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November 1, 1943
10:58 a.m.

1 ✓

HMJr: Hello.

Operator: Mr. Crowley is out of the city today. He will be back tomorrow.

HMJr: Who's on the wire?

Operator: His secretary.

HMJr: Let me talk to her.

Operator: Go ahead.

HMJr: Hello.

Miss Beryl Roberts: Hello.

HMJr: Mr. Morgenthau speaking.

R: Yes, Mr. Morgenthau.

HMJr: I'm just back from the Middle East and I'm very anxious to see Mr. Crowley.

R: Yes.

HMJr: Can you make an appointment for him?

R: Surely. Uh huh.

HMJr: Well, what I'd like to do is -- as I understand from the papers Mr. Cox is his General Counsel now, isn't he?

R: Yes, he is.

HMJr: Well, I'd like to see Mr. Crowley, Mr. Cox and Mr. Lauch Currie.

R: Uh huh.

HMJr: Now, if it would be convenient for them to come to see me -- say at 10:00 tomorrow morning -- has he got an appointment at 10:00?

R: No, I don't think so. He has -- I think he has -- wait a minute -- let me look on my book -- just a second.

R: Well, he does have one at 10:00 but I think that he could change that.

HMJr: Well, how long would that last? I can't....

R: I don't think it would last more than -- oh, fifteen or twenty minutes.

HMJr: Sure.

R: I think he could be there at 10:30 if that would be....

HMJr: Let's say 10:30 and I think he'd better allow an hour and it's all to do with lend-lease.

R: All right. Well, I'll ask him to be there then and then I'll confirm it just as soon as he gets in.

HMJr: It's all ~~lend~~lease.

R: Yes, sir. All right. Well, I'll tell him that, Mr. Morgenthau.

HMJr: And I want to give him the story just as soon as I can give it -- get it to him.

R: Yes. All right.

HMJr: Thank you.

R: You're welcome.

November 1, 1943
11:00 a.m.

GROUP

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

H.M.JR: Well, Harry, here is a nice little present for you, seriously. (Copy of a telegram from Moscow, No. 1794, dated October 31, 1943, handed to Mr. White by the Secretary.)

Will you send a nice message from me to Hull thanking him today?

MR. PAUL: I want to talk to you about the Argentine situation.

H.M.JR: This is going to be largely social this morning.

MR. PAUL: I do want to talk with you about that sometime when you get around to it. It is very important.

H.M.JR: Well, I can go on for about half an hour without going to sleep. It is nothing personal, just my condition, that is all.

Norman, you took good care of things?

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MR. THOMPSON: I was sorry not to get Mrs. Morgenthau down in time, but you moved too fast for us.

H.M.JR: We did thirty-five hundred miles yesterday.

MR. PAUL: How many hours?

H.M.JR: Nine and seven - sixteen - between sixteen and seventeen hours.

MR. WHITE: That is beside what my friend did on his own. (Laughter)

MRS. KLOTZ: Harry gained weight.

MR. WHITE: Oh, sure; I don't know how.

H.M.JR: The largest North African chieftain gave Harry a birthday party. We had dancing girls, and food which you had to eat with your right hand.

MRS. KLOTZ: What did you do with your left?

H.M.JR: Kept it like this (puts hand in pocket). The chief tribesman in French Morocco has a hundred thousand tribesmen. He was very nice. He waited until Harry's birthday to give him this big party. Right?

MR. WHITE: Practically.

MRS. KLOTZ: Was it his birthday?

H.M.JR: It was, but he didn't know it. But it was quite a thing. First you wash your hands very carefully, and then you do the whole thing with your hands - with this finger (gesticulates). They had squab, chicken, and vegetables. They gave us a spoon for the vegetables. He knew somebody was left-handed.

Well, Norman, is everything in order?

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MR. THOMPSON: Yes, sir.

H.M.JR: Good.

Mr. Bell?

MR. BELL: Mr. Byrnes had a couple of meetings while you were away on post-war matters. It started out as a result of John Blandford's suggestion that someone call the various Departments interested in soldier legislation together for discussion, particularly the housing end. At that meeting the subject of cancellation of contracts came up. So Byrnes called another meeting on it at which time he said that he had talked to the President about the whole post-war problem, and apparently had seen your memorandum to Rosenman. He said that he didn't want any over-all committee at this time, but he had told Byrnes to handle the matter as the various subjects came up from time to time.

Friday of that week I talked to Byrnes coming from Cabinet about the matter, and he said that he had seen McConnell's memoranda and his outline of an organization which he thought was the best job that had been done, and he thought that an organization would be necessary later on. He thought for the moment that they had better do it just like he started out, with these two conferences.

I have learned since that the Budget is after the over-all control in somewhat the same setup as we presented.

I asked Byrnes if he didn't want to see McConnell and discuss the whole picture and he said, "Yes," that he would like to see him very much.

H.M.JR: From the time we left until after we were out of Puerto Rico, I never saw an American paper. If the Washington columnists knew how unimportant they were abroad, I think they would shrivel up considerably. It was very good for my soul to realize you could live without the destructive attitude of Washington. You get along beautifully.

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MR. BELL: The McConnell memorandum appeared in the Wall Street Journal last week.

MR. PAUL: The exact setup?

MR. BELL: The exact setup of the memorandum, taking the objective part of it, and the comments and the Departments that were interested, not the memorandum of comment, nor the organization chart.

H.M.JR: Is McConnell still with us?

MR. BELL: Yes. He hasn't anything to do, of course, and is down on his farm subject to call at any time. He called me Saturday and said he would sit by and wait for further instructions.

H.M.JR: What would you think of bringing in McConnell to sort of watch some of this Lend-Lease stuff and some of that? Do you think he would be good?

MR. WHITE: I doubt it; there are too many people on it, too much of a background.

H.M.JR: They are coming at ten-thirty tomorrow.

MR. WHITE: We had a meeting scheduled for eleven, but when I heard you had a ten-thirty - they pushed us for a meeting partly because of things that had already been discussed, and partly because of the Army.

H.M.JR: Can we delay you a half hour?

MR. WHITE: That is perfectly all right. I delayed until I heard from you as to how long you thought you would take.

H.M.JR: I think about an hour.

MR. BELL: That is perfectly all right.

H.M.JR: I never thought they would let us do this thing.

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MR. BELL: Well, it is developing, so I want to keep an eye on it.

H.M.JR: Mr. Paul?

MR. PAUL: Well, I have several things to take up with you. I understand you read about the debacle of the tax bill in Africa.

H.M.JR: No, I only got that yesterday.

MR. PAUL: They are out about two billion dollars, consisting of about a billion and a half excises and about five hundred thousand corporate taxes.

H.M.JR: Do you want to stay behind?

MR. PAUL: I also want to talk with you at your convenience about a very important problem, freezing Argentina, a problem that has gone to the President. So far he has refused to do anything. I think it is very important and you should know the background and what has happened because it might come up any moment.

H.M.JR: Could Harry be brought up-to-date?

MR. WHITE: I have been, this morning and last night.

MR. PAUL: He is pretty well up-to-date. I will have a memorandum for you shortly after lunch.

H.M.JR: I doubt if I will do much this afternoon.

MR. PAUL: Well, there is nothing to do immediately, but I don't want you to get caught without knowing the facts.

H.M.JR: Well, who does the freezing in the Treasury?

MR. PAUL: I did it. We have been taking it up intensively with State, and State is wobbling all around. Hull advise

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against it by cable from Moscow, and the President finally decided not to do it for the moment, but I think his decision is very much on the fence.

H.M.JR: Well, I will take it up just as soon as I can. He won't be back; he is out voting, you see, so he won't be back tomorrow. We will have time tomorrow.

MR. PAUL: That is right. Well, it is important, because money is moving out all the time.

H.M.JR: Well, what can I do?

MR. PAUL: I don't think you can do anything now until some more facts develop, because Hull has flatly disagreed with the Treasury. We put it up pretty strongly in a joint memorandum from Stettinius and me to the President. We showed the facts, and since that time Dan and Stettinius wrote another memorandum; and the President, on the basis of the last memorandum, said no for the present.

H.M.JR: What can I do?

MR. PAUL: I don't think you can do anything. I just want you to know.

MR. BELL: I think one important thing is, you have to watch - you are not freezing Argentine funds formally.

MR. PAUL: We released those this morning.

MR. BELL: I was going to say, you couldn't do that very long.

H.M.JR: When will you have a memorandum for me?

MR. PAUL: About two-thirty.

H.M.JR: Will you give it to Mrs. Klotz? I may work at the house this afternoon and may have you come up; if you get it to Mrs. Klotz, she can bring it up.

Anything else?

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MR. WHITE: I am inclined to think we are in the clear on this as far as the records are concerned. I gather from Dan that this originated with the Argentine Ambassador, who has now flopped over. I think if we can only stand pat--

MR. BELL: You mean the American?

MR. PAUL: Armour is the one.

MR. BELL: Mr. Prebisch is out. He is a Central Banker, you know.

H.M.JR: I take it Paul thinks it is a good point. I would like to know about it.

MR. PAUL: I think it is important that you know what has gone on. Undoubtedly the first time you see the President he will bring it up.

H.M.JR: O.K.

MR. WHITE: There are a number of things, but they can all wait.

H.M.JR: Mr. Blough?

MR. BLOUGH: The Ways and Means Committee was debating a four-cent first class postal rate when I left down there a few minutes ago, which indicates the level to which things have gone.

H.M.JR: Did you fellows hear what I said from Africa about paying for the war now? (General confirmation)

MR. PAUL: You might be interested to know this about the tax bill, that Friday the Committee called up Smith. They are playing up the reduction of expenditures very strongly. They called him up. He testified all morning and then Marriner Eccles came up and testified all afternoon. When Marriner got through they said the Treasury people were pikers.

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MR. GASTON: Marriner recommended thirteen billion, eight hundred million.

H.M.JR: Did Smith tell them how they could get ten billion?

MR. PAUL: Smith wasn't very satisfactory. He didn't say they could get ten billion. He wouldn't say what they could get, but he said whatever it was, it wasn't enough to reduce taxes. He was a very poor witness.

H.M.JR: Let me say this, after having a chance to think this thing over; after all, we gave them a good recommendation. The fact that they don't take it is their fault, and not ours.

MR. PAUL: That is what annoys them, of course.

H.M.JR: I read an editorial somewhere--I guess in the Washington Post. But we gave a good recommendation. Now, if they want to put through two billion instead of ten--

MR. PAUL: They decided not to do that right off the bat.

H.M.JR: After all, we have done our work. I don't personally feel concerned. I don't feel that if I were here I could have helped one iota. Do you feel I could have helped if I were here?

MR. PAUL: No, I don't think anybody could have. I don't think there is a soul that can do anything now except the President. You couldn't have done a thing if you had been here that I can see. The last significant development was that they put it on the line, "Will you take two billion without anything more, or do you want a sales tax added to that?" And after consultation with Byrnes and Vinson I reported back that we did not want a sales tax. So the tax was then defeated, sixteen to eight.

H.M.JR: The sales tax?

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MR. PAUL: Yes.

H.M.JR: I didn't know that. Well, I have a clear conscience.

George?

MR. HAAS: The excess reserve problem is up again. I think something has to be done to provide more excess reserves if we are going to hold the existing pattern of rates. Dan has been working on that.

H.M.JR: We will skip you, Smith.

MR. SMITH: I have the clippings on the trip; I will bring them in. Aren't you sorry you skipped me?

H.M.JR: I won't know until I see the clippings.
(Laughter)

MR. GAMBLE: I have them in much better shape than Mr. Smith has. They are up in room 394, so you can still see them. (Laughter)

H.M.JR: Well, the hottest battle we waged was to get on the air. Get it from Smith, how difficult they made it for us.

MR. GASTON: They messed it up at this end considerably.

H.M.JR: We don't think it was an accident.

MR. GAMBLE: We didn't have any trouble at any time with the broadcasting companies.

H.M.JR: General House, who was Deputy Commander to General Eisenhower, invited us to send a man over. I wish you would be thinking about it. He has got to be very, very much of a Roosevelt New Dealer, just to have him unique out there. So you might be thinking about it.

MR. WHITE: Were you going to send some accountants out there without waiting for further request?

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H.M.JR: It would be a further request. We ought to do something about sending accountants to check up on AMGOT. General Holmes was to invite us to send out accountants.

MR. WHITE: General Holmes is going to be kicked upstairs.

H.M.JR: You have heard that? Where is he going to be kicked to?

MR. WHITE: Here, somewhere in the United States.

H.M.JR: Well, that is no loss to the war. He ought to go back to the State Department.

MR. BELL: Are they using the accountants they have?

MR. WHITE: They have some; I don't know how many they are using. They are using some accountants, and they welcomed the idea wholeheartedly. They thought that you would pick a couple of your men and send them out for a couple of months.

MR. BELL: Just as civilians? We have two good men over there.

H.M.JR: In uniform?

MR. BELL: Banning and Colonel Bonnevale.

H.M.JR: What are they doing?

MR. BELL: Banning is with Foley, and Bonnevale was with the civilian setup.

MR. WHITE: It is more a case of having the Treasury satisfied with the accounting system they had. So even if those fellows were there, it wouldn't quite fill the bill.

MR. GASTON: Banning was a Chief Accountant over at Farm Credit. He came over here to the Treasury.

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MR. WHITE: Why were very eager to have you send someone.

H.M.JR: Well, we will get together after a while, Ted.

MR. BELL: Did you tell the Secretary you have a conference?

MR. GAMBLE: We have our national conference next Tuesday.

H.M.JR: Are you going to introduce them to the President?

MR. GAMBLE: We were waiting for your return Tuesday and Wednesday, the 9th and 10th.

H.M.JR: Tuesday and Wednesday?

MR. GAMBLE: Mr. Bell and I are going to New York on Friday to meet with half a dozen of the chairmen to discuss the national meeting generally.

H.M.JR: I will see what I can do.

MR. GAMBLE: Fine, and when you get time to go to room 394, in addition to the coverage, you can get brought up to date on everything in the mill on War Bonds to the end of the year.

H.M.JR: After I see Paul, which shouldn't take but a few minutes, I would like to go up there and see them.

MR. BELL: I would like to have the bankers come here on the 15th and 16th, after this meeting.

H.M.JR: Let's practice what we preach. Instead of Miss McCathran's being in the meeting and showing me the map which is made every day, let's have it in the outside office where anybody can look at it. (General nods of agreement) She can keep it up-to-date.

One of the things which we feel is that they have all these war rules - secret, secret - which they just take from radio. Nobody can see these except about four

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offices. Such a thing as letting a private know how the war is going on--oh, no.

You might just as well keep it in the outer room. Miss McCatheran can keep it up-to-date, if anybody is interested.

MISS KLOTZ: She gets the stuff from the newspaper.

MR. SULLIVAN: All of the Army officers who were engaged in selling bonds to the Army in the Third Service Command are meeting in Baltimore on Wednesday. General Connolly called me and thought it might be a good sounding board if you wanted to make a statement.

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

MR. SULLIVAN: I told them I didn't know. He will call me tomorrow.

H.M.JR: Wasn't that what we were asked once before?

MR. SULLIVAN: I went over last March for you.

H.M.JR: The only thing I have to say which is good I said on the air; everything else I have is criticism. I don't think I'll make any statements. I have said all the good things; everything else I have to say is for the President or War Department crowd. Everything else I have is criticism.

MR. SULLIVAN: Clifton Mack has been sending you a weekly report on the African program. Do you want to continue that on a weekly basis?

H.M.JR: No, I don't read it any more.

MR. SULLIVAN: Shall I have them discontinue it?

H.M.JR: Yes.

MR. SULLIVAN: I have been asked to go to Macon, Georgia, to present an Army flag on Armistice Day. There will be about 17,000 employees of the Warner-Robins Air Depot there. I think Senator George asked them to invite

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me. It is a matter of indifference to me. Do you want me to go?

H.M.JR: That will be good.

MR. SULLIVAN: All right, I will go.

H.M.JR: How is the new Commissioner doing?

MR. SULLIVAN: I think he is doing very well over there. He is very well liked. He has a mind of his own and inquires into things and takes his work home in the evening and reads it. He will get over that, I suspect! But he has lots of pep.

MR. BELL: For the present he has lots of pep.

MR. SULLIVAN: He has pretty good judgment, I think, and some excellent ideas on what to do around the field. I think he will be a success.

Commissioner Helvering is being sworn in as Judge today at Topeka. You might want to telegraph him.

H.M.JR: All right. Will you write that over my name, please?

MR. SULLIVAN: Yes.

MR. BELL: Will you tell the Secretary what happened to the Lickert Survey money?

MR. SULLIVAN: It went boom. I went up and got approval from Ludlow and Taber. Then when they got into the matter before the Appropriations Committee, the Chairman himself raised some objection as to it, and they were told that we already were going ahead on it.

We had already transferred the money to the Labor Department, and I don't know why they should have done this. Taber sat there and never said a word. Ludlow said that I had been to see him and he had approved it personally. Taber never, never commented at all. So the next morning when I heard about it, I called Taber and asked him if he recalled having approved it to me,

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and he said, "There isn't any doubt at all about that."

Then we went to see Cannon, and Cannon said the Committee was all out of hand. He didn't know what he could do; but he would go to work. Charlie Schoeneman was with me. We got back to the office and started dictating a memorandum to you on this, and before we finished dictating we got a call from the Clerk of the Committee that the Committee had voted and asked the Clerk to call me and ask me to discontinue.

MR. HAAS: I have the other side; I mean, another phase of that same story. You had me working with Burgess in New York. They went into the whole matter very thoroughly. I presented the thing to the Carnegie Foundation and the Rockefeller Foundation. They asked for a memorandum. We worked up something. I think it was worth about \$250,000; it was about a million dollar job.

When this happened, they got wind of that up there. The Foundations are fearful of being tied in to some political fracas. We left it on an informal status, so there is no definite turn-down. But it was turned down informally. They felt scientifically that it was well worth while, but because of the political implications they didn't want to go ahead. This thing was turned down so flat it has practically closed the thing tight.

H.M.JR: I am not worried about it.

MR. THOMPSON: Mr. Taber was told the Ways and Means Committee wanted this. We are going to suffer--I can see that--from now on out on Appropriations.

MR. HAAS: It has a political implication. I don't know what.

MR. SULLIVAN: The only political implication is that one member of the Committee the afternoon before said, "This is just a project to get some jobs for the faithful."

MR. HAAS: I think there is more than that. The people over in the Labor Department think that they don't

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want the Committee to know who is getting the money, what income classes could make political capital of it.

MR. SULLIVAN: Of course, the Committee knew that the AF of L and the CIO were very much interested, and it didn't help with this particular Committee.

H.M.JR: All right. Herbert?

MR. GASTON: Mr. James W. Johnson's appointment as Collector of the Third District in New York was made and confirmed. That is the colored man who is Assistant Collector, and it is on your desk to sign.

The two Senators from Missouri, Truman and Clark, recommended the present Assistant Collector at St. Louis to succeed Hannegan as Collector. John and I have talked it over and found that Hannegan, although he had talked it over with the Senators, didn't think very well of this appointment. The man is not really competent.

We got a note over from McIntyre from the President asking if we shouldn't hurry this thing up and appoint this man. We decided it would not be good business to appoint him. We didn't want him. And Hannegan communicated that to Truman, and surprisingly enough, Truman said, "All right." They will wait a while and maybe find us a better man.

John mentioned this speech on November 11, and that reminded me that it seems to me we might talk a little bit freely when occasion offers about the tax situation. I don't think we can hurt our position at all, and I think the essential of the situation is that we recommended a non-political program with our eyes on the war. Congress is taking a political course with its eyes on the 1944 election. I don't see why John shouldn't talk a little down there about financing the war and taxation.

MR. SULLIVAN: I found out this morning - it is an eight-minute speech.

MR. GASTON: Well, you can get something dirty in, in an eight-minute speech! (Laughter)

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H.M.JR: That kind of puts John on the spot.

MR. SULLIVAN: Well, I am just wondering how much it is going to do for your bond program. You have 17,000 people who live in Senator George's backyard. He lives within twenty-two miles of that town. He has been making a lot of statements lately, and I would want Randolph's opinion as to the technique there. I don't know how much it would help the war bond program if we rapped the Senator down there.

MR. GASTON: Put the people in a mood for more taxes - that is all!

H.M.J: I didn't make the suggestion.

Well, anyway, I think Herbert has a good idea.

MR. GASTON: I just raised it in connection with the speech.

H.M.JR: Herbert, may I say one thing: I don't think there was any Customs man there last night.

MR. THOMPSON: They promised me he would be there. I checked on it and they said he was on his way.

H.M.JR: There was no Customs man there. I think you will find the Customs - I hope I am wrong - doesn't have somebody there to examine every plane that comes in. They are missing an awful lot of merchandise coming in. I can't understand why the Customs are not there.

MR. GASTON: We have an agreement, and I think they are meeting the planes. We have an agreement with the Army to let us know about every ship that comes, so we can have a man there. As far as you are concerned, you would automatically have free entry.

H.M.JR: Not above a hundred dollars.

MR. GASTON: Where you have free entry, freedom from examination, it rests with your conscience as to what you declare.

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H.M.JR: There is gold in them thar hills! White and Smith will tell you. Some purchases were shown to me by people travelling back and forth in Cairo.

There was an Immigration man there. There was no Customs man there last night. I think there should be a Customs man there twenty-four hours. I wouldn't rely on the Army to let us know. I think anywhere that people come into the United States--Fairbanks, Alaska, Washington, D. C.--there should be Customs there and nobody should be able to go ashore unless he makes a declaration. The amount of stuff they bring in is unbelievable.

MR. GASTON: Army men?

H.M.JR: Everybody. The particular thing I am referring to is two civilians. The boys will give their names. We didn't ask them. This man, Bostick, told us what two men bought in Cairo.

MR. BELL: Wouldn't they normally get those at Miami?

MR. GASTON: Not if they don't stop.

MR. BELL: That is unusual, isn't it?

H.M.JR: No.

MR. THOMPSON: That is what they told me, that it was unusual.

MR. WHITE: Who gets free entry, Herbert?

MR. BELL: Diplomats.

MR. GASTON: We do that for some employees of the United States.

H.M.JR: Let's say that Mr. Hull and his party of nineteen come back. I don't see why they shouldn't, on personal things that they buy in Moscow, pay duty the way everybody else does.

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MR. WHITE: The Diplomatic Service has always received free entry. It still remains, they ought to declare it.

H.M.JR: On house-hold goods.

MR. GASTON: All the foreign diplomats come in and go out without declaring anything.

H.M.JR: I am talking about United States citizens.

MR. GASTON: I'll go into this thing about the Washington Airport again.

H.M.JR: And there are many others. Take Fairbanks, Alaska, for instance. They come in there from Russia.

MR. GASTON: Do they?

H.M.JR: They do.

MR. BELL: They pick up the planes don't they--the Russians?

H.M.JR: Yes, but our people come out of Russia that way from Moscow.

MR. WHITE: Not in the north in the winter, but I think in the summer.

H.M.JR: It has been done. Just have a re-check. I don't care--diplomats or anybody else. Harriman, when he came in, took great care to find out.

MR. GASTON: We looked into that case and found there was a man that met the Harriman plane, and we also found the material which Mr. Harriman very laudably wanted to declare was free of duty.

H.M.JR: Well, we'll give you the name of two people.

MR. GASTON: Yes.

H.M.JR: We have made the suggestion that we have a Treasury Customs agent in Cairo.

MR. GASTON: In Cairo?

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H.M.JR: Yes.

MR. GASTON: That would be very good.

MR. WHITE: I thought you were going to use one of the boys over there. Is there not enough work?

H.M.JR: That's right.

MR. GASTON: We have been having some trouble with the Army. We have been working with the business of Army officers' bringing stuff in.

H.M.JR: There is plenty of that--on currency and everything.

MR. GASTON: And not notifying us.

H.M.JR: Oh, no. Will you do that?

MR. GASTON: Yes, very thoroughly.

H.M.JR: All right. Will Mr. Paul and Mr. Smith and Mr. Gaston stay, please?

November 1, 1943. ~~111~~MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

A Customs inspector was at the airport last night ^(Sunday) when you arrived. His name is Minnick. He was with the Immigration inspector when you went back through the waiting room to the field after telephoning and assumed that your remark to the Immigration inspector was meant for both of them. He did not attempt to take your declaration or those of Harry White or Fred Smith because he knew that you were all entitled to free entry and had been told by Lieutenant Wise, in charge for the Army Transport Command, that he was "not supposed to make any examination" of your baggage. It was not physically possible for him to do so since Army rules forbid him to go on the field and your baggage was loaded directly into the cars from the plane. There is a room at the hangar set apart for Customs examination and the agreement with the Army authorities is that baggage of those subject to entry will be brought to that room. He states that he examined the baggage of all members of the crew.

W.S.G.

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When the Secretary returns, ask him if he actually showed these to the President at lunch on November 5 after his return from Italy, Sicily, etc.

Na

11-1-43LEND-LEASE

1. Cessation of Military Lend-Lease to French until Dollar Balances reach Lower Level. They should be treated on same basis as British. (Back this up with reasons.)

2. Re-examination of Lend-Lease to British areas -- with the objective of reducing British balances as much as feasible toward goal set by President's memorandum.
 - (a) Military Lend-Lease to U K should be more carefully screened at source. Devers points out that British asked for 7,000 tank carriers and needed only 1,000.

 - (b) Lend-Lease of civilian goods to British should be re-examined with a view to drastic reductions for 3 reasons:
 - 1 - Cut down balances
 - 2 - Avoid adverse criticisms
 - 3 - Cessation of practices wherever possible of handling cash reimbursables through Lend-Lease with a view to restoring to normal channels such non-military exports as if permitted by Combined Chiefs of Staff and shipping authorities.

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3. By what authority and to what fund is charged the food and supplies shipped to North Africa, Sicily and Italy?
4. Neither Winant, Murphy or Kirk have received any instructions about the new Crowley set-up with respect to Lend-Lease.
5. The question as to whom Lend-Lease should report in the field should be settled definitely and promptly.
6. It was reported by one of the Treasury men that Lend-Lease material designed for China is jammed up in Assau and is rotting in the open. This should be reported to Crowley.

GENERAL NOTES.

7. Consider possibility of bringing Italian prisoners to this country in ships now returning empty. They can work as skilled mechanics, and relieve farm labor shortage in strategic areas such as Los Angeles, San Diego, etc. When soldiers are brought back after war, the Italians can be returned in ships.
8. My impression is that there are entirely too many men under 30 doing supply work in rear. I believe many World War I veterans would be glad to volunteer for this service. Women could do much of this work, such as operating P X stores and clerical work in S.O.S. The presence of many good American women would aid morale.

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9. On publicity, there seems to be much unnecessary duplication between O.W.I. and Army Public Relations. O.W.I. in Algiers impressed me as being particularly inefficient.
10. I would like to put a New Deal bond man in every theatre. Recall the Reader's Digest deal.
11. We should open an American branch bank in Egypt. Both the King and Alexander Kirk, our Minister, agree that this would be a good idea. The King is very anxious to work closely with us and to cultivate our friendship. He is not so enthusiastic about the British.
12. I think there should be a weekly newspaper which could be explained by a competent Army officer to our troops. They are not as well informed about the war as they might be. This is also a good thing to do in large industrial plants.
13. I think there should be more movies made of front line action and of the activities of S.O.S. for the folks back home.
14. Sometime ago Frank Capra made a series of films for the Special Service Division which explained the war. These were supposed to be training films to educate the soldiers. They do not seem to have been shown to most soldiers and the public has not seen them at all. It would be very helpful if they could be given wider distribution.

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15. General Clark needs amphibious craft desperately.
16. In almost every case, the British officers speak disparagingly of the Russians. They expect the Russians to quit. General Alexander was one of several high officials at one meeting who bet that "the Russians would never march into Berlin".
17. There are now 250,000 Italian troops in Sardinia, and as fast as troops can be taken out of Corsica they are being moved to Sardinia. At the present time there is only food enough there to last until November 1. The troops are not doing anything in Sardinia. They are being billeted with townspeople and farmers to alleviate the feeding problem.
18. General Giraud has an idea for an expedition.
19. I think our policy toward Italy and the Balkans -- that they will be permitted the right to select their own form of Government, and will not have any Kings forced upon them -- is in need of more emphasis and clarification. There is little evidence that this policy is being followed. There is more evidence to indicate that it isn't.
20. Robert Murphy and Harold MacMillan have grave doubts as to how to proceed in Italy. I question whether General Joyce, head of the new Commission at Brindisi, is the right man for the job.
21. I think it would be wise to have General McSherry return home and explain the workings of AMGOT to Congress. AMGOT is a potential source of much criticism which can be alleviated if Congress understands its functions.

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22. I recommend that Treasury send accountants to the North African theatre to check on AMGOT'S accounts. General Hughes says these may be civilians, which would be preferable to having them militarized.
23. I felt that Poletti, who is handling AMGOT Rear in Sicily, and Colonel Hume, who is handling AMGOT Forward in Italy, are doing good jobs. McSherry is also capable.
24. The President's letter to General Patton was very reassuring to him.
25. In Cairo, the Argentine Minister told me that the Argentine Ambassador to Vichy had cabled his Government to "sit tight" concerning action regarding Germany, because something was going to happen on November 15 inside Germany. This is corroborated by the attached clipping from Thursday's Times.
26. Dakar is the dirtiest outfit I have seen since I inspected the Anti-Aircraft outfit two years ago in Washington. Possibly as a result, the malaria rate is exceedingly high. Hospitals are inadequate. Pre-fabricated barracks, which were used in two places before they were erected at Dakar, afford no protection from mosquitoes or from the weather.
27. The reclamation of internal combustion engines in Cairo and of captured material in Palermo is good.

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28. Reports from General Hughes show that soldiers spend only about 14% of their total pay in the countries where they are stationed. This does not include expenditures at P X stores, where they get their supplies, although these expenditures are small. More than 80% of their total pay goes home in allotments, money orders, or war bonds.
29. Officers at Goose Bay were presented with pictures of the King and Queen of England by the British who are using part of their field. They have been trying to get a picture of Mrs. Roosevelt from the Army to match the one of the President, but they have had no luck.

The New York Times.**OCT 28 1943****Vital Changes Seen
In Reich in 2 Weeks**

A dispatch by a Reuter special correspondent from "inside Europe," yesterday said:

"I learn from authentic sources that far-reaching changes may be expected inside Germany within the next two weeks affecting the entire war situation.

"The worst is officially feared regarding the Russian offensive, where the position for the Germans is becoming more desperate, thus necessitating drastic internal emergency measures.

"Important discussions are already proceeding in this connection probably, I learn in Munich."



TREASURY DEPARTMENT

WASHINGTON

NOV 1 1948

MEMORANDUM FOR THE SECRETARY:

In view of recent developments highlighting the pro-Axis character of the present government of Argentina, we had been working for some time on reopening the question of freezing Argentina. A substantial amount of background information had been gathered and extensive documentation prepared. The following is a summary of events as they transpired:

Saturday, October 23: At about 5:30 P. M. Pehle received word from the State Department that the United States Ambassador to Argentina, Norman Armour, had recommended the freezing of Argentina. Armour's recommendations are contained in cable No. 2483 of October 20 (Exhibit No. 1) which was received by the Treasury Department about 6:30 Saturday night, October 23. The matter was promptly discussed with me by Luxford and Pehle. They pointed out that in view of the growing tension between Argentina and the United States it was likely that Argentina would start to move assets out of this country, particularly cloaked Axis assets. They pointed out that Argentina had for some time been trying to arrange to transfer a substantial part of her \$300,000,000 in gold now in the United States to Argentina and that failing in her attempts to arrange transportation by air the Central Bank had just effected arrangements whereby \$1,250,000 in gold would be shipped to Argentina on each Argentine ship henceforth leaving the United States. Argentina desires to make such shipments despite the fact that each shipment will cost approximately \$56,000 in insurance charges alone, plus freight and other charges.

I promptly called Under Secretary Stettinius, who was acting in Cordell Hull's absence, and asked for a meeting on the question before Monday morning. Stettinius arranged a meeting in his apartment at 8:45 P. M. Saturday night. Stettinius said he would have a couple of his "boys" there.



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When Pehle, Luxford, and I arrived we found the following group in attendance:

E. R. Stettinius, Jr.
Dean Acheson
Pete Collado
Phillip Bonsal
Larry Duggan
John Hooker
Francis Russell

plus several other State Department men and William Yendell Elliot of W.P.B. We discussed the question for over an hour. Stettinius more or less took the point of view that he was just learning about such matters. All of the other State Department representatives vigorously opposed taking any action. Dean Acheson was particularly bitter in opposing the Treasury's proposal. The arguments of the State Department representatives boiled down to the following points:

- (1) Freezing will not force out the present government of Argentina, but will tend to strengthen its position.
- (2) No significant economic warfare objectives would be obtained by freezing Argentina.
- (3) The other Latin American Republics might feel that the United States was back to its old policy of using the "big stick".
- (4) The freezing of Argentina might produce retaliatory action by Argentina.

Stettinius and I finally decided that a short joint memorandum should be sent to the President and that we should discuss the matter with him on Monday morning.

Sunday, October 24: After consulting with me about the matter Pehle and Luxford worked with Duggan and Collado of State on a statement to the President. Duggan and Collado

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indicated that they had discussed the matter further with Stettinius that day and that he had outlined in a general way the position which State should take. It was clear that Collado and Duggan did not take the same antagonistic point of view toward the Treasury's proposal as they had taken before discussing the matter privately with Stettinius. During the conversations Duggan said that he felt that both State and Treasury had taken extreme positions the night before on an issue where, perhaps, both Departments were fundamentally much closer together. For example, he indicated that on the question as to whether freezing would overthrow Ramirez, in his own mind, the odds were only 1 to 2 against it. Collado then agreed and said "As I told you (Larry Duggan) yesterday, I think that the odds are only 40-60".

Monday, October 25: The memorandum (Exhibit No. 2) was cleared with me and with Stettinius early in the morning and sent to the President. Stettinius apparently was unable to arrange for us to discuss the matter with the President.

