  
(f) Includes \$0.8 million received from N. Y. accounts of U. S. citizens, \$14.4 million received from N. Y. accounts of U. S. citizens, and \$13.8 million received from N. Y. accounts of U. S. citizens.

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Includes \$22.3 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: August 20, 1943, midnight

NO.: 1186

Reference is made to your cable of August 4, 1943, #1873, and Department's cable of July 26, 1943, #267.

This is a message for Mr. Adler from the Secretary of the Treasury.

1. If the 1941 Stabilization Agreement is not renewed in its present form or revised form, and your services will no longer be required on the Stabilization Board, you will go to India as soon as present discussions regarding the 1941 Agreement are finished and before resuming your new duties as Treasury representative.

2. If the 1941 Stabilization Agreement is renewed and you continue in your present position on the Stabilization Board, it is presumed here that the question of a vacation or a leave of absence is a matter for discussion between the Chinese and yourself. If, however, it is felt that you should take a vacation in the near future, the Treasury would appreciate your going to India for such vacation and your preparing a report on monetary conditions in India with particular reference to the gold and silver markets.

3. The Treasury Department would pay the expense of your trip to India.

4. More details regarding the proposed trip to India will have to await further developments in the present discussions regarding the 1941 agreement.

WELLES  
ACTING  
(PL)

## TELEGRAM SENT

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

August 20, 1943

Midnight

AMERICAN EMBASSY,  
CHUNGKING.

1158

Your 1355, August 2, 10 a.m.

FOR ADLER FROM THE SECRETARY OF THE TREASURY.

1. The import into the United States of U.S. dollar savings certificates issued by the Chinese Government is subject to the provisions of General Ruling No. 5. Release of such certificates and the payment thereof are subject to license under the Executive Order.

2. The import into the United States of dollar drafts issued in lieu of U.S. dollar savings certificates issued by the Chinese Government is not subject to the provisions of General Ruling No. 5 and such drafts may be freely imported unless for other reasons the import thereof is interrupted by censorship.

3. The Bank of China and other interested paying banks in New York have been notified informally that such  
drafts

-2- #1158, August 20, Midnight, to Chungking.

drafts may only be paid pursuant to specific license if they have reason to believe that the payee of such drafts or any endorser thereof is a blocked national or if they have reason to believe any blocked national has or has had an interest in such drafts since the effective date of the Order. Drafts not so restricted may be paid pursuant to existing General Licenses. The effect of this is to make freely negotiable those drafts drawn to the order of dependents or other individuals in this country but to subject to specific license payment of drafts drawn to the order of the purchaser in China.

4. Treasury's licensing policy would under ordinary circumstances be liberal in respect to permitting the payment of certificates or drafts drawn to the order of American soldiers in China presented for payment by their dependents in the United States or by the American soldiers themselves on their return to the United States.

5. American soldiers stationed in blocked countries are, for the purposes of the Executive Order, deemed to be blocked nationals. The operation of the bank accounts within the United States of such soldiers is authorized by General License No. 37.

FD:FL:JD FE RP

WELLES  
(Acting)  
(FL)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, Chungking  
TO: Secretary of State, Washington  
DATED: August 20, 1943, 11 a.m.  
NUMBER: 1520

CONFIDENTIAL

With reference to the Embassy's telegram of August 17, 1943 no. 1494 which was designated as OEW 35, we have been asked by Mr. Fowler to express an opinion with respect to this matter.

The exerting of pressure upon the Ministry of Finance to provide subsidies to the government agencies which handle the commodities is not favored by us. The view of OEW (please see the Department's wire of June 14, 1943 no. 752) to the effect that we should not be concerned with the interdepartmental financial arrangements of the Chinese Government has our concurrence.

The view of OEW, as understood by us, that an attempt should be made to arrange for the purchase of strategic materials for delivery at specified airfields at fixed prices in United States dollars independent of Chinese exchange fluctuations also has our concurrence. In as much as the Chinese Government presumably does not profit from our loss in exchange under the present arrangement, we are of the opinion that it is correct to say that the Chinese Government would suffer no actual financial loss if it accepted payment in United States dollars credited to its account in the United States.

It appears that the entire problem resolves itself into the question of how badly we require the materials or need to keep them from reaching the hands of the enemy, and consequently the question of how much we are willing to pay for them. If, as indicated in the Department's wire of August 12, 1943 no. 1092, we are in a position to establish a limit upon what we consider desirable to pay in terms of United States dollars and if we inform the Chinese that we will not pay more, it is likely that it would not be necessary to bring direct pressure to bear upon the Chinese Government for the purpose of causing the Chinese Government to make more or less suitable interdepartmental financial arrangements to insure the procurement, transportation, etc., of the materials in question. It is probable that the Chinese Government would feel it incumbent upon itself to take steps to avoid so much "loss of face on its part" through the cessation of the purchases (that is to say China would feel compelled to avoid appearing to the world as having failed to contribute its share in connection with the one aspect of the war effort in which China is capable of doing its part).

ATCHESON

Copy:bj:8-26-43

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: August 20, 1943, 3 p.m.

NO.: 1528

This is a confidential telegram TF 153 from Adler for ATC Treasury.

Dr. Kung having agreed to my taking a couple of weeks vacation in India, I am planning to leave Chungking August 27. Please refer to point three of your telegram 967 of July 26 and instruct me whether to take up the matters.

ATCHESON

TH

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTEL NO. 274

Information received up to 10 a.m., 20th August, 1943.

1. NAVAL

On 18th/19th, Motor torpedo boats attacked a German A/A ship and an armed trawler off the Dutch Coast. Both ships were damaged by gun fire and the former was possibly torpedoed.

2. AIR OPERATIONS

WESTERN FRONT. 19th. 94 escorted Fortresses, 71 Marauders and 12 Mitchells dropped 280 tons on airfields in Northern FRANCE and Low Countries with good results. 4 Fortresses and 8 fighters are missing and 1 Fortress crashed in the sea. Enemy fighter reaction was fairly strong and 42 of them were reported shot down.

19th/20th. Aircraft despatched: BERLIN - 8 (1 missing), Intruders - 26. An enemy minesweeper and an R-boat were destroyed off the French Coast and 2 other R-boats and a 400 ton ship were damaged.

TUNISIA. 17th/18th. About 200 enemy aircraft attacked the BIZERTA Area hitting 3 ships and the barracks. One ship sank. Beaufighters shot down 9 Raiders.

August 21, 1943  
10:02 am

Randolph  
Paul:

Yeah.

HM Jr:

Now before I say anything else, I would like to have a copy of a statement that either the President or Byrnes made during the last month - I think when they-they set up Crowley, as I remember it, and I think it was Byrnes came out and said that Hull was in complete charge of the foreign policy. You could go through the newspaper files, and that oughtn't be too difficult to find, you see?

P:

No.

HM Jr:

Hello?

P:

Yes, I've - I've got it written down. When they set up Crowley, Hull was immune or something like that?

HM Jr:

Hull was - yeah. I mean it was very definite, very clear cut, and we ought to be able to get that.

P:

Yeah.

HM Jr:

I think it was a thing that Harry White has, and I want him in on this thing. He isn't in yet, but if he is in town, I want him to sit in on this.

P:

You mean - you don't want him here - he isn't here now, you know?

HM Jr:

No, I know, but isn't he in town?

P:

Well, I imagine so. I saw him yesterday.

HM Jr:

Well, I mean I would like him consulted on this whole business.

P:

All right.

- 2 -

- HM Jr: Hull has written a letter to us and Herbert Lehman and all that, laying down - I think it is an exchange of letters between the President and Hull on these sub-agencies. White knows about it.
- P: Well, I think that's the letter which we discussed at the meeting where Byrnes turned Hull down. That's the letter from .....
- HM Jr: There is a previous one that goes back a couple of months.
- P: Oh, a couple of months ago?
- HM Jr: Well, the one that I want is where Hull was victorious.
- P: Oh, I see.
- HM Jr: I think - I think - maybe subsequently he got turned down. Well, if he did, we won't use it.
- P: Well, he did recently when he tried to take over the whole works on foreign economic policy.
- HM Jr: Now this is something that one of you could get from Gaston. Gaston carried the fight all last summer for me when they were trying to set up .....
- P: Yeah, I was in on a part of that. I know what you mean.
- HM Jr: Well, I wondered if Gaston could give me the high spots in writing. It was Gaston who went to the meeting when the President announced that the Executive Order setting up Byrnes last summer .....
- P: That's right, and Gaston made a very complete memorandum on that.
- HM Jr: ..... and at which the President definitely excluded the Treasury.
- P: That's right. Gaston has a memorandum on that made at the time.
- HM Jr: Good. Well, those - those were just the things that I have jotted down.

- 3 -

- P: Yeah.
- HM Jr: Now, as I say, I want the benefit of Bell's advice, Gaston's advice, and White, plus Paul and Sullivan.
- P: Bell, Gaston, White, and Sullivan.
- HM Jr: Yes. Because I see by the radio the President is addressing the Canadian Parliament on Wednesday, and so he can't be back here before Thursday, which gives me ample time.
- P: Yeah.
- HM Jr: And I would like to naturally guard this thing with all possible secrecy.
- P: Naturally.
- HM Jr: Now what ideas have you got?
- P: Well, I haven't got very many of them. I - Roy stopped at breakfast and read over this thing. I read it again last night. I think it is an awfully tough letter Byrnes has written - tough to answer. Of course, I wasn't in on the other one. I would have been more cautious in certain points and not introduced certain points, but I really am still - we are just starting to discuss it - I am still uncertain how the matter ought to be handled. I would - my off-hand, horseback approach at the moment - and I may change that as I think further about it - is not to attempt any detailed argumentative answer, but rather to say, "Well, the only thing we can do is see the President," because he said "When the President returns, I shall suggest to him that he ask you, Judge Vinson and me to discuss the matter." Well, you've got to accept that.
- HM Jr: Well, let me tell you what I have in mind.
- P: All right. I would like to get that because it will help me to have your thoughts.

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- HM Jr: My thought is simply this, and all this has got to be awfully confidential - I would simply answer Byrnes' letter saying that I would be very glad to go and see the President with him - the sooner the better. See? Hello?
- P: Yeah. I got it.
- HM Jr: And then I would say something - I don't know what the court procedure is, but I want to put in a sort of an objection - is that what you call it?
- P: Well, I don't know until I hear what it is?
- HM Jr: Well, I mean I want to object, for instance, to his saying - as I remember it - they read it to me just once - that he is responsible for the War Bond Drive.
- P: Oh, I see. You want a pleading in - objecting to that .....
- HM Jr: Well, there are a number of things there that I just want to say that - because he doesn't feel that I agree with him.
- P: Yeah.
- HM Jr: I don't want to go into any lengthy discussion though.
- P: I don't think you should.
- HM Jr: I may just want to simply say that I would be very glad to go to see the President, and then I have got to have the brief because this is going to be my position, see, and I don't think that anybody is going to be able to argue me out of it. I want the President to say publicly that I am in charge of fiscal policies for him - for this Government - see?
- P: Yeah.

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- HM Jr: I am willing, as we said in that Order which I wanted him to sign - I am willing to consult with Byrnes and with Vinson on tax policies, but we are responsible, and I am not going to have three bosses. The President is just going to have to make up his mind whether he wants to revise that Order for Byrnes or not, but I will not accept it now that Byrnes has laid it down, you see?
- P: Yeah.
- HM Jr: Byrnes says to me, "The Treasury is running along very efficiently, but if you're a bad boy I'll send you a directive." Well, I won't accept that, and the President has just got to either fish or cut bait.
- P: Well, I've got your thoughts there.
- HM Jr: It's going to be very hard to get me to change my attitude.
- P: Well, I don't - I'm not even trying to get you to change your attitude on that.
- HM Jr: No, but there are four, five people I want to consult with and I want them to know how I feel.
- P: Yeah.
- HM Jr: And this has been coming on - what I had thought was innocent little accidents possibly I think is a deliberate campaign, and I can't work or think under that kind of atmosphere. I can't exist in that kind of an atmosphere. I've never had it, and if the President wants to run the war that way, that's his privilege, but I don't have to be a part of it.
- P: Yeah.
- HM Jr: So if he set up Byrnes because OPA was such a mess - the President is supposed to have said that he didn't want to pass on the price of a case of canned peas. Well, that's all right, but the Treasury has been well run. Everybody says it has been well run.

- 6 -

P: Well, even Byrnes admits that.

HM Jr: So why should I have a totally inexperienced man like Byrnes, for instance, over me?

P: Yeah.

HM Jr: I mean totally inexperienced.

P: Well, I, I - of course, I'm not at any disagreement with you on the point of who should be running the show. The basic point - the only thing I have been thinking about is the tactical matter of the reply to this letter because I have to be frank with you in saying that I don't think that your letter of the 17th is the most fortunately composed letter that could have been written, but .....

HM Jr: Well, that's water over the dam.

P: It's water over the dam, but now - it's water over the dam in one sense, but in another sense one has to think how to make the best reply to Byrnes.

HM Jr: Well, it's ridic..... - you see the thing that Byrnes totally avoids is either changing his statement or saying something on the plus side to help me with my War Bonds.

P: Well, he takes - there you differ with him on a question of fact. He just claims that that won't affect .....

HM Jr: Well, the only thing .....

P: That's an issue of fact and nobody knows - he's probably wrong.

HM Jr: Well, I thought the public would be much more impressed by what he said.

P: Yeah, well, I don't believe they have been.

HM Jr: They haven't - I've been more impressed than anybody else.

P: Yeah.

HMJr: I was with Randolph Burgess and his crowd most of yesterday.

P: Yeah.

HMJr: They didn't even know that Byrnes had said it.

P: (Laughs) That was....

HMJr: They never - they didn't know what I....

P: I don't want to make a play out of words, but that would "burn Byrnes up". (Laughs)

HMJr: Well, that's a good play, and - and if he says anything to me that I was wrong, I'll say, "Sure, I was wrong - I thought the public would listen to you; they haven't paid any attention to you."

P: Yeah. Well, he got pretty good headlines, of course.

HMJr: I mean on my part.

P: Yeah.

HMJr: I....

P: Well, we'll - we'll - we'll go to work and do the best we can.

HMJr: That's all right.

P: Now, have you seen the - I wanted to call your attention to something else which I think will hurt the Byrnes - the war drive an awful lot more than what Byrnes says.

HMJr: Yeah.

P: Did you see this morning's Tribune?

HMJr: New York Tribune?

P: Yeah.

HMJr: No.

P: Well, I - I suggest you get a copy of it, and I'll tell you - it was in the Post, and I -

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P:(Cont'd) it's by Albright, so I assume it was in the Tribune.

HMJr: Yeah.

P: It's a story about a plan which is really a plan suggested to George some time ago by Alvord.

HMJr: Yeah.

P: George has apparently definitely put out a feeler now, and the essence of the plan is that - that - well, it's called "Induced Savings", and the essence of the plan is that - that people will get credit up to fifteen per cent of their income for bond purchases - I mean the deduction or credit for that. But they'll have to buy bonds in excess - perhaps double what they've been buying.

HMJr: Yeah.

P: Now, of course, on the merits strictly, it's just a plan for letting the wealthy escape taxes, and anybody who hasn't got the money has to - has to - doesn't get the credit because he can't buy the bonds, but apart from that, from the standpoint of the immediate effect on the war - on your drive in September....

HMJr: Yeah.

P: ....if anybody is smart at all, he's going to cut down his purchases now so as to have a lower base on which he has to double.

HMJr: Well, we could - I tell you Eugene Meyer is very, very keen on this war bond drive....

P: Yeah.

HMJr: ....and if Ted Gamble had this explained, he's got very good contact now directly with Meyer.

P: Well, I know Meyer myself very well....

HMJr: Yeah, well, I'd rather let Ted do it as long as it's on the war bonds....

P: Okay.

HMJr: ....and....

P: But it isn't - you see, it isn't only Meyer. It's - it's - it's Robert Albright and - that would bring in the New York Tribune, and I don't know where else that's syndicated.