At 3:10 P. M. Stettinius called back. He said that he had received a "flashback" from the President who had read the memorandum and that the President thought no action should be taken this week, but that the matter should be studied from week to week and that he would like to be kept advised. Stettinius said that the President suggested that it might be wise from the standpoint of both State and Treasury to let it leak out that studies along the line of freezing Argentina are being undertaken, which would tend to scare the present government. Stettinius did not know whether the leak would be such a good idea, but said that he thought the Treasury position was making headway. It was agreed that we would get together at the end of the week or the beginning of next week and reconvass the matter and I suggested that we might find that we were pretty much in agreement by that time.

Tuesday, October 26: At about 9:30 A. M., Larry Duggan of State called Pehle. He said that he wanted Treasury to know that the matter of "leaking" a possible freezing of Argentina was a matter for the Treasury. He did not elaborate

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on this statement, but it was clear that the State Department was not adverse to the leak but did not want to become too intimately connected with the arrangements. This matter was then discussed at 12 o'clock in my office with Herbert Gaston, Chick Schwarz, Luxford, and Pehle and it was decided that Gaston should call Lyle Wilson of the United Press (in view of that organization's good Latin American coverage) and arrange for the necessary story.

Pursuant to arrangements made by Mr. Gaston, Luxford, Schwarz, and I spoke to Carroll Kenworthy, Latin American man for United Press, Tuesday afternoon. I told Kenworthy that we were considering freezing Argentina and that he might want to write up a story to such effect, with the clear understanding that such story could not be attributed to any person present or to the Treasury. In response to his request, Luxford and I gave Kenworthy a little of the background. He raised the question that he might find himself "out on a limb" if the Treasury Department were to deny the story if queried by other representatives of the press. I advised Kenworthy that the Treasury Department would not deny the story but would merely state that the Treasury Department had no comment to make. The background information furnished Kenworthy is contained in the clippings (Exhibit No. 3) which appeared in the press the following morning. It was made clear to Kenworthy by Schwarz that our release of this story in this manner did not involve any interdepartmental jurisdiction dispute.

After the conversation with Kenworthy a letter, dated October 26 (Exhibit No. 4) was received from Mr. Stettinius transmitting a copy of the President's memorandum to him dated October 25. A copy of the reply which I sent to Stettinius is attached. (Exhibit No. 5).

The radio commentators at 9 and 11 P. M. referred briefly to the fact that the United States Government was considering the freezing of Argentina.

Wednesday, October 27: There are attached hereto copies of the stories suggesting that the freezing of Argentine assets is being considered, which appeared on Wednesday in the New York Times, the New York Herald Tribune, PM, and the Washington Times-Herald. (Exhibit No. 3).

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Collado talked to Pehle at 12:20 P. M. Collado indicated that Stettinius was disturbed by the story appearing in the Times-Herald. Pehle told him that he was somewhat surprised at this reaction since Duggan of State, the previous day, had indicated that the matter of a "leak" was one for the Treasury Department. Pehle did not indicate, however, whether or not the Treasury Department had anything to do with the stories appearing in the press. Collado said that State was checking on the source of the story and was inclined to believe that the story came out of New York. Collado was unable to point to any harmful effects from the story appearing in the press. Collado also mentioned a new cable which had been received from Armour, No. 2520 of October 25 (Exhibit No. 6). The cable indicates that Prebish of the Central Bank has resigned, the bank board has accepted his resignation, and the Ramirez Government is moving in to secure control of the Argentine Central Bank.

Bonsal called Pehle at 3:00 o'clock and also mentioned that Stettinius was somewhat disturbed about the story appearing in the Times-Herald.

At 4 P. M. Pehle called Collado and summarized to him the unusual Argentine transactions reported to the Treasury as follows:

- October 25 - Transferred from Argentine accounts:
(Monday) \$50,000 to Venezuela; \$125,000 to individuals in the United States; \$120,000 to Uruguay; total \$295,000.
- October 26 - Transferred from Argentine accounts:
(Tuesday) \$450,000 to Uruguay, of which \$350,000 was from account of Banco de la Provincia.
- October 27 - Transferred from Argentine accounts:
(up to 4 P.M.) \$410,000 to Uruguay, of which \$230,000 was from accounts of Banco de la Provincia and Banco de la Nacion.
(Wednesday)

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Thursday, October 28: Shortly before 1:00 o'clock, Lang of the New York Federal advised us by telephone that the Federal had received instructions from the Argentine Central Bank to receive a total of \$16,250,000 for its account from various New York banks by order of various banks in Buenos Aires, of which \$7,500,000 was to be received by order of the Banco de la Provincia and \$2,000,000 by order of the Banco de la Nacion. At 1:05 P. M. Pehle called Collado of State, and being unable to reach him, talked to Bonsal. He described the situation to Bonsal and told Bonsal that as a minimum emergency measure, large transfers out of the accounts of Banco de la Provincia and Banco de la Nacion should be stopped. Bonsal seemed to be in agreement, but said that he would have to take the matter up with various people in the State Department. Pehle emphasized to Bonsal the necessity of immediate action. At 1:15 P. M. Pehle called Knoke of the Federal Reserve Bank of New York and discussed the situation with him. In order to prevent the transfers from being effected and pending a clearance from the State Department, Pehle instructed Knoke to refuse to receive funds tendered to the Federal Reserve Bank for account of the Banco de la Nacion or Banco de la Provincia, without specific authority from the Treasury. These instructions were confirmed to Mr. Knoke by telegram, which was despatched at 1:32 P. M. (Exhibit No. 7).

At 2:30 Collado called and Pehle brought him up to date with respect to developments. Pehle told Collado of the action which the Treasury had taken to hold up transfers out of the accounts of the Banco de la Nacion and the Banco de la Provincia. Collado called back at 3:05 to say that he had cleared with Bonsal, Duggan, and Acheson the Treasury's proposal to designate these two Argentine banks special blocked nationals, and he was waiting to see Stettinius on the matter. He also read to Pehle part of a draft of the cable to the American Embassy in Buenos Aires advising them of such action. Collado then stated that a new cable had been received from Armour that afternoon urging the tight freezing of Argentina and listing the reasons why such action should be taken. Pehle made arrangements to go over to

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State at 5:30 P. M. to read the cable which had not been paraphrased.

At 4:07 P. M. Collado said that he had cleared with Stettinius the Treasury's designating the two Argentine banks special blocked nationals. Stettinius, in approving this action, made the following three points:

- (1) He would like to have as little publicity as possible.
- (2) He was somewhat concerned lest the action cut across the President's "Directive" that Argentina should not be frozen as yet. (Collado convinced Stettinius that acting with respect to these two banks did not violate the President's "Directive").
- (3) He wished to have Treasury notified that the State Department reserved the right to ask the Treasury to lift the blocking of the two banks if at some point circumstances warranted such action.

The Federal Reserve Bank was immediately notified by telephone to advise banks holding accounts of the two Argentine banks that such banks had been designated special blocked nationals and that confirmatory messages would be sent. A wire was despatched to all Federal Reserve banks at 4:27 P. M. announcing the designation of the two banks as special blocked nationals. (Exhibit No. 8).

At 5:30 P. M. Luxford and Pehle went to Collado's office at State and read the latest cable from Armour, No. 2530 of October 27. (Exhibit No. 9). This cable is worth careful reading. It contains a very strong statement by Ambassador Armour urging the freezing of Argentina. State also received at that time cable No. 2526 of October 27, 1943. (Exhibit No. 10).

Collado seemed to be definitely weakening in his opposition to the proposed freezing. He said that he was arranging a meeting with Acheson and others in the Department and would call Pehle later in the evening.

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At 6:45 P. M. a telegram was drafted and sent to all Federal Reserve banks (Exhibit No. 11) suggesting that they discreetly contact banks and other financial institutions handling a substantial volume of Argentine business. The Federal Reserve banks were told to ask such financial institutions to be on the alert for any unusual transactions involving persons in Argentina. This telegram also requested that in the case of exceptionally important transactions, the financial institution concerned should be asked to delay execution while the Treasury was consulted by long distance telephone.

Pehle talked to Collado again at 8:50 P. M. Collado said there had been a meeting in the State Department, attended by Acheson, Duggan, and others, but that there was no agreement in the State Department on the issue, some of the people favoring the agreement and others still opposing. Collado said that while he did not think the issue was too important, he now felt "60-40" in favor of freezing. Collado said that the cable from Armour was recognized as a very strong cable. He said that Dean Acheson said that "if another cable like that was received from Armour State would be in such a hole it would never be able to get out." Collado said that the Treasury was now on very strong grounds in proposing the action. He also said that everyone was in agreement that regardless of the recommendations of the State Department the cable must be shown to the President the next day. Collado also said that he had received authority so that Treasury could clear with him the holding up of specific Argentine transactions for 24 to 48 hours, while the matter was being settled. Collado also said that before Stettinius took the matter up with the President he would discuss it further with the Treasury.

Friday, October 29: At 12:25 Pehle summarized the day's Argentine transactions up to that time to Bonsal of State and at 1:15 a complete statement of the transactions was dictated to Collado of State. Pehle asked that we be given clearance if possible by 2:30 P. M. on stopping such transactions. At 2:30 P. M. Pehle called Collado and was able to reach him at 2:45. Collado said no decision had

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been made, but that he was seeing Acheson in a few minutes and would call back as soon as possible. The transactions which State was advised of may be summarized as follows:

- (a) \$3,100,000 to be transferred from accounts of various BA banks to the Central Bank, and
- (b) \$1,235,000 to be transferred from various BA banks to other countries. (Included in this amount was the transfer of \$1,000,000 from the Central Bank of Argentina to the Central Bank of Sweden.)

At about 3:00 P. M. we were advised that the National City Bank in a telephone conversation with its BA office had been informed that the transfers to the Central Bank were being made upon instructions of the Central Bank; that the BA office of the National City Bank would shortly transfer an additional \$4,000,000 to the Central Bank; and that the BA office of the First National Bank of Boston would shortly be ordered to transfer \$6,000,000 to the Central Bank.

At 3:15 there was a meeting in Mr. Bell's office attended by Bell, Pehle, Luxford, and I at which the entire situation was reviewed. During the meeting, at 3:50, Bell called Stettinius and brought him up to date. Bell pointed out the amount of transfers now pending and observed that we were losing ground rapidly. Stettinius said that he had received a cable from Cordell Hull supporting the position State had taken in opposition to freezing Argentina, but Stettinius felt in view of Armour's cables and the Treasury's strong recommendations it was necessary to bring the matter to the President's attention again. Stettinius said he was sending a memorandum to the President that afternoon and suggested that the Treasury do the same. Stettinius also indicated that he agreed to the Treasury's holding up the transfers totalling \$3,100,000 to the Central Bank and the transfers totalling \$1,235,000 to the other countries. Instructions were despatched to the New York Federal at 3:55 P. M. to this effect.

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- (b) \$1,235,000 to be transferred from various BA banks to other countries. (Included in this amount was the transfer of \$1,000,000 from the Central Bank of Argentina to the Central Bank of Sweden.)

At about 3:00 P. M. we were advised that the National City Bank in a telephone conversation with its BA office had been informed that the transfers to the Central Bank were being made upon instructions of the Central Bank; that the BA office of the National City Bank would shortly transfer an additional \$4,000,000 to the Central Bank; and that the BA office of the First National Bank of Boston would shortly be ordered to transfer \$6,000,000 to the Central Bank.

At 3:15 there was a meeting in Mr. Bell's office attended by Bell, Pehle, Luxford, and I at which the entire situation was reviewed. During the meeting, at 3:50, Bell called Stettinius and brought him up to date. Bell pointed out the amount of transfers now pending and observed that we were losing ground rapidly. Stettinius said that he had received a cable from Cordell Hull supporting the position State had taken in opposition to freezing Argentina, but Stettinius felt in view of Armour's cables and the Treasury's strong recommendations it was necessary to bring the matter to the President's attention again. Stettinius said he was sending a memorandum to the President that afternoon and suggested that the Treasury do the same. Stettinius also indicated that he agreed to the Treasury's holding up the transfers totalling \$3,100,000 to the Central Bank and the transfers totalling \$1,235,000 to the other countries. Instructions were despatched to the New York Federal at 3:55 P. M. to this effect.

- 10 -

A memorandum for the President was promptly drafted (Exhibit No. 12) and taken over to Miss Tulley at the White House by Pehle at 5:10. Judge Rosenman was waiting in the anteroom to see the President and Pehle showed him the cable from Armour recommending the freezing. Mr. Bell had asked Miss Tulley to hold our memorandum until Stettinius's memorandum was received so that the two memoranda could be sent to the President together.

Tulley called Bell at 5:20 and said that the President had approved the State Department's memorandum and that the Treasury should keep in touch with the State Department on the matter.

At 5:45 Stettinius called Bell and said that our memorandum had been given to the President; that Miss Tulley had called him from the President's desk asking where the State Department memorandum was; and that State's memorandum had since also been sent to the President. (Exhibit No. 13). Stettinius said that while in the discussions in the State Department during the day part of the State Department people had switched over to advocating the freezing of Argentina, after a meeting in Acheson's office the State Department representatives had again unanimously decided to oppose the freezing. Stettinius said he was disappointed in the memorandum which State had prepared and sent to the President.

During Friday afternoon we had also received informally from State, a copy of the cable No. 1644 sent to Hull by Stettinius on October 24 concerning the proposed freezing of Argentina (Exhibit No. 14). This is the cable that prompted Hull's cable continuing his opposition to freezing Argentina.

The first gold shipment to Argentina ordered by the Central Bank, amounting to \$1,250,000, was delivered by the Federal Reserve Bank to the railway express company at 5:25 P. M. Friday. This shipment is scheduled to be loaded on the carrying steamer in New Orleans on November 2 or November 3, whichever is the sailing date. The delay in shipping this gold from New York was occasioned by a series of delays in the sailing date of the vessel and was not caused by Treasury action.

- 11 -

Saturday, October 30: During the morning Stettinius called Bell and said a cable had been received from Armour indicating that the situation may have eased somewhat, but indicating that the Foreign Minister had sent for Ambassador Armour and asked why transactions of the two banks were being held up.

At 11:30 Pehle called Collado and brought him up to date on Saturday's transactions. He also confirmed that we were still holding the transactions from Friday which Stettinius had authorized Treasury to hold. Collado said that Stettinius was not clear on the fact that he had authorized the Treasury to hold up such transactions, but he would clear the matter with Stettinius. In the meantime we should continue to hold yesterday's transactions. With respect to the Saturday's transactions Collado said he had no authority to authorize the Treasury to hold Saturday's transactions and consequently such transactions would have to go through at the point when the banks became legally liable if they did not effect the transactions. On Saturday there was effected the transfer of approximately \$355,000 involving the flight of Argentine funds to other countries, principally Uruguay, and the transfer of \$6,000,000 from various BA banks to the Argentine Central Bank.

Monday, November 1: Pehle talked to Collado at 9:15 A. M. Collado said that he had discussed the Argentine matter further with Stettinius and that in view of the President's approval of the State Department's memorandum, Stettinius wanted the Treasury Department to release the transactions held up on Friday. Accordingly, instructions were issued to license such transactions. Collado referred to a number of despatches which had been received from the Embassy in Buenos Aires indicating some of the bases for its case, on the economic warfare side, for freezing Argentina. These despatches have been or are being sent to the Treasury and will be attached hereto as Exhibit No. 15 .

With regard to Banco de la Nacion and Banco de la Provincia, Collado asked for information with regard to the balances of such banks in the United States, the transactions which they effected, or attempted to effect, during

- 12 -

the past week, and similar information for a previous period. He also requested any adverse information which the Treasury Department had with respect to such banks. Pehle told him that we would get up the requisite information, but suggested that the Mission in Argentina also be requested to furnish background information on these banks.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 1 1944

TO Secretary Morgenthau
FROM Randolph Paul

There is attached a detailed memorandum covering all of the developments in the Argentine situation, during your absence, which may be summarized very briefly as follows:

- (1) A strong cable was received from Ambassador Armour recommending the freezing of Argentina. (See Exhibit No. 1 attached.)
- (2) A joint memorandum was sent to the President on October 25 by State and Treasury. (See Exhibit No. 2.) The President in reply sent a memorandum to Stettinius (Exhibit No. 4 attached) indicating that we should keep the matter on our desks to be reviewed every week or two, and suggesting the possibility of a leak that freezing is being studied.
- (3) Such a leak did occur and was carried in the press, Wednesday, October 27. (See Exhibit No. 3).
- (4) Another strong cable was received from Armour again recommending freezing. (See Exhibit No. 9).
- (5) Separate memoranda were sent to the President on Friday, October 29, by State and Treasury. (See Exhibits Nos. 12 and 13). The President approved the State Department memorandum.
- (6) With State's permission we have specially blocked the two largest Argentine banks: Banco de la Nacion and Banco de la Provincia, and prevented them from transferring their funds to the Central Bank and to banks in Uruguay.
- (7) The Argentine Central Bank is calling in dollars held by other Argentine banks. These dollars are then being converted into gold.

- 2 -

- (8) The movement of Argentine gold from New York back to Argentina has started. The first shipment of approximately \$1,250,000 in value left New York on Friday and will leave New Orleans on an Argentine boat probably November 2 or 3.



SECRET

PARAPHRASE OF TELEGRAM NO. 1769 OF OCTOBER 28 FROM SECRETARY HULL AT MOSCOW TO MR. STETTINIUS:

I am in accord with your stand and reasoning concerning the blocking of Argentine accounts, as stated in your telegram to me.

This message should have no distribution.

AS

THE UNDER SECRETARY OF STATE
WASHINGTON

October 20, 1943

55506
CLASSIFIED BY
DATE 10/15/80
BY SP-5
INITIAL
DATE

Dear Sir,

For Mr. [redacted] to
submit the copy of the [redacted]
to the President on the subject
of Argentine freighting, etc., as
you will see on page 2, and received
via [redacted].

With best regards,

[redacted]

The Honorable
Daniel F. Bell
Under Secretary of Treasury
Treasury Department
Washington, D. C.

MEMORANDUM FOR THE PRESIDENT

ARGENTINE FREEZING

Developments since your Decision of October 25
Against a General Freezing at this time of
Argentine Assets

1. Secretary Hull has telegraphed his concurrence in the Department's position as stated to you contrary to blocking Argentina. A copy of this telegram is attached.

2. Ambassador Armour has cabled renewing his recommendation to block Argentina and stating that the Argentine Government is progressing to assisting Axis activities and that while blocking involves risks, he is willing to recommend immediate blocking action. A copy of this cable is attached.

3. Transfers and attempted transfers of Argentine funds since October 25:

\$1 million transferred largely to Uruguay.

Yesterday the Argentine Central Bank ordered private banks to transfer their funds to it. As a result, attempted transfers of \$29,500,000 were ordered from Argentine bank accounts in New York to Argentine Central bank accounts at Federal. Of these \$7 million have been made; \$9,500,000 have been definitely blocked; \$13 million are now pending. No serious disadvantage is discerned were such transactions to occur, except where individual accounts upon the evidence should be blocked.

Now pending: Transfers of \$250 thousand to Uruguay; \$1 million to Swedish Riksbank. These transfers if accomplished would remove funds from U.S. control.

4. Department's recommendations:

- a. that there should be no general blocking at this time for reasons previously given;
- b. if contrary decision is made, general blocking should be preceded by attempt to get British and some major American Republics to take collateral action.

c. Since transfers effected or pending from Argentine to foreign account total only \$2,500,000 for the current week, take no action beyond existing ad hoc blocking, continuing present scrutiny of transactions to prevent sudden flight of capital.

OK
JHR

E. Butting

last set

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EXHIBIT 1

11

COPYPARAPHRASE OF TELEGRAM RECEIVED

FROM AMEMBASSY, BUENOS AIRES
TO SECRETARY OF STATE, WASHINGTON, D. C.
NUMBER 2483
DATE OCTOBER 20, 1943

The following is in reference to telegram #1586 of October 12 from the Department.

It is the opinion of the Embassy that no useful purpose would be served by ad hoc blocking action or Proclaimed List action against Banco de la Nacion or Banco de la Provincia. Such action would be a step that would be ineffective, disturbing, and unwise. Whether or not the time has arrived to consider the general blocking of Argentina is the real question.

Evidence which is more than enough to justify this step is contained in the draft statement on the financial position of German companies in Argentina and the aid extended to them by the Government of Argentina. This statement was submitted as an enclosure to despatch #12448 of October 19 which was forwarded on the same date by courier. Careful consideration, however, on a broader basis than economic warfare, must be given any contemplated action. Bitter opposition to the present Argentine administration from influential and important sectors of the Argentine public, including elements in the armed services, has been brought about by the letter of the Secretary of August 30, together with other events. Rather than dispel this opposition through creating a "my country right or wrong" reaction, any further action on the part of the American Government must help to increase the opposition.

Despatch #12436 of October 19 fully described the thoughts of the Embassy with regard to procedure, but action may be advisable, since events are moving so rapidly, even before Washington receives the despatches under reference.

- 2 -

Since we could have no further confidence with respect to the implementation of such control measures as now exist in Argentina, action on our part would be more than justified if Prebisch is forced out of the Central Bank, as appears to be inevitable, this occurrence being in addition to their resignations of the principal officials of the Ministry of Finance. It is the opinion of the Embassy that the Argentines would interpret blocking as directed against the Government and not against the people and that it would have their understanding generally. The Mission therefore recommends that Argentina be blocked if the bank is intervened or if Prebisch is forced to resign and that the following statement be issued by the Treasury Department, (Paraphrased quote) It was announced today by the Treasury Department that for reasons of continental security and in view of recent financial developments in Argentina, executive order #8389 as amended, had been amended further to include Argentina as a foreign country designated in such order, effective as of October of the year 1943. (End paraphrased quote)

Reference is made to continental solidarity for the express purpose of giving the opportunity for the Argentine Government to request reasons of the American Government and this request, in turn, could allow the material contained in despatch #12448 of October 19 to be used in much the same manner as the letter of August 30 from the Secretary. The information given in despatch #1226 of October 5 is fully substantiated by the material forwarded under cover of that despatch.

Since developments in the Central Bank case may be expected within the next forty-eight hours and also since the action recommended herein, to be timed properly, should be taken immediately following information from the Embassy that adverse changes have occurred in the Central Bank, the immediate consideration of the Department is requested. The Embassy respectfully urges that no action be taken until the Department is further advised by the Mission.

ARMOUR

COPY

EXHIBIT 2

COPY

OCT 25 1943

MEMORANDUM FOR THE PRESIDENT:Action Proposed by the Treasury:

Treasury proposes that Argentina be added to the 35 countries already subject to the freezing control. Essentially, these controls would follow the pattern already in effect with regard to Portugal, Spain, Sweden and Switzerland. This is in general the proposal made by Ambassador Armour. In view of the flexibility of these controls, additional exemptions or restrictions can be added as desirable.

Treasury Department's Position:

The Treasury, on economic warfare grounds, has repeatedly urged that the freezing control be extended to Argentina--as it has been to the neutral countries in Europe. Argentina is recognized as the base from which the Axis conducts its financial operations throughout the Western Hemisphere. On political grounds, the State Department and Ambassador Armour have consistently opposed freezing Argentina. However, last Wednesday, Ambassador Armour recommended the freezing of Argentina, stating in his cable:

"The Secretary's letter of August 30, together with other events, has brought about bitter opposition to the present Argentine administration from important and influential sectors of the Argentine public, including elements in the armed services. Any further action on the part of the American Government must help to increase this opposition rather than dispel it through creating a 'my country right or wrong' reaction.... The Embassy believes that blocking would be interpreted in Argentina as directed against the Government and not against the people and would be generally understood."

The freezing of Argentina at this time is the natural follow-up to Secretary Hull's letter to Foreign Minister Storni on Lend-Lease and your criticism of the closing of the Jewish newspapers. Any delay in acting not only gives Argentina a chance to move substantial assets out of the United States but may afford the present pro-Axis government time to strengthen its

- 2 -

position. Thus the present government might very well go through the motions of breaking with the Axis, which would have no real effect other than to bolster the Ramirez government. A dramatic step by us at this time should crystallize the opposition and might give Argentina a genuinely pro-Allied government.

State Department's Position:

I. The State Department continues to oppose this proposal, which you declined to approve last year, primarily because we believe it will retard, rather than hasten, a change of government. The Treasury's proposal, although suggested on economic warfare grounds, has as a major purpose the political objective of upsetting the present Argentine government. In the Department's judgment, contrary to the views of Ambassador Armour, it is more likely that blocking Argentina would strengthen the grip of the present government. Because of the sensitiveness of Argentines to outside pressure, the government undoubtedly would appeal to all Argentines to "defend" their country against United States invasion of Argentine sovereignty. Past experience with Argentina indicates that this type of flag-waving arouses popular patriotic fervor. We believe in this case the growing opposition to the government would be temporarily confused if not divided.

II. We consider the proposal would not directly attain important economic warfare objectives.

III. The proposal runs the risk of (a) frightening the other American republics, because they would figure that if the United States used strong-arm tactics against Argentina it might do the same to them; and (b) producing Argentine retaliatory action which might endanger United Nations procurement of such vitally needed materials as zinc, hides and foodstuffs and jeopardize the advantageous arrangements under which the Argentine merchant marine carries to the United States a minimum of 40,000 tons a month of cargo selected by us.

IV. The Argentine political pot is seething. The universities are now on strike and attempts are being made at this moment to organize a general strike with the specific objective of overthrowing the government. We recommend that Argentina be left to stew in its own juice at least until the present confused movements take form.

(Signed) Randolph Paul

(Signed) E. R. Stettinius, Jr.

EXHIBIT 3

Argentine Fund Freeze Studied

United States Government officials are considering the freezing of Argentine credits in this country, the United Press learned last night.

Such a freeze, if carried out, would be similar to the treatment given the Axis nations, the Axis-occupied countries, and all full neutrals except Argentina and Turkey.

It would aim to control the movement of funds in and out of the United States which directly or indirectly might benefit the Axis.

Thus it would be a move basically against Germany, Japan and their associates rather than at Argentina. Nevertheless, such a measure would reflect Washington officials' dissatisfaction with the effectiveness of Argentine controls over credits which are in hands either openly friendly to the Axis or under "blind names" to aid the Axis.

Reportedly, Germans and even some high Frenchmen associated with the Vichy government have used Argentina as a base for financial transactions in the Western Hemisphere. One informed person said funds are permitted to leave Argentina which eventually reach the Bank of Dresden.

U. S. Considers Freezing Funds Of Argentina

Step Would Give Control
of Credits That Might
Aid Reich or Japan

WASHINGTON, Oct. 26 (UP).—United States government officials are considering the freezing of Argentine credits in this country. The United Press learned tonight.

Such a freeze, if carried out, would be similar to the treatment given to funds of the Axis nations, the Axis-occupied countries and all full neutrals except Argentina and Turkey. It would aim to control the movement of funds in and out of the United States which directly or indirectly might benefit the Axis.

Thus it would be a move basically against Germany, Japan and their associates rather than against Argentina. Nevertheless, such a measure would reflect Washington officials' dissatisfaction with the effectiveness of Argentine controls over credits which are in hands either openly friendly to the Axis or under "blind names" to aid the Axis.

Reportedly Germans and even some high Frenchmen associated with the Vichy government have used Argentina as a base for financial transactions in the Western Hemisphere. One informed person said funds are permitted to leave Argentina which eventually reach the Bank of Dresden.

Under a freeze arrangement funds could move between Argentina and the United States, but the burden of proof that the transactions would not benefit the Axis would be upon the persons who conducted the operation from the Argentine end. Under present controls here United States officials have the burden of proof. The proposed system might cause some inconvenience to Argentine nationals or resident in their dealings with the United States.

U. S. May Freeze Argentine Funds

WASHINGTON, Oct. 27.—U. S. Government officials are considering the freezing of Argentine credits in this country, the United Press has learned.

Such a freezing, if carried out, would be similar to the treatment given funds of the Axis nations, the Axis-occupied countries and all full neutrals except Argentina and Turkey.

It would aim to control the movement of funds in and out of the U. S. A. which directly or indirectly might benefit the Axis.

Thus it would be a move basically against Germany, Japan and their associates rather than at Argentina. Nevertheless such a measure would reflect Washington officials' dissatisfaction with the effectiveness of Argentine controls over credits which are in hands either openly friendly to the Axis or under "blind names" to aid the Axis.

Freezing of Funds Hinted At

WASHINGTON, Oct. 26 (AP)—United States Government officials are considering the freezing of Argentine credits in this country, The United Press learned tonight.

Such a freeze, if carried out, would be similar to the treatment accorded funds of the Axis nations, the Axis-occupied countries and all full neutrals except Argentina and Turkey.

It would aim to control the movement of funds in and out of the United States which directly or indirectly might benefit the Axis.

Such a measure, it is said, would

reflect Washington officials' dissatisfaction with the effectiveness of Argentine controls over credits that are in hands either openly friendly to the Axis or under "blind names" to aid the Axis.

The Treasury, when asked to confirm or deny that a freeze is under consideration, declined to comment. The State Department said it lacked knowledge of such a plan. However, circumstantial evidence to support the report arose from the extraordinary amount of activity recently in the Treasury's division of foreign funds controls similar to activity which preceded previous freezing orders.

EXHIBIT 4

THE UNDER SECRETARY OF STATE
WASHINGTON

October 26, 1943

PERSONAL AND CONFIDENTIAL

Dear Mr. Paul:

After our phone conversation yesterday it occurred to me you might like to have a copy of the memorandum that I received from the President on the matter we discussed.

I think the end of this week is a little soon to review the matter again. When next I see the President, I will discuss the matter again and perhaps at that time I can obtain from him a better understanding of what he has in mind.

With best wishes,

Sincerely yours,

(s) E. R. Stettinius, Jr.

Mr. Randolph Paul
General Counsel
Room 268 Treasury Bldg.
Washington, D C

COPY

THE WHITE HOUSE

October 25, 1943

MEMORANDUM FOR

E. R. S., JR.

In regard to blocking Argentina, I think we had better keep this matter on our desks, to be reviewed every week or two.

How would it be to let it leak out that some freezing of controls is being studied?

F. D. R.

COPY

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EXHIBIT 5

PERSONAL AND CONFIDENTIAL

October 27, 1943

Dear Mr. Stettinius:

I appreciate your furnishing me with a copy of the President's memorandum on the Argentine matter.

Whether the end of this week is a little soon to review the subject again is a point upon which we will have to be guided by your judgment and events. Obviously we should both follow this matter in close consultation and we will, of course, rely on you to keep us fully informed on all developments bearing on the subject.

Sincerely,

(signed) Randolph Paul

COPY

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EXHIBIT 6

Para: Copy: WT: BSS
Compared

REC'D. 2:35 p.m.
10/27/43

PARAPHRASE OF TELEGRAM RECEIVED

FROM AMEMBASSY, BUENOS AIRES
TO SECRETARY OF STATE, WASHINGTON, D.C.
NUMBER 2520
DATE OCTOBER 25, 1943

The following is in reference to #1644 of October 24 from the Department.

In the hope that further intervention by the Government might be postponed, Prebish insisted this morning on his resignation and the board accepted it unanimously. The ultimate objective of the Government, as indicated by the feeling among the directors and in other financial circles, is to secure control of this establishment, however.

Until the views of the Embassy are received, it is hoped that no final decision will be taken with regard to the recommendations of the Embassy. Tomorrow these views will be telegraphed fully.

ARMOUR

LMS

EXHIBIT 7

FCW18

FFCD

FRB OF NY

ATTENTION: MR. KNOKE

UNTIL FURTHER NOTICE, YOU ARE DIRECTED TO REFUSE RECEIPT OF ANY FUNDS TENDERED TO YOU BY ORDER OF THE BANCO DE LA PROVINCIA OR THE BANCO DE LA NACION UNTIL THE RECEIPT OF SUCH FUNDS BY YOU HAS BEEN SPECIFICALLY AUTHORIZED BY THIS OFFICE

J W PEHLE UNIT 200

10/28/43 1:32P

J

EXHIBIT 8

COPY

October 28, 1943 4:27 PM

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

YOU ARE HEREBY ADVISED THAT THE PERSONS NAMED BELOW HAVE
BEEN DESIGNATED SPECIAL BLOCKED NATIONALS:

BANCO DE LA PROVINCIA AND BANCO DE LA NACION, BOTH
OF BUENOS AIRES, ARGENTINA.

ACTION IN THIS CASE IS URGENT.

(SIGNED) J. W. PEHLE

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EXHIBIT 9

PARAPHRASE OF TELEGRAM RECEIVED

FROM AMEMBASSY, BUENOS AIRES
TO SECRETARY OF STATE, WASHINGTON, D. C.
NUMBER 2530
DATE OCTOBER 27, 1943

The following is in reference to #1644 of October 24 from the Department and also Department's #1647, dated the 29th October.

It would seem that action along one of the three following lines is precipitated by what would appear to be an unfortunate leak reported in telegram #2526 of October 27 from the Embassy: (a) the immediate freezing of Argentina, (b) the issuance of an announcement which denies the press story and the following of a policy of inaction, or (c) neither the confirmation or denial by Washington of the United Press story, while reaction here is observed. Since this latter course would provide time for the liquidation of any Axis dollar assets cloaked via the Argentine, it is dangerous. In addition it is doubtful if the censor will release the United Press despatch so that it will be difficult to determine the true reaction. Since the following message covers the situation in all its aspects, no changes are being made even though it was prepared before the Embassy had knowledge of the United Press story.

The considered judgment of the Embassy with regard to the situation is represented as follows:

(first) Economic warfare was the immediate objective of the Embassy in making its recommendation for freezing. We have been convinced by recent events that the exercise of any control on the part of the Argentine Government over totalitarian activities or their financing has practically ceased. Mounting evidences show that the Government is rapidly passing from control to the promotion

- 2 -

of such activities. Naturally, the extent of the effectiveness of the measures of the Treasury depends on the degree to which our Government desires its controls to be imposed. It is realized by the Department that of course the measures could be used to the extent of imposing an embargo on finances and merchandise. The following would be the minimum aims of the Embassy:

A beneficial ownership breakdown of assets held through local banks and financial institutions in the United States, through the use of the licensing procedure, and supervision of a large percentage of the international financial transactions of Argentina; the elimination on the part of generally licensed banks of credit to Axis firms; the certification by such banks that no transactions handled by them involved any direct or indirect Proclaimed List interest; and possibly a disclosure of funds held locally by such banks for European account.

(second) It was never believed by the Embassy that the extreme political effect mentioned by the Department could result from the measure recommended. The Mission hoped first to choose an appropriate moment to announce freezing in order that the measure would be interpreted as directed against the government and (not?) the people of Argentina. It must be remembered, in recognizing the super-sensitivity of the Argentines, that a strong and widespread feeling against the present government now exists within Argentina. Our thought was that proper action by the United States at this time, when the cumulative effect of the unpopular and totalitarian acts of the Government is at a peak, would receive the interpretation of an alignment with the Argentine people against a government already unpopular. There may or may not arise a better occasion. Although the foregoing does represent our considered judgment, it should be emphasized that it is merely a matter of opinion. The Embassy hoped that after the freezing was imposed our Government would be given an opportunity by the Argentine Government to disclose publicly the extent to which those firms which could be universally defined as inimical to the security of the Western Hemisphere were being aided and abetted by the previous and present government. On the basis that nothing should be done to

- 3 -

strengthen the present government but that risks should be taken to weaken it, the Embassy predicates its recommendations. In these recommendations risk is inherent.

(third) So that Argentina and the American Republics may clearly understand the American point of view, it is the opinion of the Embassy that the publication of a statement by the President could not be prevented by even press censorship in this country. For this reason, it is respectfully suggested by the Embassy that the President consider issuing a statement along the following lines if freezing is decided upon:

(Paraphrased quote) It was proposed by the Treasury Department a year and a half ago that those financial controls applicable to neutral countries, under the provisions of Executive Order #8389, be extended to include Argentina. The effect of subjecting all commercial and financial transactions to prior license by the Treasury would have been produced by that action, if approved. There would have been, in other words, a recognition of the self proclaimed status of neutrality of Argentina, and the same treatment given neutral countries under the above mentioned order would have been accorded Argentina by the United States.

Since I had every confidence at that time that the Rio de Janeiro resolutions would be complied with by Argentina, I disapproved the proposal of the Treasury even though I recognized that I was in a sense giving countenance to a measure of discrimination against other neutral countries to which application of this measure had been made. For reasons of continental security and in view of recent events, however, such action has again been proposed by the Treasury. After a year and a half of keen disappointment waiting for Argentina to join her sister republics, my present reaction to the proposal of the Treasury is one of reluctant and sad agreement. I feel forced to approve the action. I feel in doing so that I must repeat that it is nothing more than a recognition of the oft-avowed position of neutrality taken by Argentina, a position which that country of course has every right to adopt, as a sovereign nation. (End paraphrased quote)

- 4 -

(fourth) The Department's statement regarding potential dangers is commented on as follows:

(a) The attitude of the British would not be a new one and as the major brunt of onus for economic warfare measures has been borne constantly by the United States, it should not be too greatly feared if there is a slight intensification. The British, however, might agree to announce simultaneously or shortly thereafter that developments in Argentina recently, including instructions to the press that they were no longer to publish the Statutory and Proclaimed Lists, made it necessary to intensify British controls in regard to shipments to Argentina from Great Britain and neutral countries.

(b) There is no doubt that attempts to impede the shipment of essential materials needed by the United Nations might be made by the Argentine Government. Nevertheless, as this country has as great a need of selling as the United Nations has of buying, such measures would lead to the elimination of the present government or would only be temporary. Other than temporary, the only real danger foreseen by the Embassy is that some export such as beryl, which in Argentina economy is unimportant, might be affected. However, on the basis of straight trading for essential materials, such as oil-field equipment, these questions could be worked out.

(c) It is believed that there would be a favorable reaction among the American Republics should the suggested statement be issued by the President.

(d) There might be withdrawn nonbelligerent rights.

(e) Welch and Wilcox, respectively of the National City and Boston Banks, were consulted confidentially. Due to the character of the present government,

- 5 -

they feared dire results, possibly including prohibition of exports, intervention of American firms, and even deportation of Americans. These fears cannot be fully shared by the Embassy. If such reprisals should result from action taken on the basis of Argentina's neutrality, it would be such a definite alignment with the Axis that we would well be exposed to the criticism rather than the approval of the American Republics if we fail to recognize this and to accept the challenge implied by such a situation, since even at the present time, what the United Nations are fighting in other parts of the world is, in the opinion of the Embassy, represented by this government.

(fifth) The Mission does not wish to influence the Department into recommending action considered unwise by the Department. The Embassy desires to do no more than state its position. The Mission must express the opinion, however, that an opportune moment has come to make public the United States' attitude concerning the present Argentine government.

(sixth) Therefore, the Mission would like to repeat its recommendation that an announcement be made of the amendment to Executive Order 8389. We believe further that no immediate provision for the issuance of Argentine general licenses should be made. Only after the Treasury has made a full study and only after the influence of repercussions produced in Argentina by this action can be calculated by the Embassy with reasonable certainty, should such licenses be given. The Treasury, naturally, may desire to allow small and unimportant transactions to continue undisturbed, to which no objection could be seen by the Embassy.

ARMOUR

EXHIBIT 10

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Buenos Aires
DATED: October 27, 1943
NUMBER: 2526

A long despatch stating that authoritative quarters were considering the general freezing of Argentina was received last night by the United Press from Washington. The despatch, which the Embassy understands has already been published in other American republics, is so correct in detail that it appears to be based on information from official Washington sources. Its contents are known to the Argentine Government, and it is now being studied by the Argentine censor prior to release. We are forwarding as a separate telegram our considered views on the whole subject.

ARMOUR

COPY

EXHIBIT 11

COPY

October 28, 1943 6:45 PM

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS:

REFERENCE IS MADE TO OUR RECENT TELEGRAM ADVISING YOU THAT THE BANCO DE LA PROVINCIA AND THE BANCO DE LA NACION HAVE BEEN DESIGNATED SPECIAL BLOCKED NATIONALS. IN VIEW OF THIS DEVELOPMENT AND THE RECENTLY PUBLICIZED RUMOR THAT THE TREASURY DEPARTMENT IS PREPARING TO FREEZE ARGENTINA, IT IS SUGGESTED THAT YOU DISCREETLY CONTACT APPROPRIATE PERSONS IN THOSE BANKS AND FINANCIAL INSTITUTIONS IN YOUR DISTRICT WHICH HANDLE A SUBSTANTIAL VOLUME OF ARGENTINE BUSINESS AND ADVISE THEM TO BE ON THE ALERT FOR ANY UNUSUAL TRANSACTIONS INVOLVING PERSONS IN ARGENTINA. IT IS SUGGESTED THAT ARRANGEMENTS BE MADE TO HAVE INSTRUCTIONS CONCERNING ANY SUCH TRANSACTIONS BROUGHT TO YOUR ATTENTION IMMEDIATELY. IN THE CASE OF ANY EXCEPTIONALLY IMPORTANT TRANSACTION INVOLVING THE TRANSFER OF A SUBSTANTIAL AMOUNT OF FUNDS OUT OF AN ARGENTINE ACCOUNT, YOU SHOULD REQUEST THE RECIPIENT OF THE INSTRUCTION TO DELAY EXECUTION IN ORDER TO GIVE YOU TIME TO BRING THE INSTRUCTION TO OUR ATTENTION BEFORE IT IS EXECUTED. SUCH CASES SHOULD BE CLEARED WITH MR. BENNETT OF THIS OFFICE VIA LONG DISTANCE TELEPHONE IF NECESSARY.

(SIGNED) J. W. PEHLE

EXHIBIT 12

COPY

OCT 29, 1943

MEMORANDUM FOR THE PRESIDENTFreezing Argentina

Mr. Stettinius advised me this afternoon that he was sending you a short memorandum regarding the freezing of Argentina and suggested that I do likewise. We in the Treasury think that Ambassador Armour's cable of October 27, again strongly urging the freezing of Argentina, is the best statement of the reasons for freezing. As the Ambassador states:

"...The Mission must express the opinion, however, that an opportune moment has come to make public the United States' attitude concerning the present Argentine government. Therefore, the Mission would like to repeat its recommendation that an announcement be made of the amendment to Executive Order 8389 (freezing Argentina)."

A copy of this cable is attached.

For your information the Treasury Department, with the State Department's approval, has taken the following provisional action:

(a) Treasury has specially blocked the assets of the two largest banks in Argentina, who for over a year and with the Argentine Government's approval have been openly aiding the Axis. These banks were trying to transfer out of their names over \$10,000,000 of assets before this Government could act.

(b) The Treasury has temporarily stopped transactions in Argentine accounts amounting to over \$5,000,000 and involving the flight of funds from the Argentine or the transfer of substantial Argentine funds to new accounts where such funds could no longer be readily identified.

The Treasury has advance notice of additional transfers of a similar character within the next twenty-four hours amounting to \$10,000,000. Moreover, the Argentine Central Bank has given standing instructions for the shipment of substantial amounts of its gold to Argentina on each Argentine ship henceforth leaving the United States.

-2-

Should you decide to take action in this matter, the necessary papers are ready for your signature.

(Signed) D.W.Bell

EXHIBIT 13

COPY

MEMORANDUM FOR THE PRESIDENTARGENTINE FREEZING

Developments since your decision of October 25
against a general freezing at this time of
Argentine assets.

1. Secretary Hull has telegraphed his concurrence in the Department's position as stated to you contrary to blocking Argentina. A copy of this telegram is attached.
2. Ambassador Armour has cabled renewing his recommendation to block Argentina and stating that the Argentine government is progressing to assisting Axis activities and that while blocking involves risks, he is willing to recommend immediate blocking action. A copy of this cable is attached.
3. Transfers and attempted transfers of Argentine funds since October 25:

\$1,000,000 transferred largely to Uruguay.

Yesterday the Argentine Central Bank ordered private banks to transfer their funds to it. As a result, attempted transfers of \$29,500,000 were ordered from Argentine bank accounts in New York to Argentine Central Bank accounts at Federal. Of these \$7,000,000 have been made; \$9,500,000 have been definitely blocked; \$13,000,000 are now pending. No serious disadvantage is discerned were such transactions to occur, except where individual accounts upon the evidence should be blocked.

Now pending:

Transfers of \$250,000 to Uruguay; \$1,000,000 to Swedish Riksbank. These transfers if accomplished would remove funds from United States control.

4. Department recommendations:
 - (a) That there should be no general blocking at this time for reasons previously given;
 - (b) If contrary decision is made, general blocking should be preceded by attempt to get British and some major American Republics to take collateral action.

- 2 -

- (c) Since transfers effected or pending from Argentina to foreign account total only \$2,500,000 for the current week, take no action beyond existing ad hoc blocking, continuing present scrutiny of transactions to prevent sudden flight of capital.

Signed by Mr. Stettinius

H^o

EXHIBIT 14

PARAPHRASE OF TELEGRAM SENT

TO AMEMBASSY, MOSCOW
FROM SECRETARY OF STATE, WASHINGTON, D.C.
NUMBER 1644
DATE OCTOBER 24, 1943

For the Secretary.

The inclusion of Argentina among the list of blocked countries is again being proposed by the Treasury. Assets, bank accounts, and securities in the United States of Argentine residents, citizens, or entities will thus be blocked and financial communications and transactions with Argentina permitted only by license. General License 53 would be made applicable to Argentina by the Treasury, thus general licensing all transactions incident to commerce and all commercial transactions.

A blocking proposal has also been recommended by Ambassador Armour, but a general license of a somewhat different character is contained in this proposal.

There is a political objective in the proposals of both Ambassador Armour and the Treasury. This objective is not an economic warfare purpose, but rather the upsetting of the present Argentine Government.

We have given the proposal careful thought and think that the opposite effect will probably be produced by it, that is, that the Government will be strengthened and a change in Government will be postponed rather than hastened.

The supersensitivity of the Argentines to any suggestion of outside pressure is our reason. It is our opinion that blocking would be seized upon by the Government to be presented to the Argentine people as an invasion of Argentine sovereignty by the United States. The flag would be waved by the Government, and "all patriotic Argentines" would be urged to rally to "their country's defense" and to forget their internal differences.

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- 2 -

Furthermore, we do not believe that any important economic warfare objective would be attained by the proposal. Argentine private individuals, concerns, and banks will be unlikely to seek to withdraw any important assets from the United States, and no substantial effect on Axis activities in Argentina would result from our blocking here. Argentine blocking in addition

(first) would cause the friendly feeling in the other countries to be chilled because they would figure that if the United States used strong arm tactics of this character against Argentina, the same tactics would be used against them;

(second) probably would not have the support of the British, and action on our part would be unwise from both the immediate and long-term point of view without such support; and

(third) might cause retaliatory action which would

- (a) endanger procurement by the United States of such vitally needed materials as beryl, edible oils, foodstuffs, hides, and zinc;
- (b) jeopardize the advantageous shipping arrangements under which a minimum of forty thousand tons a month of cargo selected by us is carried to the United States by the Argentine Merchant Marine.

Therefore, we recommend that Argentina be left for the time being to stew in its own juice. Since the political pot is seething, it may boil over by itself.

Buenos Aires has also been sent this message.

Since I know of your interest in the subject, I am passing the foregoing on to you. I am taking the matter up with the President at the earliest moment in as much as it is being pressed vigorously by Treasury.

STETTINIUS
(ACTING)
(W-DM)

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EXHIBIT 15

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires
TO: Secretary of State - Washington
DATED: October 28, 1943
NUMBER: 2541

CONFIDENTIAL

We refer herewith to the Embassy's cable dated October 27, 1943, no. 2531.

The Central Bank yesterday called on all large holders of Central Bank dollars to liquidate spot holdings after United Press story reached the Government. A substantial amount was delivered by National City Bank. Provincia was called on for both spot and futures. Since holdings were small no request was made of Boston Bank. Other banks were not called upon for future holdings as far as we know. As far as we know this is the first time that the authority to make such calls for future holdings has been exercised, although Central Bank has always had the authority.

ARMOUR

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy - Buenos Aires
TO: Secretary of State - Washington
DATED: October 29, 1943
NUMBER: 2558

CONFIDENTIAL

Reference is made herewith to your telegram of October 28, 1943, no. 1661.

Was transfer of \$9,500,000 prevented by Treasury action?

ARMOUR

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy - Buenos Aires
TO: Secretary of State - Washington
DATED: October 29, 1943
NUMBER: 2559

CONFIDENTIAL

The Embassy's telegram of October 28, 1943, no. 2541 is referred to herewith.

At 11 a.m. today Boston was instructed by the Central Bank to deliver \$6,000,000, covering future purchases of exchange, to the Federal Reserve Bank. Under the same conditions National City was called upon for \$4,000,000.

ARMOUR

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, BUENOS AIRES
TO: Secretary of State, Washington
DATED: October 29, 1943
NUMBER: 2566

CONFIDENTIAL

A check has been made by the Embassy with Bank of London, Royal, Societe Generale, Frances del Rio de La Plata, Italia y Rio de La Plata, Holandes Unido and for delivery of dollar futures none of these banks have been called upon. Weight is given by this fact to the possibility that an attempt is being made by the government to obtain technical grounds for intervening or taking action against the Boston and National City because of the inability of those banks to transfer futures which the Central Bank demands.

In connection with the above, reference is made to the telegram dated October 29 no. 2559 from this Embassy.

ARMOUR

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, BUENOS AIRES
TO: Secretary of State, Washington
DATED: October 29, 1943
NUMBER: 2567

CONFIDENTIAL

This afternoon the stock exchange closed, but throughout financial circles extreme nervousness was noticeable. Since Monday it is estimated that through the black market between 70 and 80 million Argentine pesos have been transmitted to Uruguay.

Their clients are being advised of blocking by Nacion and Provincia. Dollars are being sold directly to banks for the first time in years by Central Bank and not as customary through Nacion and Provincia. Dollar strengthened to 399.50 buyers according to information received.

The above message refers to the telegram from this Embassy dated October 29 no. 2566.

ARMOUR

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: BUENOS AIRES, AMERICAN EMBASSY
TO: Secretary of State, Washington
DATED: October 29, 1943
NUMBER: 2571

CONFIDENTIAL

For this message reference is made to the telegram from the Embassy dated October 29 no. 2559.

Information has been received by the Embassy to the effect that the Federal Reserve Bank of New York has declined to receive credit of transfer of \$1,000,000 which was tendered by the National City Bank of New York for the account of Central Bank by order of the Buenos Aires branch of the National City Bank. Does this mean the limitation of operations of the Central Bank?

ARMOUR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY - BUENOS AIRES
TO: Secretary of State - Washington
DATED: October 29, 1943
NUMBER: 2572

CONFIDENTIAL

The Department's telegram of October 28, 1943, no. 1661 is referred to herewith.

I was asked by the Minister of Foreign Affairs to call on him at 5:30 p.m. today. I had Bohan accompany me as I anticipated that he wished to discuss the bank situation. Also present was the Minister of Finance. It was stated by the latter that he had received word that Provincia and Nacion had been designated as special blocked nationals and that he assumed that the use of the word "special" indicated that there were special reasons for taking such action. He inquired if any information was possessed by me concerning the reasons for this action which were considered very grave by him, and I was assured by both him and the Minister of Foreign Affairs that if the banks had done anything wrong it would not be repeated. My reply was that the only information available to me at the present time was contained in a cable received from the Department showing that the action had been taken by Treasury as a result of both banks making increasingly heavy transfers, so heavy on Thursday that the Treasury felt constrained to take precautionary measures. Neither Minister seemed to understand the situation and both were extremely nervous and assured me that the Government was willing to do anything to correct any faults of which the banks might be guilty.

Curiously enough it was stated by the Finance Minister that this could be corrected easily if it were the Dresdener Bank matter. It was pointed out by him that the Banco de la Provincia was very proud of its credit record. It is difficult to know how to interpret this remark as the apparent lack of understanding on the part of the Finance Minister may indicate that he had only seen the reference to this case in the despatch by United Press. This point is being investigated at once by the Embassy since there would be a perfectly sound basis for the Treasury's action against the Banco de la Provincia if the remittance was made after official and written assurances to the contrary from the Argentine Government. Although there are ample grounds for a general blocking of Argentina, our case against the two banks may be weak as the Embassy has pointed out on many occasions.

The Ministers were promised by me that I would immediately communicate with the Department and that further details would be requested.

ARMOUR

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TREASURY DEPARTMENT
Foreign Funds Control

November 1, 1943

SUMMARY OF DESPATCH NO. 12448, dated October 19, 1943, from Buenos Aires, Argentina, Concerning a Proposed Statement as to Position of German Firms in Argentina and the Aid Which They have Received from the Argentine Government.

Referring to previous reports concerning the favorable position in Argentina of German business interests, the Embassy suggests that publicity be given this matter, either through the medium of a newspaper article or by means of a formal note to the Argentine Government. To support the basic premise concerning the favored position of German firms in Argentina, the Embassy submits the balance sheets for 21 representative German-controlled firms and 10 additional firms characterized by some form of German interest or control. The composite balance sheets for these two categories of firms show that those in the former nearly tripled their net earnings between 1939 and 1942, while those in the latter group have doubled their net earnings during this same period. (Note: It is significant that the large majority of the firms reported upon had larger stocks of merchandise at the end of 1942 than at the end of 1939.)

The principal theme of the proposed draft statement is to the effect that German firms in Argentina, despite being engaged in activities inimical to the interests of the Western Hemisphere, have been prospering with the aid and abettance of the Argentine Government. The statement plays down the importance of the question as to whether or not Argentina is adhering to the Resolutions of the Rio Conference, and instead suggests that the critical period through which we are now passing should be sufficient to require cooperation from Argentina in order to be able to present a united American front for the sake of continental defense.

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Recognizing the difficulty of supporting its basic premise, mentioned above, the Embassy suggests that newspaper publicity would perhaps be more desirable than a formal note which may ultimately require substantiation. It is suggested, however, that should a formal reply to the Argentine Government become necessary, that government might be told that an examination of the books of the two German banks and the 21 German firms would disclose the information on which the proposed statement is predicated. The Embassy points to the experience in Brazil as a precedent for such an approach. The Embassy requests, however, that no action be taken on its proposed statement prior to an exchange of views between the State Department and itself as to the proper moment and manner for its release.

The following are some of the more important specific points raised in the proposed statement:

- (1) The German Government, being a totalitarian state, expects financial and moral assistance from its nationals, wherever they may be located. Consequently, German business interests in Latin America have maintained a close relationship with the Fatherland by frequent and continuing exchanges of employees, executives, and correspondence with the home office.
- (2) As is well known, the large German industrial companies such as I. G. Farben, Thyssen, and Siemens are controlled by the National Socialist Party in Germany, which uses their Latin American branches as a channel through which to exert influence in the Western Hemisphere.
- (3) Starting on the obvious assumption that subversive activities must be financed, and admitting that Argentine financial controls have reduced contributions from the German Reich, it becomes apparent that the financial burden must fall upon the German business community. That this community is now centered in Argentina is supported by the fact that all other American republics have taken some form of action to eliminate similar communities from their own countries. Mathematical support for this conclusion is provided by the fact that the German Embassy in 1941 spent approximately 5,200,000 pesos, of which amount only 800,000 pesos were received directly from Germany, the balance of 80 percent being contributed by German entities or nationals residing in Argentina.

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- (4) The Argentine Government has been giving direct material assistance to enemy firms, as exemplified by the following:
- (a) From January 31, 1942, to March 31, 1943, certain Argentine Government departments awarded to enemy (P.L.) firms contracts totalling 34,00,000 pesos.
 - (b) Since such firms are classified as unsatisfactory consignees and would therefore be unable to obtain certain materials for the execution of their contracts, the Argentine Government has often acted as an intermediary in purchasing such materials for them.
 - (c) Firms which refuse to deal with enemy entities are often threatened with legal proceedings by Government agencies.
 - (d) Firms are often instructed by the Argentine Government departments to accept sub-contracts on projects on which the main contractor is an enemy firm.
 - (e) Vicious anti-United States and pro-Axis newspapers and periodicals, which cannot obtain newsprint supplies otherwise, are provided with their requirements by the Argentine Government at less than current market prices.
- (5) Despite the relatively strong financial position of most German firms, they often find themselves in need of additional finances. They encounter very little difficulty in obtaining financial assistance from the Banco de la Nacion and the Banco de la Provincia. An equally important source of financial assistance is the Banco Germanico which, on August 31, 1943, had outstanding loans and discounts totalling over 52,000,000 pesos, of which it is presumed that a large portion represents credits to German nationals.

The statement concludes by expressing alarm over the extent to which business firms deeply interested in the destruction of hemispheric security have been able to prosper in Argentina since the start of the war. It is tactfully suggested that this situation has prevailed not because of any willful desire by the Argentine Government to aid the Axis but rather through its

- 4 -

hesitancy to institute effective controls in line with its commitments at the Rio Conference. It is contended, however, that regardless of the motive the result has been the same, namely, enemy firms in Argentina, far from weakening their position, have been able to strengthen it during the four years of the current war. As a consequence of this, it is concluded that these enemy firms are able to finance inimical activities in the other American republics.

No formal statement given out. Mr. Smith talked to the newspaper men and gave them substance of attached denial.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

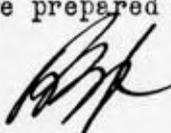
DATE

Nov. 1, 1943

TO Secretary Morgenthau

FROM Randolph Paul

Herb Gaston and I have prepared the attached.



The reports of my resignation are not well founded. I undertook my present work with the purpose of putting my services at the disposal of the Treasury as long as I may be useful. That is still my purpose. I do not intend to resign unless it should become evident that I can be of no further service in the present emergency.

The responsibility for tax legislation is in the Congress and not in the Treasury, but naturally I am keenly disappointed that the pending revenue bill is not more productive of revenue. The differences between some members of Congress and those of us who believe higher taxes are necessary are sincere differences of opinion.

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11/1/43

Submitted by Mr. Gaston to the
Secretary upon latter's return from visit
to European theatre of war.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

October 26 - Tax Hearings

John Sullivan reported to me last night that Commissioner Hannegan had been ordered to appear before the Ways and Means Committee at an evening hearing to discuss corporate profits and taxes. He planned to take along Helvering's memorandum of October 6 to you on the subject of claims under Section 722 (revision of the base for establishing excess profits). Hannegan came over this morning to report on the hearing and Paul, Blough and I met with him and Sullivan in Sullivan's office. At the request of the Committee he had submitted figures on excess profits by others than war contractors, which had been gotten up hastily after he received the call to testify. He was asked about a report said to have been made to the President by Commissioner Helvering. He said he knew of no such report but produced a copy of the memorandum to you, the last paragraph of which suggested that the situation might be worth calling to the attention of the President. He was asked to submit to the Committee any other data which he or Mr. Sullivan might have on corporate profits and taxes and the effect of the various refund provisions.

Since the Committee had up to this point refrained from calling any Treasury representatives to testify on corporate profits, and in fact had voted not to do so, we thought this a good opening to write a letter to the Committee offering any data they might desire. Mr. Blough drafted such a letter, but late in the afternoon Mr. Paul received from the Clerk of the Committee a request to appear at a hearing at 10:00 A.M. tomorrow on the same subject. We did not send the letter.

The Sub-Committee of the Senate Military Affairs Committee, which is considering the matter of corporate reserves and contract cancellation today, however, sent word they would like Treasury representatives to testify at the same hour, 10:00 A.M. Wednesday, on tax aspects of this subject. We decided unanimously that it would be well to have Paul make this appearance for the Treasury. Decision was reached that

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Surrey and Bureau representatives would go before Ways and Means and Paul before the Senate Sub-Committee.

October 26 - Argentina

Through State a joint memorandum of Treasury and State, signed by Paul on behalf of the Treasury, went to the President on Monday, Treasury recommending blocking Argentine funds, in harmony with a request received several days earlier through Armour, and State opposing. The President sent word through Stettinius today that on account of his cold and other matters he could not see Treasury and State representatives but suggested that instead of taking immediate action we permit a "leak" to the effect that government agencies were considering blocking Argentine funds. State was willing but wished us to handle it. This being reported to me, I agreed, and we arranged for Chic Schwarz and Luxford to see Carroll Kenworthy of U.P. His story, faithfully reporting that the blocking of Argentine funds was being considered but not pinning anything on the Treasury, duly appeared in this morning's newspapers and was used on the radio last night. Our people thought this would be just about as good as actually blocking, since through censorship information they could handle individual cases and prevent a general exodus of funds. The effect desired is political and it may have repercussions.

October 26 - Spearhead-Invasion Currency

Army authorities in Hawaii are suggesting the use of brown label currency in "all Central Pacific areas occupied by our armed forces" indicating some early action. Monetary Research has details.

October 27 - Foreign Funds

Blocking orders were sent out last night as to a string of California corporations engineered by a group who appear to be taking some Japanese aliens to the cleaners. Mrs.

- 3 -

Roosevelt is interested as is Representative George E. Outland, Democrat of Santa Barbara, an able liberal. When Randolph Paul discussed it with me this morning I suggested that some form of publicity here would be desirable rather than letting it be handled at the California end, which had been their idea. I talked with Pehle and Luxford and we arranged to have Schwarz get out a brief item about the specific blocking action they took last night but to call some of the press in to give them the background orally, indicating that we were taking action and were on the alert generally to prevent conspiracies to rob interned Japanese.

WES

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 1, 1943

TO Secretary Morgenthau
FROM Mr. Hass

Mr. Bell was given a copy of the attached memorandum on Saturday, October 30, 1943.

I have discussed the excess reserves problem with Messrs. Shields, Woodward, Warren and Seltzer, and they all feel strongly that something should be done in the very near future to improve the situation.

Prepared by: Mr. Turner
Mr. Tickton
Mr. Lindow
Mr. Murphy
Mr. Haas

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 29, 1943

TO Secretary Morgenthau
FROM Mr. Haas

Subject: Current Problems with Respect to Excess Reserves,
Treasury Bills, and Interest Rates

SUMMARY

Excess reserves on October 27, 1943, amounted to \$1.1 billions. It now appears probable that the total drain on these excess reserves for the remainder of the year will amount to about \$2-1/4 billions. If no conscious steps are taken to meet this drain, it will nevertheless be met in one way or another by the "natural" operations of the money market. Letting it drift in this manner might result, however, in a substantial tightening of the market and a general rise in the whole structure of interest rates.

The prospective drain might be met, in whole or in part, in four different ways:

- (1) By reducing the present volume of excess reserves,
- (2) By member bank rediscounts with the Federal Reserve Banks,
- (3) By reducing reserve requirements, or
- (4) By Federal Reserve purchases of United States securities.

Drawing on either of the first two sources would, in our opinion, be incompatible with the objective of maintaining the present structure of interest rates. The third, the reduction of reserve requirements, is primarily a matter of Federal Reserve policy with respect to which it does not appear desirable to make a recommendation to the Federal Reserve Board at the present time. If reserve requirements are not reduced, however -- or to the extent to which such a reduction, if made, fails

Secretary Morgenthau - 2

to meet the entire problem -- it will be necessary that the required reserve funds be supplied by purchases of United States securities. It seems desirable that these purchases be concentrated principally in Treasury bills, although if such purchases should prove insufficient, vigorous purchases of other securities, particularly certificates, should be made also.

Treasury bills have acquired an important function as secondary reserves in banks in the larger cities, and it is important that the necessary Federal Reserve purchases should not be acquired at the expense of stripping these banks of their bill holdings. It seems desirable, therefore, that the outstanding amount of Treasury bills should be substantially increased if the Federal Reserve Banks are to purchase a large amount of United States securities between now and the end of the year.

It does not appear desirable at the present time that the rate on Treasury bills should be changed or that the Federal Reserve Banks should replace their weekly bill maturities by direct purchases from the Treasury. Neither does it appear desirable, for reasons given in a previous memorandum, that the present series of bills and certificates should be replaced by $3/4$ percent 9-month bills.

I. Federal Reserve Operations So Far This Year

Excess reserves on October 27, 1943, amounted to \$1,062 millions. This is a decrease of about \$900 millions since the beginning of the year, and is only \$42 millions higher than the low of \$1,020 millions made on July 28. (See attached chart.)

The principal factor operating so far this year to reduce excess reserves has been the rapid growth of money in circulation which has amounted to \$3.7 billions. The other major factor which would have worked to reduce excess reserves -- the increase in required reserves which accompanies the growth of deposits -- was offset during this period by the growth of War Loan deposits against which, under last April's legislation, no reserves are required.

Secretary Morgenthau - 3

If it had not been for this legislation, it would have been necessary for the Federal Reserve Banks to have purchased \$3.3 billions of Government securities in addition to the \$3.1 billions which they actually did acquire on net balance, in order to have maintained excess reserves at their present level.

II. Probable Reserve Changes During the Rest of the Year

The following table indicates that during the last two months of the year, it will be necessary for the Federal Reserve System to provide for gross additions of approximately \$2.2 billions to member bank reserves, or for equivalent reductions to be made in member bank reserve requirements, if excess reserves are to be maintained at their current level.

The increase of money in circulation assumed by the table is the same as that which occurred during the corresponding period of last year. The \$8 billions decrease in War Loan account assumes that this account will be reduced to between \$9 billions and \$10 billions by the end of the year. The \$1.4 billions, or thereabouts, of additional reserve funds which such a decrease would absorb would have been required earlier in the year had it not been for the April legislation referred to in the preceding section. The table assumes that Treasury deposits in the Federal Reserve Banks will be reduced to about \$200 millions at the year end.

	Billions of dollars	
Increase of money in circulation	1.3	
Less reserve released	<u>.2</u>	1.1
Increase in required reserves due to transfers of \$8 billions from War Loan to private deposits		<u>1.4</u>
		2.5
Less decrease in Treasury deposits in Federal Reserve Banks		<u>.3</u>
Net drain of excess reserves		2.2

Secretary Morgenthau - 4

III. Should Existing Excess Reserves Be Further Reduced?

Only a small portion of the anticipated drain on reserve funds would be provided by allowing excess reserves to decline to the bare minimum, which would be held in any event by country banks. We do not believe that any of the drain should be met in this manner.

A comfortable margin of excess reserves is necessary to provide the "feel" of easy money. How large a volume this is depends upon the psychology of the market. The "feel" of easy money has been reasonably (although not completely) maintained, however, while excess reserves have been reduced by about 85 percent from \$7 billions to \$1.1 billions. There has grown up in the past few months, however, considerable talk about a "natural" rise in interest rates which is said to be now occurring. Under present circumstances, this can mean only that the market is losing some of its "feel" of easy money. It would seem best, therefore, that excess reserves should not be permitted to fall appreciably below their present level during this period.

IV. Rediscounting by Member Banks and Reduction of Reserve Requirements as Means of Meeting the Anticipated Drain

It seems to us that reliance on member bank rediscounting to supply any substantial portion of the needed reserve funds would be incompatible with the objective of maintaining the present structure of interest rates.

In order to provide any substantial proportion of the necessary reserve funds, it would be necessary for rediscounts to rise higher than they have been at any time since the few weeks immediately following the bank holiday. Such an increase in rediscounts would, in our opinion, place a tremendous pressure on the present structure of interest rates. This would be so for two reasons:

- (1) The whole tradition of rediscounting is such that bankers will have recourse to it only with great reluctance. Most banks, therefore, would not only withdraw entirely from the market for new securities, but would sell

Secretary Morgenthau - 5

a substantial proportion of their existing portfolios before resorting to it.

- (2) Even if bankers had no prejudice against rediscounting as such, the use of the rediscounting device would place a price of 1/2 of 1 percent on the use of Federal Reserve funds, and so would tend to raise interest rates generally.

Another method of meeting all or a part of the anticipated drain would be a reduction in reserve requirements. This method is compatible with the objective of maintaining the present structure of interest rates. We feel that the question of utilizing this instrument at this time is primarily a matter of Federal Reserve policy, since the considerations pro and con for reducing reserve requirements are so intricately tied up with questions of long-run central banking problems. To the extent that reserve requirements may be reduced, the necessity for all or a portion of the purchases of United States securities discussed in the next two sections would be obviated.

V. What Types of Government Securities Should the Federal Reserve System Buy?

To the extent that the anticipated drain is not met by a reduction in reserve requirements, it will be necessary -- if a severe strain on the present structure of interest rates is to be avoided -- that it be met by Federal Reserve purchases of United States securities. The question remains "What class of securities should be bought?"

Under present circumstances, Federal Reserve purchases of United States securities serve the two purposes of (1) providing necessary reserve funds, and (2) maintaining the existing structure of interest rates. These two purposes are not always consistent. Sometimes the maintenance of the structure of rates may call for the purchase of securities of some particular maturity when additional reserve funds are not needed, and vice versa. It is necessary, therefore, that there be some type of security, such as the Treasury bill, which can be purchased and sold for reserve purposes only and without reference to any particular structure of rates.