HMJr: Yeah. Well, talk it over with Ted, will you?

P: I will.

HMJr: Now, anything else? I want to talk with Sullivan.

P: No. Well, he's right here. I'll put him on.

John  
Sullivan: Good morning, Mr. Secretary.

HMJr: Hello, John. Have you had a chance to look into this at all?

S: I - these stories - I saw the Post story and....

HMJr: I don't mean that. I mean the exchange of letters between Byrnes and me.

S: Mr. Paul showed me a copy of your letter and a photostat of the reply this morning right here in your office.

HMJr: Oh.

S: I - I think this is the situation we've faced ever since last January. I think....

HMJr: A little louder, John.

S: I think this is the same situation we faced last January. You recall that we agreed that sooner or later it would have to be determined who was Secretary of the Treasury....

HMJr: Yeah.

S: ....and I don't think the situation has changed - I think it's just been dormant. I - I agree with Mr. Paul's idea of the kind of letter that had been written with your suggestion that a caveat be put in there that nobody else except you was responsible for the sale of war bonds....

HMJr: Yeah.

S: ....and I think that....

HMJr: May I interrupt you?

S: No, I think that....

HMJr: Well, just a minute - I was going to say to him - well, if he is responsible, then why doesn't he get on board and help?

S: I get it. But I think there are one or two things that you might put in there. I think that specifically in that letter should be mentioned the fact that at the meeting when the President advised the various agencies of the tendency of this executive order, he specifically stated that the Treasury was exempt from that order.

HMJr: Well, that was the first order.

S: That's right.

HMJr: But he never said anything on the one setting up Byrnes - the second time.

S: No, but I think there's been a general assumption that that exemption continued, hasn't there?

HMJr: On my part.

S: Yes, and until this letter arrived, I don't think that Justice Byrnes ever said anything or wrote anything that indicated that you were subject to his supervision in the financing of the war.

HMJr: That's right.

S: And, if you want....

HMJr: I think that's - excuse me, John - I think that's where he went overboard. I think that's the part of the letter that was stupid.

S: Well, I think that's the part of the letter that enables you to draw a clear-cut issue, and have the President determine who's going to run this show.

HMJr: All that I said to Byrnes and that Byrnes said to me last year and what Paul said at some meeting - I think that that's all - all something

HMJr:  
(Cont'd)

of the past. But for Byrnes to say he's going to be responsible - is responsible for the war bond drive, gives me a very nice handle.

S: Well, I think it's unpleasant now to - to look at that statement, but I'm very sure that in the future, you'll be glad he made it, because the issue is raised in a manner that it cannot be avoided. In this conference with the President - now he says he's in charge of this - you assume that you are - and the President will have to answer that.

HMJr: That's right.

S: And, I - although it's disturbing this morning, I think I - I'm just as well pleased that he said it, because that gives you an opportunity to find out, and the sooner this uncertainty can be resolved and the more definitely it can be decided, the more comfortable you're going to be whichever way it's decided.

HMJr: And, if they can go out publicly and make it clear that Hull's responsible for foreign policy, they can do the same for me.

S: That's correct.

HMJr: And that's all I'm going to ask for. And any remarks - side remarks between the four of us isn't going to satisfy me. I mean I've got to get a public declaration now.

S: I should think so.

HMJr: Yeah. And anything lacking that, isn't going to satisfy me. Well, I'm very calm about it, and I'm glad - I'm glad he brought it to a head and he brought it to a head on the level which he did.

S: Well, you have a question of timing here, Mr. Secretary. It seems to me that on the eve of this Third War Loan campaign - on the eve of tax ceilings, the President is going to be very much - less reluc - more reluctant to tip over the boat than he might be if - if neither a bond campaign or a tax program were just over the horizon. I mean if there's any doubt in the President's mind how this question should be -

- 12 -

S:(Cont'd) should be decided ....

HMJr: Yeah.

S: .... the timing, I think, is entirely in your favor on both the war bond campaign count, and on the tax program count.

HMJr: Well, I'm glad that you all are so very calm about it, because I am - I mean, I'm not excited about it at all, and there's no venom - I mean I'm not going - I'm going to do this thing in a - you see, I've just got to make up my mind I want all of my facts - what I'm going to say, and then I'm going to stick to it, because I'm appearing before three very clever lawyers ....

S: That's right.

HMJr: .... and I'll just have to have all of my facts - that's what I want prepared - have it in my head, and then I'm just going to take a certain line and stick to it, and I'm not going to be able to - to divert from it, because as soon as I do, I'll get sunk if I start to argue with these people.

S: That's right.

HMJr: Well, okay.

S: Right.

HMJr: And, you're - you're going to be here Monday. When does Paul leave town?

S: (Aside: Randolph, when are you leaving?) He leaves tomorrow evening. (Aside: And when do you return?) He'll be back here Wednesday morning.

HMJr: Well, if Blough will bring up, for me, when he leaves tonight, a copy of the letter from Byrnes to me, see? Hello?

S: Yes.

HMJr: .... and anything else that he - that you could collect during the day - any ideas that anybody has.

S: Right.

- 13 -

HMJr: See?

S: Yes, sir. And ....

HMJr: And ...

S: Well, what you would want would be the memorandum of Herb's.

HMJr: Yeah - yeah. All right.

S: Yeah. Well, Randolph says he has that all down and he'll see that ....

HMJr: No, but I also want what they said about Hull publicly. I think Byrnes is the man who made it clear after they got out the Crowley directive.

S: Right.

HMJr: That would be helpful.

S: Randolph says that he has that and Roy will take it up to you.

HMJr: Okay.

S: Right.

HMJr: And if Mrs. Klotz will go back to my room, there are a couple of things that I need.

S: Back to your room or hers?

HMJr: Her room.

S: Okay. How's Mrs. Morgenthau?

HMJr: She's getting along. She was in to see the doctor, and got an excellent report.

S: Fine.

HMJr: Excellent report.

S: Fine.

HMJr: Thank you.

8/21/43

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The Secretary told Mr. Gamble on the phone this morning he wanted this wire delivered to the President at once. Mrs. Klotz talked to Mr. Abbott in the White House Telegraph Room, and he said he would send it on to the President if we would send it over to him. A Secret Service Agent delivered the message to Mr. Abbott.

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM	_____
BUREAU	_____
CHG. APPROPRIATION	<u>EXPENSES OF LOANS</u>

U. S. GOVERNMENT PRINTING OFFICE 10-1728

THE PRESIDENT  
THE WHITE HOUSE  
WASHINGTON, D. C.

AUGUST 21, 1943

MY DEAR MR. PRESIDENT:

THE MAGNITUDE OF THE 3RD WAR LOAN HAS SUGGESTED THE NECESSITY OF DOING A JOB WITH THE NATIONS PRESS THAT IS WITHOUT PRECEDENT. I HAVE COMPLETED ARRANGEMENTS TO BRING TOP WORKING NEWSPAPER MEN & WOMEN TO THE TREASURY FROM THE NATION'S LEADING DAILIES TO STAFF A MASTER CITY NEWS ROOM SO THAT WE CAN DO A REAL JOB WITH ALL THE WIRE SERVICES, FEATURE SERVICES AND SYNDICATES.

I HAVE MET WITH REPRESENTATIVES OF ALL MEDIA AND SERVICES AND BELIEVE WE CAN EXPECT GREAT RESULTS. I AM VERY ANXIOUS TO HAVE ALL RELEASES AND ARTICLES THAT ARE PREPARED AND FED FROM HERE CHECKED BY SOMEONE IN WHOM YOU AND I HAVE EXPLICIT CONFIDENCE PARTICULARLY AS I WILL BE IN THE FIELD PART OF THE TIME DURING THE DRIVE. I HAVE TALKED THIS OVER WITH JONATHAN DANIELS AND HE IS KEEN ABOUT THE IDEA AND IF IT IS CONVENIENT I WOULD LIKE VERY MUCH TO BORROW HIM UNTIL OCTOBER 1st TO WORK ON THIS PROJECT.

PLEASE ADVISE.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE  
August 21, 1943TO Secretary Morgenthau  
FROM Mr. Lynch

You expressed the opinion that option terms which have been given to private companies to acquire industrial plants constructed with Government funds during the war period, seem unduly favorable to the private companies.

Attached is a copy of a report on the subject recently submitted by the Attorney General to the President, at the latter's request. This report unqualifiedly supports your opinion.

The Attorney General in his report recommended that a Presidential Directive be issued that (a) no options or other preferential rights of any kind shall hereafter be granted in connection with such plants; and (b) no disposition of any such plant pursuant to option or other preferential right in any existing contract shall be made without the specific approval of the President.

I am informally advised that this proposed Directive is now before the Bureau of the Budget for consideration. The Bureau has invited the views of the four agencies primarily concerned, namely, the War and Navy Departments, the Maritime Commission, and RFC.

Also attached for your information is a confidential schedule by the War Production Board of war industrial facilities financed with public funds through April 30, 1943. This shows that Government commitments to finance industrial facilities for war production totalled \$15,394 million on April 30, 1943. I have not found available any figures showing the value of such Government facilities which are subject to options or other preferential rights given to private companies. As the Attorney General points out in his report, however, it is apparent that a substantial portion of these plants are covered by such option rights.

- 2 -

You will note that the Attorney General concludes:

1. That he questions whether the options are legal;
2. The price terms of the options seem unduly favorable to the private companies, with the companies in a position to share all the benefits of an inflation and the Government bearing the entire risk of decline in values; and
3. In point of policy the options are undesirable because entirely one-sided, imposing restrictions upon the freedom of the Government to plan and select its policies in the post-war period and denying it the right to give all free and independent industrial enterprises a fair and equal chance to bid for or use the facilities.

*Shepherd*

OFFICE OF  
THE ASSISTANT TO THE  
ATTORNEY GENERAL



August 21, 1943

Dear Tom:

In accordance with your request I send you herewith for the confidential use of the Secretary a copy of the Attorney General's report on the plant options. It is unnecessary to return this copy.

With best wishes.

Yours faithfully,

A handwritten signature in cursive script, appearing to read "Herbert Wechsler".

Herbert Wechsler

Thomas J. Lynch, Esquire  
Assistant General Counsel  
Treasury Department  
Washington, D. C.

CONFIDENTIAL

MGB:OSC:mer

typed 5/22/45

MEMORANDUM FOR THE PRESIDENT

Subject: Options to Acquire Government Financed  
War Plants.

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You requested me to give you a report about options which have been given to private companies to acquire industrial plants constructed with Government funds during the present emergency.

I submit the following report and recommendations:

## I

Dollar Amount of Government Financed Plants

As of January 31, 1945, the estimated cost of approved Government financed industrial expansions was between fourteen and fifteen billion dollars. These plants and facilities have been or are being constructed for the most part with funds of the War and Navy Departments, the Maritime Commission and the Defense Plant Corporation. Such plants and facilities are owned by the United States either directly or through Defense Plant Corporation.

## II

Types of Options

The precise extent to which option rights have been conferred upon private companies can be ascertained only by a detailed examination of

each of the thousands of contracts involved. It is apparent, however, from a preliminary review of the subject that option rights of various types have been granted in many instances. The provisions of the option clauses vary considerably. But in the main they are of three types:

- (1) An option to purchase the facilities at the cost to the Government, less depreciation at a rate specified in the contract. It is frequently provided that the private company may negotiate for a lesser price.
- (2) An option to purchase the facilities at their value at time of purchase as determined by an appraisal made by the Government agency. This option may also be accompanied by a clause providing that the private company may negotiate for a lesser price.
- (3) An option to purchase (and sometimes to lease) the facilities on the same terms as those at which the Government proposes to sell (or lease) to a third party. This option right may be in addition to one of the other option rights above mentioned.

The option rights come into existence upon the happening of specified conditions, such as that the facilities are no longer needed for national defense purposes or for supplying to the Government products required by it. The period of time during which the option rights continue to exist is, in some contracts, a matter of several months or less, and, in others, a matter of years.

### III

#### Validity of the Options

There is some question in my mind whether the options are legal and valid. The legal questions are no doubt of secondary importance to the policy matters suggested below. However, if something is not done about the options before the war is over, they might well lead to protracted and costly litigation in the post-war period.

IV

The Price Terms and Effects of the Options

The price terms of the options seem unduly favorable to the private companies. An option to purchase at cost less depreciation would result in a windfall to the companies in the event values are inflated in the post-war period. Under such an arrangement, the Government bears the entire risk of decline in values. At the same time, it grants to the private companies all the benefits of an inflation.

An option to buy at the best price obtainable from a third party would appear superficially to introduce an element of competitive bidding. It is questionable whether any companies will be interested in submitting a bid if the property is to be sold to the highest responsible bidder only in case the particular company having the preferential right declines not to buy it. Moreover, it will probably be found that many companies which would normally be interested in bidding for a particular plant have themselves obtained preferential rights for other plants. It seems to me that such companies would not be disposed to bid against one another. The third type of provision—sale at an appraised value—is far less objectionable than the other methods, if the appraisal is carefully conducted so as to reflect the actual value at the time of sale. In the case of many plants, however, it will be difficult, or it will take a long time, to make an accurate appraisal. I do not believe that this method compares in fairness and efficiency with the usual method of disposition on the basis of some form of competitive bids.

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V

Policy Questions

Of first importance from the point of view of policy is the fact that the option provisions impose restrictions upon the freedom of the Government to plan and select its policies for the use and disposition of the facilities in the period following the war. They certainly do not make it easily possible for the Government to give all free and independent industrial enterprises a fair and equal chance to bid for or use the facilities. The option provisions leave the particular private company free to buy or not as it sees fit. The Government, on the other hand, without having any binding right to compel the particular private company to purchase the facilities, is restricted in its power to dispose of them to others for the duration of the option period. To the extent that the Government has thus restricted its freedom of disposition, it has also impaired its freedom to select policies for the post-war use and disposition of the facilities. The Government should be free to use these facilities as a means of enabling newcomers to enter established fields of industry and of preventing a few companies from securing control of the industrial fields that are being created as a part of the war effort or that may be created in the post-war period as a part of the conversion to peacetime activity.

VI

Recommendations

It is, therefore, recommended that a Presidential directive be issued declaring that the policy of the Government is opposed to the

- 5 -

granting to private companies or individuals of options or other preferential rights to acquire or lease plants or facilities owned by the United States either directly or through Defense Plant Corporation or any other Government corporation, and directing that:

- (1) No options or other preferential rights of any kind shall hereafter be granted; and
- (2) No disposition of any such plant or facility pursuant to an option or other preferential right in any existing contract shall be made without your specific approval.

A draft of a directive embodying these points is attached.

Do you wish me to look into and recommend possible procedures for eliminating options or other preferential rights from existing contracts?

Respectfully,

(Signed) *Thomas B. Egan*

Attorney General.

DRAFT

DirectiveRelating to the Disposition of Government-Owned  
Plants and Facilities.

To the Secretary of War, the Secretary of the Navy, the Secretary of Commerce, the Secretary of Agriculture, and the Chairman, United States Maritime Commission.

The policy of the Government is opposed to the granting to private companies or individuals of options or other preferential rights to acquire or lease plants or facilities owned by the United States either directly or through Defense Plant Corporation or other Government corporation.

Accordingly, you are directed that:

- (1) No options or other preferential rights of any kind to acquire or lease such plants or facilities shall hereafter be granted.
- (2) No disposition of any such plant or facility pursuant to an option or other preferential right in any existing contract shall be made without my specific approval.

THE WHITE HOUSE,

, 1943.

WAR PRODUCTION BOARD  
WASHINGTON, D. C.

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WAR INDUSTRIAL FACILITIES FINANCED WITH PUBLIC FUNDS  
THROUGH APRIL 30, 1943

GOVERNMENT COMMITMENTS TO FINANCE INDUSTRIAL FACILITIES FOR WAR PRODUCTION TOTALLED \$15,394 MILLION ON APRIL 30, 1943, A NET INCREASE OF \$254 MILLION OVER THE TOTAL FOR MARCH 31, 1943. NEW EXPANSIONS TOTALLED \$197 MILLION, EXPANSIONS UNDER COMMITMENT WERE INCREASED BY \$140 MILLION, AND CANCELLATIONS AND REDUCTIONS AMOUNTED TO \$83 MILLION.