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The amount, if any, of United States securities other than Treasury bills which it will be necessary for the Federal Reserve System to purchase before the end of the year for the purpose of maintaining the existing structure of rates cannot be foretold. The smaller the amount required for this purpose, the better; as purchases, particularly of longer securities, made for the purpose of "supporting the market" have a bad psychological effect and tend to discourage outside buying. It is important, therefore, that no pressure on the market be allowed to arise from a deficiency in reserve funds.

It would be ideal if all of the purchases which will be necessary for reserve purposes could be concentrated in bills, particularly inasmuch as over a billion dollars of the necessary reserve funds will be needed for the purpose of providing additional currency. A concentration of reserve purchases in bills may not be possible, however, for reasons described in the next section of this memorandum, in which case resort may have to be had to purchases of certificates as well as bills for reserve purposes.

VI. The Need for Additional Treasury Bills

Treasury bills have become, since the initiation of the posted rate, a type of secondary reserve for banks in the larger cities. These banks are now depending almost entirely upon their Treasury bill portfolios for the margin of safety in their day-to-day operations, which was provided during the Thirties by excess reserves. If they were stripped of their Treasury bill holdings, it would, consequently, have a material effect in tightening the money market.

The total amount of Treasury bills not held by the Federal Reserve Banks was about \$7-1/2 billions on October 27. If the Federal Reserve System should purchase a substantial amount of these bills during the remainder of the year without any increase in the total supply, it would reduce bank holdings of bills to a dangerously low level from the standpoint of maintaining the existing ease in the money market. This would be particularly serious inasmuch as the banks which would be principally affected would be those in the larger cities, especially New York and Chicago. It is these banks upon which the Treasury must depend in a pinch, and it is extremely important that they should be kept in a liquid position so that they will be potential buyers of Government

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securities in an emergency. This will be the case as long as their bill portfolios are adequate. (An interesting example, taken from British experience, of the manner in which a shortage of Treasury bills can result in a marked tightening of the money market is given by the excerpt from the Midland Bank Review for February-March 1939 which is appended to this memorandum. The role of the Treasury bill in the American money market is now somewhat similar to that assumed earlier by its British counterpart, as described in the excerpt.)

It is recommended, therefore, that the weekly issue of Treasury bills should be increased between now and the end of the year, unless the Federal Reserve Board determines to meet the entire problem by a reduction in reserve requirements. If the entire problem is to be met by purchases of United States securities, it would be desirable that the increase in Treasury bills should be \$200 millions per week and should commence as soon as practicable. If the increase could be started on Friday, November 12, the outstanding amount of bills would be increased \$1.6 billions by the end of the year.

If this increase is not adequate to provide the requisite reserve funds without too great a reduction in the bill portfolios of the New York and Chicago banks, it may be necessary for the Federal Reserve System to purchase certificates for reserve purposes. Such purchases, if needed, should be made vigorously, and it should be made clear to the market that they are being made for the purpose of providing reserves, rather than for that of supporting a sagging structure of rates. Any certificates so purchased could be replaced in the portfolios of the Reserve Banks with bills as soon as an adequate supply of bills became available.

VII. The Rate on Treasury Bills

This memorandum has been devoted so far to the question of meeting the anticipated drain on reserve funds for the remainder of this year. This drain will have to be met one way or another irrespective of whatever action, if any, is taken with respect to the rate on Treasury bills (or other Treasury securities), although some methods of providing the necessary funds -- as by rediscounts, for example -- would in themselves

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tend to raise rates. An increase in rates would not, however, help provide the necessary reserve funds. It must, therefore, be considered solely on its own merits.

It has been suggested that the rate on Treasury bills be raised to $1/2$ of 1 percent.

The most important disadvantage of such action, aside from its immediate cost, is that it might disturb the entire structure of rates. Whether it would do this or not is a question of "feel" which it is very difficult to predict a priori. It is even more difficult to "Try it and see", however, as the experiment when once made may be irreversible.

Against this disadvantage of raising the bill rate, the contention is made that an increase in the rate might broaden the market. To the extent that this is true, it would merely mean that more banks would be induced to adjust their reserve positions through the medium of Treasury bills, rather than through that of excess reserves or bankers' balances. There would be no particular advantage for the Treasury or the money market in such a change; and there is no reason, therefore, why each banker should not be allowed to consult his own convenience in this respect. Even if a "broadening of the market" for bills would be of material advantage to the Treasury or the money market, however, it is doubtful if it would be achieved to any important extent by a $1/8$ of 1 percent increase in the rate, inasmuch as the bulk of the existing excess reserves is held by country banks which are likely to be little more attracted to bills at $1/2$ of 1 percent than at $3/8$ of 1 percent.

Another and more sweeping proposal for raising the rate on short-term securities is that made by the Federal Reserve Board in its memorandum of July 13, 1943, that the present series of bills and certificates be withdrawn altogether and replaced by new $3/4$ percent 9-month Treasury bills. We feel that this proposal should not be adopted for reasons set forth at length in our memorandum of July 19, entitled "The Proposal of the Federal Reserve Board for the Issuance of 9-Month Treasury Bills."

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VIII. The Proposal That the Federal Reserve System
Replace Its Holdings of Maturing Bills by
Direct Purchase from the Treasury

There remains a final question with respect to the appropriate manner of distribution of Treasury bills. The Federal Reserve System has proposed that the Federal Reserve Banks be permitted to purchase directly from the Treasury each week an amount of Treasury bills equal to the amount held in the System portfolio maturing that week.

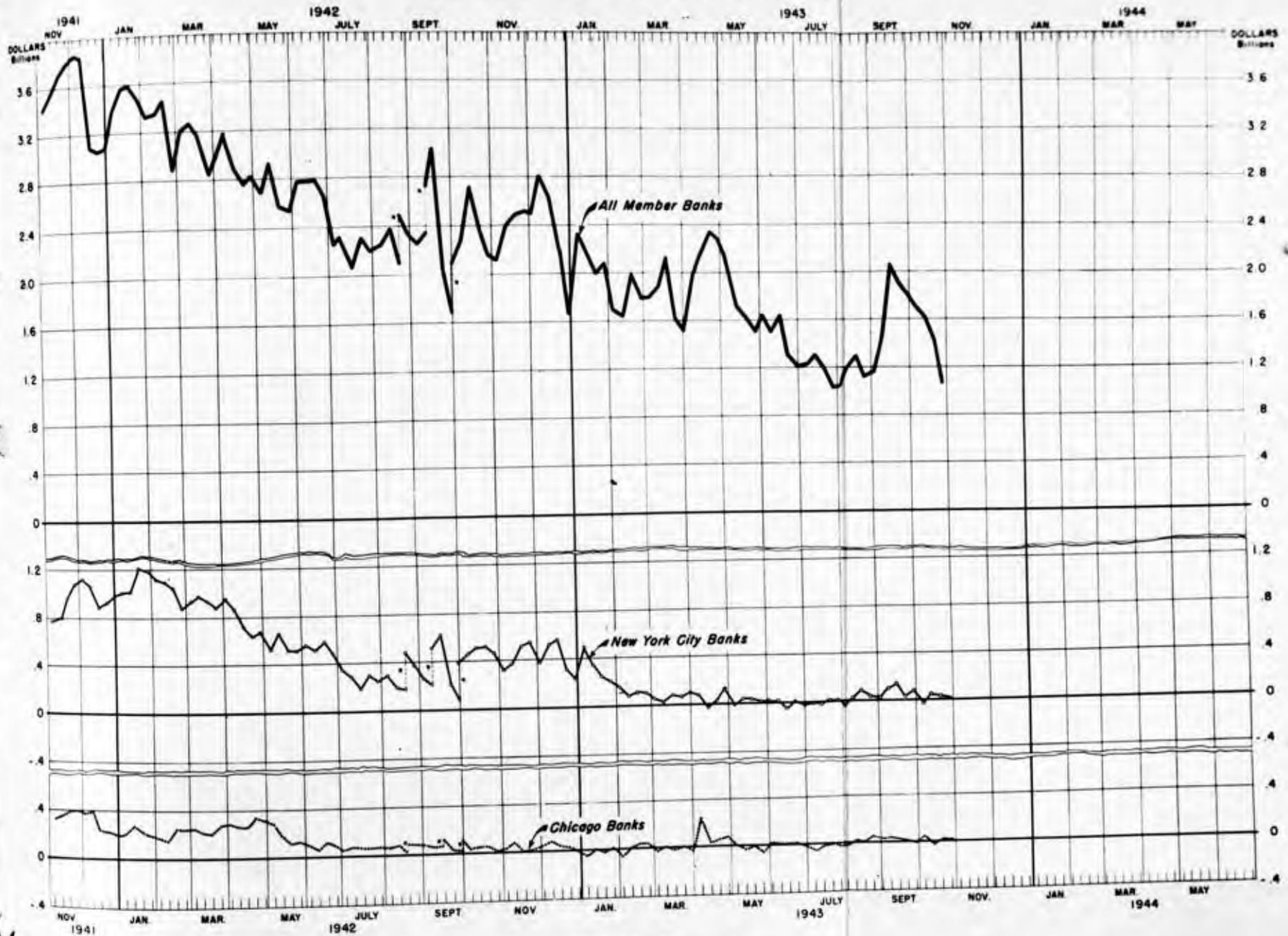
There is no economic or mechanical objection to this procedure. It would accomplish the same thing as is being accomplished now, and accomplish it with fewer transactions. Neither is the adoption of the proposal necessary, however, as an adequate volume of bids could easily be arranged through banks or dealers. Furthermore, even if such prearrangement should be considered undesirable, an adequate volume of bids would develop on its own account if the rate at issuance were allowed to rise slightly above the posted rate of 0.375 percent; and such a rise would cause no alarm if the market were given a prior indication that it was to occur.

The argument against the procedure proposed by the Federal Reserve System is simply that it would result in both the Treasury and the System -- but particularly the Treasury -- being subjected to unnecessary censure in order to accomplish an objective which could be as well accomplished without incurring such censure.

There is still a substantial body of opinion in the country at large which opposes direct purchase of Government securities by the central bank. As long as this sentiment exists and the desired objectives of Treasury and Federal Reserve policy can be accomplished equally well without resorting to such purchases, there seems to be no reason why the censure should be risked.

Attachments.

MEMBER BANK EXCESS RESERVES



* Change in reserve requirements

the ultimate re-expansion which deferment alone would render likely.

In conditions like these, some extraneous force is required to lift confidence sharply to a level at which it will give the needed impetus to new investment. We need not look to providence or to striking events—or absence of feared events—in international affairs to provide this quickening influence; indeed, one of the unfortunate results of the weakness of the market lies just here, in that far too much attention is paid to international politics, with all its uncertainties, susceptibility to dramatic changes, and defiance of interpretation. To a large extent the strengthening influence is within the power of our own authorities to direct. In no section of the capital market could it be more readily applied than in that which deals in gilt-edged securities, and there are special reasons why it is most wanted here. From one of our charts it will be observed that the yield on consols has taken another step upward, and it seems likely that new borrowing from the public would cost the Government at the present time fully one-quarter per cent per annum more than six months ago, and about one-half per cent more than in 1936. Having regard to this comparison and to the prospect of heavy new borrowing for re-armament, it is to the Government's own interest that the gilt-edged market should be kept strong—sufficiently strong to attract new money in a large and ready flow from the public. Meanwhile, it should be noted in passing, the Government can still borrow at the long-standing rate of little more than one-half per cent per annum by the placing of Treasury bills with financial institutions. On the longer view of Government requirements, direct self-interest demands that such influence as the authorities can exert to bring about more active and buoyant conditions in the gilt-edged market should be brought into play and sustained at full force.

But indirect self-interest also requires that this should be done, and done forthwith. Let it not be forgotten that the Government is a privileged partner in industry, with a prior claim to more than a quarter of the profits, if any (and incidentally no obligation to contribute out of capital to losses). Hence it follows that any action by the authorities which, however unwittingly, tends to disturb confidence and to check new investment affects injuriously the Government's own financial position both directly and indirectly, while any action on their part which tends to strengthen investment markets—so far from setting up competition against itself for available funds—improves its own position and prospects in respect of both income and outgoings. At a time when many companies are showing reduced profits, this consideration can hardly be absent from the mind of a Chancellor of the Exchequer approaching

the budget day of 1939. To stimulate the confidence of investors, and thus to raise the level of business activity and reduce the volume of unemployment, is to render the best possible service to both Government and people.

MONETARY POLICY—AN ERRONEOUS NOTION

The crux of the situation being the gilt-edged market, we are led straight to the point of monetary policy, which in 1932 brought about so radical and beneficial a change in the budgetary and business situation. In one important respect there is at present no ground for complaint. We have pointed out that the reduction in bank deposits in recent months does not signify deflation; indeed, on the simple facts of bank cash and deposits there is scope for considerable re-expansion. The authorities have acted in such a way that, notwithstanding the seasonal inflow of taxes, which used regularly to cause a shrinkage in cash reserves, the volume of cash available to the banks has been maintained, and even increased. The cash ratio has risen, so that in January it exceeded eleven per cent for the clearing banks as a whole, as against the customary minimum of a little over ten. If this were all that mattered, it could confidently be predicted that the banks would proceed to expand their deposit liabilities until the standard ratio was restored, and the most likely way of their doing so would be by entering the market as buyers of gilt-edged securities. Such a procedure would at once give the required stimulus to private investment, and even a relatively small amount of bank buying, on a market which starts from a weak position, would have disproportionately stimulating effects, penetrating far beyond the immediate consequences. Why, then, do the banks not act in this manner, with results so obviously to be desired from all points of view, including their own?

Clearly, there is no reason to suspect them of being merely "cussed", for they are no more likely than other business undertakings to cut off their noses to spite their faces. The answer to our question lies in the shortage of bills. We have explained this matter on several occasions in the past, but we shall attempt to do so again, if only because of misconceptions which appear to find some acceptance where they are liable to be most harmfully influential. The plain fact is that at the present time the banks are unable to obtain the amount of bills they require as a reinforcement of their cash reserves. The supply of bills, be it noted, is dominated by the flow of Treasury bills to the market. This flow is always greatly diminished in the first quarter of the calendar year—the last of the Government's financial year—by the seasonal inflow of taxes; but the fact that Government departments themselves are always

large holders of Treasury bills means that, by skilful management, the supply available to the banking system can be enlarged, in a time of grave shortage, if official policy acts in that direction. As a fact, the clearing banks held only £255 millions of bills of all kinds in January, as against £331 millions a year before. The figures of Treasury bills alone cannot be stated, but as an indicator of later conditions it may be mentioned that the total "tender issue" of Treasury bills—usually accepted as a measure of the supply available to the market—had diminished by the middle of February to less than £370 millions, that is by roughly one-third as compared with a year before.

Unhappily, there seems to be a notion that, if the banks are plentifully supplied with cash, they will unquestionably enlarge the volume of their income-earning assets. If, then—so the argument runs—the supply of bills is kept short, the banks will be driven to utilize their surplus cash in buying gilt-edged securities. Plausible as this reasoning may be, the exact reverse is more likely to take place. We can find an illustration in recent experience, for the banking returns show that during the period of bill shortage the banks have actually reduced their holdings of investments, probably by more than twenty millions of pounds—a large amount for an already weak market to absorb. What is the explanation of this strange negation of a seemingly logical notion? Why do the banks deliberately forgo the opportunity to augment their income? And is there any rational basis for their behaviour? The answer to all three questions is a matter of ratios—in the plural, be it noted.

THE IMPORTANCE OF RATIOS

Everyone by now is familiar with the fact, of great practical importance in the management of monetary conditions, that the banks habitually work to the maintenance of a minimum proportion of a little over ten per cent of cash reserves against deposit liabilities. Ordinarily, since the amount of cash allowed to them is outside their own control, this proportion governs the total volume of deposit liabilities, which is directly determined by their own action in adding to or diminishing the aggregate of their earning assets. Less well recognized or understood, however, is the observance of another ratio—also important if somewhat less rigidly observed—which we may describe as the "30:70 ratio". This entails the maintenance of total liquid assets—that is, cash itself together with assets constantly and readily being transmuted into cash and reconverted back into earning assets—at a level of at least thirty per cent of deposit liabilities. The liquid assets, besides cash, consist of cheques in course of

collection and balances with other banks—a pure transit item which results from the constant flow of money between customers of different banks; short-term loans, extended for periods of days chiefly to the money market and the stock exchange; and bills, some of them maturing day by day and none having more than three months to run. The amount of short-term loans the banks can extend depends mainly on the demand for such accommodation, which in turn fluctuates according to the level of activity on the stock exchange and the quantity of bills being carried in the money market. The only item among the liquid assets which can ordinarily be varied very much on the initiative of the banks themselves is bills. If the other liquid assets run down, the banks try to make up their total of liquid assets by buying more bills. Whether they will succeed in their efforts or not, however, will depend largely upon whether there are sufficient bills available in the market to meet all the demands, arising from other prospective buyers as well as the banks themselves. And this condition in turn depends mainly upon official policy, in placing more or fewer Treasury bills in the market. The total amount of Treasury bills outstanding is only indirectly relevant to the market supply, for, as already remarked, a large part of the total at all times is held by "public departments". The most important of the public departments, from this point of view, however, are the Exchange Equalisation Account and the Issue Department of the Bank of England, both of which are operated under a unified authority. The essential requirement is that the public departments' holdings of Treasury bills should be varied when necessary in order to ensure an adequate supply of bills in the open market.

THE FACTS AND THE REQUIREMENTS

What happens if this condition is not fulfilled can be described in terms of simple arithmetic. Let us suppose a starting point at which the banks are so liberally supplied with cash that the ratio of cash to deposits is well above the minimum of a little over ten per cent. Then, it would be supposed on these facts alone, the banks would proceed to utilize their surplus cash in the purchase of other assets, and by such purchases enlarge their deposits. And, since they themselves cannot determine the amount of the demands upon them for short-term loans and for advances, their natural procedure would be to go into the market and buy either bills or gilt-edged investments—probably some of each. In practice, their choice between the two will depend partly upon the total volume of their liquid assets: if these in the aggregate are well up to or above the minimum of thirty per cent, they will probably prefer to buy

(continued on page 6)

(continued from page 3)

investments, which yield them a higher income; but if not, they will prefer to buy bills.

Supposing, however, that the supply of bills is attracted, so that they find it impracticable to add to their holdings, or perhaps even to replace fully the bills currently maturing; will they not then buy investments *faute de mieux*? Certainly not, for to do so would bring their ratio of liquid assets well below the thirty per cent minimum. Indeed, if the shortage of bills should be acute and persistent, they may be driven actually to sell investments so as to reduce the percentage of "fixed assets", that is investments plus advances, to the seventy per cent maximum. And this they may do even though their cash ratio stands well above the customary minimum. In such circumstances their actions are governed less by the cash ratio than by the "30:70 ratio". Thus we may witness an inversion of the procedure which might have been expected, by reference merely to the cash ratio, from an expansive official policy acting solely through cash reserves.

The authorities may enlarge the supply of cash, expecting this action to be followed by bank purchases of investments and a corresponding enlargement of their deposit liabilities; and in the outcome the banks, on the contrary, may proceed to sell investments, reducing their deposit liabilities correspondingly, in order to restore their 30:70 proportion. This is what has been happening in recent months: as a result of official policy, cash reserves have been increased, providing a ratio well above the customary minimum; but the banks, instead of buying investments and expanding deposits, have sold some of their gilt-edged securities, while deposits have decreased. So far from imparting a much needed strengthening influence in the gilt-edged market, the action of the banks has been precisely the opposite of what was required, and presumably of what was intended. This has been so, not because what the authorities have done was wrong, but because it was not enough.

THE JUSTIFICATION OF RATIOS

It may be objected now, by some penetrating realist, that this contrariness of bank action results from nothing more than slavish adherence to "traditional" ratios. Why should the banks be so insistent on observing these ratios, which after all, he will remark, are merely "conventional"? Hard words break no bones, but it will perhaps contribute to knowledge of the truth to point out, in the first place, that these ratios are hardly "traditional", since it was not until after the war that the banks, largely by the process of consolidation, came to observe them with any steady consistency as between themselves or over extended

periods. Prior to that time, in the formative stage of banking progress, a great though diminishing range of variability existed, and it was only by observation and experience that the banks were led to adopt their present ratio practices, which indeed have undergone some modification even in the post-war period. Further, the ratios, though conventional, are much more than that, and adherence to them has more rational support than the epithet "slavish" would imply.

The first duty of every bank—and we apologize for stating a truism—is to ensure its ability to meet whatever demands its customers may make upon it, at any time and in any amount, for immediate payment of their claims, in the form of balances standing to their credit on their accounts with the bank. To fail, or even to seem to run the risk of failing, to perform this duty would at once be reflected in anxiety among customers, leading perhaps to heavy withdrawals and to serious disturbance throughout the business world. Experience has shown the banks, over many decades of trial and error, that in order to safeguard themselves against even momentary or limited inability to perform their first duty, they must maintain the proportions here mentioned and discussed. The fact that, through all the trials and disturbances of the post-war era—the strain of the return to gold, the violent detachment from the gold standard, the reverberations of banking troubles abroad, political controversy at home and unsettlement in international relations—the British banks have been able to fulfil their obligations without question suggests that their adherence to these ratios has not been without practical benefit to the people who constitute their ultimate masters.

THE NEED FOR MORE BILLS

From all this it follows—to return to the immediate situation—that official policy should have regard to something more than the provision of an adequate cash basis for the banking system; it should take account also of the total of liquid assets held by the banks, and to that end should ensure an adequate supply of Treasury bills to the market. The requirement is all the more urgent just now inasmuch as the shortage of bills is itself contributing indirectly to the weakness of investment markets which in turn is retarding general business recovery. For the immediate future, until the end of the financial year, there seems little likelihood of an expansion of the total amount of Treasury bills outstanding. But there should be no difficulty in releasing to the market some of the bills at present held by public departments. Quite apart from the expansive effect of this procedure on the banking

system and the associated stimulus to the gilt-edged market, a further and direct strengthening effect would be exerted by the public departments themselves, since they would require to buy other assets, namely gilt-edged securities, to replace the bills released from their holdings. From both directions, then—from the side of public finance and that of the

banking system—the gilt-edged market would be strengthened; and from this would follow, in conformity with experience, a revivification of investment markets in general, recovery of confidence, and revival of new capital investment, contributing to re-expansion from one end of the nation's business to the other.

* * * *

THE DISPOSAL OF NEWLY MINED GOLD

AUSTRALIA, CANADA AND THE UNITED STATES

A month ago we described the procedure by which gold newly mined in South Africa finds its way into the possession of ultimate owners, and examined the effects of the sales upon the internal monetary position and external economic relations of the country. Leaving aside Russia, for which insufficient information is available, we proceed now to deal similarly with the three other principal producing countries.

AUSTRALIA

First, we record a procedure which affords a striking contrast with the highly concentrated system operating in South Africa. In Australia the production of gold is geographically scattered; it varies in technical method because of the different forms in which the metal is found; and as a consequence it is undertaken by a wide variety of producers, ranging from mining companies, some of which employ large amounts of capital, to individual prospectors. Nearly three-quarters of the output is derived from Western Australia, the next largest contributors to the total being Queensland and Victoria. In the main producing states the disposal of gold is governed by separate Gold Buyers Acts, and, though these differ among themselves in detail, each contains a provision that gold produced in the state, if sold within that area, may be disposed of only to a "licensed buyer", or to one of the two Royal Mints, at Melbourne and Perth, or to the Commonwealth Bank, which has branches all over the country. This does not preclude a producer from himself shipping newly won gold abroad, and in fact some of the big companies find it profitable to send the gold on their own account to London or San Francisco to be sold there. But the great bulk of the output is in the first instance disposed of locally. The licensed buyers, apart from the Mints and the Commonwealth Bank, include the trading banks and a few private undertakings specializing as bullion brokers.

A large part of the gold produced goes, directly or indirectly, to the Mints, but most of it only for refining and assay. This is true of the gold sold by the producers to trading banks, which is taken back by them from the Mints and shipped and sold by them in overseas markets, usually London or the United States. Some of the gold coming to the Mints, however, particularly from small producers, is bought outright; even then, the Mints do not act on their own account as buyers, but as agents for the Commonwealth Bank. This arrangement was made specifically to assist small producers, who, according to a statement by the Bank, had previously "had to accept an arbitrary price or await the return of proceeds from overseas", but were now able to obtain immediate payment. The Bank has its own arrangements for re-selling the gold in world markets, again chiefly London and the United States. Finally, a part of the newly mined gold is acquired by bullion brokers, some of whom refine the gold themselves and dispose of it abroad on their own account.

Under legislation passed in 1929, when Australia left the gold standard, the Governor-General was empowered, on the recommendation of the Commonwealth Bank, to prohibit the export of gold except under licence. This power has not hitherto been exercised, so that gold can be and is exported freely by a variety of undertakings already mentioned. This freedom of dealings in newly mined gold, moreover, seems to have been unaffected by the power, also granted in 1929 to the Commonwealth Treasurer, to authorize the Commonwealth Bank to acquire compulsorily any gold held in private hands. There are, then, four distinct channels by which the country's gold output is turned into external resources, chiefly sterling: first, there is the Commonwealth Bank, buying gold direct or via the Mints and shipping it abroad; secondly, the trading banks, buying direct from producers and shipping on their own

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 1, 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending October 30, 1943.

Summary

Cost of living: The difficulties in carrying out the OPA's promise to reduce living costs to the September 1942 level are apparent in a renewed rise of the cost-of-living index in September. The rise of 0.4 percent carried the index to a point 5.2 percent above the September 1942 level. Higher clothing prices were the most important factor in the rise in the index.

Commodity prices: Although prices of individual commodities moved irregularly during October, commodity price indexes showed little change for the month. The BLS index of 28 basic commodities halted its gradual rise of the previous three months, and the all-commodity index continued the sidewise movement in evidence since July. Grain prices registered substantial gains during October, but livestock prices declined noticeably.

Labor unrest: Recent wildcat coal strikes have already caused an estimated production loss of 100,000 tons of pig iron and steel, and further steel plant shutdowns are imminent if the strikes continue. In addition to work stoppages in the coal mines, strike ballots have been sent out to members of both operating and non-operating railroad labor unions as a result of delays in securing settlement of long pending wage demands.

Industrial production: Aggregate industrial output rose slightly more than seasonally in September, with the newly revised FRB adjusted index rising to 243 from 242 in the previous month. New peak production levels were attained in the output of steel, crude petroleum and transportation equipment. Munitions output on the whole was virtually unchanged from August.

Stock market: Despite sharp gains in some groups, industrial, railroad and utility stock price averages moved in a narrow range in October and trading activity decreased slightly. At the end of the month the Dow-Jones average of 65 stocks was about 1 percent lower than a month earlier.

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Cost-of-living index renews rise

Technical difficulties and political opposition to subsidies are apparently delaying, if not preventing, the reduction in the cost of living to the September 1942 level, which had been promised by the OPA and is demanded by organized labor. Thus, after a decline of 1.4 percent from the May peak, the BLS cost-of-living index rose 0.4 percent in September and now stands 5.2 percent above the level of September 1942.

Noticeably higher prices for clothing led the advance in the living cost index in September, but slight increases also occurred in all the other components of the index except rent and fuel and light. (See Chart 1.) The unavailability of lower-priced clothing was largely responsible for the substantial increases in clothing prices, which raised the clothing index 2.2 percent during the month. Food prices rose slightly, following declines in the preceding three months. Seasonally higher prices for eggs and advances in fish prices largely accounted for the increase in food costs. Fresh vegetable prices, however, declined 2 percent as a result of seasonally lower prices for some important items. Prices of household furnishings, and costs of miscellaneous goods and services, continued their gradual rise. As one example, prices of haircuts, which are not covered by price ceilings, have now reached the dollar level of World War I in some cities.

Steps taken to stabilize living costs

While the Government has not succeeded in reducing the cost-of-living index to the September 1942 level, steps have been taken which should assist in holding the index at existing levels if not lowering it somewhat. Ceiling prices for 13 fresh vegetables at country shipping points were recently announced by the OPA and the WFA. Regulations embodying these ceiling prices and establishing retail and wholesale markups will be issued as rapidly as possible, it was indicated. Although the new ceiling prices are not expected to lower the index appreciably, they should prevent a drastic rise in fresh vegetable prices such as occurred last winter and which was largely responsible for the rise in the index at that time.

Other measures which have been taken are: (1) the setting of maximum prices for the late 1943 crop potatoes, (2) the imposition of price ceilings on apples and grapes, and (3) the announcement of a subsidy to achieve a reduction in the price

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of peanut butter from the July level of 33.1 cents per pound to about 26.5 cents. Moreover, Price Administrator Bowles stated recently that maximum prices for 5 more vegetables will be announced soon, and that the OPA is planning to bring under control before the next season's crop all fresh fruits not yet under price ceilings.

Congressional opposition to subsidies continues

Evidence of continued congressional opposition to subsidies accumulates. Acting on a bill to extend the life of the CCC for two years, the House Banking and Currency Committee voted recently to prohibit food subsidies after December 31. This provision would not only ban future subsidies but would eliminate existing subsidies on meat, butter, milk and other foods. While the decision of the committee may not be supported in Congress, any move to roll back food prices by means of subsidies seems certain to meet strong opposition.

Labor unrest increasing

The renewed upturn in living costs will add to the difficulties of coping with the recent resurgence of labor unrest. Outstanding wage demands now pending are those of the nation's coal miners and railroad workers, which are still unsettled despite months of protracted hearings and negotiations. With the truce in the coal wage controversy expiring on October 31, and John L. Lewis expressing dissatisfaction over the latest WLB proposal for settling the dispute, another shutdown in coal mining operations threatens. Sporadic work stoppages in the coal mines have been on the increase for several weeks, and by last Friday about 80,000 bituminous coal miners were reported to be on strike. Steel operations in the South already have been out as a result of these strikes, with the U. S. Steel Corporation alone having to close down 4 blast furnaces and 6 open hearths in Alabama by the early part of last week.

In addition to the work stoppages by the coal miners, both the operating and non-operating railroad unions have sent out strike ballots as a result of failure to secure satisfaction on wage demands. The non-operating unions are reported to be incensed over the delay in securing final approval of an 8 cent an hour increase recommended last May by an Emergency Board. This award was subsequently held up by Economic Stabilization Director Vinson and then referred to

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a Special Emergency Board which concluded a one-day hearing on the matter last week. Both the railroads and the non-operating unions have agreed to the 8 cent increase, but have been unable to put the agreement into effect without Government approval.

In the case of the operating unions, the dissatisfaction arises from the smallness of the wage increase recommended by an emergency board of the National Railway Labor Panel. The Unions had requested a wage increase of 30 percent, but the Board recommended an increase of only 4.5 percent, which was denounced by union leaders.

While the coal and railroad wage controversies are the only large scale wage disputes at issue at the present time, some observers report considerable discontent in labor circles over the handling of wage demands, and are fearful that more widespread labor unrest may be in the offing. Such a development seems almost certain to occur in the event of further increases in living costs.

Commodity price indexes unchanged

Commodity prices were irregular during October, with grain prices advancing and livestock prices falling. The BLS index of 28 basic commodities, however, halted its gradual rise of the preceding three months, and last week stood at the same level as a month earlier. Likewise, the all-commodity index showed practically no change during the four weeks ended October 23; in fact, the index has continued at about the same level for the past four months. (See Chart 2.) At 102.9 percent of the 1926 average it is now only 3.2 percent above a year ago but 37.2 percent above the pre-war level of August 1939.

Wheat prices rose more than 5 cents a bushel during October, making a total rise of almost 14 cents in the past three months. This sharp rise is due in part to the fact that livestock feeders and industrial alcohol distillers are competing with millers for the grain. Millers' margins are being squeezed between the rising wheat prices and the fixed ceilings on flour prices. The squeeze has driven many millers from the market and with the exception of the Government business, flour sales are reported to be almost at a standstill in some sections of the country. While it was indicated last week that the OPA would announce today a price ceiling on soft wheat, it is doubtful whether this action will relieve the squeeze, since

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hard wheat prices will remain free from control. Price ceilings cannot be imposed on hard wheat as yet because hard wheat prices are still below parity.

Meat animal prices decline

In contrast to the rise in grain prices, live animal prices declined during the past month. Although the imposition of a price ceiling on hogs had the initial effect of reducing hog prices, seasonally heavy marketings of hogs in recent weeks have lowered prices substantially below the \$14.75 ceiling level. Due to heavy fall marketings, prices of steers in October were considerably lower than during the previous month. (Prices last week, however, were the same as at the beginning of the month, as is indicated on Chart 3.)

Stabilization Director Vinson issued a directive last week establishing minimum and maximum prices for each grade of cattle. If a livestock slaughterer should pay more than the maximum price or less than the minimum price, an amount equal to that difference will be subtracted from the meat subsidy payments made to that slaughterer. The spread between the maximum and the minimum prices is \$1 per hundred-weight for each grade.

Cotton prices eased during October, due in part to hedging operations, and wool top prices were substantially lower on relatively light demand. Although the burlap price ceiling in the New York market was revised upward, causing the sharp rise shown on Chart 3, ceiling prices in some other markets were lowered in a revision designed to equalize freight rates. The general level of burlap prices for the country as a whole remained about the same.

Farm price index slightly lower

Although the index of prices received by farmers declined slightly in the month ended October 15, it was almost 14 percent above last year and was at the highest level for October since 1919. The decline in the index was largely due to lower prices for fruit, meat animals, potatoes, and truck crops. (See Chart 4.) Reflecting the tight feed situation, the grain index showed a substantial rise for the eleventh consecutive month, with the prices of all grains but corn registering sharp advances. Prices of dairy products and eggs were seasonally higher.

- 6 -

The index of prices paid by farmers (including interest and taxes) advanced slightly, in contrast to the small decline in the index of prices received. Consequently, farm prices averaged 116 percent of parity as compared with 117 percent a month earlier and with 110 percent a year earlier. Grains continue to be the only group whose prices average below parity.

Stock prices steady and trading activity moderate

Stock prices on the whole moved within a narrow range during October, and trading activity was relatively slow with the maximum daily volume totaling less than 900,000 shares. Although a flurry of buying resulted in some sharp advances near the end of the month, notably in prices of liquor stocks, the Dow-Jones average of 65 stocks at the end of October was about 1 percent lower than at the end of September. This slight decline was due entirely to a small setback in industrial stocks, as the railroad and utility stock averages showed trifling gains during the period. (See Chart 5.)