ELEVEN OF THE FOURTEEN PRODUCT CLASSIFICATIONS SHOWED INCREASES IN COMMITMENTS DURING THE MONTH. THE LARGEST INCREASE, BOTH ACTUAL AND RELATIVE, WAS REPORTED IN THE SHIP CONSTRUCTION AND REPAIR GROUP WITH \$135 MILLION, THE BULK OF THIS SUM HAVING BEEN COMMITTED FOR NEW AND AUGMENTED DRYDOCK FACILITIES FOR SHIP REPAIR. THE NON-FERROUS METALS GROUP REGISTERED A GAIN OF \$45 MILLION, \$35 MILLION OF WHICH WAS COMMITTED FOR SEVEN NEW FACILITIES IN CONNECTION WITH ALUMINUM PRODUCTION. THE MAJOR PORTION OF THE \$39 MILLION GAIN IN THE AIRCRAFT GROUP REGISTERED INCREASES IN AMOUNTS PREVIOUSLY COMMITTED FOR AIRCRAFT FACILITIES; HOWEVER, TWO NEW AIRCRAFT MODIFICATION CENTERS, ESTIMATED TO COST \$10 MILLION, WERE REPORTED DURING THE MONTH. THE INCREASE IN THE NON-MANUFACTURING GROUP REFLECTS AN ADDITIONAL COMMITMENT OF \$31 MILLION FOR CONSTRUCTION OF AN OIL PIPELINE FROM TEXAS TO ILLINOIS AND INDIANA. THE DECREASE IN THE IRON AND STEEL PRODUCTS CLASSIFICATION WAS DUE TO THE CANCELLATION OF FIVE PROJECTS, ESTIMATED TO COST \$47 MILLION, WHICH HAD BEEN DEFERRED FOR SEVERAL MONTHS; APPRECIABLE INCREASES IN THE COST OF OTHER FACILITIES IN THIS GROUP WERE REPORTED IN THE AMOUNT OF \$21 MILLION WHICH PARTIALLY OFFSET THE LARGE DECREASE CAUSED BY THE CANCELLATIONS.

THE NAVY DEPARTMENT FINANCED \$148 MILLION, OR 58 PER CENT OF THE NEW AND INCREASED COMMITMENTS DURING APRIL, PRINCIPALLY FOR DRYDOCK FACILITIES. THE DEFENSE PLANT CORPORATION'S SHARE OF THE NET INCREASE REGISTERED THIS MONTH WAS \$53 MILLION, OR 21 PER CENT OF THE TOTAL; THIS GAIN REFLECTS THE INCREASES IN AMOUNTS COMMITTED FOR AIRCRAFT FACILITIES, NON-FERROUS METALS PROJECTS, AND CONSTRUCTION OF THE OIL PIPELINE REFERRED TO ABOVE. OF THE \$32 MILLION GAIN REPORTED IN THE WAR DEPARTMENT'S COMMITMENTS, \$14 MILLION REPRESENTS INCREASED COSTS OF ORDNANCE PLANTS; \$10 MILLION, COMMITMENTS FOR TWO NEW AIRCRAFT MODIFICATION CENTERS; AND \$6 MILLION, INCREASES IN AMOUNTS PREVIOUSLY COMMITTED FOR AIRCRAFT FACILITIES. THE INCREASE IN THE RECONSTRUCTION FINANCE CORPORATION'S COMMITMENTS REFLECTS A LOAN OF \$17 MILLION FOR EXTENSION OF A STEEL PLANT.

A LIST OF NEW EXPANSIONS REPORTED DURING THE MONTH OF APRIL 15 ATTACHED.

WAR PRODUCTION BOARD, STATISTICS DIVISION  
INDUSTRY AND FACILITIES BRANCH, JUNE 25, 1943



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TABLE I

WAR INDUSTRIAL FACILITIES FINANCED WITH PUBLIC FUNDS <sup>a/</sup>  
 ESTIMATED COST, BY FINANCING AGENCY AND BY TYPE OF PRODUCT  
 AS OF APRIL 30, 1943  
 (THOUSANDS OF DOLLARS)

FINANCING AGENCY AND TYPE OF PRODUCT	THROUGH APRIL 30, 1943	THROUGH MARCH 31, 1943	INCREASE IN APRIL 1943
<u>FINANCING AGENCY</u>			
<u>TOTAL</u>	<u>\$15,394,297 a/</u>	<u>\$15,139,822 c/</u>	<u>\$254,475</u>
WAR DEPARTMENT	5,379,618	5,347,737	31,881
NAVY DEPARTMENT	2,460,806	2,312,894	147,912
DEFENSE PLANT CORPORATION	6,713,624	6,660,167	53,457
RECONSTRUCTION FINANCE CORPORATION	224,212	207,644	16,568
MARITIME COMMISSION	448,552	443,895	4,657
UNITED KINGDOM	167,485	167,485	-
<u>TYPE OF PRODUCT</u>			
<u>TOTAL</u>	<u>\$15,394,297 a/</u>	<u>\$15,139,822 c/</u>	<u>\$254,475</u>
AIRCRAFT, AIRCRAFT ENGINES, PARTS AND ACCESSORIES	3,123,537	3,084,782	38,755
SHIP CONSTRUCTION AND REPAIR	2,126,816	1,991,487	135,329
COMBAT TRANSPORTATION AND OTHER MOTOR VEHICLES	424,950	424,950	-
GUNS	800,371	803,457	-3,086
AMMUNITION, SHELLS, BOMBS, ETC.	1,067,907	1,066,250	1,657
EXPLOSIVES, AMMUNITION LOADING AND ASSEMBLING	2,873,879	2,856,357	17,522
IRON AND STEEL PRODUCTS	1,235,078	1,261,238	-26,160
NON-FERROUS METALS AND THEIR PRODUCTS	1,170,803	1,126,270	44,533
MACHINE TOOLS AND OTHER METAL WORKING EQUIPMENT	154,491	153,183	1,308
MACHINERY AND ELECTRICAL EQUIPMENT	466,756	462,142	4,614
CHEMICALS	1,109,975	1,105,564	4,411
PETROLEUM AND COAL PRODUCTS	198,193	198,187	6
MISCELLANEOUS MANUFACTURING	267,296	264,363	2,933
NON-MANUFACTURING (POWER LINES, MINING, ETC.)	374,245	341,592	32,653

a/ EXCLUDES COMMITMENTS FOR PURCHASE OF MACHINE TOOLS BY THE WAR DEPARTMENT, NAVY DEPARTMENT, AND THE DEFENSE PLANT CORPORATION AS FOLLOWS.

THROUGH MARCH 31, 1943 - \$2,317 MILLION.

THROUGH APRIL 30, 1943 - \$2,368 MILLION.

ALSO EXCLUDES RECONSTRUCTION FINANCE CORPORATION LOANS (CONTRACTS) FOR PILOT TRAINING AND WORKING CAPITAL; AND FACILITIES ESTIMATED TO COST LESS THAN \$25,000.

b/ INCLUDES 34 PROJECTS ESTIMATED TO COST \$129,205 THOUSAND WHICH HAVE BEEN DEFERRED.

c/ INCLUDES 42 PROJECTS ESTIMATED TO COST \$180,508 THOUSAND WHICH HAVE BEEN DEFERRED.

WAR PRODUCTION BOARD, STATISTICS DIVISION  
 INDUSTRY AND FACILITIES BRANCH, JUNE 25, 1943

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Regraded Unclassified

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TABLE II  
WAR INDUSTRIAL FACILITIES FINANCED WITH PUBLIC FUNDS<sup>A/</sup>  
NUMBER OF PLANTS AND ESTIMATED COST, BY STATES  
(THOUSANDS OF DOLLARS)

	THROUGH APRIL 30, 1943		THROUGH MARCH 31, 1943		INCREASE IN APRIL 1943	
	No.	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
<b>TOTAL</b>	<b>2,357</b>	<b>\$15,394,297<sup>B/</sup></b>	<b>\$15,139,822<sup>C/</sup></b>	<b>\$254,475</b>		
ALABAMA	23	385,101	384,820		281	
ARIZONA	8	97,211	97,211		-	
ARKANSAS	10	232,766	228,266		4,500	
CALIFORNIA	139	748,653	710,537		38,116	
COLORADO	14	139,485	137,395		2,090	
CONNECTICUT	69	211,160	211,282		-122	
DELAWARE	8	22,168	22,177		-9	
DISTRICT OF COLUMBIA	3	21,525	20,505		1,020	
FLORIDA	19	57,267	56,979		288	
GEORGIA	13	101,684	101,138		546	
IDAHO	1	16,456	16,239		217	
ILLINOIS	188	1,141,860	1,130,166		11,694	
INDIANA	93	843,748	883,933		-40,185	
IOWA	30	157,412	155,584		1,828	
KANSAS	13	314,036	307,711		6,325	
KENTUCKY	39	213,616	212,598		1,018	
LOUISIANA	27	333,354	327,156		6,198	
MAINE	8	34,334	34,855		-521	
MARYLAND	38	204,598	200,689		3,909	
MASSACHUSETTS	93	301,653	302,216		-563	
MICHIGAN	218	1,030,982	1,034,868		-3,886	
MINNESOTA	27	287,143	286,499		644	
MISSISSIPPI	4	46,705	46,409		296	
MISSOURI	41	505,586	505,668		-82	
MONTANA	2	12,182	12,182		-	
NEBRASKA	9	92,191	92,027		164	
NEVADA	5	135,849	133,449		2,400	
NEW HAMPSHIRE	7	30,376	30,140		236	
NEW JERSEY	118	463,993	458,053		5,940	
NEW MEXICO	2	2,845	2,845		-	
NEW YORK	216	987,651	961,150		26,501	
NORTH CAROLINA	10	44,507	44,507		-	
NORTH DAKOTA	-	-	-		-	
OHIO	255	1,158,129	1,150,805		7,324	
OKLAHOMA	18	206,732	196,687		10,045	
OREGON	17	75,345	75,097		248	
PENNSYLVANIA	221	1,135,918	1,121,925		13,993	
RHODE ISLAND	16	67,743	67,704		39	
SOUTH CAROLINA	6	42,092	42,043		49	
SOUTH DAKOTA	1	150	150		-	
TENNESSEE	30	264,672	264,090		582	
TEXAS	89	866,370	864,424		1,946	
UTAH	14	221,086	221,061		25	
VERMONT	5	3,966	3,947		19	
VIRGINIA	14	207,986	207,225		761	
WASHINGTON	40	274,629	273,073		1,556	
WEST VIRGINIA	23	264,431	264,347		84	
WISCONSIN	71	386,337	386,057		280	
WYOMING	3	6,857	6,790		67	
OFF CONTINENT	19	130,339	120,151		10,188	
UNASSIGNABLE	20	863,418	724,992		138,426	

<sup>A/</sup> EXCLUDES COMMITMENTS FOR PURCHASE OF MACHINE TOOLS BY THE WAR DEPARTMENT, NAVY DEPARTMENT AND THE DEFENSE PLANT CORPORATION; FACILITIES ESTIMATED TO COST LESS THAN \$25 THOUSAND, AND RECONSTRUCTION FINANCE CORPORATION LOANS FOR PILOT TRAINING AND WORKING CAPITAL. INCLUDES UNITED KINGDOM CONTRACTS TOTALING \$167,485 THOUSAND.

<sup>B/</sup> INCLUDES 34 PROJECTS ESTIMATED TO COST \$129,205 THOUSAND WHICH HAVE BEEN DEFERRED.

<sup>C/</sup> INCLUDES 42 PROJECTS ESTIMATED TO COST \$180,508 THOUSAND WHICH HAVE BEEN DEFERRED.

WAR PRODUCTION BOARD, STATISTICS DIVISION  
INDUSTRY AND FACILITIES BRANCH, JUNE 25, 1943

**CONFIDENTIAL**  
Disclosure Punishable Under Espionage Act

# TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

Secretary Morgenthau  
Randolph Paul

AUG 21 1943

You will recall that a year ago we faced the extremely difficult problem of whether we should permit the American Jewish Joint Distribution Committee to take certain steps to provide for the continuance of its relief operations in the Shanghai area. Prior to the declaration of war by the United States there were approximately 3,000 refugees in Shanghai who were receiving food, housing and medical aid from the Joint Distribution Committee, which was financed by remittances of approximately \$30,000 monthly to the J.D.C. representative in Shanghai.

As a safeguard against the possibility of communications being cut off by our entry into the war, the J.D.C. had authorized its representative in Shanghai to borrow locally, for a period of six months after such an event, an amount equivalent to the rate of budgetary expenditures for the month in which the break of relations occurred. Through this prearrangement Miss Laura Margolis, J.D.C. representative in Shanghai, was able to borrow locally the sum of \$180,000, which maintained J.D.C. relief operations in that area through May, 1943. Since that time, however, Miss Margolis has had no borrowing authority and the relief program could no longer be continued. At this point, you will recall, the Joint Distribution Committee approached State and Treasury for permission to permit to Miss Margolis, in enemy occupied territory, an extension of her borrowing authority.

The entire problem was explored thoroughly in Treasury, and was discussed on numerous occasions with people in State. The joint conclusion was finally reached that to permit the transmittal of the communication in question would be inconsistent with rigid policies being maintained both by Treasury and State in such matters. Accordingly, and most reluctantly, the requested authorization was denied.

Leavitt of the Joint Distribution Committee was in to see Pehle yesterday and asked that we reconsider our decision in this matter.

We have reached the conclusion, subject to your concurrence, that Treasury is now in a position to reverse its decision in this matter. Such action can be justified in part by the vastly changed war outlook in the year that has elapsed, as a result of which both the American and British authorities have made a variety of concessions with respect to relief operations in territory occupied by the enemy. Present trends suggest further concessions in that direction so long as it appears that such operations bring no material benefit to the enemy. In the case at point, which involves simply an authorization permitting borrowing in local exchange in Shanghai against a guaranty of repayment by J.D.C. after the war, there is little likelihood of any significant benefit accruing to the enemy. Furthermore, this Government's policy towards communications with Chinese territory occupied by the enemy has not in practice been as severe as with respect to other enemy territory, provided such communications were channelled through Chungking where they could be screened by the Chinese authorities.

Accordingly, unless you have some objection, Foreign Funds Control is prepared to authorize the Joint Distribution Committee to send an inquiry to Miss Margolis in Shanghai to determine whether she could utilize an authorization to borrow locally the equivalent of \$40,000 monthly to carry forward J.D.C. relief operations in that area for the next six months. It is suggested that as the best means of transmittal we cable Adler the text of the J.D.C. message and ask that he secure the assistance of the Chinese Government in the delivery of the message, if the Chinese Government agrees. If an affirmative reply is received through Adler we should then be in a position to permit the J.D.C. to cable Miss Margolis the necessary borrowing authority.

Approved: *H.M. Nathan Jr.*

*August 26, 1943.*

August 21, 1943

Dear Mr. Poyser:

For the Secretary, I am acknowledging your letter of August 17, which encloses a copy of the WFB report upon the progress of the Third Soviet Protocol.

This material will be brought to Mr. Morgenthau's attention immediately upon his return to the office the first of next week.

With thanks for your courtesy in sending this,

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Mr. E. A. Poyser  
Director, Foreign Division  
War Production Board  
Washington, D. C.

GEF:mn

WAR PRODUCTION BOARD  
WASHINGTON, D. C.

IN REPLY REFER TO:

August 17, 1943

Mr. Henry Morgenthau  
Room 280  
Treasury Department  
Washington, D. C.

Dear Mr. Morgenthau:

I am enclosing a copy of the WPB report to the President upon the progress of the Third Soviet Protocol. This report covers the first month and also contains an explanation of the transition from the second to the third Protocol period.