The relatively cautious attitude which characterized trading on the New York Exchange last month was accompanied by a moderate decline in industrial stocks prices at London. After almost touching the war-time peak in early October, stock prices in London have since declined about 3 percent, thus making a somewhat poorer showing than stock prices at New York. (See Chart 6.) To some extent this probably represents a belated correction to the rise in the London market which followed Mussolini's downfall. In addition, a somewhat less optimistic attitude on the early end of the war and a tendency to await the outcome of the Moscow conference are reported to be factors in the decline.

Industrial production slightly higher in September

The newly-revised FRB index of industrial production was made public for the first time with the release of production data for the month of September. On the basis of the new index, industrial output during the month rose slightly more than seasonally, with the adjusted index moving up to 243 from 242 in August. Reference to Chart 7 will disclose that the index on the old basis stood at only 203 in August. Most of the difference between the two indexes was accounted for by sharp upward revisions in production figures for the chemical, transportation equipment and machinery industries, although other important revisions were also made.

- 7 -

The moderate rise in aggregate industrial output in September was largely due to the attainment of new peak levels in the output of steel, transportation equipment and crude petroleum. After allowance for seasonal factors, nondurable goods output was unchanged from the previous month, despite an upward spurt in cotton consumption which had been declining since last May.

The important machinery industry showed a very slight decline in output, in reflection of further contraction in the machine tool industry. Machine tool shipments declined 3 percent in September, and unfilled orders at the end of the month were 14 percent lower than a month earlier. A very sharp drop in output now seems in prospect for the machine tool industry during the coming year. The director of the WPB tools division recently estimated that shipments in 1944 would drop below \$400 millions, whereas September shipments were at an annual rate of more than \$1 billion.

Munitions output virtually unchanged in September

Aggregate munitions output in September was practically unchanged from the previous month with the WPB index of munitions output standing at 614 (November 1941=100) as compared with 613 in August. Output of aircraft and related munitions items increased 2 percent in September with four-motored bombers showing a rise of 6 percent. However, the number of planes produced during the month dropped to 7,598 from 7,612 in August.

Preliminary estimates of work done on the ship program in September revealed increases of 3 percent in Naval vessels and 1 percent in merchant vessels, although actual deliveries of naval vessels and completions of Liberty ships fell somewhat below August levels. Ammunition output increased 3 percent and signal equipment rose 6 percent, but the latter was still behind a schedule which is admitted to be ambitiously high.

Production threatened by coal strike

With war production already hampered by manpower shortages, the situation promises to be seriously aggravated by the work stoppages in the coal mines. Even before wildcat strikes in the coal mines had attained present serious proportions, the Acting Chairman of the WPB said that shipyards were beginning to feel the pinch and that if the strikes should continue a month longer, tankers, Liberty ships and cargo vessels would

- 8 -

be held up for lack of steel plates. WPB officials estimate that current coal strikes have already caused a production loss of 100,000 tons of pig iron and steel, while further large steel plant shutdowns in the Birmingham area are expected this week if the strikes continue.

Aside from the effect on industrial production, the Solid Fuels Administration has seen fit to freeze stocks of domestic type coal at the mines in order to assure adequate supplies of heating fuel for civilians. During the week ended October 23 soft coal output dropped 425,000 tons to 11,300,000 tons. A further decline undoubtedly occurred last week in view of the spread of wildcat strikes during the period.

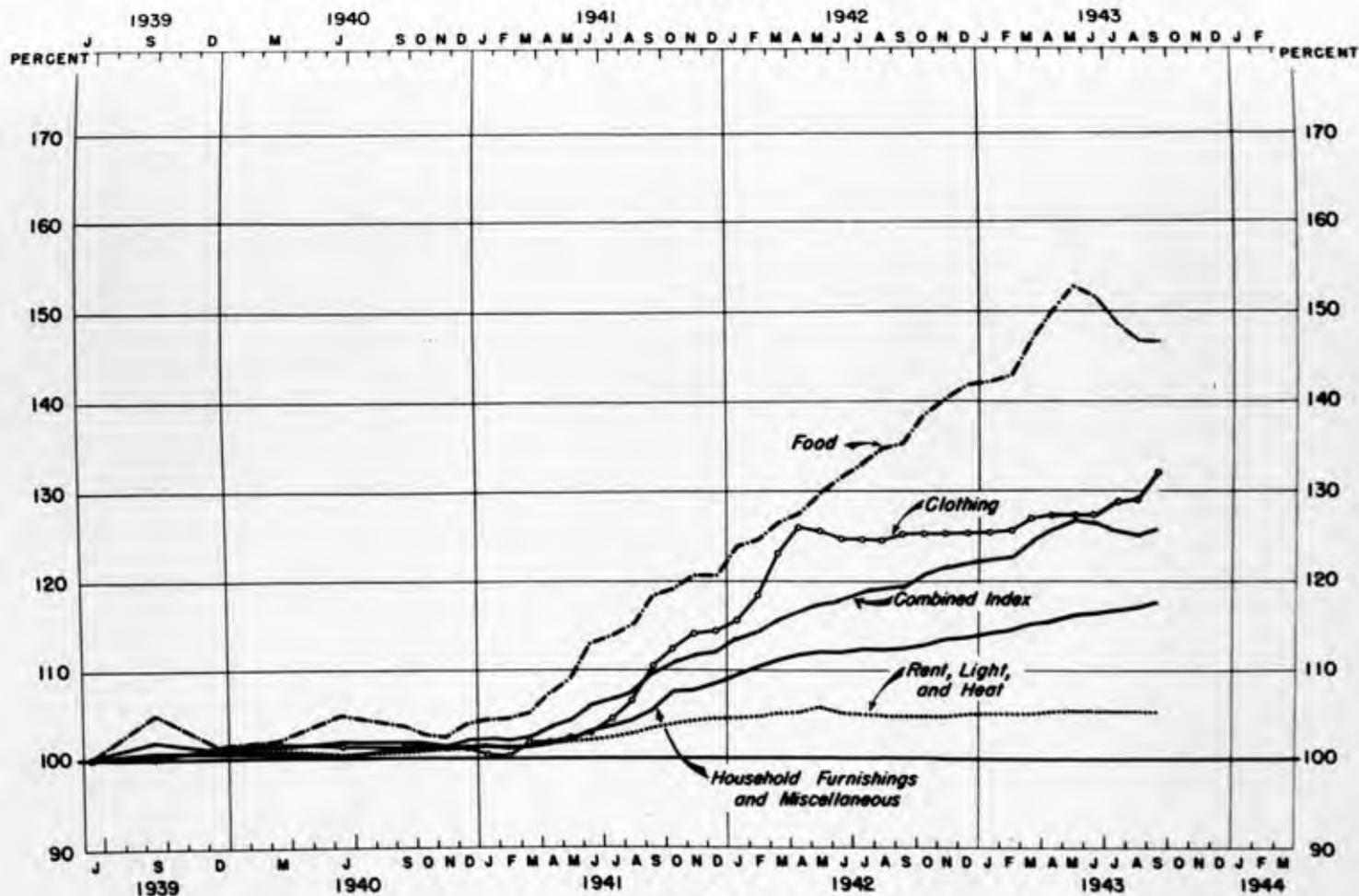
Department store sales higher in October

Although department store sales in September were about 8 percent above September 1942, the rise from the unusually good August level was less than seasonal, and the FRB adjusted index of sales for the month dropped 10 points to 132. Contrary to the usual seasonal trend, department store sales in the first 3 weeks of October have risen above September figures, thus probably foreshadowing a contra-seasonal rise in the adjusted sales index for October. Earlier than usual Christmas gift buying for overseas members of the armed forces undoubtedly has been a contributory factor in the strong October sales showing.

Despite the heavy sales volume of the early part of the year and again during the late summer, department store stocks at the end of September (in dollar value) stood at the highest point in 10 months. However, the rise from August to September was less than seasonal and the adjusted index of stocks dropped to 110 (1923-25-100) from 114 in the previous month. (See Chart 8.) Nevertheless, stocks at the end of September (in dollar value) were only 12 percent below the corresponding date in 1942, when department store inventories were close to the highest level on record.

COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



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

Source: B.L.S.

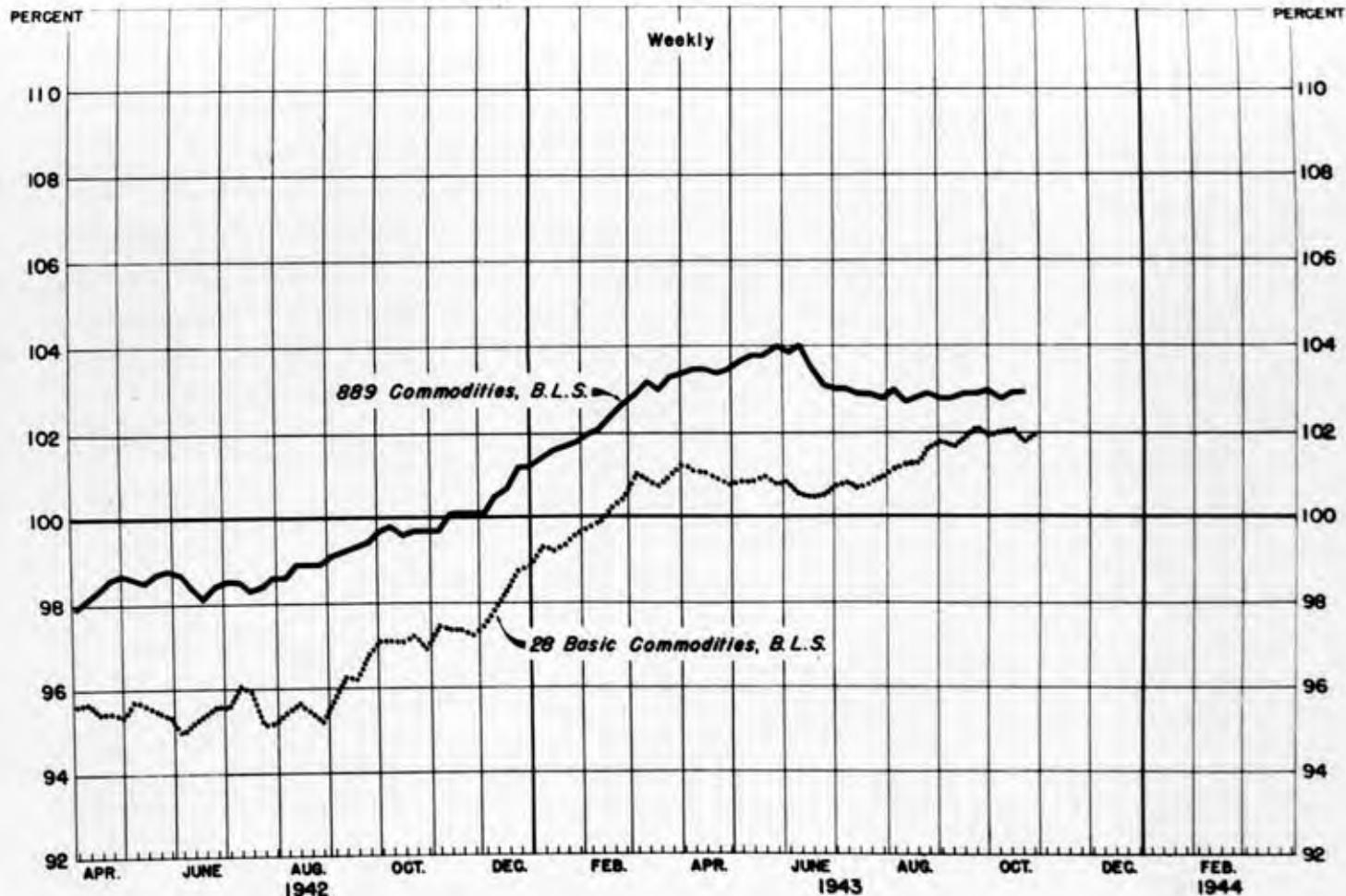
C-413-B

Chart 1

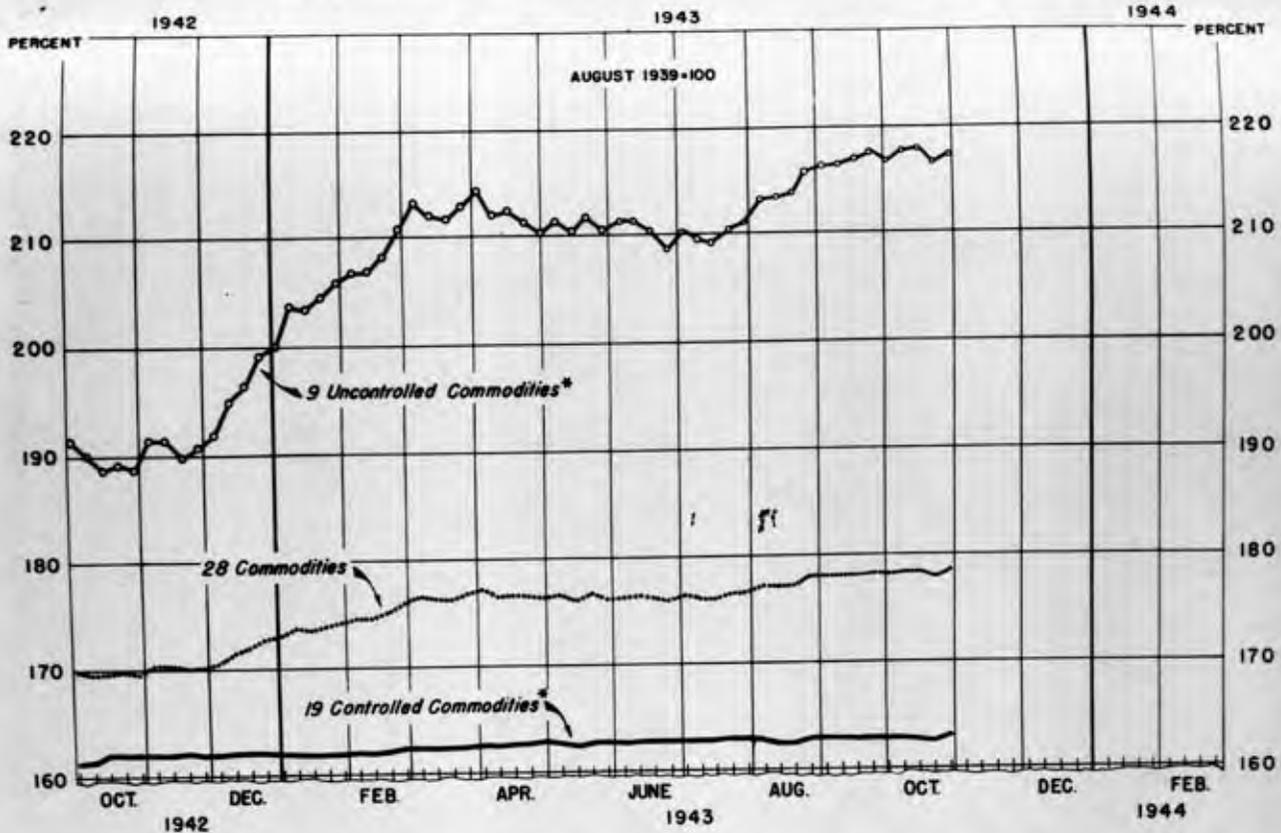
124

COMMODITY PRICES

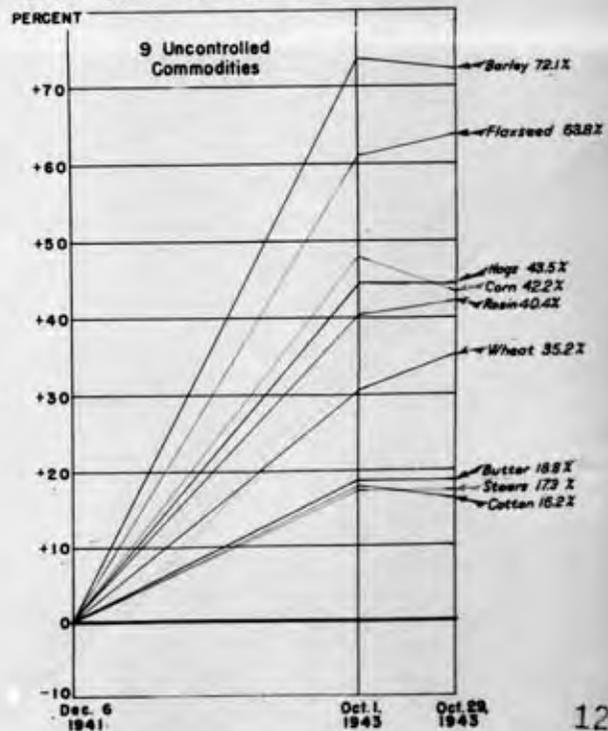
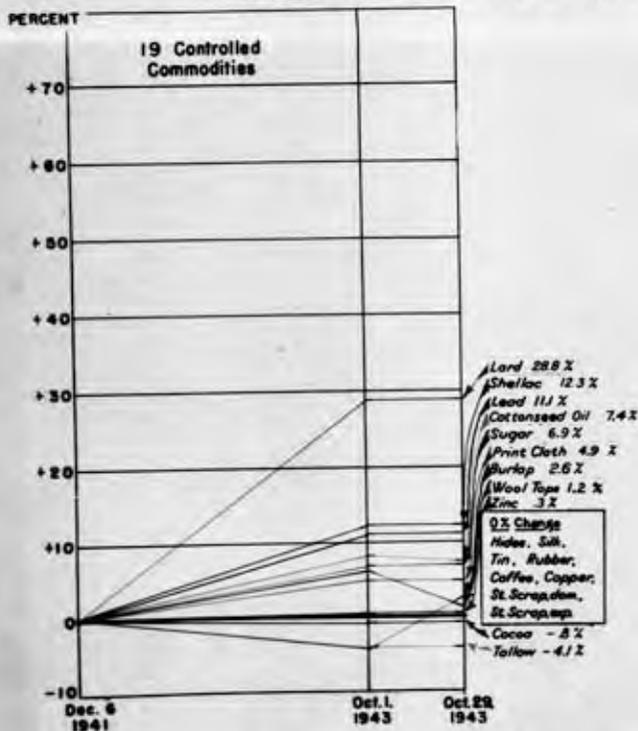
1926 = 100



MOVEMENT OF BASIC COMMODITY PRICES



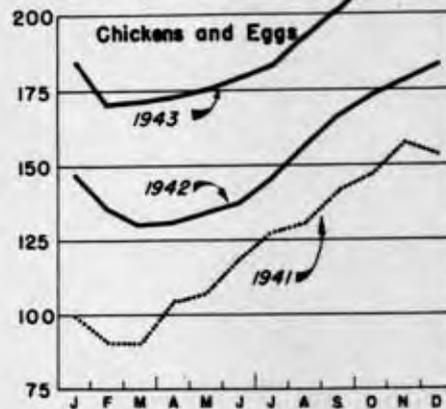
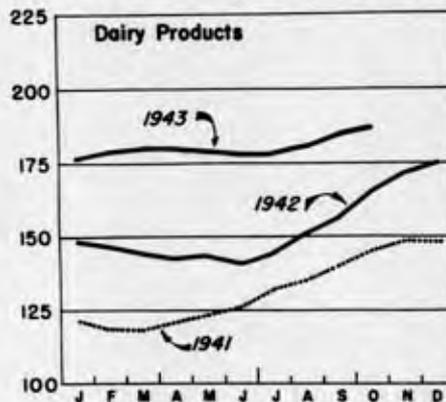
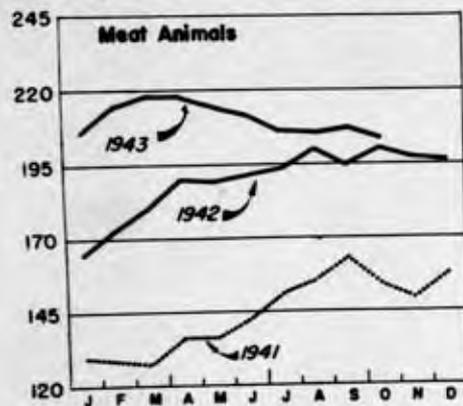
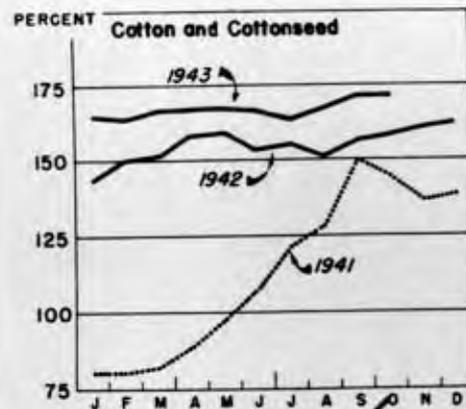
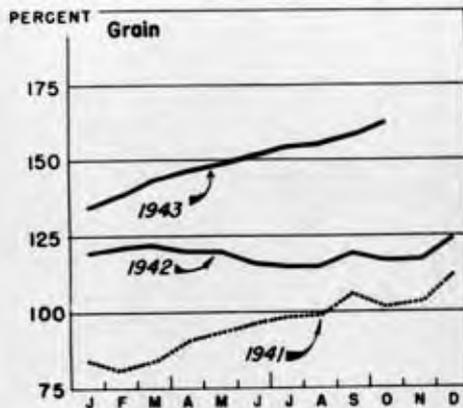
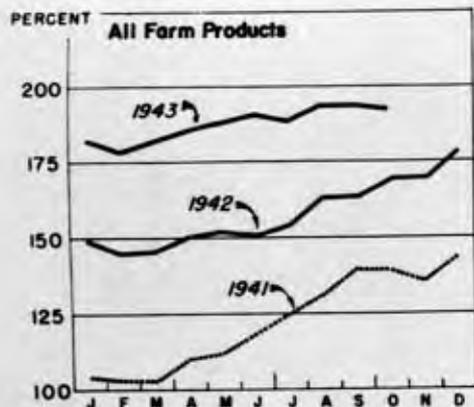
PERCENTAGE CHANGE DEC. 6, 1941 TO OCT. 1, AND OCT. 29, 1943



* 20 Controlled & Uncontrolled previous to June 26, 1942

AVERAGE PRICES RECEIVED BY FARMERS

Indexes, August 1909 - July 1914=100



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

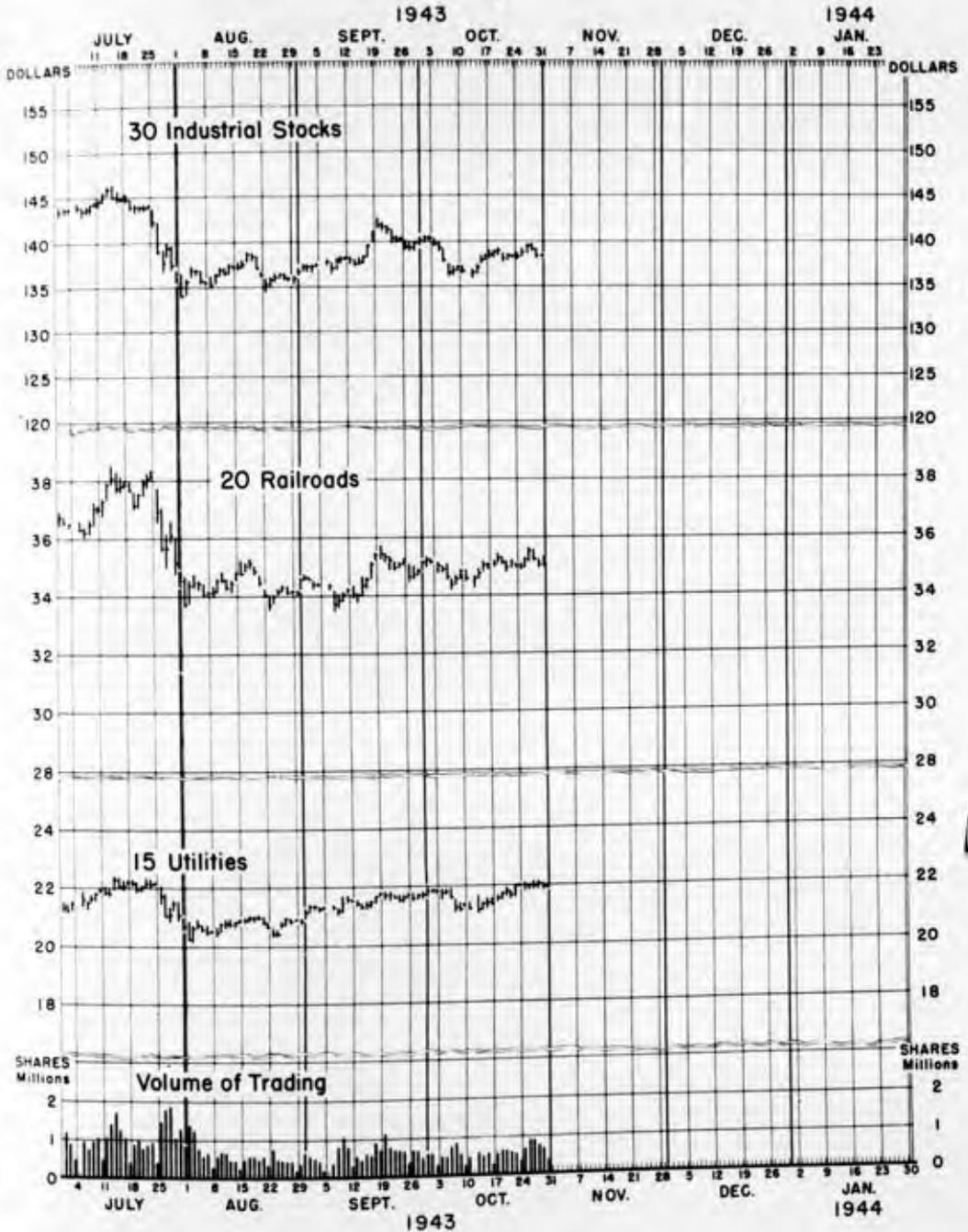
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Chart 4

127

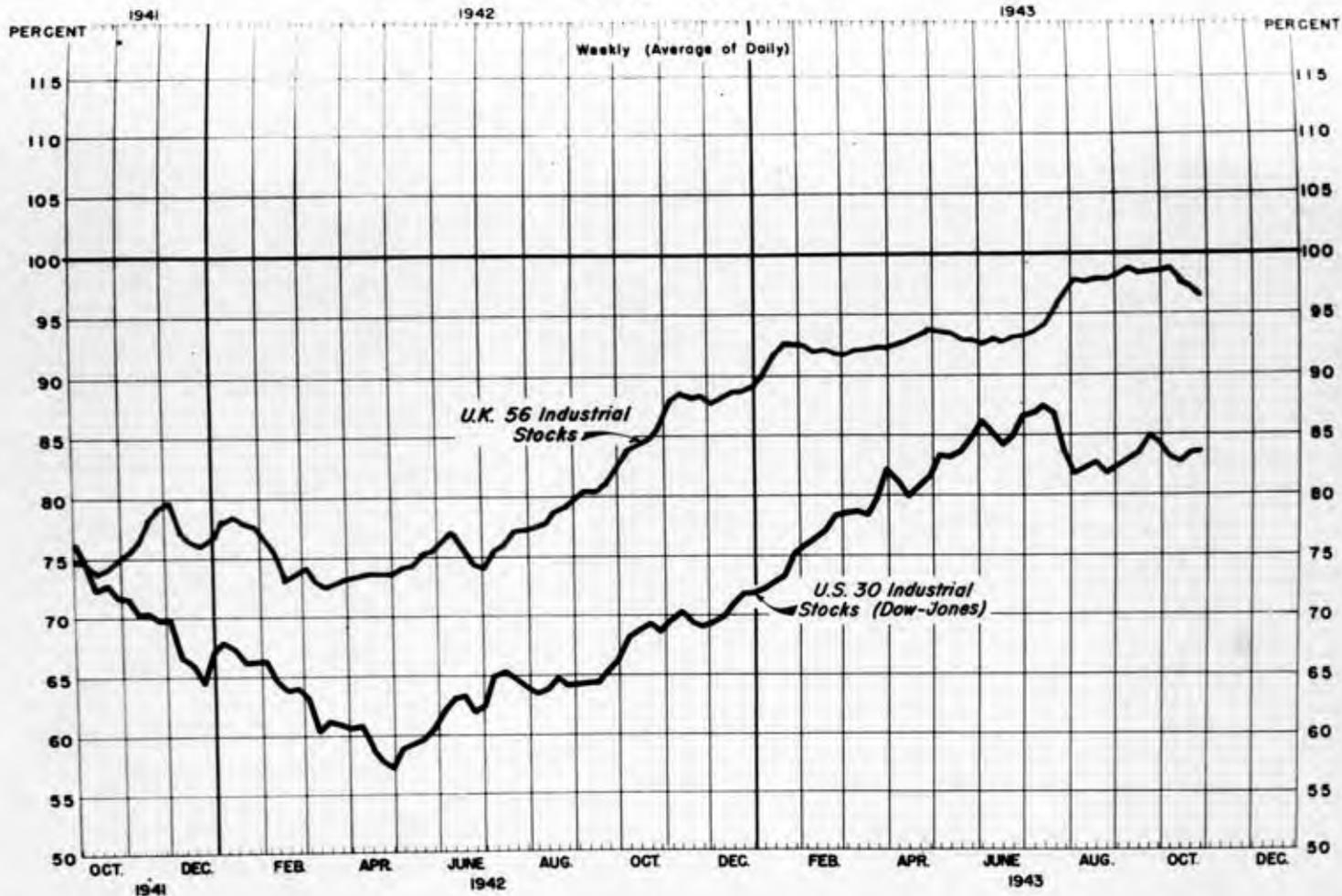
STOCK PRICES, DOW-JONES AVERAGES

Daily



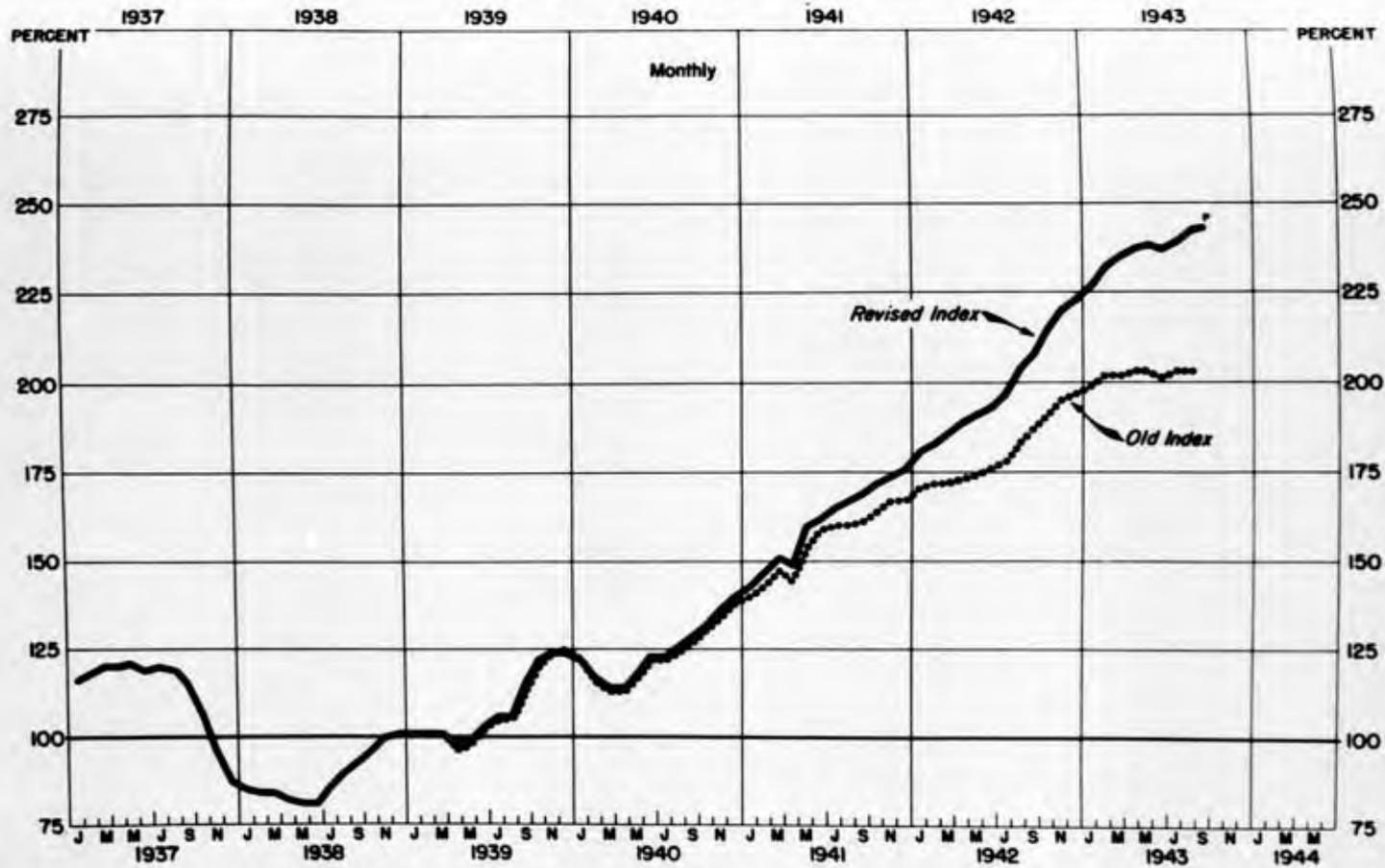
INDUSTRIAL STOCK PRICES IN U.S. AND U.K.