Sincerely yours,



E. A. Peyser  
Director, Foreign Division

Enclosure



STATUS OF MATERIALS AND EQUIPMENT PRODUCTION PROGRAMS  
UNDER THE THIRD RUSSIAN PROTOCOL  
AS OF AUGUST 1, 1943

## WAR PRODUCTION BOARD

WASHINGTON, D. C.

August 16, 1943

IN REPLY REFER TO

My dear Mr. President:

Attached hereto is a tabulation showing progress made during July toward fulfillment of materials and equipment production programs for the Union of Soviet Socialist Republics under the Third Russian Protocol.

This new, Third Protocol program was worked out by the War Production Board and other interested agencies with great care. Every effort was made to make it realistic. Offerings were kept within the approximate compass of reasonable shipping expectations, and provision was made for quick cutbacks in production schedules in case shipping should fall below anticipated levels.

At the same time, production conditions in this country were given careful attention. Where formerly commitments were made in terms of broad categories without regard to the possibility that orders within these categories would be restricted to a few tight industries, the new offers were made as specific as possible. The various Industry Divisions of the War Production Board surveyed schedules of particular industries and recommended programs which could actually be fitted into production lines.

Because of precautions such as these, it is felt that the Third Protocol will cause less difficulty than previous programs.

Nevertheless, the program is an ambitious one. In the case of raw materials, a smaller tonnage is provided than under the Second Protocol, but there is a greater preponderance of items in short supply and items which offer fabrication problems. In the case of industrial and related equipment, far more of practically every type item is included than was promised, or supplied, under the first two Protocols combined.

In order that more complete details incident to the new program may be brought to your attention, I am attaching a review of the broader aspects of the various offerings included.

Respectfully yours,

/s/

Donald M. Nelson

The President  
The White House  
Washington, D.C.

Attachments



**SECRET**  
Disclosure Punishable Under Espionage Act

MATERIALS AND EQUIPMENT PROGRAM UNDER THE  
THIRD RUSSIAN PROTOCOL

I. RAW MATERIALS

From the general standpoint, the Third Protocol raw materials program requested by the USSR followed closely the lines of the Second Protocol program.

From the standpoint of quantities requested, however, the program submitted, unlike the Second Protocol, reflected limitations on shipping facilities. While the tonnages of non-ferrous metals and chemicals were somewhat increased, the tonnage of steel was drastically cut, and a number of items included in the Second Protocol were omitted. As a result, the net tonnage of the raw materials requested under the Third Protocol totaled approximately 1,000,000 S.T. less than the net tonnage requested under the Second Protocol, and approximately 500,000 S.T. less than was offered under the Second Protocol.

Despite this, however, it appeared that the requested Third Protocol program, if considered as a new production program, was still excessive when viewed against the background of accumulated stocks and shipping potentialities. Particularly was this true for steel where stocks equal to more than a year's shipping requirements, at the past rate of shipments, were on hand. For this reason, a new production tonnage somewhat under the requested tonnage was recommended by the War Production Board and accepted by the President's Soviet Protocol Committee. Moreover, fulfillment of the program was made conditional upon Third Protocol stocks being kept at a reasonable level. The War Production Board insisted that in the Protocol agreement offered Soviet representatives it be specifically stated that the US reserved the right to limit the size of stockpiles through curtailment of production where in its judgment such stockpiles seemed excessive.

**SECRET**  
Disclosures Prohibited Under Espionage Act

A general view of the raw materials program may be seen in the following table:

(Thousand Short Tons)

ITEM	2nd Prot.		3rd Prot.		
	2nd Prot. Request	2nd Prot. Prod.Prog.	Dels. in U.S.A.	3rd Prot. Prod.Prog. Offered	
Non-ferrous Metals	219	203	226	237	187 <sup>1/2</sup>
Ferro-Alloys	22	15	8	22	15
Cable <sup>2/</sup>	72	112	77	128	111
Steel	2,003	1,443	798	850	710
Chemicals	82	119	137	204	202
Other Raw Materials	45	77	54	44	43
<b>TOTAL RAW MATERIALS</b>	<b>2,443</b>	<b>1,969</b>	<b>1,300</b>	<b>1,455</b>	<b>1,268</b>

- <sup>1/</sup> This does not include 500 S.T. of nickel contained in monel scrap.  
<sup>2/</sup> Tonnage figures given are gross weight of cable, not copper content.

#### A. NON-FERROUS METALS

Little emphasis was placed on the danger of large stocks accumulating in the case of non-ferrous metals, however. During the Second Protocol period, non-ferrous items, excepting some copper products, were picked up for overseas shipment as quickly as they reached port. Further, supply of several of the items in question (e.g., nickel, molybdenum, zinc, etc.) would help the USSR to produce itself some of the products which it needed (e.g., alloy steel, cartridge brass, etc.) but which it could not import because of shipping limitations. It was felt, therefore, that, except where the domestic supply situation made it impossible, non-ferrous requests should be met in full.

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#### 1. ALUMINUM

A total of 80,540 S.T. of aluminum ingots and fabricated aluminum combined was requested by the USSR. This compared with 36,690 S.T. offered and 47,886 S.T. actually delivered during the Second Protocol period.

At the time that the request came in, it appeared impossible for this amount to be promised. Forward supply-requirements estimates indicated that during at least the first half of the Protocol period, the US would be faced with a serious deficit. The aluminum offer was consequently limited to 53,760 S.T.

After submission of the Third Protocol offer, however, the War Production Board continued to study the aluminum situation from the standpoint of whether larger shipments might not be made. Recently, the conclusion was reached that during the first half of the Protocol period deliveries at the rate originally requested by the USSR (i.e. 6,720 S.T. per month, or 40,320 S.T. for the half year) could be arranged. It was not felt possible at that time to promise more than offered in the Protocol (i.e., 4,480 S.T. per month, or 26,880 for the half year) during the last half of the period, but officials of the War Production Board agreed to make every effort to continue shipments after January 1 at as high a rate as possible.

It should be noted that of the aluminum to be supplied under the Third Protocol, 18,000 S.T. are to be shipped from Canada as a part of its "Mutual Aid Program". This amount is not to be taken from supplies set aside for Canadian use, however. It is to be deducted from shipments earmarked for the US.

Aluminum to be supplied the USSR was not broken down by types and shapes. It was felt that the common interest could be best served if a detailed program were worked out from quarter to quarter in light of changing Soviet needs and developments in the domestic supply situation.

#### 2. MAGNESIUM

The USSR requested 336 S.T. of magnesium metal per month (4,032 S.T. for the Third Protocol period), the monthly amount supplied during the latter part of the Second Protocol period.

The USSR had repeatedly requested shipments at this rate since the beginning of Lend-Lease aid to Russia (i.e., in both the First and

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Second Protocols). Until February, 1943, however, the domestic supply-requirements situation was such as to prevent any being made available.

It was felt that magnesium was sufficiently easy to make possible granting the Third Protocol request without difficulty. For the third quarter, 1943 (the first quarter of the Third Protocol period), it was estimated that production would exceed requirements, including the 1,008 S.T. requested by the USSR, by at least 6,000 S.T. In the fourth quarter, the excess was expected to total some 13,000 S.T. Data for the first half of 1944 were not available, but no appreciable change in the situation was anticipated.

The magnesium requested was said by Soviet representatives to be greatly needed for the production of munitions, sources of Soviet supply having been drastically reduced as a result of the loss of the Ukraine and the Crimea.

### 3. NICKEL

The Third Protocol nickel request was for 9,408 S.T. (784 S.T. per month) in the form of pig nickel and nickel contained in steel and various non-ferrous products combined. This exceeded by 1,008 S.T. the amount (8,400 S.T. at the rate of 700 S.T. per month) anticipated by the Ferro-Alloys Branch and the Combined Raw Materials Board for the Third Protocol period.

The nickel situation of the US during the last half of 1943 and the first half of 1944 seemed likely to be very difficult. On the basis of studies by the Combined Raw Materials Board staff, the outlook appeared as follows:

- A. Requirements for new supplies of nickel would total 296,850,000 pounds in the year 1943. This estimate was based on the assumption that stocks in India and Australia would be drawn down during the year and that there would be no net demand for new metal from those countries. If the prospective reduction in stocks was not realized, the requirements would total about 301,000,000 pounds.
- B. The prospective new supply for the year from all sources was estimated at 294,480,000 pounds. This estimate assumed that Canadian production would continue without interruption at the rate to be achieved

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during the second quarter, and no allowance was made for interruption in Canadian production because of labor difficulties or to the flow of New Caledonian supplies as a result of military developments.

- C. Stocks on hand as of January 1 totalled 51,298,000 pounds of which at least 3,500,000 pounds were already earmarked for consumption, as indicated above. These stocks were badly distributed, with a very low level in the United States and Canada and a relatively high level in British Empire countries.
- D. The intangible factors in the situation were generally on the unfavorable side. Thus: (a) the estimate of United States requirements seemed likely to have to be increased in the third and fourth quarters of the year if efforts by the Steel Division to increase the monthly production rate of alloy steel proved successful. Such an increase might be as high as 10%, or in excess of 20 million pounds; (b) there appeared to be many potential threats to the prospective rate of supply during the year, as already indicated; (c) any increase in shipping losses affecting matte moving to United Kingdom refineries would impose an additional obligation of from 1 to 3 million pounds.
- E. During 1942 it was expected that supplies from Cuba would become available during the last half of 1943. However, there appeared to be very little prospect of any Cuban production actually being made available even in the late months of the year. At the most, 1 or 2 million pounds could actually be refined and delivered to consumers at the very end of the year.

In view of the precariousness of the balance between nickel supply and requirements, it was felt that no more than 8,400 S.T. (700 S.T. per month) should be promised the USSR under the Third Protocol.

However, it was decided to arrange the distribution of this amount between nickel metal to be exported as such and nickel to be set aside for use in the production of steel and other items containing nickel on USSR account in this country in such a way as to make possible shipment of a considerably larger quantity of nickel metal, which was most urgently desired by the USSR, than in the past.

During the first half of the Second Protocol period, an attempt was made to determine the amount of nickel to be made available for export by subtracting from the total nickel allocation the quantity delivered to US mills for use in the fabrication of steel, etc., on USSR account. Later, an attempt was made to make the calculation on the basis of the actual nickel content of products transferred to Soviet representatives in the USA.

From the operational standpoint, however, both of these methods proved impracticable. It was widely suggested, therefore, that during the Third Protocol period there be separate allotments for pig nickel and for contained nickel. The combined allotments would not exceed the overall amount of nickel decided upon for the Protocol period (i.e., 8400 S.T.), but each would be independent of the other.

It was at first felt that there should be a commitment for 4,200 S.T. of pig nickel (350 S.T. per month) and a commitment for "up to" 4,200 S.T. of contained nickel.

Soviet representatives claimed, however, that if they were limited to 4,200 S.T. of pig nickel, the result would have been that they would receive considerably less than 8,400 S.T. of nickel in all forms during the Third Protocol period. In support of their position, they pointed out that actual alloy steel requirements under the Third Protocol would not exceed 10,000 S.T. per month (under the Second Protocol they amounted to approximately 22,000 S.T. per month). Requirements for other non-ferrous products containing nickel would be no greater than under the Second Protocol. Thus, total requirements for "contained" nickel under the Third Protocol appeared likely to be approximately as follows:

Nickel in steel	1,050 S.T.
Nickel in nichrome wire	430 S.T.
Nickel in other non-ferrous products	920 S.T.
<b>TOTAL CONTAINED NICKEL</b>	<b>2,400 S.T.</b>

In view of this, it was decided to offer 5,400 S.T. of nickel metal for export as such, and to reserve only 2,400 S.T. of nickel for the fabrication of alloy steel and other products on Soviet account. In addition, the USSR was offered 600 S.T. of nickel to be exported in the form of pigged monel scrap.

4. MOLYBDENUM

The Third Protocol request was for 4,480 S.T. of molybdenum concentrates (2,285 S.T. of molybdenum metal), 480 S.T. more than was allowed under the Second Protocol.

It was felt that allowing an increase such as this would be unwise in view of the precarious supply-requirements situation.

In the last half of 1942 it was anticipated that requirements would exceed new supply by approximately 5,000,000 lbs. (2,500 S.T.) of metal.

Requirements for 1943 were estimated at just under 70 million pounds; new supply was estimated at a maximum of 64,530,000 pounds. Extraordinary efforts were being made in the United States and United Kingdom to hold consumption below the level of estimated requirements in order to bring actual consumption down to the estimated new supply. As a result of these efforts it was expected that actual consumption would be somewhere between 65 and 66 million pounds, which would still involve a reduction in stocks.

Stocks available to the United Nations fell by approximately 8 million pounds during the year 1942, bringing down the level of usable stocks (after allowing for necessary working stocks) to about 11½ million pounds. By the second quarter, 1943, these stocks were thus less than one-sixth of the annual consumption, or two months' supply. It consequently seemed that if stocks were allowed to decline by as much as 4 million more pounds during the year 1943, the total would be brought near to the point of danger at the beginning of 1944.

As a part of the campaign to cut consumption in the US and the UK, reductions of 10% in allotments for these countries were being enforced. It was felt by some that a similar reduction was justified in the case of the USSR during the Third Protocol period (i.e., that the Third Protocol commitment be for 3,600 S.T. of concentrates as against a Second Protocol commitment of 4,000 S.T.).

The War Production Board's final decision was, however, that the Soviet steel program was geared to imports at the rate of 4,000 S.T. per annum, and that this amount should be offered despite possible adverse effects on the domestic situation.

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5. ELECTROLYTIC COPPER

(Copper in all Forms)

The Third Protocol electrolytic copper request was for 134,400 S.T. This request was not for copper to be exported as such, but for copper to be contained in copper base alloy brass mill products, copper brass mill products, wire mill products (including copper wire and cable, submarine cable, marine cable, electric power and related cable), and other products containing copper.

While the request corresponded to the Second Protocol copper commitment, there was this difficulty about it. In contrast to the situation under the Second Protocol, the stated amount desired was less than the quantity of copper necessary for fabrication of the items which were supposed to be covered. On the basis of calculations of the copper content of the copper base alloys, pure copper products, wire and cable, various manufactures, etc., requested, it appeared that approximately 158,633 S.T. rather than the stated 134,400 S.T. would be required. This meant, in effect, that the overall copper request was substantially larger (24,233 S.T.) than the Second Protocol requirement.

The copper situation of the US was such as to make it impossible to meet this increase without a corresponding reduction in the nation's armament and munitions programs. On the basis of the best data available it appeared that during the last half of 1943, copper requirements of the US would be such as to necessitate reducing US Government stockpiles practically to zero (O.R.M.B. Report No. 5). To allow the USSR a monthly quota approximately 2,000 S.T. in excess of its Second Protocol quota would obviously have made this precarious situation worse.

In view of this, it was felt that the new overall copper commitment should be the same as under the Second Protocol, i.e., for the 134,400 S.T. specifically requested. To make this limitation practicable, as well as for other reasons, reductions in requests for pure copper products and for copper cable and wire had also to be made.

6. COPPER BASE ALLOYS

The Third Protocol request for copper base alloys (107,520 S.T.) was approximately the same as the Second Protocol commitment. It was

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felt that the request could be met in full. The copper base alloys situation of the US seemed likely to be precarious during the Third Protocol year, stated requirements under G.M.P. exceeding estimated supply by a considerable margin in the case of all shapes. But it was believed that shipments on USSR account could be continued at the Second Protocol rate (i.e., approximately 9,000 S.T. monthly) without greater sacrifice than in the past.

7. PURE COPPER PRODUCTS

The request submitted was for 16,128 S.T., slightly more than allowed under the Second Protocol.

Because of the tightness of the domestic situation (requirements exceeding supply by a considerable margin), and because of a tendency of the USSR to allow excessive stocks to accumulate (only about half of the total quantity delivered after June 30, 1942, had been exported, and stocks totaled five months Protocol requirements and almost eight months average shipping requirements), it was felt that a small reduction in the request should be made, (i.e., from 16,128 S.T. to 15,000).

8. ZINC (SLABS)

The Third Protocol request for 13,440 S.T. of zinc was 24,678 S.T. less than the amount allowed during the Second Protocol period. During the first two months of the Second Protocol period shipments were at the rate of 1,500 S.T. per month. But beginning in September, 1942, they were increased to 3,500 S.T. because of the loss or damaging of production facilities in the Caucasus. The new request meant a reduction in monthly shipments from 3,500 S.T. to 1,120 S.T. The change in requirements was assumed to be due to the recovery and rehabilitation of Caucasian facilities.

The domestic supply-requirements situation indicated that no difficulty was likely to be experienced in supplying the reduced amount requested. The zinc outlook for 1943 showed a slight surplus for the year:

	(Short Tons)
Stocks, Jan. 1, 1943	63,130
New Supplies	827,354

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(Short Tons)

Estimated Requirements,  
including USSR require-  
ments of 3,500 S.T. per  
month January - June and  
of 1,120 S.T. July - Decem-  
ber

794,730

Changes in Stocks Indicated

32,624 increase

The outlook for the first half of 1944 appeared roughly the same as for 1943. It was felt, therefore, that the request could be met in full.

9. COBALT

The Third Protocol cobalt request (161 S.T.) was slightly less than the amount allowed during the Second Protocol period.

The request had to be considered from the standpoint of the joint US - UK supply-requirements picture. There seemed to be ample conversion capacity in the United States, Canada and the United Kingdom to meet expected United Nations requirements in 1943. The estimated output of the three countries combined was approximately 6,100,000 pounds of cobalt in the form of metal, while joint stocks totaled some 1,500,000 pounds.

Consumption of metal in the three countries was estimated at about 4,500,000 pounds annually. As a result, refining facilities had not been operating at full capacity for some time. Formal requirements were estimated, however, at 5,250,000 pounds in the three countries as against the production rate of 6,100,000 indicated above. In view of the over-all favorable situation, it was felt that the US and Canada jointly could meet the request in full.

10. CADMIUM

The Third Protocol cadmium request was for 224 S.T. While this quantity amounted to only a fraction of total production, furnishing it from US supplies was thought likely to complicate an already difficult domestic situation. The new supply of cadmium in the first quarter of 1943 was 2,095,000 pounds. Consumption was 2,100,000 pounds

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and exports, all to the USSR 75,000 pounds, a total of 2,175,000 pounds. The deficiency had to be made up by reduction of industry stocks. A similar situation existed in the second quarter. As a result, industry stocks were forced down to a minimum working level.

Expansion of military programs during the last half of 1943 seemed likely to increase requirements by approximately 20% a quarter. With this, total requirements for the year were expected to come to approximately 12,000,000 pounds. New supply, on the other hand, was expected to be 9,370,000 pounds. In 1944, requirements were estimated at approximately 15,500,000 pounds, and new supply at approximately 9,400,000 pounds.

Thus, substantial deficits in the supply of cadmium appeared unavoidable, without allowance for any shipments to the USSR. It was decided, therefore, that Canada rather than the US should provide for Soviet requirements.

11. NICHROME WIRE

The amount of nichrome wire requested (538 S.T.) was the same as that allowed under the Second Protocol.

As the nickel content of nichrome would be covered by the nickel allotment, and as the small quantity desired offered no fabrication problems, the request was granted in full.

12. SPECIAL ALLOY WIRE

Under the Second Protocol, the "Special Alloy Wire" commitment for 269 S.T. was the source of considerable confusion. The OLLA treated the item as covering alloy wire other than steel alloy wire and approved as coming under it requisitions, totaling 276 S.T., for manganese nickel wire, manganin wire, nickel silicon wire, constantin magnet wire, pure nickel and nickel alloy wire and strip, tungsten alloy metal, tantalum wire, alumel wire, crosel wire, copel wire, and molybdenum wire. The Steel Division, on the other hand, treated the items as covering special steel alloy wire and approved as coming under it requisitions, totaling 3,069 S.T., for welding wire, welding electrodes, cold drawn bright steel wire and chrome manganese steel wire.

It was decided that in the Third Protocol this item should be defined as including special wires and alloys other than steel wires and alloys. It was further decided that since many products which

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might be included in this category were in extremely tight supply (e.g. molybdenum wire and tungsten wire), no specific commitment could be made, it being stated instead that the quantity to be supplied would be dependent on formal approval of requisitions submitted from the standpoint of types, specifications, quantities, and delivery schedules, providing, however, the total approved does not exceed 269 S.T. during the Protocol year.

**B. CABLE**

Under the Second Protocol, Soviet cable requirements were relatively very large, totaling altogether some 112,000 S.T.

Considerable difficulty was experienced in trying to meet these requirements. Despite constant pressure on producers, deliveries were behind schedules. Toward the end of the Second Protocol period deliveries were greatly accelerated and accumulated deficits were largely wiped out. Achievement of this, however, severely taxed the resources of the industry.

The new cable requests totaled considerably more than Second Protocol commitments in copper content required and in number of miles, though their gross weight were slightly less. Full satisfaction of the requests, therefore, seemed likely to present numerous problems and would have meant continuing the present strain on the industry.

The acute need of the USSR for all the cable which it could get was taken for granted. It was clearly recognized that for the rehabilitation of reconquered areas, for the expansion of production in the industrial districts of the East, as well as for direct military purposes, far greater quantities than those asked could undoubtedly be very profitably utilized.

Whether, though, the need would be so great that all the cable produced would be exported under existing shipping conditions was felt to be a matter of question. Appreciable stocks were already accumulating despite the fact that before the first quarter, 1943, deliveries had been very small. It was estimated that if the new requests were granted in full, the resultant Third Protocol production together with stocks already on hand would leave a total of approximately 175,000 S.T. (net weight) of cable being available for export during the Third Protocol period. Moving this quantity would require monthly liftings about one-third as great as the average monthly liftings of all steel items, including railroad materials, shipped during the Second Protocol period.

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**1. SUBMARINE CABLE**

Fifteen hundred kilometers were requested. This was two and a half times the quantity requested under the Second Protocol and approximately twice the amount allowed.

US fabrication facilities were heavily loaded with Army and Navy orders and there seemed no prospect of a let up. In consequence, it appeared that serious production difficulties would be encountered if the entire quantity requested were allowed. The offer was limited, therefore, to 600 kilometers.

**2. MARINE CABLE**

The Third Protocol request was the same as under the Second Protocol, though somewhat less than the quantity allowed. No difficulty was envisaged by either the Copper Division or the Bureau of Ships, Navy Department, in fabricating the quantity desired, and the request was granted in full.

**3. COPPER CABLE AND WIRE**

Some 33,600 S.T. of bare copper cable and wire were requested. The Second Protocol contained no corresponding item. There was a Second Protocol commitment for 38,424 S.T. of "Miscellaneous Copper Cable and Wire" (Item 74A), but the requisitions submitted against this were almost entirely for insulated wire and cable. In contrast, it was stated that requisitions to be submitted against the "Copper Cable and Wire" item of the Third Protocol would be for pure copper wire only.

The request indicated a several-fold increase in the USSR's requirements for this type wire, nothing approaching the stated amount having been asked for before.

Supply of the quantity desired appeared to offer no very great difficulty from the fabrication standpoint. However, considerably more copper than all of the cable allowed under the Second Protocol combined would have been required. It consequently seemed that the request ought to be reduced, particularly since, as pointed out above, the amount of copper necessary for the fabrication of the items supposed to be covered by the "over-all" copper commitment exceeded the quantity of electrolytic copper actually requested and recommended by some 24,000 S.T.

It was recommended, therefore, that the commitment for copper cable and wire be for no more than 20,000 S.T.

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4. ELECTRIC POWER CABLE

The request was for 12,000 kilometers, the amount requested and allowed under the Second Protocol.

On the basis of study of advance specifications, it was concluded that the request could be met.

C. FERRO-ALLOYS

The Third Protocol ferro-alloys request was for a total of 21,504 S.T. The particular kinds desired were not specified, but it was understood that the quantity requested would be confined to ferrosilicon and ferrochrome.

The entire request was made on the US. However, since ferrosilicon and ferrochrome under the Second Protocol were supplied by the US and UK jointly, and since no separate request was made on the UK, the request was in effect a joint request. Considered as such, it was the same as the Second Protocol commitment.

Under the Second Protocol, 13,440 S.T. of ferrosilicon (1,120 S.T. per month) and 8,064 S.T. of ferrochrome (672 S.T. per month) were allowed, with the US scheduled to furnish 9,408 S.T. of ferrosilicon and 5,376 S.T. of ferrochrome, and the UK to furnish (from Canadian supplies) 4,032 S.T. of ferrosilicon and 2,688 S.T. of ferrochrome.

It was understood that in case the Third Protocol commitment did not exceed the quantity provided under the Second Protocol, the UK would be willing to continue the Second Protocol arrangement. This meant that consideration had to be given only to the question of whether the US could supply as much as 9,408 S.T. of ferrosilicon and 5,376 S.T. of ferrochrome.

The domestic situation in regard to both ferrosilicon and ferrochrome was reported to be very difficult. It was estimated that US requirements, including small amounts for the UK and negligible amounts for CEV countries, would absorb the entire output of furnace capacity to the beginning of 1944. Moreover, there were no stocks beyond regular working stocks. Capacity could be expanded through the installation of new furnaces, but this would involve the use of critical materials and would result in the absorption of large blocks of electric power. Moreover, it would be at least six months before expansion could bring about an increase in supplies.

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Along with the problem of the tightness of the domestic situation, there was the problem of accumulated Soviet stocks. Since the beginning of the Second Protocol period, practically none of the ferrosilicon or ferrochrome allocated to the USSR had been lifted. Despite the fact that allocations were suspended in February, stocks of ferrosilicon and ferrochrome totaled more than five months full Protocol requirements, and at the past rate of export were sufficient to meet several years shipping needs.

The War Production Board was agreeable to supplying the USSR with the ferrosilicon and ferrochrome requested, despite the resultant strain on US programs, provided there was assurance that supplies taken from domestic consumers would actually be shipped to the USSR. But considering the stocks situation, it was felt that a commitment ought not to be made to resume allocations of either ferrosilicon or ferrochrome to the USSR until substantial liftings had taken place. A commitment was made, therefore, only with the specific understanding that allocations would begin only when stocks were reduced to two months Protocol requirements.

D. STEEL

The Third Protocol request, as originally submitted, was for approximately 660,000 S.T. This compared with a Second Protocol commitment of 1,443,424 S.T. and with Second Protocol deliveries of 798,409 S.T. (Second Protocol deliveries were less than the commitment because of deliberate curtailment of production due to excessive seaboard stocks.)

The Steel Division of the War Production Board reported that production of the quantity requested would offer no difficulties, except for the tightness of carbon ingot. However, it was felt that the US should not commit itself to produce this quantity for the USSR until existing Soviet stocks were reduced to a reasonable level. At that time, between 600,000 S.T. and 650,000 S.T. of steel in various forms were held in warehouses and at seaboard on USSR account. While a few items, notably pipe, wire, and railway materials, accounted for the greater part of these stocks, they included sizable quantities of practically every type steel included in the Soviet Program. At the average rate of liftings of the past it would require at least twelve months to eliminate the stocks. Further, if the full 660,000 S.T. per month requested were produced, the result would inevitably have been a further growth of stocks rather than a reduction, since average overseas shipments were not totaling nearly 660,000 S.T. per month.

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It was decided, therefore, that no more than 10,000 S.T. per month of carbon steel and 10,000 S.T. of alloy steel (i.e. a total of 20,000 S.T. per month or 240,000 S.T. for the Third Protocol year) should be placed in production until and unless stocks were reduced to a reasonable level, i.e. to approximately 250,000 S.T.

After this offer was formulated, however, the Soviet Government Purchasing Commission reported that a radical change in USSR steel requirements had taken place and that 560,000 S.T. of rails and accessories were urgently needed during the Third Protocol period. The reason given was the need for reconstruction of railways destroyed by the Germans in recaptured regions of the Northern Caucasus and the Eastern Ukraine. It was stated that some 8,000 miles of railways had been completely ruined and that continued military operations made it imperative that they be rebuilt. Every assurance was given by the Commission that the rails requested would be exported through additional shipping facilities being provided for steel (i.e. would be exported without a reduction in the previously planned movement of other steel being produced, or in stock).

The War Production Board considered with fullest sympathy the possibility of meeting this new request. Rail capacity was reported extremely tight because identical facilities were required for rails and shell steel. After investigation, it was decided that through using domestic capacity to the limit and through taking advantage of some idle Canadian facilities, a total of 430,000 S.T. of rails and accessories could be offered for the Protocol year, provided Soviet stocks were reduced to 250,000 S.T. and provided export of the amount produced was effected. In addition to rails and accessories, 125,137 S.T. of other carbon steel, 114,603 S.T. of alloy steel, and 50,270 S.T. of miscellaneous steel for the Arctic and Fishing programs were offered. Thus the total Third Protocol steel offer came to 710,000 S.T.

It should be noted that since the revised steel program was worked out, energetic efforts have been made to bring about the reduction of the steel stockpile to the 250,000 S.T. specified in the Protocol offer. However, so far these efforts have not been entirely successful. The USSR has agreed to the diversion of more than 200,000 S.T. of stocks, but only slightly more than 50,000 S.T. have actually been taken over by other claimants. As of August 1, stocks still "claimed" by the USSR totaled more than 400,000 tons, while stocks actually held for the USSR (i.e. "claimed" stocks plus stocks offered for diversion but not taken up by other claimants) totaled some 550,000 S.T.

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It should also be noted that steel exports during July and estimated exports during August were considerably less than anticipated by Soviet representatives.

In view of these two developments it now seems unlikely that it will be necessary to produce during the Third Protocol period anywhere near the full 710,000 S.T. of steel offered.

E. CHEMICALS

The Third Protocol chemicals program was substantially different from that of the Second Protocol. A number of important items included in the Second Protocol were omitted from the Third. Included among these were:

<u>ITEM</u>	<u>2ND PROTOCOL COMMITMENT</u>
	(Short Tons)
Sodium Bromide	1,800
Phosphorus	2,400
Dibutyl Phthalate	3,600
Dimethylaniline	3,000
Diphenylamine	1,800
Colloxylin	4,800
Ammonia Chloride	4,800
Potassium Nitrate	3,600
Ammonia Cyanide	3
Centralite	600
Resorcin	120
Barium Peroxide	300
Strontium Oxalate	96
Rodalite	6
Torium	3
Cerium	18
Potassium Sulphate	1,800

TOTAL

28,746

In addition, the amount of "Other Chemicals" requested was considerably less than in the case of the Second Protocol. This was

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interpreted to mean that the USSR would no longer require a great many of a wide variety of items which had hitherto been ordered under this category.

In contrast to these omissions and reductions, several new items were added. The amounts desired in these cases were so large that the total quantity of chemicals requested exceeded the amount allowed under the Second Protocol.

Except for one or two items, it was not anticipated that supply of the quantities requested will present very serious difficulties.

Nevertheless, the chemicals program seemed to raise certain problems. One was the problem of "carry overs" in the case of items included in the Second Protocol but not included in the Third. On June 30, 1943, considerable stocks of several of the chemicals omitted from the new request existed in this country. Further, many uncompleted orders still remained on the books. This naturally brought up the question as to whether these stocks were to be available for diversion to domestic consumers, and the question as to whether outstanding orders were to be cancelled.

Another problem was that of shipping possibilities. During the Second Protocol period only a fraction of the chemicals which were made available were exported. By June 30, 1943, ~~more~~ than 70,000 S.T. were held at plants, in warehouses, and at port. This situation lead to the question of whether it was desirable to make commitments to deliver fixed amounts of chemicals during the Second Protocol period irrespective of whether corresponding liftings took place.