AUGUST 1936 = 100



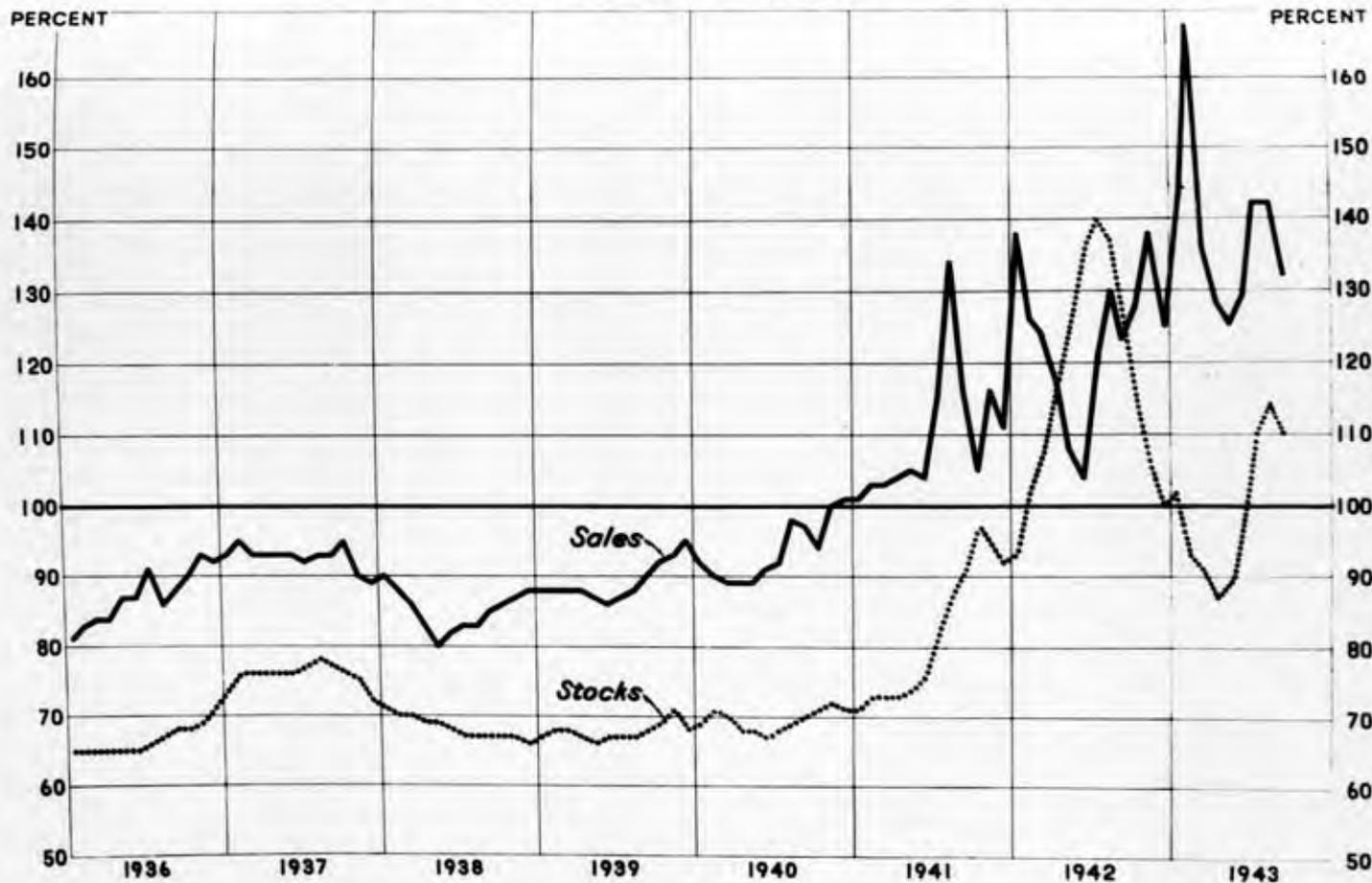
F.R.B. INDEX OF INDUSTRIAL PRODUCTION, REVISED

1935-'39 = 100, Seasonally Adjusted



DEPARTMENT STORE SALES AND STOCKS

Dollar Values, 1923-25 = 100, Adjusted



Source: Federal Reserve Board

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

C-430
13
Regraded Unclassified

Chart 8

November 1, 1943

Dear Mr. Roberts:

The Library of Congress Trust Fund Board has considered your letter of June 25, 1943, addressed to Mr. Verner W. Clapp, the then Administrative Assistant to the Librarian, and has acted to accept the bequest of Dr. Dayton C. Miller.

I am informed also that the Joint Committee on the Library has given its assent to the acceptance of this bequest.

Please accept, on behalf of the Library Trust Fund Board, my thanks.

Sincerely yours,

(Signed) HENRY MORGENTHAU, JR.

Henry Morgenthau, Jr.
Secretary of the Treasury
and Chairman, Library of Congress
Trust Fund Board

Mr. E. B. Roberts
Trust Officer
The Cleveland Trust Company
Cleveland, Ohio

THE LIBRARY OF CONGRESS
TRUST FUND BOARD

Washington

*get some
stationery*

October 26, 1943

My dear Mr. Chairman:

I have now received from the members of the Trust Fund Board their votes in favor of acceptance of the bequest under the will of Dayton C. Miller to be used for the purposes connected with the maintenance of the Dayton C. Miller Collection of Flutes in the Library of Congress.

I have also received from Senator Barkley the results of a poll vote taken in the Joint Committee on the Library indicating a vote in favor of acceptance of the bequest by a majority of the Committee.

You may wish therefore, as Chairman of the Board, to indicate acceptance of the bequest to the Cleveland Trust Company. I take the liberty of enclosing the draft of such a letter for your signature.

Assuming that the bequest is accepted, I am today transmitting to the Treasurer of the United States cash in the amount of \$11,325* for deposit in the "Library of Congress Trust Fund Contributions, Permanent Loan Account" and stock certificates representing 50 shares of the Common stock of the Dow Chemical Company.

Faithfully yours,

Archibald MacLeish
Archibald MacLeish
The Librarian of Congress, and
Secretary, Library of Congress
Trust Fund Board

Enclosure

*Plus \$37.50 dividend received since June 25, 1943

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury, and
Chairman, Library of Congress Trust Fund Board
Washington, D. C.



TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON 25



OFFICE OF THE DIRECTOR

SECRET
November 1, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of October 25, 1943, the purchases against the African Program from October 25, 1943, to October 31, 1943, totaled \$352,687.28, or a total of purchases for the program thus far of \$75,614,690.97.

Attached is report giving status of shipping against these purchases.

A. J. Walsh
Acting Director of Procurement

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand At Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Agric. Mach. & Implements	2338.84	24.82	488.07	242.53
Automotive Eqpt. & Parts	991.25	5.19	24.98	176.85
Batteries	128.07	.45	28.51	9.87
Bearings	8.39	.13	1.02	1.78
Brass & Bronze	288.4	2.5	87.6	
Brushes & Brooms	.8	.49		
Bldg. Hdw. & Material	622.69	4.94	283.58	165.27
Chemicals	2,3479.03	606.61	7779.78	2383.99
Clothing, Notions & Textiles	18,645.96		2688.49	4299.76
Construction Machinery		.35	9.16	4.36
Copper in Various Forms	400.09	4.45	218.78	19.67
Elec. Eqpt. & Supplies	110.8		62.28	53.92
Explosives	14.15			
Ferro-Alloys	73.88	11.32	40.74	106.33
Food & Food Products	6032.			
Furniture & Office Eqpt.	.5	1.41	1.61	.05
Glass	194.82	97.89	165.86	549.04
Graphite Products	106.03		.18	20.18
Hand & Cutting Tools	1367.43		237.8	248.91
Industrial Machinery	140.39	52.88	34.18	490.29
Iron	645.36	855.2	602.19	103.25
Jute Bags	857.47		535.	
Lead & Lead Alloys	73.18		102.5	
Medical Supplies	56.12	.68	5.02	.3
Non-Ferrous Metals, Other	436.05		24.88	128.37
Paper & Paper Products	6554.98	1230.3	2665.66	2431.63
Rope & Twine	247.7	34.75	14.	12.
Rubber	881.9	1.78	275.1	646.3

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand At Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Shoes & Boots	315.68	5.34	634.76	1865.05
Steel, Alloy & Carbon	13228.3	480.32	6377.87	5546.13
Steel, Pipe & Tubing	372.08	166.1	761.06	1100.96
Tin Plate	2097.64	110.6	610.81	3580.09
Zinc	25.41	27.96	1.88	102.01
Totals	80,678.44	3726.41	24808.35	25288.89

SECRET

CABLE

TO: State Department, Washington
FROM: American Embassy, Montevideo
DATE: November 1, 1943

Uruguayan Minister of Finance Ricardo Cosío
died this morning after two months' illness.

TELEGRAM SENT

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

November 1, 1943

7 p.m.

AMERICAN EMBASSY

MOSCOW.

1148

PERSONAL FOR SECRETARY HULL FROM SECRETARY
MORGENTHAU.

QUOTE I appreciate very much your effective
and quick work in taking care of the matter raised
in my letter to you of October 5. UNQUOTE.

STETTINIUS
(Acting)
(FL)

FD:FL:PAY

November 1, 1943.

Mr. Livesey

Mr. White

Please transmit the following cable to Secretary Hull in
Moscow:

"The following message from Secretary Morgenthau is
personal for Secretary Hull:

I appreciate very much your effective and quick work in
taking care of the matter raised in my letter to you of
October 5, 1943."

HDW/grs
11/1/43

PARAPHRASE OF TELEGRAM FROM MOSCOW, NO. 1794
DATED OCTOBER 31, 1943

The following message is from the Secretary of State and is Personal for Secretary Morgenthau:

I have received a letter from Molotov, in reply to written and oral representations which I have made on the subject, in which he states that in the very near future the People's Commissariat of Finance will send experts to Washington for the purpose of participating in discussions regarding the International Stabilization Fund.

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRETCOPY NO. 12U.S. SECRETOPISL No. 358

Information received up to 10 A.M. 1st November.

1. NAVAL

A U.S. Destroyer bombarded the road and rail crossing North of VOLTURNO on 30th. Yesterday one of H.M. Destroyers escorting a homeward convoy sank a U-boat off CAPE FINISTERRE and one of H.M. anti-submarine trawlers sank a U-boat in the Strait of Gibraltar.

2. MILITARY Italy 31st. No substantial change. Bad weather continued.

Eighth Army Crossing over Tiver TRIGNO on 78th Division front hindered by rain and shelling. Further left Fifth Division captured MACCHIA, GODENA and CANTALUPO.

Fifth Army U.S. Infantry made some progress North West of PRATA without opposition. West of PIETRAVAIRONO. They are now close to the main CAPUA-VERAFRO road. U.K. troops have captured TEANO.

Russia See D.D.M.I.'s telegram to Military Attache.

3. AIR OPERATIONS Western Front 31st. Eight escorted Typhoon Bombers attacked an airfield in the CHERBOURG Peninsula.

31st/1st. Total of 18 Mosquitoes were sent to EMDEN, BUSSELDORF, COLOGNE and OBERHAUSEN. 12 enemy aircraft of which four penetrated to the London area operated over Southern England, one was destroyed. Some bombs were dropped in three London Boroughs. One fatal casualty so far reported.

Dodecanese 30th Beaufighters destroyed five out of eight JMB attacking shipping off CASTELORIZZO.

TREASUR

1943 NOV

SECRETAR

Regraded Unclassified

November 2, 1943
9:30 a.m.

Re: FREEZING OF ARGENTINE FUNDS

Present: Mr. Bell
Mr. Paul
Mr. Gaston
Mr. Bernstein
Mr. Pehle
Mr. Luxford
Mr. DuBois

H.M.JR: I think the Treasury is in an absolutely false position. We were outsmarted, or something. We are recommending through freezing of funds that we are in favor of changing the form of government down there in Argentina, which I don't think is any of our damned business. I mean, that is Mr. Hull's responsibility. And if I had been the President or Mr. Hull, after reading the memorandum and the cable sent from Moscow, I would have done the same thing Hull did, and said no.

MR. PAUL: You can't just look at an economic problem like that and shut your eyes to all the other consequences. You were bound to call those to the attention--

H.M.JR: I don't think it is our business to call it to the President's attention.

MR. PAUL: We didn't say we wanted to change it; we said that would have been one of the consequences.

H.M.JR: That is the way I feel. I have never been put in that kind of position before where Hull says no and the President says no, and I think they are correct. The other thing which I can't understand is having given this thing out to the press, and then we try to hide it from Stettinius. It says so in your memorandum.

MR. PAUL: We were advised that they didn't want to know anything about it.

- 2 -

H.M.JR: But that isn't what you say in your memorandum.

MR. PAUL: How did we put it?

H.M.JR: Haven't you read this?

MR. PAUL: Yes, but naturally I can't remember every word of it.

H.M.JR: You put in this memorandum to try to hide from Stettinius that we gave this thing up.

MR. PAUL: No, there was a leak; that is the way we put it.

MR. LUXFORD: When Collado spoke to me about it, I did not volunteer how the leak happened, although as far as I know there was no conversation.

H.M.JR: No, but you left Stettinius with the impression that the leak came out of New York.

MR. LUXFORD: The State Department took that position that the leak came out of New York. Whether they took it because they wanted to believe that, or wanted to say that, or for whatever reason, we don't know. It was quite obvious on its face.

H.M.JR: Did you find this?

MR. LUXFORD: Yes, sir.

H.M.JR: Why not say we did this because somebody called us up from the State Department and said that was what the President wanted.

MR. PAUL: The President wrote a memorandum that that was what he wanted.

H.M.JR: Two things are missing. There was no copy of the message from Hull back from Moscow.

- 3 -

MR. LUXFORD: We don't have that.

MR. BELL: That was promised to us.

H.M.JR: And then there is nothing on what the President said. It is not in there.

MR. PEHLE: There is Stettinius' transmittal and the President's letter.

H.M.JR: That isn't in here.

MR. LUXFORD: It came yesterday afternoon. That came in to my office after the memorandum went out.

MR. PEHLE: This is the first one, Mr. Secretary.

H.M.JR: I don't see why, when the word comes from the State Department to us that this is what the President wants, why we should try to fool the State Department.

(Copy of Mr. Stettinius' letter of transmittal, dated October 30, handed to the Secretary, copy attached.)

H.M.JR: Collado indicates Stettinius was disturbed by the story appearing in the Times Herald. Pehle told me he was somewhat surprised by the reactions and indicated the leak was one for the Treasury. Pehle did not indicate, however, whether or not the Treasury had anything to do with the stories appearing in the press.

MR. LUXFORD: I didn't do that, because I didn't have a chance to talk to anybody here.

H.M.JR: I think you kind of outsmarted yourself.

MR. PAUL: I don't know. I don't think Stettinius wanted us to tell them that.

MR. LUXFORD: Doug called me before this and said Larry Duggan's political advisors said the matter of a leak was one for the Treasury, and he probably wasn't out of town for a day while this was going on. Collado didn't

- 4 -

have Doug in there to talk to at the time. When Collado talked to me about it, I said Duggan had said to me it was a matter for the Treasury.

H.M.JR: You let yourself be sucked into an impossible situation. Here is the United States bluffing and giving out a leak, and the State Department trying to investigate. We say, of course, that we didn't, but that is neither here nor there. But the United States Government cannot bluff, and the President - how would it be to let the leak out that some freezing control - the answer is, it would be lousy; that would be the answer. I mean, the United States Government can't bluff. I read this memorandum that you signed with Stettinius, read it over two or three times.

MR. PAUL: You know how that had to be produced.

H.M.JR: No.

MR. PAUL: Every word had to be agreed on with the State Department. That was my fault, because Stettinius and I agreed to write a joint memorandum.

H.M.JR: After reading it jointly - I read it and read what Stettinius said and what he told Hull, and if I were in Hull's place I would also have said no.

MR. PAUL: That is a very honest difference of opinion. I would go the other way.

H.M.JR: I differ with you entirely. I am very sorry it was handled the way it was, because it leads us into an impossible position.

MR. LUXFORD: You mean on the overthrow of the Government?

H.M.JR: No, vis-a-vis the State Department, vis-a-vis Mr. Hull, and with that result that money is leaving the country; money is being transferred from one country to another; money is being transferred to Sweden; and gold is leaving the country.

- 5 -

MR. PAUL: Gold is a different matter. That is leaving the country as per previous schedule.

H.M.JR: But the net result is very bad.

MR. DuBOIS: Judgments differ, but it seems to me the leak has been very healthy as far as Argentina is concerned. The most recent developments indicate she is scared to death. I think that is a healthy reaction.

H.M.JR: Scared to death of what?

MR. DuBOIS: What we may do next. And I think that may have some influence down there. It seems to me that has probably had a healthy influence of the type we want in Argentina.

H.M.JR: Did you concur on this?

MR. BERNSTEIN: Yes, sir.

MR. PAUL: Everybody concurred.

H.M.JR: That makes it unanimous.

MR. LUXFORD: May I make one point: At all times the State Department was in accord that they would like to see this present Government of Argentina thrown out. We weren't going to the State Department and say, "That is a bad Government; you ought to throw it out." We won't do that. They were in accord.

H.M.JR: But look at the cables sent to Hull.

MR. LUXFORD: That was not a fair statement, and obviously we didn't see the cable. Of course, they will put the case up to Hull. It is designed to have him say no.

MR. GASTON: As I understood the matter, the President wished there would be a leak on the matter and the State Department was willing, but they themselves didn't want to be responsible for it.

- 6 -

H.M.JR: But, Herbert, why should we be the goat on the thing? How would it be to let it leak out? It is a question.

MR. GASTON: I never saw that memorandum.

MR. PEHLE: That was not furnished to us.

MR. GASTON: We were told that the President suggested that there be an informal leak. The State Department agreed, but thought that the leak ought not to come from the State Department, but that the Treasury should do it.

H.M.JR: May I suggest the way I would like a memorandum drawn? You are going to be on the Hill today?

MR. PAUL: I don't know; I can't tell until they call me.

H.M.JR: Anyway, the combined forces here - will somebody make some notes? I am not sufficiently familiar with this, but evidently there was some agreement which was entered into with the Argentine Government as to what they would or wouldn't do a half year ago.

MR. LUXFORD: They had conferences, yes, sir; one here and one at Rio.

MR. BERNSTEIN: One in Washington.

H.M.JR: I don't know what they agreed upon, but let's start with the premise they agreed to be good, see. Now, from the time that they agreed to this, what has happened on the strictly economic front, and what do we know that they have done to help our enemies? See?

MR. LUXFORD: Yes, sir.

H.M.JR: Now, what I would like to do is to have that reviewed and brought up to date, you see, and say, "Here is what they have agreed to do, and this is the way they have acted since then." And I would like to say in view of

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that, I having returned want it strongly urged upon the State Department that they freeze all the funds based on the record which has taken place during the last year and a half. This I am not so sure about: What I would like to say is that on hearing from whoever the man was that the President wanted this given out - we did give it out. And I would say that having done this on information supplied to us by the State Department we don't think the United States Government can be put in the position of bluffing.

MR. GASTON: Yes, sir, I agree with that wholly, because that is the first thing I said to Dan.

H.M.JR: Let me just run through this thing. I have been on it since five-thirty this morning. I don't want to forget my thought. Since this leak has happened, this is what has happened in the United States in the way of transfer of funds, which we think is definitely of assistance to our enemies and will be harmful to us in the conduct of the war - I want to particularly draw attention to the transfer of funds to Sweden.

Then I want to say, "I sincerely hope that you will review the situation in the light of the record of the economic facts, wholly on the economic facts, aiding the enemy, assisting the enemy. I strongly recommend that we do this on the basis of recommendation; but inasmuch as this is a matter of foreign relations between the United States Government and the Argentine, I will wait until the State Department advises us, and put the whole burden on them." That is the way I feel.

MR. BELL: That is all right.

MR. GASTON: Yes.

MR. LUXFORD: I don't think it changes the situation that is present today.

MR. BELL: It makes the record.

MR. LUXFORD: Well, they made the record. They went to the President twice and said, "Don't do it."

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H.M.JR: Who did?

MR. LUXFORD: The State Department.

H.M.JR: But look at the opposition, vis-a-vis the State Department.

MR. LUXFORD: We said we agreed with Ambassador Armour, who made all those economic arguments.

H.M.JR: Just a moment, let me get this thing. What do you think, Herbert?

MR. GASTON: I think we ought to make a record inasmuch as this cable to Hull puts us in a very false position. And I also think that having once made this bluff, that is something we have to go through with. That is a matter that I mentioned to Dan right after he got back, that we would have to follow it up. I think that so far as this memorandum that Mr. Paul prepared is going to the President, I think it is purely in the State Department's field, but if the State Department wanted to give our memorandum to the President, that is their business.

MR. PAUL: It wasn't ours, it was the joint memorandum.

H.M.JR: (Reading from cablegram sent to Secretary Hull by Mr. Stettinius, dated October 24, 1943) "A blocking proposal also has been recommended by Ambassador Armour," and so forth. "There is a political objective in the proposals of both Ambassador Armour and the Treasury. This objective is not an economic warfare purpose, but rather the upsetting of the present Argentine Government." That is what I object to so strenuously.

MR. PAUL: That is one thing we didn't prepare.

H.M.JR: I am not questioning it. I mean, I am coming in after the horse is out of the barn, and I want to recoup my position. I would like to do it the way I outlined, and I will send Stettinius a memorandum every night, letting him know how much gold - I will put it solely on him. I will make a bet with you people that he will crack within forty-eight hours.

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MR. LUXFORD: We were very close here.

H.M.JR: But please, I want to stop all these conversations and conferences. I don't want anybody to talk to the third and fourth people down the line. I want to stop this thing, Duggan says this, and Armour says that.

That is a vicious paragraph to put in.

MR. BERNSTEIN: I don't think that it is precisely correct to say that we were only bluffing. We did especially block the Nacionales, two very large banks there, and have effected their transfers. I think that is certainly an important step toward the freezing of Argentina.

MR. PEHLE: There is one other thing on that, Mr. Secretary.

H.M.JR: Have they been frozen here?

(General agreement)

H.M.JR: Are they still frozen?

(General agreement)

MR. LUXFORD: One is all Government-owned, and one is half Government-owned.

H.M.JR: Still frozen?

MR. LUXFORD: Yes, sir.

MR. BERNSTEIN: They are the two largest banks from the point of view of cooperating with the Axis.

MR. BELL: How did you freeze them?

MR. LUXFORD: The State Department agreed Friday night when they were moving part of their funds to Uruguay and the other in the Central Bank account.

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H.M.JR: I would say, having agreed to that, why not go the whole way.

MR. LUXFORD: They are going to say that there is political objection.

MR. PEHLE: Not having agreed to the whole freezing, they will say, "You should let loose of these two banks."

H.M.JR: I haven't been in on the arguments; I don't know the circumstances or the pressures that you are under. I realize it is always there when you don't take part in it. I want to try to recoup the Treasury's position so that we are on straight economic grounds, and not in this position which Stettinius has put us in.

MR. PAUL: I want to raise a general point beyond this particular episode on that front. I don't think it is possible to operate, to ignore the non-economic; you have to discuss the whole picture. As soon as you put things in compartments you are lost. You don't have to tell the State Department what they should do. That is their job. But you can have a discussion of a thing like this or the North African situation and everything else of that sort, because the political and economic are all mixed up together in every single one of these questions. Therefore, you are raising the basic policy question, the relationship between this Department and State. Am I correct?

MR. LUXFORD: Yes.

H.M.JR: I don't agree with you.

MR. PAUL: That is why I want to flush that question, so we know what you do think.

H.M.JR: I don't agree with you, because Mr. Hull has a perfect right to say to me that it is none of my business to try to upset the Argentinian Government. Now he says it is my responsibility to have the relationship between two governments--

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MR. PAUL: I agree with that.

H.M.JR: But I say to Mr. Hull, "It is my responsibility to draw your attention to a fact when another country is aiding our enemy, which I am doing." Then, after having given Mr. Hull the facts, he has to make up his mind.

MR. PAUL: I agree that he has to make up his mind, but I don't see how you can discuss these questions in compartments.

MR. BELL: It seems to me that you are discussing these matters on an economic basis. You have to think further and decide what political consequences they are going to have. It seems to me that has to be in the discussion, but I think it is unfortunate that they put into that telegram to Hull that we are thinking about the overthrow of the Government. But I do think in your conversations you have to think of the political consequences of an action on an economic front.

MR. PAUL: Just like on the tax front; you can't think of revenue only.

H.M.JR: We have always done that here. We did it in the case of Japan, gasoline and scrap iron. It is one thing to do it here and discuss it here in the Treasury, what we think is best for the country, but when we get in the position that we are, that we are advocating to do something because we want to overthrow the Argentinian Government, I say that puts us in an impossible position.

MR. PEHLE: Does it make any difference to you, Mr. Secretary, if the State Department says we also want to advocate it? The only issue is whether this was effective. There was no disagreement on that issue. State definitely wants the overthrow of that Government. There is no issue as to whether we want it. The only issue left is whether this is a means to that end.

H.M.JR: I think you are over-simplifying it.

MR. PEHLE: I think that is conceded clearly by State.

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H.M.JR: I think you are over-simplifying the thing.

MR. BELL: That shouldn't be our objective.

MR. LUXFORD: It wasn't our objective.

H.M.JR: There is nothing in here to show that State wants to overthrow this country.

MR. BERNSTEIN: How about the telegram?

MR. PEHLE: I think we can easily insert that then.

H.M.JR: All I can do is have you people prepare a brief for me to read. There is nothing in here. If there is, you show it to me. All it says in here is this, that by doing this thing which the Treasury wants, it will just have the opposite effect; it will stiffen the hand of the present Government.

MR. LUXFORD: But Armour recommended it. Armour's cables are in there.

H.M.JR: You show me anything in here from anybody in the State Department saying we want the Argentine Government overthrown.

MR. PEHLE: Then the fault is one of the memorandum. We can certainly change the memo to change that statement.

H.M.JR: Who prepared that?

MR. LUXFORD: I did.

H.M.JR: Was there anything in here to back up what is said?

MR. LUXFORD: Only what is implicit in the memorandum they sent to the President. That is correct.

H.M.JR: They don't say, "The joint memorandum." Where is the thing? They don't say they want to overthrow the Government.

- 12 -

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MR. LUXFORD: They say they oppose the proposal because it will retard a change of Government.

MR. PEHLE: "Rather than hasten."

H.M.JR: I said it was the other way around. They don't say we want to have this Government, and so forth--

MR. LUXFORD: They put things in a little more delicate way. They say they object to it because they are afraid "a change in Government will be postponed rather than hastened."

MR. PEHLE: You see, that very issue was one flushed by Mr. Paul at the first meeting with Stettinius. They started using double talk about changing conditions. Paul said, "Do you mean changing the Government?"

They said, "Yes."

H.M.JR: Here Stettinius says Paul signed this thing. If I were Paul I never would have signed this. I would have read this thing. If I were the President, I would have acted just the way he did. Here is Paul's signature. The Treasury's proposal, although suggested on economic warfare grounds, has as a major purpose the political objective of upsetting the present Argentinian Government.

MR. PAUL: The question was, what means would be most effective to that end.

H.M.JR: "In the Department's judgment, contrary to the views of Armour, it is more likely the blocking of Argentina would strengthen the hand of the Argentine Government."

MR. GASTON: That is the State Department, stating that our purpose is political. That is not our statement.

H.M.JR: No, but Herbert, you take this: On two pages - and if the President reads it hastily the way I did the

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first time he will see Paul's name at the bottom. It isn't clear where the Treasury stopped and the State Department began unless you read it very carefully.

MR. GASTON: That is probably true.

H.M.JR: Unless you read it very carefully - I had to read it twice to see where we stopped. If there had been two separate memoranda on two separate pieces of paper saying this is what the Treasury thinks, and this is what the State Department thinks--

MR. GASTON: They are labeled, Treasury Department's position and State Department's position.

H.M.JR: I agree, but if you read it hastily and look for the signature, you could be very easily confused.

MR. PEHLE: I have one other thing, Mr. Secretary, on the question of bluffing. As you will recall in connection with the freezing of Germany, for a full year there were newspaper reports continually that Germany would be frozen. That was not a thing that we had authorized, and yet the effect, as far as Germany was concerned, was the same as this release on Argentina.

H.M.JR: But that didn't help us.

MR. GASTON: Of course we do state the matter on political ground on the Treasury's own argument.

H.M.JR: Now, another thing, I hate to be so critical, but Paul said it was serious yesterday. I agree with him. The other thing which I don't understand is, why we don't consult with other sister republics in South America like Brazil, and with England, and move forward jointly.

Now, we did that once before when we wanted to do something in South America. The State Department advised that we consult with other republics. I forget the first one we froze. What was it? But now somewhere they say, "How do we know England is going along?"

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MR. LUXFORD: That is their method of saying they don't want to do it because the State Department assumes England will not go along.

H.M.JR: I would like to get the permission of the State Department to consult with England and, let's say, start with Brazil.

MR. BELL: How about putting that in a memorandum suggesting that?

MR. LUXFORD: My own judgment is that that would be a mistake, since even the State Department tells us to consult with England. I doubt very much whether England would go along.

H.M.JR: I want to know for another reason whether England wants to go along.

MR. PAUL: We had no time to consult with anybody the way it came up late Saturday afternoon.

MR. PEHLE: State may also say that you should not consult those countries until the decision of this Government has been arrived at. I think that is the line of the President. If you decide we should freeze, then we will consult others.

H.M.JR: I think that is a good point, just like somebody in the State Department trying to send me to England. The English argued with me about cutting down Lend-Lease. In reading your memorandum, I can't find where the President ever knew that that cable went.

MR. GASTON: It would appear that he had a slight recollection of it. I don't know whether he signed it or not.

H.M.JR: Well, could that thing be whipped into shape in a couple of hours?

MR. PAUL: Easily.

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H.M.JR: Could you bring it back about twelve?

MR. PEHLE: It depends on how detailed you want your bill of particulars. We have a volume here and a bill of particulars against Argentina.

MR. PAUL: There is no use in having a volume.

H.M.JR: I tell you what you could do, you could draw a simple memorandum and say the bill of particulars is attached.

MR. PEHLE: That is a White Paper, Mr. Secretary.

H.M.JR: Well, you could say, "Here are some glaring examples, and your Department is thoroughly familiar with the details."

MR. LUXFORD: That is where the information comes from.

H.M.JR: Right.

MR. DuBOIS: Is the primary purpose of this memorandum to protect the Treasury's interest, or produce a result which we think would be best from the standpoint of the country?

H.M.JR: Both. Unless it would get the desired result, I wouldn't send the memorandum; but if it is written this way, I will give anyone two-to-one odds we will get the desired results.

MR. PAUL: Within what time?

MR. LUXFORD: On this memorandum?

H.M.JR: Following this approach.

MR. PAUL: This will be a concession to the State.

MR. PEHLE: They have been up against the buzz saw pretty hard.

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H.M.JR: I will bet anybody two-to-one.

MR. LUXFORD: You can produce the result anyhow, I think.

MR. PEHLE: It is worth a dollar, Mr. Secretary, just to have it done.

MR. LUXFORD: I think you will produce the result, but I don't think the memorandum will advance the ball very far. If you had been here, I think we would have pushed it over the line anyhow, because it was different in State.

H.M.JR: I don't know but what I would have gotten sucked into the same thing. I am not saying I could have done ~~it~~, but I would like to take hold of it now and see what can be done. I might not have done it any better, but I never would have agreed with the publicity.

MR. GASTON: Not, understanding that it was the President's order?

H.M.JR: No.

MR. PAUL: President's suggestion?

H.M.JR: No, because you would know better than anybody else in the room except Bell and myself that we have had a lot of those things we don't always do.

MR. GASTON: Mr. Paul knows that from my last tax statement. That is true. It wouldn't have been done if we hadn't thought it was a smart idea.

H.M.JR: That is honest.

MR. PAUL: We conferred on that very carefully.

H.M.JR: I don't believe I can say that the President - every time he says something I can take it at face value.

MR. LUXFORD: We did it because we thought it was a good idea.

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H.M.JR: Gaston thinks it is smart. I differ. Anyway, I have said my little piece. You have until twelve o'clock. You ought to be able to knock out something.

MR. PAUL: We will see. We can knock out something, but it won't be the best job we can do.

H.M.JR: The net result of what I want to do is to get the thing solely on an economic basis and place the decision of the foreign relations between this Government and the Argentine in the lap of Mr. Hull and let him decide how long he wants.

MR. PAUL: You can lift it out of his lap and put it back here.

H.M.JR: How long does he want to have this? How would it affect our enemies? Let's go the whole way. You get what I want?

MR. PEHLE: Sure.

H.M.JR: All right. Is everybody taking the bet with me?

(General agreement)

MR. BELL: You won't be able to determine whether the memorandum got the results, or whether some isolated cause did.

MR. GASTON: The odds are attractive. I really think they should be the other way.

H.M.JR: We had a very funny thing. We sat around at supper with General Alexander, and all the English Generals were worried about the Russians getting to Berlin first. Well, somebody started out by making the statement that the Russians would stop at the German border. They wanted to bet on that. Then we got them to betting us that the Russians would never stop until they got to Berlin. And Air Marshall Cunningham and I - everybody else in the room bet us that

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the Germans would not get to Berlin - I mean the Russians. There was no time for anything, so there is no time for this.

MR. PEHLE: I thought we had forty-eight hours on this.

H.M.JR: No, and no amount, just two-to-one, that is all.

THE UNDER SECRETARY OF STATE
WASHINGTON
October 30, 1943

Dear Danny,

You will find herewith
photostatic copy of the memorandum
to the President on the subject
of Argentine freezing, which, as
you will see on page 2, has received
his O.K.

With best wishes,

Sincerely yours,

/s/ Ed

The Honorable
Daniel W. Bell
Under Secretary of Treasury
Treasury Department
Washington, D. C.

MEMORANDUM FOR THE PRESIDENT

ARGENTINE FREEZING

Developments since your Decision of October 25
Against a General Freezing at this time of
Argentine Assets

1. Secretary Hull has telegraphed his concurrence in the Department's position as stated to you contrary to blocking Argentina. A copy of this telegram is attached.

2. Ambassador Armour has cabled renewing his recommendation to block Argentina and stating that the Argentine Government is progressing to assisting Axis activities and that while blocking involves risks, he is willing to recommend immediate blocking action. A copy of this cable is attached.

3. Transfers and attempted transfers of Argentine funds since October 25:

\$1 million transferred largely to Uruguay.

Yesterday the Argentine Central Bank ordered private banks to transfer their funds to it. As a result, attempted transfers of \$29,500,000 were ordered from Argentine bank accounts in New York to Argentine Central bank accounts at Federal. Of these \$7 million have been made; \$9,500,000 have been definitely blocked; \$13 million are now pending. No serious disadvantage is discerned were such transactions to occur, except where individual accounts upon the evidence should be blocked.