Of the several items requested, it was felt that, from the supply standpoint, the amounts specified could be promised in all cases except phenol, glycerine and ethyl alcohol. Tight domestic supply situations made it necessary to reduce the phenol request from 13,440 S.T. to 12,000 S.T. and to limit the firm commitment for glycerine (in the amount requested) to a six months period. Difficulties incident to the transport of ethyl alcohol to port made necessary making this commitment conditional upon satisfactory lifting arrangements being worked out.

However, each chemical offer was made with the express understanding that allocations would take place only as the stocks and shipping situation seemed to justify.

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F. RUBBER

The request was for 40,320 S.T. of rubber contained in tires, tubes and other rubber products, the same as under the Second Protocol.

On the basis of calculations of the forward supply-requirements situation through 1943 and 1944, it appeared that the US could safely undertake to furnish this quantity. Since, however, there seemed to be a possibility that developments during the next half year may upset advance calculations, it was felt that the Third Protocol commitment should be limited to the period July 1, 1943 to December 31, 1943, with it being understood that prior to December 31, a commitment for the last half of the Protocol period would be negotiated.

II. INDUSTRIAL EQUIPMENT

Specific requests for industrial and related equipment included in the Third Protocol "Program of Requirements" submitted by the USSR to the US, together with various supplementary requests, totaled about \$900,000,000 in value.

It was stated, however, that the items covered by these requests were desired in addition to items placed on order but not delivered prior to June 30, 1943. This meant that the total amount of industrial and related equipment desired during the Third Protocol period was approximately \$1,273,000,000, roughly \$373,000,000 of equipment being already on order for delivery after June 30.

This \$1,273,000,000 of equipment requested for the Third Protocol year compared with an estimated total of \$296,000,000 made available between October 1, 1941 and June 30, 1943, i.e. during the First and Second Protocol periods combined.

Against the requested \$1,273,000,000, it was felt that a commitment could be made to make available \$456,000,000 of equipment provided new orders were for standard types of items, and provided specifications as to suppliers and delivery schedules were acceptable to the appropriate Industry Divisions of the WPB.

In addition to the specific offer of \$456,000,000, the USSR was given the right to include in its Third Protocol selections for export such industrial equipment as had been produced but not shipped prior to June 30, 1943. The amount of this equipment was estimated at slightly more than \$100,000,000. Further, it was understood that industrial equipment items which the USSR had on order as of June 30, 1943, but which were not included in the \$456,000,000 program specifically offered would be allowed to continue under production and would be made available to the USSR for inclusion in its tonnage selection. The amount of this equipment was estimated at some \$70,000,000. Thus, under the Third Protocol equipment program it appeared likely that altogether about \$626,000,000 would be made available for export to the USSR.

Arrangements were also made for getting underway industrial equipment desired for delivery after June 30, 1944. In the Protocol offer, it was provided that the US would consider accepting during the Third Protocol period orders totaling not more than \$300,000,000 for delivery during the Fourth Protocol period.

The industrial equipment program, when viewed from all angles, was far more ambitious than under the First or Second Protocols. However, because of certain circumstances the impact of the program on domestic programs and on the materials situation seemed likely to be less than was that of the program put into effect at the beginning of the Second Protocol period. A large part of the equipment which was to be produced had already been placed on order and provision for it had been made in manufacturers' schedules and in plans for allotments of materials. Many were in advance stage of fabrication and the materials required for their completion were already in the hands of contractors. Moreover, the position of most of the industries involved in the program appeared much easier than had formerly been the case. According to reports of WPB Industry Divisions, in the case of a great many items, notably machine tools, forging presses and hammers, power equipment, cranes, and several miscellaneous items, larger quantities than those offered could have been promised if fabricating facilities had been the only criterion.

The tonnage of the Third Protocol new production program, including items ordered but not specifically included in the Protocol offer, was estimated at about 400,000 S.T. The tonnage of items already produced and on hand was estimated to be slightly more than 100,000 S.T. Thus, the total tonnage of industrial equipment which would be available for export during the Protocol period came to more than 500,000 S.T.

In view of the existing stock situation, it was felt that there was a real danger that a tonnage offering of this size would lead to the growth of excessive stocks. Nevertheless, at the moment it was felt that the offer should be made, it being understood, however, that stocks would have to be watched closely and cut-backs in production arranged in case they became too large.

There is given below a detailed statement of the specific industrial equipment offerings made, and of the considerations which underlay them.

A. HARD ALLOYS FOR CUTTING TOOLS

The Third Protocol request (\$3,000,000) exceeded the total made available between October, 1941, and June, 1943, by about two times. Nevertheless, it was felt that the request could be met without difficulty. US production of tool tips and blanks equals about \$36,000,000 per year. A \$3,000,000 Third Protocol allotment would thus require slightly more than 8% of our total capacity.

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**B. ABRASIVES**

As finally worked out, the abrasives request was for 6,136 S.T. of abrasive grain and \$5,500,000 abrasive products.

The domestic grain situation appeared very tight, particularly insofar as the concentrated sizes required by the USSR were concerned. It was felt, therefore, that it would not be possible to supply the 6,136 S.T. requested. On the basis of experiences during the Second Protocol period and the general condition of the industry, a commitment for 4,000 S.T. was decided upon.

The domestic situation in regard to abrasive products was also difficult. It was anticipated that during the latter part of 1943 and early 1944 requirements would exceed supply by approximately 25%. A commitment for \$4,000,000, as against the \$5,500,000 request, was, therefore, offered.

**C. ANTI-FRICTION BEARINGS**

During the First and Second Protocol periods, the US experienced great difficulties in attempting to meet USSR requirements for anti-friction bearings. In addition to the general problems which beset the industry, i.e. limitations on production facilities, inadequate supplies of steel, and huge backlogs of high urgency orders, Soviet orders presented peculiar problems in that many were for bearings of a type not normally produced in this country, and many others were for bearings in great demand for tanks and planes. Because of these difficulties, deliveries of bearings on USSR account were very small, amounting to less than \$5,000,000 during the First and Second Protocol periods combined.

For the Third Protocol, Soviet representatives presented a program amounting to thirty odd million dollars (old and new orders). It was felt that during the new Protocol year shipments could be greatly increased over the rate maintained in the past. However, it did not seem likely that it would be possible to supply more than \$15,000,000 all told, i.e. two and one half times the amount supplied between October, 1941 and June 30, 1943. Since requisitions already placed called for delivery of approximately \$18,000,000 of bearings after June 30, 1943, under the offer submitted no more requisitions can be accepted during the Third Protocol period unless part of the outstanding requisitions are cancelled. The War Production Board would favor such cancellations provided the bearings to be substituted are of standard US types.

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**D. MACHINE TOOLS**

Altogether, Soviet representatives requested 24,000 machine tools totaling approximately \$228,000,000 in value.

The Tools Division of the War Production Board reported that the machine tools situation was relatively easy and that if facilities were the only factor involved it would be possible to supply the full amount requested. In the case of practically all manufacturers, deliveries were said to be outrunning orders, and many faced the prospect of partial shutdowns within a short period. Materials and labor, however, were felt to offer limitations not offered by facilities. Plans called for severe reductions in materials allocations to the machine tool industry, and for the possible conversion of machine tool facilities and labor to the production of other products. It was felt, therefore, that the Third Protocol commitment should be limited to a guarantee to deliver such items as were on order as of June 30, 1943. This meant a commitment for \$120,000,000, and would result in shipments approximately equal to those made during the twenty-one month period between October 1, 1941 and June 30, 1943.

**E. ROLLING MILL EQUIPMENT**

Altogether, six mills consisting of one blooming mill, one rail and beam mill, two tube mills, one merchant mill, and one billet mill were desired. The cost of the six mills, together with accessories, was estimated to total \$29,000,000.

These mills were a part of a metallurgical program which the USSR had submitted to the US several times. The US had accepted a fraction of the program, but it had had to reject the greater part because of the demands of the domestic steel expansion program.

When the new request was submitted, the domestic program was still in such condition that actual production on all of the new mills requested could not be begun before January 1, 1944 without serious interference resulting. Further, acceptance of the entire program would have intensified the acute shortage of critical materials. In view of these factors, it was decided that only the rail mill, the urgent need for which had been reiterated by Soviet representatives, be approved in addition to items which were already on order for delivery after June 30, 1943. As the value of the rail mill was estimated at approximately \$11,000,000 and as the carry-over of old orders into the Third Protocol period amounted to about \$5,000,000, this meant a commitment for \$16,000,000.

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**F. PRESSES, FORGES, HAMMERS AND RELATED EQUIPMENT**

The total requested was approximately \$50,000,000. Included were 200 hydraulic presses, 2,000 mechanical presses, 300 steamdrop and forging hammers, 100 forging machines, and \$5,000,000 worth of miscellaneous equipment.

It was reported that except for one or two categories, the full request could be met, provided labor, allocations of materials, and fabricating facilities were kept at the existing level. Since, however, retrenchment was contemplated in the affected industries, particularly insofar as allocation of materials was concerned, it was felt that delivery of not more than \$30,000,000, the approximate amount on order as of June 30, should be guaranteed during the Third Protocol period.

**G. WIRE DRAWING EQUIPMENT**

The request was for \$3,000,000.

The Tools Division reported that adequate capacity existed for supplying the entire amount. However, materials allocated to the industry were being drastically reduced and it was decided that the commitment should be for no more than \$2,000,000.

**H. ELECTRIC FURNACES**

Electric furnaces requested included \$6,000,000 of metal melting furnaces (200 units) and \$6,000,000 of heat treating furnaces (400 units).

The amount desired exceeded by more than three times the total supplied during the First and Second Protocol periods combined. Nevertheless, the Tools Division felt that the request should be granted. Domestic production was at the rate of about \$45,000,000 annually in the case of metal melting furnaces, and \$120,000,000 annually in the case of heat treating furnaces. Meeting the request would thus require about 13% of our total electric furnace capacity and about 5% of our heat treating capacity. Domestic requirements were rapidly falling off and it was anticipated that by the end of the year the supply situation would be relatively very easy.

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**I. VARIOUS INDUSTRIAL EQUIPMENT**

In the Third Protocol Program of Requirements submitted by the USSR, it was stated that the total amount of equipment desired under Item 4 of Group III, "Various Industrial Equipment", was \$120,000,000. However, the total value of the several particular items requested under this category, as estimated by USSR representatives, was considerably greater, the exact figures being \$153,446,000 against \$120,000,000.

In the case of most of the items included in the specific schedule attached to the request, notably cranes other than truck and tractor cranes, compressors, blowers, exhausters, fans, furnace equipment, welding equipment, and pneumatic tools, the prospective situation of the particular industries involved seemed such as to make it appear reasonable to grant the full amounts requested. However, the placing of orders for "various industrial equipment" of types other than those included in the specific schedule has been so prolific that an enormous backlog had to be carried over into the Third Protocol period. It was felt that since these orders required the same materials, the same critical components, and the same types of labor as the items specified, continuing them under manufacturers schedules would make it impossible to allow the full amounts requested in the case of such items as those mentioned above without inviting a terrific jam and an endless series of bottlenecks. It consequently was felt necessary to recommend in most instances offerings considerably under the requested amounts. It should be noted, however, that in practically all cases recommended offerings still called for deliveries several times greater than the total made available during the First and Second Protocol periods combined.

It also should be noted that in addition to the total of \$120,000,000 of "Various Industrial Equipment" offered, there was on order as of June 30, 1943, approximately \$70,000,000 of "auxiliary equipment" which belongs in this category. The War Production Board has agreed that this equipment shall be allowed to continue under production under existing ratings, but without guarantee that deliveries in excess of the offered amount will be made.

**J. POWER EQUIPMENT**

The USSR requested power equipment totaling 1,354,050 k.w.

in capacity and approximately \$140,000,000 in value/ in addition to roughly \$13,308,126 of equipment requisitioned during the Second Protocol period but not delivered as of July 1, 1943. The USSR also requested as a part of its power program industrial boilers valued at about \$23,415,000 in addition to some \$5,445,103 undelivered as of July 1.

The Power Division of the War Production Board over a period of several weeks studied the possibility of the requests being met. It came to the conclusion that adequate fabricating capacity would be available for the supply of most of the equipment either during or shortly after the end of the Third Protocol period. Specifically, it decided that power equipment totaling 1,195,326 k.w. in capacity and \$131,457,000 in value, together with \$23,415,000 of industrial boilers, could be made available by October, 1944.

The Power Division in its analysis took into account only the question of availability of fabricating capacity. It did not consider the problem of whether or not the necessary materials could be supplied. The principal materials involved are: for the power equipment, approximately 77,000 tons of steel and 4300 tons of copper; for the industrial boilers 24,000 tons of steel and 8 tons of copper; or for the whole program envisaged by the Power Division, 101,000 tons of steel and 4300 tons of copper.

Because of four factors, officials of the War Production Board felt it advisable to recommend inclusion of less than half of the requested program in the Third Protocol. These factors were:

1. Third Protocol offers were considered guaranteed offers and there was considerable doubt as to whether more than some fifty or sixty million dollars of newly ordered equipment could actually be made available by June 30, 1944;
2. Immediate inauguration of such a large program would increase pressure on the already critical raw materials situation;

1/ In the original "Program of Requirements" submitted by the USSR, power equipment (including industrial boilers and supplementary electrical equipment) valued at \$135,000,000 was requested. As a result of increase in the items desired and revision of cost estimates, however, this figure subsequently was raised to approximately \$183,000,000 (i.e. \$140,000,000 power plants; \$20,000,000 supplementary electrical equipment; and \$23,000,000 industrial boilers).

3. Immediate inauguration of the program would tie up for approximately fifteen months virtually all fabricating facilities capable of producing light equipment not already "spoken for" and would consequently seriously handicap the ability of the country to take care of unanticipated or emergency Army, Navy and Maritime requirements.
4. Shipping prospects appeared to be such as to make it seem unlikely that so large a quantity of equipment could be lifted even if it were produced.

The specific recommendation of the War Production Board was that a total of \$75,000,000 of power and related equipment (about twice the amount made available between October, 1941 and July, 1943) be offered for delivery during the Third Protocol period. This \$75,000,000 was to include deliveries against both orders carried over from the Second Protocol (estimated at \$18,000,000) and new orders to be placed under the Third Protocol (approximately \$57,000,000). The offer recommended by the War Production Board was approved by the Protocol Committee and transmitted to the Soviet Government.

The offer to deliver only \$75,000,000 of equipment before June 30, 1944 did not preclude the possibility of the USSR getting more of its program under way during the course of the Third Protocol period. It was understood that power equipment over and above the \$75,000,000 offered could be requisitioned for delivery after June 30, 1944 under the above mentioned \$300,000,000 "advance order" allotment.

Nevertheless, with the reduction it was necessary that the program, as originally worked out, be drastically revised. This raised the problem of the type of plants which the USSR would be permitted to order, both under the "Third Protocol" allotment and under the "advance order allotment".

Of the 1,195,325 k.w. capacity which the Power Division reported could be made available, 554,925 k.w. (\$85,781,100) were made up of small units (i.e. Diesel, steam and hydro plants ranging from 100 k.w. to 7,500 k.w.), while 640,400 k.w. were made up of large units (i.e. steam and hydro plants ranging from 11,000 to 75,000 k.w.).

At the suggestion of the OLLA, the desirability of limiting the plants which the USSR would be permitted to order to the smaller types was seriously considered. In favor of such a limitation was cited the following:

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a) The light units could be put into operation in the USSR several months earlier than the heavy units. The time required for fabrication is not appreciably greater in the one case than in the other, but the time required for installation is. It is estimated that it would be late in 1944 or early 1945 before many of the heavy units would be in service. On the other hand, it would be possible to begin utilizing the light units within a few months.

b) The usefulness of the light units would increase rather than decrease in case the Russian front should again become fluid. The reverse is true of the heavy units.

c) The light units could be more easily transported, both overseas and overland into Russia.