Now pending: Transfers of \$250 thousand to Uruguay; \$1 million to Swedish Riksbank. These transfers if accomplished would remove funds from U. S. control.

4. Department's recommendations:

a. that there should be no general blocking at this time for reasons previously given;

b. If contrary decision is made, general blocking should be preceded by attempt to get British and some major American Republics to take collateral action.

-2-

c. Since transfers effected or pending from Argentine to foreign account total only \$2,500,000 for the current week, take no action beyond existing ad hoc blocking, continuing present scrutiny of transactions to prevent sudden flight of capital.

/s/ ERStettinius Jr

(initialed)

OK
FDR

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

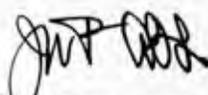
DATE

NOV - 2 1943

TO Secretary Morgenthau
FROM Randolph Paul

This will confirm that at all times during the discussions with the State Department on the freezing of Argentina, representatives of the State Department made it clear that the overthrow of the present Argentine government was in accordance with the foreign policy of this government. This was first brought out by Larry Duggan, political advisor of the State Department, at the meeting held in Mr. Stettinius's apartment on Saturday night, October 23, when Mr. Duggan stated categorically that the State Department would like to see the present government of Argentina forced out of power. None of the representatives of the State Department present at this meeting, including Acting Secretary Stettinius and Assistant Secretary Dean Acheson, either then or later, expressed any disagreement with this statement.

In all of our discussions the only question has been whether the freezing of Argentina would accomplish the overthrow of the present government and not whether such an end was desirable.


Seen by the Secretary 11/2/43



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

NOV - 2 1943

TO Secretary Morgenthau
FROM Randolph Paul

On Saturday, October 30, the National City Bank of New York received instructions from the Central Bank of Argentina to transfer \$665,000 from the account of the Central Bank to the account of the Banco de la Nacion. Since in the meantime the Banco de la Nacion had been specially blocked the National City Bank refrained from effecting the transaction and proposes to ask the confirmation of the Central Bank and of the Banco de la Nacion before effecting the transfer.

Under such circumstances it would be the normal practice of Foreign Funds Control to instruct the National City Bank to segregate the amount involved from the account of the Central Bank of Argentina and to hold such funds in a segregated account, as funds in which a special blocked national has an interest. The State Department was consulted with respect to this matter and on November 2, Collado telephoned to advise that State concurred in Treasury's freezing the transaction.

We will proceed accordingly. *BA*

Seen and approved by the Secretary 11/2/43

THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR THE ACTING SECRETARY OF STATE

Since my return to Washington I have carefully reviewed the Argentine situation and I want to call your attention to the following points:

(1) Argentina subscribed to Resolution V of the Rio Conference (January 28, 1942) and to the Final Act of the Washington Conference on Systems of Economic and Financial Controls (July 10, 1942). Thus for two years she has been obligated to cut off all commercial and financial intercourse, direct or indirect, between Argentina and the Axis nations and to eliminate all other Axis financial and commercial activities inimical to the security of the Western Hemisphere.

(2) Notwithstanding the observance of these commitments by the other American Republics, Argentina has not only repeatedly refused to take effective measures to fulfill her obligations, but is now affirmatively promoting Axis interests. Specifically:

(a) Argentina is the Agency for the Transfer of Axis Funds to Europe.

Large transfers have been made to the Axis countries from Argentina and by way of Argentina. Not only are remittances of Axis funds permitted to Germany and Japan, but Argentina itself is a source of a large volume of the funds remitted to these countries.

(b) The Argentine Government has been giving direct material assistance to enemy firms. This is exemplified by the following points, contained in Despatch No. 12448 of October 19, 1943, from our Embassy in Argentina:

(i) From January 31, 1942, to March 31, 1943, certain Argentine Government departments awarded to enemy firms contracts totalling 34,000,000 pesos.

(ii) Since such firms are classified as unsatisfactory consignees and would therefore be unable to obtain certain materials for the execution of their

contracts, the Argentine Government has often acted as an intermediary in purchasing such materials for them.

(iii) Firms which refuse to deal with enemy entities are often threatened with legal proceedings by Government agencies.

(iv) Firms are often instructed by the Argentine Government departments to accept sub-contracts on projects on which the main contractor is an enemy firm.

(v) Vicious anti-United States and pro-Axis newspapers and periodicals which cannot obtain newsprint supplies otherwise, are provided with their requirements by the Argentine Government at less than current market prices.

(vi) Despite the relatively strong financial position of most German firms, they often find themselves in need of additional finances. They encounter very little difficulty in obtaining financial assistance from the Banco de la Nacion and the Banco de la Provincia. An equally important source of financial assistance is the Banco Germanico which, on August 31, 1943, had outstanding loans and discounts totalling over 52,000,000 pesos, of which it is presumed that a large portion represents credits to German nationals.

(c) Argentina is a Refuge for Axis Funds.

In the weeks preceding the extension of our freezing order to the Axis, large sums were transferred to Argentina on behalf of Axis countries in the form of bank transfers and currency shipments. In this way, a large part of the funds which we had hoped to prevent being used for Axis activities escaped our control. This accumulation of Axis funds in Argentina has resulted in the Axis using Buenos Aires as the center point from which to transmit funds to Axis agents in all the other American Republics.

(d) Argentina is the Base for Axis Financial Operations in the United States and Elsewhere in the Western Hemisphere.

Argentina has not only permitted Axis funds to move into Argentina but has actually fostered the accumulation of funds which can be used to finance subversive activities in all the other American Republics. Buenos Aires has become the center point through which funds are transferred for subversive activities throughout the Western Hemisphere. This is possible since this country and the other American Republics have failed to impose control measures on Argentine transactions.

(e) Argentine Institutions are a Cloak for Axis Financial Transactions.

Absence of effective legislation and enforcement has created in Argentina an ideal environment for the setting up of financial institutions--particularly holding companies--which can cloak Axis operations and provide a refuge for Axis assets. There are numerous Argentine holding companies disclosed in TFR-300 reports which can readily cloak Axis assets. After closely watching the account of one such Argentine holding company, believed to be concealing funds for a blocked national, we discovered that the funds in the account, amounting to over \$1,000,000 did in fact belong to a Swiss national on the Proclaimed List acting for the Axis.

(f) Commercial and Payment Agreements with Axis Countries.

Argentina has been contributing to the economy of Axis Europe by the export of strategic materials through the European neutrals. For example, skins and hides have been shipped from Argentina to Portugal, doubtless intended for re-export to the Axis powers as Portugal is normally an exporter of skins and hides. The Argentine Government has concluded various financial and commercial agreements which have brought her into closer cooperation with Axis Europe.

(g) Argentina is the Fence for Looted Currency and Securities.

Despite the efforts that have been made to prevent Germany from realizing on the looted currency and securities seized in the invaded countries, the Axis has succeeded in realizing upon this stolen property by disposing of it through Argentina.

(h) The Proclaimed List and Cloaking.

Despatches received from American Missions indicate not only that the Argentine Government has refused to recognize our Proclaimed List policy, but also that Argentine facilities are being used to destroy the effectiveness of our Proclaimed List policy in other countries. The Argentine Government's failure to recognize our Proclaimed List makes it impossible for us to prevent delivery of shipments to persons in Argentina who are placed on the Proclaimed List after goods leave our shores. In many cases, the Germans have defeated the British and American Black List by reorganizing their companies into Argentine firms and the Argentine Government has, if anything, encouraged the practice.

(i) Argentina permits German nationals within its borders to finance Nazi subversive activities.

The following points are brought out in Despatch No. 12448 of October 19, 1943 from our Embassy in Argentina:

(i) The German Government, being a totalitarian state, expects financial and moral assistance from its nationals, wherever they may be located. Consequently, German business interests in Latin America have maintained a close relationship with the Fatherland by frequent and continuing exchanges of employees, executives, and correspondence with the home offices.

(ii) As is well known, the large German industrial companies such as I. G. Farben, Thyssen, and Siemens are controlled by the National Socialist Party in Germany, which uses their Latin American branches as a channel through which to exert influence in the Western Hemisphere.

(iii) A large part of the financial burden for financing Axis subversive activities has been placed upon the German business community. All other American Republics have taken some form of action to eliminate similar communities from their own countries and the German community is now centered in Argentina. Mathematical support for this conclusion is provided by the fact that the German Embassy in one year spent approximately 5,200,000 pesos, of which amount only 800,000 pesos were received directly from Germany, the balance of 80 percent being contributed by German entities or nationals residing in Argentina.

(3) In view of Argentina's failure to take effective measures to observe her commitments for economic cooperation and in view of Ambassador Armour's statement on October 27, 1943 that "Mounting evidences show that the Government (Argentine) is rapidly passing from control to the promotion of such activities (i.e. financing totalitarian activities)", I want to strongly urge that Argentine assets should be frozen at once, thus according to Argentina the same treatment as that accorded the neutrals in Europe.

(4) At the suggestion of the President and with what we regarded as the tacit approval of the State Department, Treasury did arrange for an unofficial news story that this Government was considering the freezing of Argentine assets. In so doing, Treasury was not unmindful, as we presume the President and your Department were not unmindful, that this action would have financial repercussions in Argentina and that some flight of Argentine undercover assets might ensue. We felt, of course, that there would be full cooperation to obviate any adverse financial or economic effects proceeding from this action. Indeed, State Department did cooperate in halting the early transfers of Argentine funds, although it has more recently advised that we should not interfere with such transfers in other than very exceptional circumstances and has instructed the Treasury Department to release many of the transactions previously stopped.

(5) The current situation with respect to Argentine transfers of dollar assets that are not related to normal commercial transactions is as follows:

Since the appearance of the stories in the press the following transactions, many or all of which are detrimental to our war effort, have occurred. Some of such transactions involve the flight of funds out of Argentine accounts to Uruguay, Panama and Sweden. Others involve the transfer of assets to the general account of the Central Bank where the ownership of such assets can no longer be traced.

On Wednesday, October 27, \$460,000 was transferred from Argentine accounts to other countries, of which \$230,000 was from the accounts of Banco de la Provincia and Banco de la Nacion. The same day \$2,000,000 was transferred to the general account of the Central Bank from the accounts of other Argentine banks.

On Thursday, October 28, there was a flight from Argentine accounts of \$465,000 and \$4,250,000 was transferred to the Central Bank account. An additional nine million and a half would have been transferred to the Central Bank from the accounts of Provincia and Nacion were it not for Treasury's ad hoc action approved by State Department.

On Friday, October 29, no substantial transfers were effected in view of Treasury's action in holding up of transactions with the State Department's approval.

On Saturday, October 30, there was a flight of \$402,000 from Argentina to the accounts of other countries and the transfer of \$6,000,000 to the Argentine Central Bank.

On Monday, November 1, there was a flight of \$3,808,000 out of Argentine accounts to the accounts of other countries, including Sweden, Uruguay and Panama. On the same day there was transferred \$6,500,000 to the Argentine Central Bank. The transactions effected on Monday included certain of the transactions previously attempted to be effected the previous Friday and held until Monday, at which time the transactions were allowed to go forward at State Department's request.

In addition, and unrelated to the news story, the following shipments of gold have been made or are about to be made pursuant to plans of the Argentine Government going back several months. The first shipment of Central Bank gold back to Argentina (\$1,250,000) is leaving November 2 or 3 on the Argentine boat "El Parana" from New Orleans. The second shipment of \$1,250,000 left New York for New Orleans Monday at 3:00 p.m.

This shipment is scheduled to sail on November 5 on the Argentine vessel "Rio Atuel." The third shipment of \$1,250,000 is scheduled to sail from New Orleans on November 10 on the "Rio Iguazu". This gold will be shipped from New York on November 5 or 6.

(6) From the fall of France in June 1940 until the freezing of Axis in June 1941, the Axis moved over \$100,000,000 out of the U. S. and I have no doubt but that substantial Axis funds are cloaked in Argentine names. Accordingly, it is patent that among the Argentine assets now going undercover are enemy assets and we cannot act without your approval.

I recognize that freezing Argentine assets involves political as well as economic questions and that decision on the political aspects is clearly your responsibility. However, I sincerely hope that you will again review the Argentine situation and on economic warfare grounds, I again strongly recommend that Argentine assets be frozen.

Harry M. Yushman, Jr.

M.W. 2. 1943

November 2, 1943

10:30 a.m.

LEND-LEASE NEGOTIATIONS

PRESENT:

Mr. Daniel W. Bell
Mr. Leo T. Crowley
Mr. Lauchlin Currie
Mr. Oscar Cox
Mr. Harry D. White
Miss Thelma M. Kistler

H.M.JR: Leo, what I want to do, even before I talk to the President: I thought that you and these gentlemen whom I know fairly well would like to get the things that we have picked up in regard to Lend-Lease which are sour. And so we'll give you the first chance.

The way I feel about over-exaggerating, I think that if the Congress of the United States got hold of some of those things that are so bad, it might endanger the whole Lend-Lease program.

MR. CROWLEY: We are glad to have that.

H.M.JR: It all stems back, also, to this business of cutting down the English balances. And this idea of trying to send me to London to let the English put the pressure on me--I am just talking to you as though you were a part of the Treasury--I think was just damned nonsense, because I can't find out whether the President ever saw that telegram. He says he has no recollection of the telegram ordering me to London. We said we would go, providing we could present the Treasury viewpoint.

Now, it will take me a minute or two to sketch what we have here.

In the first place, when we were in Scotland, Winant and General Devers came up there--starting with Winant for England and Scotland, then with Bob Murphy in Algiers, and Kirk and Jim Landis and whoever your Lend-Lease man is--

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MR. CURRIE: Short.

H.M.JR: None of them has any instructions, and they don't know where they're at. There are no instructions.

I am going to talk very plainly to you. So far as they are concerned, each one is doing the best he can, which means the net result that they are all working as though they were a part of the State Department. Do you see?

MR. CROWLEY: Yes.

H.M.JR: Winant says as far as he is concerned, now that Harriman is out of the picture he is going to take over.

I met with the Economic Board of North Africa. They have all these people there, and they don't know where they are. That is something which, if you don't mind my saying so, ought to be cleared up from your standpoint (indicating Mr. Crowley), because these dispatches--from what you have said, you run the show within the framework of foreign policy. They are working as though they are part of the State Department. That is your worry.

MR. CROWLEY: Just let me say this, before you go on. It is a hard reorganization to work out, because we are having quite a little trouble in getting our lines drawn with the State Department. And we'd like to get your report on this Lend-Lease situation. We want your help, because we want to do the right thing on this Lend-Lease, so we want to get your report and work with you on the thing.

H.M.JR: Well, I should think you would, because, after all, the Lend-Lease was conceived and born and lobbied through the Congress of the United States by the Treasury Department, with the object in mind that we should help the members of the United Nations to win the war. That is your interest and my interest.

When we find that Lend-Lease is doing things which it never was conceived originally when we got the Bill

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through they should do, it endangers the whole major purpose of Lend-Lease.

Now, to get down to brass tacks. The reason I asked Oscar and these people who know about it to come in and be present is so there would be an opportunity for you to know these things--going on the assumption that you want my help, as you say. Certainly, having taken over, you don't want Lend-Lease thrown out the window. It is of major importance.

I will give you copies of the material I have here. (Copies of photostated material distributed by the Secretary to each individual present are attached)

I don't know how it ever came about, why Lend-Lease should be handling merchandise under the guise of Lend-Lease and sending it out to the Middle East. We can give you all kinds of examples. They are sending stuff there. They buy it here from civilians, and it goes through Lend-Lease and goes out there and is sold not through our agents, but in many cases through the British agents. In some places we get the dollars, and in some places it is charged to our account.

We are sure, however, that when the British send stuff as they do, they let the British agent handle it. For example, if we want to send tractors, International Harvester tractors, to Palestine, we don't sell them through the International Harvester agency. It is sold somewhat through Lend-Lease. The money that they get is sort of charged up theoretically on the books in sterling, and we are out that much money. We are in a business which I don't think Lend-Lease has any business to be in.

Now, I think that White ought to take over and give you the examples. We have letters here for you showing what I call the abuse of Lend-Lease. (Points out documents to Mr. Crowley) I think the quicker the thing is stopped, the better.

Then when we get on the Army thing--God, I mean the stuff that is going through, it's terrible, Oscar.

MR. WHITE: They don't screen Army stuff.

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H.M.JR: I mean the stuff that the Army is getting away with is just terrible.

MR. CURRIE: I may say that we already have appointed a small committee to Joint Lend-Lease - OEW, to switch over from Lend-Lease to private trade in North Africa.

H.M.JR: I think that Mr. Crowley ought to have a stop-look-and-listen order on all of this civilian goods. I really think he ought to hold it all up until you can have a look at it, because some we get paid for and some we don't. The net result is, in either case, simply helping out the sterling and building up the dollar balances. If we are going to cut down the dollar balances from the Treasury approach, this is one way to do it.

The question from our standpoint is secondary--that you are just putting the American exporter out of business. And I really think until Crowley can examine all of this private stuff, either through English channels through London or the committee here, that they ought to stop this business to protect themselves. I mean, it is very hard to explain to Congress when they say: "Well, Mr. Crowley, how long have you been in there?" "I have been in six weeks or two months." Every day that he waits he exposes himself to wholly unnecessary criticism. I don't see how Ed Stettinius can ever explain that stuff.

MR. CROWLEY: A lot of them go on the theory of letting the British sell this stuff.

MR. COX: I always personally opposed it on the theory that even on the sales, assuming that it was vital to the war effort, any receipts ought to be turned over to the United States on collections made for it, and there shouldn't be any credit to Lend-Lease, as such, where it just gets charged up on the books as a credit in favor of the United States, where the British collect the funds.

That should have been so all through the whole Middle Eastern area and, as a matter of fact, in all areas where any supplies were made available and sold by the British, the toughest question being the receipt of funds in England for food and other materials which are made available under Lend-Lease.

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Mr. Secretary, I think you are right, but when you cut across the whole board on civilian goods, you have to make some differences, or you will simply have to exclude Russia for the time-being.

H.M.JR: I haven't mentioned Russia.

MR. COX: But the Middle Eastern thing I would certainly stop and look at.

H.M.JR: This is what I told Mr. Casey, who is there in the Middle East. He told me how he had shed tears over the British-American relationship after reading what the Senators had said. So I asked to see him. He started in--you know who Casey is; he is a Member of the Cabinet and sits there. He started in quite brusquely with us. I said, "Look, Mr. Casey, let's say for argument's sake that we Americans have been stupid. But the fact that we have been stupid doesn't mean that you people should take advantage of us. And I am saying to you in the friendliest way that the fact that you have been taking advantage of us here endangers the whole Lend-Lease program." Then he piped down and got sensible. He asked us why. Landis was there and went into a long explanation as to why. He said, "You people are just taking advantage of us."

If the Congress got hold of some of these cases, they would just raise bloody hell! There are so many anti-English up there. I am just talking about this particular thing that we have the facts on.

MR. CROWLEY: Well, I agree with you that if there is anything we can do, we should do it, because the people on the Hill don't know much about Lend-Lease, but it has had a bad Press for about two months now. If they can put their teeth into anything, it will be a major issue throughout the full United States. It would destroy the confidence of a lot of people in the President, and it would certainly give the isolationists on the Hill a real chance to go to town on us.

Now, let me ask you this: the thought I had in talking with Oscar and Lauch--even though we may decide with you to do something here--is that eventually the

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President might not agree on it. I mean, he might want us to soften it. But psychologically, if we put the brakes on until we get a chance to have a fresh start on this thing here, I think it would help us if eventually we had to go to the Hill to explain things.

H.M.JR: I expect to tell the President all of this, but I wanted to be able to say I had this conference. I didn't want to go over your head, you see. (Refers to Mr. Crowley) Knowing him the way I do, I can guarantee you from all the instructions he has given me, to cooperate but not let them take advantage, that he will be one hundred percent in our cause. I am positive of that. If there's anything he dislikes, it's being taken advantage of.

MR. WHITE: There is some further information that might be helpful, Mr. Crowley, in answer to your inquiries.

The reason this grew up, this matter of sending civilian goods and receiving no pay but credit, even though the British in many cases received sterling, was the status of the British position. They were very low--\$150,000,000 or \$200,000,000. After a discussion the Secretary decided to build that up. In order to build that up, we had to take over some of the things which they were paying dollars for, beside the military goods which they weren't buying anyhow, which was diminishing their balance. So they have presented requisitions of civilian goods, which they would normally have paid cash for. Those were carefully screened by Lend-Lease at that time. We started the screening. We considered each requisition here each week, with a view to letting them have only those goods which were sort of politically defensible, not goods which they either re-export, or things like that.

Through that device they kept adding everything that they could get to put on Lend-Lease, they would try. We, at that time, were sympathetic in an effort to get it up to \$800,000,000. Having once started, they continued and they kept adding. They always submitted figures which showed that their position in the future was going to be low. Our own figures show that it was going to be

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much higher. We were right every time; they were wrong every time. But we always gave them the benefit of the doubt, because that was the desire, to keep them in the war at that time. We didn't want to question British treasury figures and say, "We don't think you are right."

Now, then, as their balances began to increase, we began to put pressure on to cut out this and that, keep reducing. That has been the running fight right along. Then we got the President to agree, as you remember, that the balances should be kept at six hundred or a billion.

Armed with that administrative decision, we tried to keep it down. We tried to decide what was the best way of keeping it down. They got hold of that memorandum and they began to put offsetting liabilities against those cash assets which they said were legitimate. We didn't quite agree. Then they began in every possible niche to bring pressure against the Treasury to get them to change their view or to show the Treasury up to be unsympathetic or wrong.

Then we decided that notwithstanding their position, the best way of getting balances down would be to get them to give the reciprocal Lend-Lease on the raw materials, which we figured would amount to about \$300,000,000 and might keep it down. They wouldn't agree on the principal.

Am I going into too much detail?

MR. CROWLEY: I think we want to get that.

H.M.JR: I asked Mr. Crowley to allow an hour. I don't know whether he has this, but it is for him to say yes or no.

MR. CROWLEY: I am glad to have it.

MR. WHITE: In the meantime they asked for a hundred million ounces of silver. We went into the economic merits with Lend-Lease, and then we went before the Committee and got their approval. They were pressing us very hard. The Secretary wouldn't agree with them; the

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Secretary moreover indicated to them that they were asking too much from us; it was about time they came across and there would be a quid pro quo. Halifax was here, and he practically told them that verbatim.

As a result of that discussion and further pressure the Secretary put on Halifax, always in opposition to the State Department on this matter, they came back with a statement saying they agreed on principle with certain qualifications and modification. We said the qualifications were too tight and wouldn't allow for enough money. BEW was pressing, and the Army was with us. They came back again and changed it some.

Your boys found, and I think the British intended--or at least they so anticipated--that instead of the \$300,000,000 of Lend-Lease goods in reverse which we would get, which would have kept their balances down somewhat, for a number of administrative reasons the thing amounted at the most to \$70,000,000 and possibly only \$25,000,000.

That altered the picture. All the time their balances were mounting. At that point we decided it.

H.M.JR: Don't forget the thing that was signed by all the Cabinet Members, plus the President, to reduce. You haven't brought that in.

MR. WHITE: That memorandum I spoke of which set the limit of \$600,000,000 or \$1,000,000,000 was signed by Wallace and the State Department, Stimson, the President, and Stettinius.

H.M.JR: Then subsequently Stettinius wrote me a letter and reversed himself on it.

MR. WHITE: You see, the position that the Treasury has taken--that is a necessary interim--has been the very simple one that the Bill was originated and initiated because the British did not have the dollars to pay for goods which they were buying here. It had nothing to do with the British financial position at home, with their deficit, their growing public debt, their post-war considerations. It was exclusively the question that

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the Secretary took the position that we'll see that the British never are in a position where they could say, "We cannot buy these military goods because we haven't the dollars. We cannot get that food. You will get the dollars." That is the position we have taken right along. That is why we built it up to \$600,000,000, because they said a big empire can't get along on less.

At that time the Secretary wanted to nurse them along and let them have their way. There never was the question which entered into the original discussions that the position of the British Empire during the post-war period was a factor; that they were piling up sterling balances that they may or may not be able to meet.

MR. CROWLEY: From what I have gathered up at the Hill, that is the impression of the Hill, too.

MR. COX: They haven't quite gotten to that question, but if they do, I think that all Harry and the Secretary have said will come out with glaring and bad effects. They haven't asked any questions about the dollar position since the First Appropriation Act, but I am sure they will look to the Secretary as one of the responsible officials in this Government, and that he will keep an eye on the dollar and gold position. It was then two hundred million. If it gets up to what it is now, they will say, "What have you been doing?"

H.M.JR: That is right. And when Ed Stettinius changed his position I made him put it in writing, and I was amazed that he put it in writing. I was simply amazed.

MR. CROWLEY: Don't you think, too, Oscar, that the Senators on the Hill felt that this Lend-Lease was something to keep England in the war and an emergency matter that wasn't something to furnish supplies and money and things for the post-war?

MR. COX: I agree with that. They have never made that articulate, but I am sure that would be their reaction.

MR. WHITE: Now, I have to go into a few more minutes to explain the background of the State Department on this.

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The State Department took the position that the post-war picture was essential and that you can't talk of a country's assets without talking of its liabilities. The position we took is that its liabilities are an inter-empire liability in large part, and in any case is a post-war liability; having nothing to do with the cash they have available.

We said, "If there is a change to be made from what we regard as the original intention of Congress as explained by the Secretary, then the thing to do is to go to Congress and explain it and have either the acquiescence of Congress, or at least have informed Congress of the change in policy."

The Secretary was responsible for carrying out the intent of Congress. The State Department took the position that when the Lend-Lease Bill originated, we were not allies of the British in the war, and that that altered the situation. We took the position that if it altered the situation, there should be no reluctance to go to Congress.

Now, from the start, Acheson, who has been in charge of this in the State Department, has opposed the policy of keeping balances down, and yet when it came to a question of presenting a minority point of view to the President, defending their position in writing, he retreated and signed the document, which was in agreement. If he wasn't in agreement, that was the time to raise the issue before the President. But he either didn't have confidence in his own position or was scared to take the responsibility for that action. So we began operating under that President's Directive.

As I say, the State Department has blocked us at every point. Now, the point where we are now--that is, this Lend-Lease in reverse--is not working to any extent. The balances are increasing and the British are beginning to try to keep the balances down by doing several things: They have loosened up on withdrawals of sterling balances and things, but they don't amount to a great magnitude. Moreover, the Secretary told Congress that in order to meet the commitments the British had, they would have to sell all their American securities, holdings. Well, they haven't. They have borrowed on them. They

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could repay Jones some three hundred and fifty million dollars, but in so doing they would release about five or six hundred million dollars worth of American securities, and what Congress would say about that, I don't know.

In other words, the point has come at which either we cleave to the line of the President's Directive, or the President or Congress takes the responsibility for mortifying it.

MR. CROWLEY: Let me ask you this, Harry. On this loan they have with Jones, I agree with you. If I were a Senator, I wouldn't quite understand why we should pile up a huge debt in this country and increase our taxes and let them keep their collateral here and have five or six hundred million dollars equity in the thing.

MR. WHITE: They are paying interest on the loan.

MR. CROWLEY: Yes, I know, but we are increasing that equity all the time. Why shouldn't they use that to help defray some of this expense?

MR. WHITE: You mean the income on the taxes? Well, the income that they get is, in effect, used to reduce any borrowings from Jesse Jones, so that if it went on long enough--fifteen or twenty years--their debt would be repaid out of the income. I don't know whether that would be a serious matter or not. I rather doubt it.

H.M.JR: It is not important. I don't think it is important. I don't want to get sidetracked on whether they pay off Jones. The thing which I would like to bring forcibly to your attention is this: When I met with Winant and Devers we raised the question about the war supplies which are going to England. And Devers gave us an example, that the English had asked for either seventy-five hundred or ten thousand, - - -

MR. WHITE: I thought it was seven thousand.

H.M.JR: Let's say seven thousand special trucks to transport tanks. He said they couldn't possibly use more than a thousand. You can imagine the size of these

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vehicles for transport. They are very expensive.

Well, we spent most of the day with them. As a result they volunteered, and I asked, that Winant and Devers should send a Colonel Green of General Motors over here equipped to talk to you and tell us what they are getting and what they are to do with it. That is on the military side of the picture.

For myself, entrusted with the balance, and you, with what goes through Lend-Lease, I think it opens both of us to severe criticism. I think you ought to find out about this man who should be on his way over here to advise with us as to what his opinion is as to what they should get from us. Just to sit back and say the Combined Chief of Staff is God, and whatever they say is perfect--well, I, on the balance question, and you, on the question of what they draw, have to account. See?

MR. CROWLEY: That is right.

H.M.JR: So I have asked them to send this man over. I wish somebody would find out whether he is coming or not. Both Winant and General Devers had confidence in him.

Then I made this recommendation, which I think we ought to have: Nobody knows what the inventory position is in England today, and I think that every one of these countries, with the possible exception of Russia--I don't think we can get it, and don't want to push them around any way, because they are doing some wonderful work--I think that we, until the dollar position is established, and you should take the inventory position.

MR. COX: We agree a hundred percent. Lauch and I have been discussing that for some time.

H.M.JR: With Lauch covering, we worked out a situation with Canada. Before any big orders come from Canada, we decide about the dollar position. But we worked that out only satisfactorily. The military, the Army and Navy, accepted. So we have that precedent.

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But on the other thing: they want seven thousand vehicles. Let's say they amount to a hundred thousand dollars apiece. I don't know. Devers said they have more tanks than they know what to do with, and all of these things should be re-examined--spare parts.

MR. WHITE: In Cairo you remember the fellow in the Army who didn't have the authority to ask for a check but was positive from his experience--all he does is keep track of what comes in--that they have far more spare parts than they will need during the war.

H.M.JR: And the same man--the Army Lend-Lease man in Cairo--said that he never knows until the stuff arrives what they are going to ship them. He doesn't account for them. He doesn't screen. The Army Lend-Lease man in Cairo does not screen the request. The stuff is dumped on him.

MR. CROWLEY: I think that was all brought out in that meeting we attended, Oscar. The Senators brought that out.

MR. WHITE: Requisitions are made by the British. They are screened, supposedly, by the British authorities in England. They come here to the Combined Chiefs of Staff, who presumably allocate what is available. Presumably they also exercise some judgment as to whether they need it in the field. But how in God's name they are in a position to determine when the British say, "We need X number of this and that out in Egypt or Iraq," I don't know.

MR. CROWLEY: At least we should have a man there who would screen where it originates and give an inventory. Then we would know better. Some of the Senators who came back got into that thing in a general way.

H.M.JR: Now, here is a little example, again Cairo. The Army is very proud of what they are doing. They are doing a nice job. They are handling eighty Chevrolet motors a day which they are reconditioning and putting back. But who do the motors belong to? The English! And why you, Leo Crowley, should be paying for recon-

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ditioning eighty motors of English trucks every day, is beyond me.

Now, they say they have plenty of manpower. They won't let Italian prisoners come into Egypt to work. There are thousands of them, skilled mechanics, who could go in there, but they won't let them. There are thousands of them, crazy to work and get a decent meal.

But here is just one example: eighty motors a day being reconditioned by Army personnel and paid for by Lend-Lease, and the motors go back into English trucks. How you explain it, I don't know.

There are a thousand and one facets of this thing that I would like to bring to your attention, but I can only cover a few--the inventory, I think, is important.

Now catch your breath. We in the Treasury want to recommend militarily that France go on a cash basis. France has here two and a half million dollars.

MR. WHITE: Not here.

MR. COX: Available.

MR. WHITE: They have some gold in Canada.

H.M.JR: It is available. Why France shouldn't pay cash for what it is getting, I don't know. And on the political front the President will be in a much better position to deal with France around the peace-table if she is broke than if she has two and a half million dollars worth of cash.

MR. COX: Can you get the State Department to agree?

H.M.JR: I don't know. I am talking with you people. If we can see eye to eye, then at least we are partners. Then we can go to the President with at least a united front between Crowley's organization and the Treasury. I don't think there is going to be any trouble.

MR. COX: I think that is sound.

H.M.JR: I'll go through one other thing.

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MR. WHITE: Before you leave the French, if we don't do that, we'll be treating the French much better than we would the British.

H.M.JR: Yes.

The other thing we want to recommend is that before you enter into any Lend-Lease with Italy, it should go on a lira basis.

MR. COX: That is sound.

H.M.JR: Let me explain. Because then if they pay in lira, even though it is the AMGOT or invasion lira, at least it is on a lira basis. Then when they say they have credit against us, if the thing is on a lira basis, again we are in a much better trading position. You haven't any agreement, have you?

MR. CROWLEY: Oh, no.

H.M.JR: Those are the major things. There are a thousand facets and details.

MR. CROWLEY: Let me ask you this, before anything is taken to the President. Oscar, could you and Lauch sit down with Harry and me on these things--one, two, three--that we can agree with the Treasury on, and try to work out this screening thing where these commands originate, and then we'll join with Treasury in presenting these things to the President to see if he will agree with us.

Now, I can see if we interfere too much with the military that we'll have quite a row with them. However, the President certainly should permit us to know what the inventories are and have a recommendation from the Lend-Lease man at the point, anyhow.

H.M.JR: Let me tell you the experience I have had. On this trip which I took around, General Eisenhower sent his Deputy Commander, General Hughes, and he is much more anxious than I am to cut down these expenses. He is in charge of all American activities. The danger would be that he would go too far, because his attitude is--

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principally with Italians and the food and all that--
"Let the sons of bitches starve!" That is his idea.
"Why should Americans use their good tax dollars to pay
for these people? They have fought us. We have got no
use for them. They are all dirty."

Here is one man, if he is at all typical as far
as the Army goes, and on economy, and all the questions
that he asked travelling with me for five days concerned
how much his taxes would be when the war is over, what
would he live on. His whole interest is in going much
further. He is an important person in the set-up. I
want to let you know how he feels.

MR. WHITE: I don't think you could get a Lend-
Lease man to screen military goods, but you could ask a
military man out in the field to screen it and keep down
the amount of Lend-Lease appropriation and expenditure.
But I doubt whether they will let a civilian screen
military demands.

H.M.JR: Doesn't Hopkins sit on that Board?

MR. COX: Yes, Hopkins and General Burns on the
Munitions Assignments Board.

H.M.JR: Is that where decisions are made?

MR. COX: Yes.

H.M.JR: I take it you are still working with
Hopkins?