On the other hand, the following was cited against a limitation affecting procurement of the larger plants:

a) Soviet representatives have stated that with some exceptions the USSR needs the larger units more than the smaller.

b) A considerably greater k.w. capacity would be secured per dollar of value and per pound of material in the case of the large units (especially the hydro units) than in the case of the small. The approximate ratio is as follows:

	Small Units	Large Steam	Large Hydro	Large Steam & Hydro
K.W. per \$1,000	6.4	11.8	23.4	14.3
K.W. per ton Steel	10.8	16.6	22.1	18.2
K.W. per ton Copper	231.1	333.3	333.9	333.5

c) The heavier equipment offers a much less difficult fabricating problem than the lighter. This is because small plants compete with Navy and Maritime items whereas large plants are made on machine tools and in establishments not generally required for Navy or Maritime work. It appears that if the larger units are not placed on order for the USSR, such manufacturing capacity capable of handling such equipment will remain idle. On the other hand, if the smaller units are not supplied, domestic orders will probably take up all available capacity.

d) Most of the power equipment so far supplied or ordered for the USSR is of the smaller type. To limit the new power program to such equipment might as a result lead to a definite lack of balance in the USSR's power facilities.

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a) Although the expression "large plants" is used in connection with this second type of equipment, the equipment in question is actually medium size.

While until the present the OLLA has not permitted the requisitioning of the larger units, the matter has not yet been finally resolved. It is currently before the President's Protocol Committee for decision.

**K. CUTTING AND MEASURING TOOLS**

Two distinct types of equipment were covered by this request, which totaled \$18,000,000. One was small metal cutting tools (\$12,700,000); the other gauges and precision instruments (\$5,200,000).

The metal cutting tools consisted of drills, reamers, milling cutters, and other cutting attachments for metal working machine tools. The amount requested was less than the total supplied by June 30, 1943. It represented a fraction of the capacity of the industry which currently amounts to about \$400,000,000 annually. It was therefore felt that up to \$15,000,000 could be allowed without difficulty.

The gauges and precision instruments consisted of micrometer calipers, bevel protractors, gauge blocks, various gauges, etc. The amount requested was almost three times the total requisitioned between October, 1941 and June, 1943, and was nine times the amount delivered between October, 1941 and June 30, 1943.

Total US capacity for equipment of this type was reported to be approximately \$72,000,000. However, there were five or six month backlog of orders and new orders were still exceeding deliveries. Moreover, types required by the USSR did not cover the entire industry, but were confined to a relatively few types and companies. It was felt, therefore, that the maximum amount which the US could agree to supply was \$3,000,000.

**L. CONTROL INSTRUMENTS AND TESTING MACHINES**

The request covered such items as tool makers microscopes, comparators, Rockwell hardness testers, other hardness testers, etc. Deliveries between October, 1941 and June 30, 1943 amounted to approximately \$250,000, or about one-eighth of the amount requested during the Third Protocol period.

US production was estimated at about \$30,000,000 per year. A considerable backlog of orders was held by all manufacturers, but deliveries were beginning to exceed new orders and it was felt that

the situation of the industry might be fairly easy by the end of 1943. It was felt, therefore, that the request could be met in large part (i.e. \$1,700,000 could be supplied against a request for \$7,000,000), provided new orders, unlike old orders, were fairly well distributed as to types and suppliers.

**M. EMERGENCY EQUIPMENT**

It was recognized that unforeseen developments might create an urgent need in the USSR for equipment not otherwise provided for in the Protocol. In order to take care of such emergencies, it was decided that the US would supply up to \$25,000,000 of equipment over and above the items covered by specific commitments, provided, however, requests submitted were truly emergency and provided specifications were acceptable to the WPB.

**N. SUPPLEMENTARY PROGRAMS STILL UNDER CONSIDERATION**

After the formulation of Third Protocol offers, Soviet representatives presented supplementary requests for several additional equipment items. Included were a synthetic rubber plant program, chemical plants, a new refinery program, and a cord and chafer plant. It was found necessary to deny the chemical plants and the cord plant, but the requests for synthetic rubber plants and for additional high-octane refineries are still under consideration. If it should be decided to grant these, in whole or in part, it would mean an appreciable addition in terms of both value and supply problems, to the various programs discussed above.

STATUS OF MATERIALS AND EQUIPMENT PRODUCTION PROGRAMS UNDER THE THIRD PROTOCOL, AS OF AUGUST 1, 1943  
(LATE DELIVERY FIGURES SUBJECT TO REVISION)

Item No.	Item	Unit	Status	Total Production Program	Total Made Available at Will July 1, 1943 - July 31, 1943	Percent of Total Production Program Completed as of August 1, 1943	Ratio of Actual Production to Total Production (Prev. Item - 100)	Ratio to be Produced by the USSR (See Column 10)	Comments
1	Aluminum (Light and Fabricated)	S.T.		35,100	6,100	15	126	29,000	Aluminum deliveries in July exceeded the Protocol commitment for the month by 100,000 lbs. The 100,000 lbs. S.T. were authorized by an ad hoc Protocol allowance by the Requirements Committee on behalf of Canada resulting from a meeting of Canadian representatives to fulfill the commitment on behalf of Canada. The commitment on maintenance and will be monitored in accordance with the terms of the other articles of the Third Protocol, pending.
A	Sheet								
B	Plate								
C	Strip								
D	Aluminum (Light and Fabricated)	S.T.		3,500	500	13	163	3,000	July 24 actual deliveries include 300 S.T. sheet for the U.S. Shipping Commission and 200 S.T. for the U.S. Army. The 200 S.T. were authorized by an ad hoc Protocol allowance by the Requirements Committee on behalf of Canada resulting from a meeting of Canadian representatives to fulfill the commitment on behalf of Canada. The commitment on maintenance and will be monitored in accordance with the terms of the other articles of the Third Protocol, pending.
E	Sheet in Sheet Form								
F	Plate in Sheet Form								
G	Strip in Sheet and Other Fabrication Products								
H	Aluminum	S.T.		5,000	100	2	100	4,900	Estimated actual deliveries consist of 200 S.T. in strip sheet; 20 S.T. in plate; 20 S.T. in extruded sheet; and 4,900 S.T. in castings square.

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Protocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. July 1, 1943 - July 31, 1943	Percent of 3rd Prot. Program Completed as of Aug. 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot. Sched. = 100)	Balance to be Produced as of Aug. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>NON-FERROUS METALS (Continued)</b>								
6	Copper, Electrolytic	S.T.	(121,400)	(5,045)	(4)	(50)	(116,355)	The production program has been adjusted through deducting from the total Third Protocol copper offering of 134,400 s.t. the amount (13,000 s.t.) expected to be required for manufactured products, other than military stores, which are scheduled to be produced on U.S.A. account during the Third Protocol period. The figure given is a maximum figure and is subject to reduction in case stocks of products containing copper become excessive.
7	Copper Base Alloys	S.T.	107,520	2,960	3	38	104,560	July deliveries were considerably under Protocol requirements for the month because (a) a lead factor of several weeks is required before shipments can begin to be made against new Third Protocol contracts, and (b) pressure on manufacturers was eased because of fear that stocks, already large, would become excessive.
8	Magnesium	S.T.	4,032	136	8	100	3,696	
9	Zinc	S.T.	13,440	1,120	8	100	12,320	
11	Copper Goods and Tubes	S.T.	15,000	378	3	38	14,622	July deliveries were considerably under Protocol schedule for the same reasons copper base alloy shipments were delayed.
29	Special Non-Ferrous Alloy Wires	S.T.	263	2	1	13	261	The production program figure shows to a maximum figure. Acquisitions so far submitted under this category total only a fraction of 263 s.t. Deliveries against these were negligible in July because of lead factors. Included in this category are a number of items which are in extremely short supply (e.g. molybdenum wire, tungsten wire, etc.)
30	Nichrome Wire	S.T.	538	23	5	53	509	Substantial deliveries of nichrome cannot be expected for some time because of lead factors

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Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. July 1, 1943 - July 31, 1943	Percent of 3rd Prot. Program Completed as of Aug. 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot. Sched. = 100)	Balance to be Produced as of Aug. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>NON-FERROUS METALS (Continued)</b>								
9b	Subalt	S.T.	80.5	13	16	-	67.5	The production program shown is for the first half of the Protocol period only; subalt for the second half of the Protocol period is included in the Canadian supply schedule.
	Total Non-Ferrous Metals (Including Item 6, Copper, Electrolytic)	S.T.	186,639.5	12,566	7	88	174,074.5	
<b>FERRO-ALLOYS</b>								
12	Ferrosilicon	S.T.	-	0	-	-	-	The U.S. and Canada jointly have agreed to meet full U.S.S.R. requirements for ferrosilicon and ferrochromium. For its part, the U.S. has offered to supply 70% s.t. of ferrosilicon and 40% s.t. of ferrochromium per month. Sub by agreement, this offer is to become effective only when stocks held on U.S.S.R. account are reduced to two months' requirements. At present, stocks total more than five months' requirements and no liftings are currently taking place. In consequence, no allocation was made in July and none is planned for the immediate future.
13	Ferrochromium	S.T.	-	0	-	-	-	
	Total Ferro-Alloys	S.T.	-	0	-	-	-	
<b>ALLOY STEEL</b>								
16	Polished Drill Rods	S.T.						The alloy steel production program shown corresponds exactly to stated Soviet Third Protocol requirements. Fulfillment of the program has been made dependent, however, upon liftings of particular items included being sufficiently large to prevent the accumulation of excessive stocks. For the present, production schedules have been established at the rate called for by the program in the case of all items except hot rolled bars and billets (aircraft steel). Large stocks of hot rolled alloy bars and billets have made it seem wise to hold production to a low level. However, as liftings in July, and prospective liftings in August and September have been, or are, under expectations, this production rate will probably not be appreciably increased in the immediate future.
B	High Speed	S.T.	96	9	9	113	87	
0	Other Alloy	S.T.	65	2	4	90	83	
17	High Speed Tool Steel	S.T.	4,480	483	11	134	3,997	
18	Tool Steel							
B	Alloy X12	S.T.	672	64	10	125	604	
0	Alloy X12M	S.T.	672	51	8	100	621	
D	Other Alloys	S.T.	3,382	637	19	236	2,745	
B	Die Blocks	S.T.	1,468	0	0	0	1,468	
19	Cold Finished Bars	S.T.	10,894	927	9	113	9,967	
20	U.S. Alloy Bars and Billets	S.T.	67,569	3,130	5	63	64,439	

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Nuclear Proliferation Data Exchange Act

Protocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Hill in D.E.A. July 1, 1943 - July 31, 1943	Percent of 3rd Prot. Program Completed as of Aug. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.:100)	Balance to be Produced as of Aug. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>ALLOY STEEL (Continued)</b>								
73	Stainless Steel	S.T.						
A	Sheets	S.T.	2,671	0	0	0	2,671	
B	Strip	S.T.	336	176	52	690	160	
C	Bars	S.T.	756	0	0	0	756	
75	Steel Wire	S.T.						
A	Ball Wire	S.T.	6,963	233	3	38	6,966	
B	Strip	S.T.	0	16	-	-	(16 Kesses)	
C	Other Alloy	S.T.	0	115	-	-	(115 Kesses)	
77	Steel Alloy Tubes	S.T.						
A	188 Cr., .05 Ni.	S.T.	994	0	0	0	994	
B	1.66 Chrome	S.T.	8,609	753	9	113	7,872	
C	Carbon .25 Nioy., Pipe	S.T.	0	7	-	-	(7 Kesses)	
D	S.S. Ball Bearing Tubes	S.T.	5,376	0	0	0	5,376	
78	Stainless Steel Wire	S.T.	0	195	-	-	(195 Kesses)	
79	Special Alloy Wire	S.T.	0	59	-	-	(59 Kesses)	
	Total Alloy Steel	S.T.	114,603	6,447	6	75	107,756	See preceding page for comments.
<b>CARBON STEEL</b>								
101-B	Rolls, Accessories and Other Railway Material	S.T.	420,270	13,212	3	38	407,058	
10	Copper clad Strips (Bimetal)	S.T.	11,120	0	0	0	11,120	
16A	Plain Carbon Tool Steel and	S.T.	6,807	567	8	100	6,240	
A	Drill Rod	S.T.						
19D	Plain Carbon Bullet Core	S.T.	11,200	2,507	23	288	8,693	
24	Timplate	S.T.	60,000	841	1	13	59,159	The carbon steel production program shows is a nucleus program. The over-all tonnage involved is considerably in excess of the amount which seems likely to be lifted during the Third Protocol period. Actual production is, therefore, at a rate far under that called for by this program. Only such items and quantities are currently being produced as seem most likely to be shipped.

SECRET

Nuclear Proliferation Data Exchange Act

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Regraded Unclassified

**SECRET**  
 Restricts Production Under Espionage Act

Pro- to- col Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. July 1, 1945 - July 31, 1945	Percent of 3rd Prot. Program Completed as of Aug. 1, 1945	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.-100)	Balance to be Produced as of Aug. 1, 1945 To Complete 3rd Protocol Prod. Program	Comments
<b>CARBON STEEL (Continued)</b>								
	Other Carbon Steel	S.T.	36,000	6,447	18	205	29,553	See preceding page for comments.
	Total Carbon Steel	S.T.	545,397	23,664	4	50	521,733	
<b>CHEMICALS</b>								
16	Phenol	S.T.	12,000	0	0	0	12,000	The chemical production program is a maximum program and is to be fulfilled only to the extent that overseas shipments justify. At the beginning of July, large stocks of all items except ethyl alcohol were held in this country (4,118 s.t. phenol; 4,547 s.t. ethylene glycol; 3,410 s.t. methanol; 2,566 s.t. urotropine; 2,466 s.t. glycerine; 4,077 s.t. caustic soda; 1,400 s.t. acetone; and 18,058 s.t. "other chemicals"). It was decided, therefore, to make no July allocations of phenol, ethylene glycol, methanol, urotropine, glycerine, and acetone, and to make only small allocations of caustic soda and various minor "other chemicals". An appreciable allocation was made only for ethyl alcohol, in the case of which the U.S.S.R. made special arrangements for lifting the quantity made available.
38	Ethylene Glycol	S.T.	3,360	0	0	0	3,360	
45	Methanol	S.T.	6,720	0	0	0	6,720	
46	Urotropine	S.T.	6,720	0	0	0	6,720	
61A1	Glycerine	S.T.	6,720	0	0	0	6,720	
61A3	Caustic Soda	S.T.	40,320	761	2	25	39,559	
38A	Ethyl Alcohol	S.T.	107,520	17,442	13	163	95,778	
61A5	Acetone	S.T.	6,720	0	0	0	6,720	
61A	Other Chemicals	S.T.	12,096	307	3	38	11,789	
	Total Chemicals	S.T.	202,176	14,810	7	88	187,366	
<b>MARINE AND SUBMARINE CABLE</b>								
1	Marine Cable	KM.	1,200	90	8	100	1,110	Despite relatively large stocks, marine and submarine cables have been put under production at the rate called for by the Third Protocol program. Because of lead factors, deliveries against any contracts had not begun by the end of July. Such deliveries as are shown were against contracts placed during the Second Protocol period.
2	Submarine Cable	KM.	600	0	0	0	600	
	Total Marine and Submarine Cable	KM.	1,800	90	5	63	1,710	

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**SECRET**  
 Restricts Production Under Espionage Act

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**SECRET**

Business Publications Mail Exchange Act

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. July 1, 1943 - July 31, 1943	Percent of 3rd Prot. Program Completed as of Aug. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Aug. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b><u>POWER AND OTHER CABLE</u></b>								
7A	Insulated Cable and Wire (Copper Content)	S.F.	21,516	2,547	12	150	18,969	Very large stocks, over 50,000 s.t. of insulated and bare copper cable and wire, were held in this country on U.S.S.R. account at the beginning of July. At recent rate of liftings, this quantity totals more than twelve months' shipping requirements. Production against new contracts is, therefore, being held far below the rate called for by the Third Protocol program. The large July deliveries of insulated cable were against uncompleted Second Protocol contracts. As there were few carry-over contracts for bare cable and wire, deliveries of this type material were very small.
7Aa	Copper Cable and Wire (Copper Content)	S.T.	20,000	6	-	-	19,994	
	Total Power and Other Cable	S.T.	41,516	2,553	6	75	38,963	
<b><u>MISCELLANEOUS MATERIALS ITEMS</u></b>								
80	Sheet Fiber	S.T.	1,000	180	18	225	820	No requisitions have been submitted for parchment paper, condenser paper and cigarette paper.
83	Parchment Paper	S.T.	1,680	0	0	0	1,680	
83A	Condenser Paper	S.T.	146	0	0	0	146	
83B	Cigarette Paper	S.T.	336	0	0	0	336	
85	Other Materials and Their Products	\$	5,000,000	-	-	-	-	The production program shown is a serious program. All orders counted against this program are new orders. So far only a few have been submitted; because of lead factors no deliveries have taken place against these.
<b><u>INDUSTRIAL AND RELATED EQUIPMENT</u></b>								
15A	Oxide Carbide Tires and Blanks	\$	3,000,000	269,875	9	113	2,730,125	See following page for comments.
15B	Small Cutting Tools	\$	15,000,000	649,836	4	50	14,350,164	
15C	Resawing Tools	\$	3,000,000	180,151	6	75	2,819,849	

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Business Publications Mail Exchange Act

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Business Permissible Under Espionage Act

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. July 1, 1943 - July 31, 1943	Percent of 3rd Prot. Program Completed as of Aug. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Aug. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>INDUSTRIAL AND RELATED EQUIPMENT</b>								
(Continued)								
57B	Abrasive Products	\$	4,000,000	183,370	5	63	3,816,630	<p>In the case of several items included in the industrial equipment category (e.g. machine tools, various industrial equipment, and power equipment) enough orders have been under schedule sufficiently long to insure relatively large deliveries in July. In the case of other items, notably small cutting tools, measuring tools, abrasive products, electric furnaces, wire drawing equipment, rolling mills and rolling mill equipment, etc., requisitions have been submitted so recently that July deliveries were necessarily small because of lead factors. In the case of some items, requisitions are being held by the OIA because of the danger that stocks will become excessive. Of the various types of equipment included in the industrial equipment category, deliveries in July were below reasonable expectations only in the case of forging presses and hammers and bearings. Forging presses and hammers figures for July are preliminary; when full reports are received from fabricators, it probably will be found that the total made available was considerably greater than the \$258,000 shown. Anti-friction bearing deliveries were under the programmed rate because many outstanding orders are for types of bearings which cannot be produced in the quantities specified, or have been placed with fabricators who do not have adequate facilities for their production. An effort is currently being made to bring about the substitution of other orders for these. If this effort proves successful, accelerated deliveries may be expected in future months.</p>
60	Machine Tools	\$	120,000,000	11,736,200	10	125	108,263,798	
61	Electric Furnaces	\$	12,000,000	186,856	2	25	11,813,144	
64A	Rolling Mills and Equipment	\$	16,000,000	35,416	-	-	15,964,584	
64B	Presses, Forges, Hammers and Related Equipment	\$	30,000,000	958,700	3	38	29,041,298	
64C	Wire Drawing Equipment	\$	2,000,000	0	0	0	2,000,000	
65	Various Industrial Equipment	\$	120,000,000	11,093,751	9	113	108,906,249	
66	Control Inst. and Testing Machines	\$	1,700,000	273,688	16	200	1,426,312	
69-70	Anti-Friction Bearings	\$	15,000,000	857,176	6	75	14,142,824	
111	Block Signal System	\$	14,591,500	17,040	-	-	14,574,460	
140	Power Equipment	\$	75,000,000	7,500,974	10	125	67,499,026	
	Total Industrial and Related Equipment	\$	431,293,500	33,938,637	8	100	397,354,863	

**SECRET**  
Business Permissible Under Espionage Act

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Discloses Potentials Under Espionage Act

- 6 -

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. July 1, 1943 - July 31, 1943	Percent of 3rd Prot. Program Completed as of Aug. 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot. Sched. x100)	Balance to be Produced as of Aug. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<u>MISCELLANEOUS EQUIPMENT ITEMS</u>								
67A	Abrasive Grain	S.T.	4,000	797	20	750	3,203	
68A	Graphite Electrodes	S.T.	5,757	354	6	75	5,403	
68B	Other Graphite Goods	S.T.	1,691	49	3	38	1,642	
69C	Graphite Powder	S.T.	1,190	131	12	150	989	
7E	Tires, Tubes, Other Rubber Products (Rubber Content)	S.T.	40,380	4,327	11	134	35,993	
8D	Metallic Cloth and Screen	\$	1,000,000	103,462	10	125	896,538	
9A	Emergency Equipment	\$	75,000,000	-	-	-	-	The U.S. has offered to supply up to \$25,000,000 of emergency equipment provided the Soviet Government certifies the need for particular items totaling this amount, and provided specifications are acceptable to the War Production Board. So far only a few requisitions have been placed under this category. Because of lead factors, no deliveries took place against these in July.

War Production Board  
Foreign Division  
Review and Analysis Branch  
August 14, 1943

SECRET

Discloses Potentials Under Espionage Act

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## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: August 21, 1943, 4 p.m.

NO.: 1165

It is requested that reference be made to the third paragraph of telegram No. 1487, dated August 17, 10 a.m., from the Embassy.

The Embassy is requested to ask Adler to discreetly ascertain, if possible, the character of the purchasers of the recent large sale of certificates - i.e., (1) Was the distribution fairly general among the public? or (2) Were the purchases made in high official and business circles and by banks? Adler is also requested to give his opinion concerning the possibility that knowledge of the proposition (see No. 1005 of July 31 from the Department) might not have had some influence in the purchasing of the certificates.

WELLES  
(Acting)  
(AAB)

OFFICE  
SECRETARY OF TREASURY

1943 AUG 23 AM 9 28

TREASURY DEPARTMENT

COPY NO. 2

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BRITISH MOST SECRET  
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OPTEL 275

Information received up to 10 A.M. 21st August.

1. NAVAL. 2 of H.M. Cruisers with two destroyers sank 7 North Bound Landing Craft off Scalea on 18/19.
2. AIR OPERATIONS. Regensburg. U.S. crews of REGENSBURG Aircraft reported meeting 150 enemy aircraft of various types during their flight. 37 crew of these aircraft forced down in the Med. on 17th have been saved by the Air Sea Rescue Service. 20th. Escorted Mitchells and Bostons respectively attacked the Dornier Air Frame Factory at Flushing and the Railway Centre at Abbeville. 1 Mitchell missing. Southern Italy. 18/19. Heavy bombers attacked Cotrone Railway Centre and on 19 a total of 86 Liberators and 148 Fortresses with a large escort of Lightnings dropped a heavy tonnage of bombs on Foggia Railway Centre in face of strong Fighter and anti aircraft opposition. 8 bombers and 3 Lightnings lost. 31 enemy aircraft reported shot down. 51 Marauders with escort of 46 Lightnings attacked Railway Centre and town of Sapriy. Mitchells with escort of Lightnings bombed Marshalling Yards at Salerno. Tunisia. Bizerta. Ref yesterdays Telegram 11 enemy aircraft were destroyed by Fighters and A/A fire. 18/19. About 10 enemy aircraft again attacked Bizerta. 3 claimed destroyed by A/A and 2 by Beaufighter. Burma. 18, allied medium bombers attacked Katha Bhamo Airdrome.

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COPY NO. 13

OPTEL NO. 278

Following is supplementary resume of operational events covering the period 13th to 21st August, 1943.

### 1. NAVAL

11 Destroyers and 2 A/A ships reported with "TIRPITZ", "SCHARNHORST" and "LUTZOW" in ALTFENFJORD. "SCHEER" located SWINEMUNDE 19th.

MEDITERRANEAN. During final Allied drive land objectives in the MILAZZO, MESSINA and TAORMINA areas were bombarded by H.M. and U.S. Cruisers and Destroyers and H.M. and Dutch Gunboats. H.M. and Allied Warships maintained constant and unopposed patrol off Italian Coast. H.M. Submarines sank one 7,000 and one 2,500 ton Merchantman, torpedoed a ship of 6,000 tons, drove a tanker ashore and bombarded a Resin Factory on the Greek Mainland. Ships are being efficiently fuelled at AUGUSTA where former Civilian Staff of Oil Installation is re-employed. At PALERMO, Aqueducts and Municipal Electricity Service working normally. Plenty of Italian labour for harbour work. About 600 German and 600 Italian mines were captured at TRAPANI.

SUBMARINE WARFARE. Estimated 55 U-boats at present operating in ATLANTIC and not more than 6 in INDIAN OCEAN. 8 Italian submarines reported available for blockade running to FAR EAST. SUMMARY of Anti-Submarine attacks in August reported up to noon 18th: Number of attacks by shore-based aircraft - 30, by carrier borne aircraft - 9, by warship - 24, Sunk and probably sunk by aircraft - 6, by warships - 3. Possibly sunk by aircraft - 1, by Warships - 2. Probably damaged by aircraft - 2. Possibly damaged by aircraft - 1.

SHIPPING CASUALTIES. From 14th to 20th inclusive, 7 ships were reported torpedoed: One U.S. ship (sunk) and a Panamanian Tanker (still afloat) in convoy South of NEWFOUNDLAND, One British ship sunk in the SOUTH ATLANTIC, 2 British ships torpedoed in the INDIAN OCEAN and 2 U.S. ships (one arrived and one in tow) in the PACIFIC. In Aircraft attacks: 1 British ship was sunk and 2 damaged (but proceeding) in convoy Northwest of LISBON and in the MEDITERRANEAN, 1 British ship was sunk and 1 British and 2 U.S. ships (in convoys) and 1 Dutch Ship were all damaged but reached port.

TRADE. During week ending 15th, 8 ocean convoys arrived destinations without loss. Imports in convoy into United Kingdom week ending 24th - 928,000 tons including 363,000 oil.

### 2. MILITARY

SICILY. Final count prisoners not yet made. Estimated 130,000 prisoners captured including 7,000 German to which must be added many thousands Italians especially from local Coastal Divisions who left their units and now in plain clothes. Casualties, killed and wounded, approximately 30,000 of which 23,000 German. Impossible to estimate quantity of war material captured. Tanks, guns and small arms lie scattered all over Island. Approximately one third of German force casualties and two thirds evacuated to Mainland.

ITALY. German Divisions. Detailed disposition German forces evacuated from SICILY representing parts of 4 Divisions uncertain but some probably at present concentrated in toe of ITALY. Other locations Southern and Central ITALY as in OPTEL No. 270 but probably some tendency recently to regroup forces for increased protection of West Coast.

BURMA. Japanese have reinforced MAUNGDAW. Now total 1,200 troops. Enemy active in valleys 8 miles Northeast of MAUNGDAW where unsuccessful attack was made against Allied positions on 14th. Some indication of concentration and forward movement of enemy troops East of MAYU RIDGE. HUKWANG Valley Area. 150 Japanese and elements of Burmese traitor army reported 21 miles Northwest of MAUNGKIAN and force of 200 enemy troops 2 miles South of this place.

### 3. AIR OPERATIONS

WESTERN FRONT. Night. Out of 1,478 Sorties, 58 aircraft missing. Heavy and successful attack on PEENEMUNDE Experimental Station where many buildings and larger portion of hutted camps for personnel destroyed. In two raids on

MILAN damage very severe. Whole town without gas and most areas without water and light. Industrial damage heavy including ALFA ROMEO, ISOTTA FRANCHINE, BROWN BOWMAN and General Electric Company. Exceptional number of workshops of small firms destroyed. Rail dislocation considerable.

TURIN. Considerable damage, details not yet known. Day. Very active week for U.S. Fortresses. Extremely successful attack on MESSERSCHMIDT Fighter Assembly factory at REGENSBURG in the fact of persistent attack on route by enemy fighters. All 6 main workshops affected (5 severely) together with final assembly shop. At SCHWEINFURT several buildings of KEUGEL Fischer and Kugellager (Ballbearing Works) and Clohtel and Sachs (aircraft components) received direct hits. Main station and rolling stock heavily damaged. Heavy attacks on airfields in Northern FRANCE and Low Countries and on Le Bourget Airfield. 5 other attacks on airfields in FRANCE and Low Countries by massed formations of Allied bombers. Well concentrated low level attack by Bostons on Denain Steel and Armament Works. Severe damage. ABBEVILLE Railway Centre twice attacked as well as DORNIER Airframe Factory at FLUSHING. Total Allied casualties in all these operations - 110 aircraft.

Enemy. Night. Activity on 3 nights involving total of 88 enemy aircraft of which 12 were destroyed. 2 were also shot down by day.

ITALY. In second attack on ROBE Railway centres dislocation was again considerable. Since fall of SICILY, airfields and sea, rail and road communications in Southern ITALY have been ceaselessly attacked in considerable strength. 2 heavy attacks on FOGGIA area and other objectives included 6 more centres of communications.

RUSSIA. As the Russians close in on KHARKOV and press onwards from OREL towards BRYANSK, the German Air Force seems to be falling back to Airfields on the DNIEPER from KNIEPER PETROVSK to KREIENCHUG and thence Northwards through KONOTOP to the line of the DESNA. This enforced move of essential ground organisations must be having adverse effects on the operational efficiency of flying units. There is reason to think that the German Air Force is fully extended along the whole front from SMOLENSK to the Sea of AZOV. Main concentrations are in the KHARKIV and BRYANSK-SMOLENSK areas.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS OF ALLIED AIR ATTACKS

VIENNA NEUSTADT. All large buildings in STEYR DANLER Works affected, two very large shops badly damaged. In Aircraft Works one large hangar destroyed, two others badly damaged. Some aircraft destroyed or damaged, also Workmen's dwellings and barracks. One large shop badly damaged in Henschel Factory.

FLORESTI COLUMBIA-AQUA REFINERY. Severe damage to Pilts, Crude Oil Distilling Plant devastated. Cracking Plant and Stabiliser Installation badly damaged. 9 storage and at least 9 Process tanks destroyed.

ASTRA-ROMANA, PHOENIX and LUMINA GROIA. This group has suffered considerably. In ASTRA-ROMANA refinery two important furnaces destroyed and Lubricating Oil Plant damaged. 15 tanks of various types destroyed. In PHOENIX Refinery Boiler house severely damaged. 4 tanks destroyed.

VEGA REFINERY. 6 large storage tanks and 11 process tanks destroyed.

CREDIT HINIER REFINERY. 20 storage tanks of varying capacities destroyed.

STEUA-ROGAN PIMPTIN STATION. Plant severely damaged, 2 warehouses and 1 storage tank destroyed. Damage to railway tracks and tank cars at several points.

5. HOME SECURITY

Civilian casualties week ending 18th. Killed - 91, seriously wounded - 167.

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BRITISH MOST SECRET  
U.S. SECRET

OPTEL No. 276

Information received up to 10 A.M., 22nd August, 1943.

1. NAVAL

One of H.M. Destroyers which was reported torpedoed in OPTEL No. 269 is now known to be undamaged. Polish submarine on 15th torpedoed a 5,000 ton tanker off BARI and sank or badly damaged a 6,000 ton passenger ship.

2. AIR OPERATIONS

WESTERN FRONT. 21st. Fighter bombers damaged a goods train and 13 locomotives in FRANCE and BELGIUM and destroyed a JU 88. One was lost. 21st/22nd. 10 Intruders sent out - two R-boats destroyed and an armed trawler probably destroyed off Northern FRANCE.

ITALY. 19th/20th. FOGGIA again bombed by 49 Wellingtons which dropped 93 tons. 37 other Wellingtons dropped 71 tons on communications between SAPRI and PAOLA.

20th. 86 medium bombers dropped 97 tons on railway centres in the CASERTA area and at RENEVECTO causing considerable damage.

SARDINIA. 20th. 48 fighter bombers attacked CAGLIARI/MONSERRATO airfield.

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