MR. COX: Yes, but I think what you need is an
American officer or officers in the field going over
this stuff without having a British officer make up the
original list and do the screening.

H.M.JR: This, I take it, can't be a new story to
you, Oscar.

MR. COX: No.

H.M.JR: You ought to know where the weak spots are.

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MR. COX: I think so.

MR. CROWLEY: I think the only excuse that we can have for all this is that in getting the war moving we perhaps were overly lax and generous. Now that the war is stabilized, certainly it is time that we commenced to know what we are spending our money for here.

H.M.JR: I agree with you. You are making it, I think, a little bit too friendly. I think some people have been a little soft-headed and soft-hearted.

MR. CROWLEY: Yes, but what I am getting at is we can say that to ourselves, but not publicly.

H.M.JR: Oh, look. They have asked me. Everything good I have to say I said on that little radio speech. Everything else I am bringing back is critical. I am a part of the President's official family, and my criticism is from within. And I just want to work fast enough with you to beat the Senate to it.

MR. CROWLEY: Because the Senate, I think you will recognize, is just ready to blow up.

MR. WHITE: They have two committees, haven't they? We are getting along pretty well up there, but they are ready to blow up.

MR. COX: They sense some of this, but they had no precise spots.

MR. WHITE: I'll tell you where they will get in on this--through this Army payment of the facilities. They want to know why the Army is paying ten million dollars.

MR. COX: That is where it started. That is where we will have to cut the dollars balances, getting the British to turn over all the facilities in this country financed by Lend-Lease.

MR. CURRIE: I was going to suggest, Mr. Crowley, following on Harry's story of the Treasury's position, I think you would like to say what you have done since you

had this.

H.M.JR: From the 12th until the 1st, I haven't seen an American newspaper, so I don't know. You keep referring to some meeting. We are completely on a blind spot.

MR. CROWLEY: We were up before the Senate Investigating Committee in executive session. Those were the Senators who came back, you know. They had us up before the Appropriation and the Truman Committee. That is where we sensed that they had found a lot of these things, but they hadn't got the detail as you have it. But they felt there was something wrong. We can sense that they are just getting ready to make a drive on Lend-Lease.

H.M.JR: Your organization and mine should work fast enough so that we can simply say that since you have gone in you have seen these things and recognized them and you have cleaned them up.

MR. CROWLEY: I think this, that if we can sit down and list them, Harry and Oscar, and agree--one, two, three-- we can agree on them and take them to the President and get him to agree.

Now, I think it would be a great mistake, psychologically, for us to do something publicly that might admit a great error in this thing. I agree with you that we ought to make the changes and make them immediately, and then we will have to quarrel it out with Great Britain; but to make a change and admit that we made all those mistakes in the past publicly would do us a lot of harm. It would raise a lot of questions and investigations. If we can go ahead and put the thing in without announcing that it is a change of face-- don't you know?

H.M.JR: Well, personally, I am not going to say anything. I am going to fight like hell from within.

MR. CROWLEY: We will all do that.

H.M.JR: But I am not going to make any public statements.

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MR. WHITE: I think he has reference to your suggestion that he put a stop until he can re-examine. By putting a stop, the suggestion is that he has seen something that is bad.

H.M.JR: Who is going to know it outside of the British and ourselves?

MR. CROWLEY: I don't think it is necessary for anyone to know it outside of ourselves.

H.M.JR: You don't mean by putting a stop-order on some of the civilian goods from Cairo--

MR. CROWLEY: No, no, no, no. I meant we wouldn't make that public, but go ahead and do our job.

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

MR. CROWLEY: I understand that. I just wanted our fellows to understand.

H.M.JR: You are just thinking out loud.

MR. CROWLEY: That is right.

H.M.JR: Did I intimate that?

MR. CURRIE: No, I don't think so.

MR. CROWLEY: This thing is so full of dynamite it could just destroy the confidence of the American people.

H.M.JR: If the Senators knew half as much as I do after this trip, the thing that worries me sick is that it might be an excuse for Pat McCarran and the fellow from Connecticut--Danaher--and the whole crowd just to cut the throat of Lend-Lease.

MR. COX: I'd like to run over very briefly some of the things that have happened since you have been away, following on Harry's recital of record, because Mr. Currie has asked me to handle a good deal of this.

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H.M.JR: I hope you don't mind if I walk around a little bit.

MR. COX: Certainly not.

One of the stories is reverse Lend-Lease in raw materials. The other part is cutting down on civilian goods.

H.M.JR: Bring me up-to-date, please.

MR. COX: Before you left, I believe, we received a memorandum of a meeting held in State at which we were not represented, asking that we begin negotiations with the British on reverse Lend-Lease of raw materials--to carry on our discussions in detail but not in principle.

H.M.JR: Say that again.

MR. COX: Our discussions were to be carried on with the British on questions of detail and not principle. However, pursuant to that memorandum we met with the British, and we haven't been able to get anywhere to date on them, because they have taken the position--and I have confirmed this with Colonel Llewellyn up to a recent date, that any--

H.M.JR (interposing): Who is that?

MR. COX: Head of the British Supply Council, North America.

---that any reciprocal aid in raw materials had to be truly reciprocal, reverse Lend-Lease. In other words, we would submit requisitions just as the British do. They would procure all the goods for us. We would take our procurement agencies out of the field completely, and they would supply us with the things as we supply the British. This agreement to be contingent upon concurrent agreement by the Dominion and India.

The question of policing the end use of these raw materials would have to be reserved until other matters were adjusted. We did not feel that we could possibly

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consent to accept reverse Lend-Lease on those conditions--politically, we couldn't have. So our counter-proposal is we would prepare to go ahead on reciprocal Lend-Lease on raw materials, if it could be worked with as little disturbance of established procedure as is possible; leave our procurement officials in the field procuring the things we wanted and the quantities, and let separate financial arrangements be made.

Last week--I can give you the exact dates later--I met with Colonel Llewellyn.

H.M.JR: Is anybody from the Treasury in on this?

MR. COX: No. Last week I met with Colonel Llewellyn. He said that he would agree to our conditions for reversed Lend-Lease raw materials if we would agree to scrapping the original White Paper on exports.

MR. WHITE: May I comment with respect to your question? We agreed with the principle which was arrived at, and he said it was up to the then OEW to see if they could work out the details with the British in a way that would be satisfactory to them with respect to the acquisition of the raw materials.

MR. COX: Now, I reported this conversation with Colonel Llewellyn to Mr. Crowley. I also mentioned it to Dean Acheson. I was in a meeting with him shortly after that. Dean immediately saw Colonel Llewellyn, before Mr. Crowley had a chance to take the matter up with Mr. Stettinius, and the next was, we got word back from the British Raw Material Mission that they no longer insisted upon tying the White Paper together with our conditions on reciprocal Lend-Lease.

In other words, they were preparing to go ahead on our conditions on Lend-Lease. I saw Dean and said, "Have you made any deal or bargain with the British on this - any commitment?" He said, "No, I just told Colonel Llewellyn that I am sure the matter of the White Paper could be satisfactorily adjusted."

So now we are in the position of submitting within a day or so the list of contracts and the conditions under

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which we would be prepared to accept Lend-Lease in Reverse on these raw materials.

The other part of the story--

MR. WHITE: Before you leave that, how much will that amount to?

MR. COX: I don't know, Harry. It depends on how far down the list you go on private things.

The other part of the story has to do with cutting out civilian items. We received Harry's proposed draft of the letter before he left. Mr. Crowley, acting on that, had a meeting with Mr. Hopkins, Justice Byrnes, and Ed Stettinius. Those are the principals.

H.M.JR: Nobody from Treasury?

MR. COX: At that meeting it was decided - not decided, but a general agreement - that we should initiate action to transfer certain civilian items out of the Lend-Lease category.

MR. CROWLEY: I think this, Lauch, on the meeting over with these men, that that came about on account of the call we got first for that Executive Session on the Hill.

MR. CURRIE: That is true.

MR. CROWLEY: We then got into this other subject.

MR. CURRIE: That is true. It was not called for this purpose; it grew out of the discussion. So, thereupon, we expressed our readiness to go ahead. We asked Mr. Orchard for a list.

H.M.JR: Who?

MR. CURRIE: John Orchard.

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H.M.JR: Who is that?

MR. COX: Over in Lend-Lease.

MR. CURRIE: ...for a list of items, which were being shifted from Lend-Lease to cash basis, and that I now have, in part. At that stage, Dean Acheson intervened with the cable to you, and asked if we would hold it up. We said we would, provided it was made clear we were being asked to defer action.

Two or three days previously, by telephone, I had asked Miss Kistler to pass on to Harry the suggestion that it was not necessary for him to send this letter officially, formally, to us, that we were prepared to proceed on the basis of his draft.

Did you get that message?

MR. WHITE: I don't think so.

MISS KISTLER: Yes, the second cable. Remember - I summarized what he said.

MR. CURRIE: So in both cases we feel, Mr. Secretary, that the delay on Reverse Lend-Lease was owing to conditions imposed by the British, which we were not prepared to accept.

In the case of shifting certain civilian goods out, we feel it was owing to the intervention of the State Department.

MR. CROWLEY: I think this, Lauch, in fairness to everyone at that meeting, they all agreed, too, that we should take steps immediately to reduce these balances. Isn't that correct?

MR. CURRIE: That is right. All except Ed Stettinius, who left before that took place.

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MR. CROWLEY: Were all the rest present?

MR. WHITE: Including Acheson?

MR. CURRIE: He was not there - nobody from State.

H.M.JR: May I say this? I wouldn't take second place with anybody at wanting to win the war. I think our Allies should have everything they need to fight with. Then I say period, paragraph; and beyond that we should be tough, see?

MR. CROWLEY: I think that is right.

H.M.JR: And I don't think that I am going to be very polite about it, because I have been fooled with too long. It is about six months too long that I have been held up by the State Department. Frankly, I don't see where the State Department belongs in this picture. It isn't a diplomatic thing.

MR. CROWLEY: I think that on the Lend-Lease thing, and all of your economic affairs abroad, that we are rapidly heading into this position. I have hurt a lot of fellows' feelings when I said that this Lend-Lease thing looked to me like a master bookkeeping system. They got their feelings hurt terribly. But Lend-Lease hasn't had any voice in what went on - what they do.

H.M.JR: Voice, or boys?

MR. CROWLEY: Voice in what is going on. Now if, of course, he is going to use his influence, and you are going to use yours as Secretary of the Treasury, I think we should know and have a voice in what the policies are going to be in the Lend-Lease and the spending of this money, and the feeding of these people.

H.M.JR: I am with you absolutely.

MR. CROWLEY: I think the public will insist on it.

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H.M.JR: I go a step further. I think until this thing is cut down, that you and I should have as much voice in the distribution of these goods as I have had vis a vis Lauch Currie concerning Canada.

MR. COX: That is right.

H.M.JR: Lauch Currie and I, or Lauch Currie and the Treasury, have had absolutely the final say on how much should go to Canada. And the Canadians are happier; they don't smart under it.

MR. WHITE: Balances are increasing very rapidly.

MR. CURRIE: We have reached \$100,000,000 in orders.

H.M.JR: The point is that nobody in the Army or Navy says that we in the Treasury couldn't have a look at a military commitment in Canada before it was made. But we have got to press it. And I am prepared to be tough.

We have got to look after the President's interests, and I think your interests and mine are absolutely parallel.

MR. CROWLEY: No doubt about it.

MR. CURRIE: The situation now, Mr. Secretary--

H.M.JR: You (Bell) may excuse yourself.

MR. BELL: They can wait.

H.M.JR: Then sit back and relax. (General laughter)

MR. CURRIE: The situation at the moment is that Mr. Crowley is preparing to defer action until your return. You have now returned, so I assume you will be prepared to go ahead.

I don't know how you want to handle this, Mr. Crowley, but I assume you will like to discuss some of these items.

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MR. CROWLEY: I thought this, Lauch, that if you and Oscar would sit down with Harry and see how much of this the three of you can agree on, then we will have another meeting, with your permission, and if we can agree on a program, then we will sign it and present it to the President and see if he will agree.

H.M.JR: In person, not through any intermediary. I want to see him face-to-face, with anybody there that he wants there.

MR. CROWLEY: And see if he will agree with us. My own judgment would be that even if we go beyond where we think the President might support us, that it would do no harm, because I agree with you that there is a general feeling here that the British Government is getting the best of us here on all these trades, and that even though he has to soften us up a little bit, it wouldn't do any harm for us to put our best foot forward on this thing.

H.M.JR: I don't think he will soften it up.

MR. WHITE: I think we have to recognize that the British can make a very strong case. That must be taken into consideration. For instance, if we operate the way we are suggesting, they are getting in a constantly worse international situation, and we are putting the screws on them in a way that is wholly unjustified by the President's policy of sharing resources. We must recognize that.

H.M.JR: Yes, Harry, let's say that that is correct, but then somebody has to go before the Hill and get the blessing from the Congress of the United States that Lend-Lease should be used for something different than that for which it was conceived.

Am I right?

MR. BELL: That is what the British want you to do.

MR. WHITE: I think they are afraid of that.

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MR. BELL: They suggested that originally, didn't they?

MISS KISTLER: That is the State Department's position, still. If you can go to Congress, and Congress be convinced--but I doubt it.

H.M.JR: I want to say this, that you will never get the blessing of Congress.

MR. CROWLEY: Just along Harry's line--Harry says England is getting a little worse off all the time. How about us? We are not getting any better off, financially.

MR. WHITE: Well, but they can make a stronger case for their worsened international position, whereas we are getting worse from a different point of view.

MR. CROWLEY: But I don't think we have any right to do that thing by indirection. The Congress should tell us that we can do that. We shouldn't do something by indirection that we are afraid to go to Congress and spill out to them.

MR. WHITE: I agree a hundred percent.

MR. COX: May I follow up what you have both said? You have got one question of strategy here which involves the psychological viewpoint of the State Department. The reason they can obviously take the broad attitude that they claim to take, is that they haven't any basic responsibility. If the heat gets turned on in the Congress, the fellows who will have to take the heat are you and Dean and the President.

H.M.JR: No, the fellow who will take the heat is Ed Stettinius.

MR. COX: He will, too, but as former Lend-Lease Administrator, not as Under Secretary of State, because they don't have to justify all this stuff.

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The second part is on the point that Harry makes. I think the thing that makes it worse politically is that it wasn't a trade; that, if anything, advantage has been taken of generosity, not of a bargain.

I mean, we deal with these fellows on faith, in a sense of being generous for purposes of winning the war, and then if you get advantage taken of you it hurts much more both politically and in terms of the people involved.

But I think, on working out these things you have to do some thinking about the opposing viewpoint the State Department will take on any one of these specific items. I would be reasonably sure we could agree, but you will have opposition there.

H.M.JR: It doesn't worry me, because if Mr. Hull wants to say that we should do this thing, I am going to put it, with Leo Crowley's help, so coldly that the President will say, "All right, Cordill, if you want to go up before the Hill, O.K."

I am not going to do it. I know that I cannot sell the Congress of the United States Winston Churchill's position, which he has explained. He sort of wept - of course he doesn't weep - but about the poor English sterling position. What are they going to do with their sterling position in India and in the Middle East? Well, I know the Congress. They don't give a damn.

To take the position which he does, and try to sell that to the Congress of the United States - I would be laughed out of court.

MR. CROWLEY: Let me say this to you, too, that if we work out a program and take a stand, and we have to go to Congress, Congress undoubtedly will be more willing to do the bigger and broader thing if they feel there are a couple of fellows here that are looking after our interests.

Now, if you go there and they feel you are giving everything away, they will have no respect for you at all.

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MR. COX: Absolutely.

MR. WHITE: And if they also think, which I think is more important, that when you interpret the intent of Congress in a way that was different than they thought it should be, they have a right to expect you to come before them and tell them.

(Discussion off the record.)

H.M.JR: Frankly, I am shocked, Oscar. I just cannot understand the Lend-Lease organization letting the President get into this position, I swear I can't.

MR. COX: I can't, either. Of course, the Middle Eastern thing is a combination of two factors; one, historically, Harry has given to you. The second is really a question of people.

Now, from the very outset, in addition to not wanting to see this stuff sold or disposed of on a Lend-Lease credit basis as against cash receipts, I have always felt there should have been somebody right on the spot - enough people to know what was happening.

Now, you didn't have anybody. You had Kirk and Fred Winant, and neither one of those two fellows knew what was happening. It is only recently that you had fellows like Short and Landis out, and they still don't know enough about it to do anything about it.

MR. CROWLEY: I think this will do more than that. I think, too, working out this program, that it puts us in a position with the State Department where we say who our men are going to be and who they will be responsible to, and it draws a line and gets away from all this monkey business we have had in the last two or three weeks. It is a good time to have a show-down. Either they want Charlie McCarthy to run this, or they want a person who will look after our position.

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H.M.JR: I would be very much interested, if you care to discuss it with me, to know what position you are going to take in the field, unless you have already made the decision.

MR. CROWLEY: We would be glad to talk to you about it.

H.M.JR: I think I could be a little help to you, just having come from the field.

MR. COX: One other minor, but not so minor, point that ties in with something Harry knows about, is on this stock part of the thing. It comes up in terms of United Nations relief, in connection with Harry's idea of relief--contributing one percent of the national income to the food stock piles. I don't know; they haven't information here as to whether they have a ten-month or fifteen-month supply of cheese.

MR. WHITE: When the Secretary said an inventory, he meant everything.

MR. COX: You need the total stocks and what proportion of supply is under Lend-Lease, because if they say they are going to supply \$400,000,000 a year, and begin supplying it out of Lend-Lease supplies, it would be political suicide.

H.M.JR: I meant fiscal supply.

MR. WHITE: It started with food, you remember.

H.M.JR: Now, I don't think this comes in with Lend-Lease, but when we were over there, there was nobody in General Eisenhower's headquarters, and nobody in the AMGOT organization, who could tell us what fund the food is charged to that goes to Sicily.

MR. COX: It is charged to the Army appropriation.

H.M.JR: Are you sure of that?

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MR. COX: Yes, at least the food that has gone to date.

MR. BELL: Haven't you lost some control to the Army by reason of the authority in the Appropriation Act, to which Lend-Lease--

MR. COX: But they haven't transferred the food in Sicily under the transfer authority, which is still retained in the Lend-Lease Administrator.

MR. BELL: Don't they lend-lease here on their own authority?

MR. COX: With consent of the Administrator.

H.M.JR: I had a list given to me by General McSherry, who made an excellent impression, of the stuff that has come to Sicily. He doesn't know. He said, "It is not my responsibility."

MR. COX: On a straight War Department appropriation.

H.M.JR: Have they ever explained that to Congress?

MR. COX: No.

MR. WHITE: What authority have they to feed the population of Sicily under Army appropriation?

MR. BELL: I think they have that authority.

MR. WHITE: Sicily is behind the lines an awfully long distance.

H.M.JR: Wait a minute. Believe me, I had to question, and question, and question. What I am telling you now is the result of days of work, and believe me, Julius Holmes didn't help me one damn bit.

MR. COX: I don't think so.

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H.M.JR: He didn't. But do you mind my going a little further? Now, maybe you know all of this, but it took me days.

There is an AMGOT Forward, and an AMGOT Rear. Then there is a commission being set up with the Italian Government which nobody knows anything about, or where they are. And the funds are so mixed up that we cross-examined these people. There are three different organizations. The AMGOT Forward, which moves forward with General Clark, I can see. They don't have to do any explaining.

But the AMGOT Rear, which is under Charlie Poletti, who is doing a good job, I think that they certainly should get the blessing of Congress when they begin to spend United States taxpayers' money to feed the Sicilian population. That is AMGOT Rear, which is another organization than AMGOT Forward.

Maybe you have heard all this, but it took me days and days. And Julius Holmes didn't help me one bit. Now, the stuff I am talking about is AMGOT Rear. Now, who here knows about that?

MR. CURRIE: We were informed. We were called in and informed about this Saturday morning, so we haven't yet had an opportunity to sell the story. Jack McCloy called us over and told us the whole story of the new setup, the Allied Control Commission - the four-man Commission.

MR. WHITE: That is an Allied Commission?

MR. CURRIE: That is going to be the new thing to supplant AMGOT Rear.

MR. WHITE: Only in the areas in which the King of Italy is permitted to recognize as governing. They have four provinces now, and as they extend them, the AMGOT in those areas come under the Allied Mission, but there still may be areas which are Rear that didn't come under that.

MR. CURRIE: I didn't get that wrinkle.

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H.M.JR: Oh, no, this took days.

MR. WHITE: Joyce, who was the head, didn't know.

H.M.JR: General Joyce was supposed to head this thing. He is a nice fuddy-duddy who gets pushed around. He doesn't know what it is all about.

This thing you are talking about is where the King of Italy has four provinces and they are proposing to take over the rest.

What I am going to find out from somebody in the Army - and Oscar evidently knows about it - is about pouring this food into Sicily, which somebody pays cash for, and you say it is the Army.

MR. COX: Army War Department appropriation, and I think, unquestionably, it is a political matter. I don't think there is serious doubt about it as a legal matter, but as a political matter, they ought to tell Congress what they are doing, or in addition to that they ought to get lira for it in terms of our future position in Italy. But they certainly ought to tell Congress.

H.M.JR: The food which went to North Africa for this North African defeat, was that charged to the Army, too?

MR. COX: In the initial stages, part to the Army and part Lend-Lease. But the Lend-Lease has been paid for dollar for dollar on the civilian stuff.

H.M.JR: Say it slowly.

MR. COX: The first convoys that went in with the original offense carried Army supplies, paid for by War Department appropriations. Now, whether the Army sold those, or got any money for them, I don't know. My impression is they got no money. Then Lend-Lease started afterwards, and all the supplies that have gone in for civilians, whether food or clothing, and so forth, have been paid for by the French Comité

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H.M.JR: They have paid cash?

MR. COX: Yes, \$41,000,000's worth already paid up. That is all right.

H.M.JR: But the stuff that is going to Sicily is still in question?

MR. COX: Right.

H.M.JR: But your Lend-Lease is not involved?

MR. COX: Not yet. They may be. We have already raised the question.

MR. WHITE: How can you lend-lease to Italy?

MR. COX: The President has made a finding that they are on the list. But no aid that has been supplied first.

H.M.JR: What does this mean? Did McCloy send for you and explain it Saturday?

MR. COX: Lauch was there.

H.M.JR: Do you mind?

MR. CROWLEY: No. I am getting education, myself.

H.M.JR: You are getting it from my standpoint - something that took days of hard work.

MR. CURRIE: I think you should know about this, because I think it will affect Ed Foley's position. The plan now is to have the Allied Control Mission split up into four sections, military, economic, political, and transportation-communications. It has been agreed that the Americans will head the military and the communications.

McCloy said, in view of the predominance of British interests in the Mediterranean and in Italy, they will head the economic and political. These will all be military personnel except the political.

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MR. WHITE: Who has the tourist trade?

MR. CURRIE: I don't know.

H.M.JR: Who gets the monopoly on the wine?

MR. CURRIE: The man who will head the economic sphere will be Lord Renell of Rodd, who is now in uniform and is a general.

MR. BELL: Wasn't he in Sicily?

MR. CURRIE: Yes.

MR. WHITE: He was supposed to have been sent back home because there were objections or criticism of what he was doing in Sicily.

H.M.JR: Even the English don't like him.

MR. CURRIE: I assume - I don't know, this didn't come up - but I think probably your Treasury people may find themselves operating under the economic side.

MR. WHITE: They will. We have got the complete set-up of that. The only thing is that they will be under the British, but they will be the highest American officers in that field, and therefore presumably have access.

MR. COX: One great access, I think, in which both shops ought to join forces, that is going to be a control under the economic section, is the supply.

MR. WHITE: I think Lauch is right in saying that the division has been such as the top people who have control over the important decisions in Italy, are British. That is definitely true. And the reason has been the one that you suggested - that the Army back here has said - it is a Mediterranean sphere of influence and we expect it to be British.

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H.M.JR: With all due respect, and I am talking among friends - I will tell it to Jack McCloy's face - he is making the mistake of his life. He is trying to run it from here. He can't do that. He ought to have a good tough, two-fisted American on the ground looking after American interests, and Jack McCloy, or anybody else, can't run a city here in Washington. And the English are making a monkey out of him on the spot. I am going to tell it to Jack McCloy the first time I see him.

MR. CROWLEY: Well, Harry, as a matter of influence, it seems to me we get all the hard end of Italy in the post-war.

MR. WHITE: I think you will find that true everywhere. The British are taking the position of being friendly.

MR. CROWLEY: They are the Santa Clause and we furnish the dough.

MR. WHITE: Not always, but it has that aspect in some places.

MR. CURRIE: I would like to tell you a touching little story, at this point. I asked General Hilldring why the British were so insistent that all the people should be in uniform and no civilians. He said that was because the British felt that it was very desirable to get foreigners out of Italy as soon as possible. The military would be anxious to leave, where civilians would be inclined to stay on. So they put all the people in uniforms.

H.M.JR: Let me tell you this. I never knew McSherry before.

MR. CROWLEY: I don't know him.

H.M.JR: Well, I am going to urge the President to bring McSherry back to explain to Congress what they have done to date. When I went into this AMGOT lira, I didn't

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know, but McSherry can tell a good story of what he has done so far. If they give McSherry more power, United States interests will be well looked after.

MR. CURRIE: General Hilldring is recalling General McSherry.

H.M.JR: To explain to Congress?

MR. CURRIE: No, for a Washington job.

MR. WHITE: He is slated for an English job. He is slated to be General Devers' man.

H.M.JR: But he is too two-fisted, I think. Didn't you tell me they were bringing Julius Holmes back?

MR. WHITE: I heard that yesterday morning, but not officially.

H.M.JR: Leo, I appreciate very much your coming over. I like your suggestion that Harry and your two men should get together, and when they have got something, I would like to read it. The quicker we do, the better, it seems to me.

MR. CROWLEY: You fellows have the time, you can do it as soon as you get together.

H.M.JR: I haven't anything important, but I think the President is between bases.

OFFICE OF LEND-LEASE ADMINISTRATION
THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

White House
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AMERICAN LEGATION

Cairo, October 27, 1943

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

My dear Mr. Secretary:

In accordance with your request I am citing herein examples of some of the problems which we are facing in this area, and which I was requested specifically by the Lend-Lease Administration to investigate when they assigned me to this territory the end of September.

Sometime around the first of January of this year the Middle East Supply Center, London and Washington, decided that to facilitate procurement in the U. S., to permit shipments to be diverted from one territory in the Middle East to another, and to provide better control over distribution and prices, that the placing of orders for certain commodities by the Middle East Supply Center should be substituted for commercial transactions. These orders are known as "Bulk Indents". The Middle East Supply Center, in line with this policy, has discontinued commercial orders, with some exceptions, for certain products, among the most important of which are iron and steel, medical supplies and agricultural machinery.

In accordance with your request I am outlining an example of how the Bulk Indent works for medical supplies coming from both American and British sources.

In the case of medical supplies previous to the introduction of Bulk Indents, the importer in this country ordered direct from an exporter in either the U. S. or the U.K. These orders were subject to import licenses which in the case of Egypt had to be approved by both the Egyptian and British authorities in Cairo. On the introduction of the Bulk Indent commercial licenses were suspended. In lieu thereof the Middle East Supply Center makes up an order covering the total requirements of the Middle East which is then sent to London where the British determine what portion of the medical supplies shall be secured from the U.K. and what portion from the U.S. The British part of the order is turned over to the UKCC who nominate an exporter in the U.K. who farms out the orders among British

AIR MAIL

(page 2)

manufacturers, who sell the supplies in question to the UKCC. The UKCC in turn, in the case of Egypt, turn over these supplies to their local UKCC branch in Egypt, who then sell the supplies to selected importers in this country.

The part of the supplies which the British in London have decided are to be purchased in the U.S.A. are procured by the Lend-Lease Administration and shipped to the Middle East consigned to "The Ministry of War Transport for the account of the Lend-Lease Administration." When the American medical supplies arrive in this country they are received by the local Lend-Lease representatives who in the case of non-British territories sell them to the local governments, who in turn sell them to the drug houses. The local government to whom the American supplies are turned over deposit the price which the Lend-Lease Administration establishes on these goods in local currency in a bank to the account of "The Treasurer of the United States of America for the account of the Office of Lend-Lease Administration". In the case of American supplies going to British Colonies or Mandated areas the goods will either be turned over by the Lend-Lease representative to the local territorial governments directly or if the Middle East Supply Center so determines through the UKCC. The proceeds of these sales under a ruling of the Interdepartmental Committee in Washington will not be immediately turned over to the Treasurer of the U. S. and are presently being retained by the British Government or one of its agencies.

The above procedure in my opinion is inconsistent with the policy of the Lend-Lease Administration, as expressed in the attached Exhibit A. It, so far as the U. S. is concerned, has the effect of disrupting and destroying normal commercial channels between Middle East importers and U. S. exporters. Furthermore, so far as the British Colonies and Mandated territories are concerned, the following of this procedure means that the supply of these civilian goods, for which the consumers pay cash, is furnished from the U. S. on a credit basis. Similar British transactions are normal cash commercial transactions. Shortly after my arrival in Cairo in consultation with Mr. Landis I cabled the Lend-Lease Administration as per the attached copy marked Exhibit B.

All agricultural machinery coming to this area from the U. S. is procured by the Lend-Lease Administration, while agricultural machinery coming from the U.K. is still being supplied through commercial channels. I have already discussed this apparent inconsistency with the officials of the Middle East Supply Center, who informed me that only 10% of the agricultural machinery coming into this area was being imported from the U.K. and that as it was of a highly specialized type, the diversion factor from one territory to another was of relative unimportance, and that the reason why private trade from the U.K. was still being permitted when it was not permitted so far as U. S. agricultural machinery was concerned.

AIR MAIL

(page 3)

I was advised by the Lend-Lease Administration prior to leaving Washington that in a large number of instances the request for supplies for the Middle East were being sent to London for determination as to whether the supplies should come forward from the U. S. or the U.K. and that decision to request these supplies from Lend-Lease was made directly by London on Washington without any reference to the local Lend-Lease representatives in the Middle East. I was instructed that one of my responsibilities would be to arrange for the approval by local representatives of the Lend-Lease Administration of all requisitions for Lend-Lease supplies, so that the Lend-Lease Administration in Washington might have the benefit of our local investigation of the need for these supplies. I have had prepared and am working with Mr. Landis on a procedure which provides that no supplies shall be requested from London for this area until they have had the approval of the local representatives of Lend-Lease. This procedure is now being studied by Mr. Landis and after his approval will be presented to the Middle East Supply Center.

Among other problems which Dean Landis and I are studying are the consignments by the British in Washington of some Lend-Lease goods directly to private concerns, and the present practice of providing civilian trucks used in this area through the British Army. I might add that the latter practice arose in the first instance from a desire on the part of the British Army to turn over to civilians non-desert-worthy trucks and to replace them with desert-worthy trucks out of arriving civilian shipments.

Sincerely yours,

Livingston L. Short

Livingston L. Short

LLS:nws

Encls.

*Approved
James M. Landis*

COPY

OFFICE OF LEND-LEASE ADMINISTRATION

Washington, D. C.

September 1/, 1943

Mr. Richard May,
Legation of the United States of America,
Cairo, Egypt

FOREIGN TRADE POLICY

Dear Mr. May:

I enclose for your information some comments on the above subject, furnished us for transmission to our overseas missions by the Planning and Development Division.

Sincerely yours,

Ambrose C. Cramer
Head Liaison Officer
Middle East Branch

FOREIGN TRADE POLICY.

1. Private Trade in Lend-Lease Areas. There has developed considerable confusion in foreign countries as to our attitude on continuance of private trade in Lend-Lease areas. This arises principally from the fact that, since Lend-Lease is a claimant agency before War Production Board for critical goods for Lend-Lease countries, the assumption is that all such goods must be obtained via Lend-Lease requisitions. In the case of drugs, automobile parts and other items in various parts of the world this misunderstanding has developed to the extent of the local government telling its importers that no commercial imports can be made since "on instructions from Lend-Lease" all such requirements must go through Lend-Lease in the future. This is, of course, not true. The fact is that, except for a very limited list of goods, we would rather have them go commercially than via Lend-Lease in order that Lend-Lease funds may go just that much further. There is no reason why commercial shipments cannot be charged against Lend-Lease allocations of material just as well as Lend-Lease shipments.

Will you please see that these sentiments are well known by those in government and trade with whom you have contact?

Will you also make sure that statements of requirements obtained from foreign countries include amounts required to cover their commercial as well as their Lend-Lease imports.

2. Trade Names. Our policy on trade names is simple: We will try to supply them if they are asked for, but cannot guarantee it. We will not pay exorbitant prices for branded goods if unbranded equivalents are available. We do want to maintain the competitive position of American lines of goods to the extent possible.

3. Commissions. This is a matter the details of which are still under discussion. The principles are clear, however: the labourer is worthy of hire. Where an agent of a United States supplier of Lend-Lease goods renders a service in connection with these goods he should adequately but not excessively be compensated for the service. If the compensation can be paid in foreign currency, it is our feeling that it should be paid in such currency by the foreign government; on this basis, our purchase price here would not include any amount to cover such compensation. However, if, as in the case of Latin American countries, the local government will not undertake this responsibility of payment, this government of course, will have to.

There are currently in the course of preparation a directive to our procurement agencies on this subject and an agreement to be presented to foreign governments for their

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consideration covering their undertakings on the matter. To date we have more or less satisfactory letters on the subject only from the United Kingdom, Australia and New Zealand.

4. Lend-Lease and Private Trade. While, of course, no considerations of trade advantage should be allowed to take precedence over war supply questions, it should be just as strongly realized that neither should the war be allowed to serve as an excuse for unnecessarily handicapping United States foreign trade channels. Occasionally we hear of cases of discrimination in treatment by local government as between agents of United States firms and agents of firms of other nationalities. Often, too, decisions are made by Lend-Lease and other United States agencies which severely handicap United States foreign trade operations without a balancing increase in supply efficiency. Careful thought should be given to possible effects in this field of any decisions which may be taken on various problems.

5. Cash Reimbursement. There is attached our Lend-Lease statement of policy on this. The gist of it is that if a country can pay cash the presumption should be that commercial channels should be used.

a. The presumption should be that all transactions, under which a Lend-Lease country will pay cash, will be through private commercial channels unless good reason can be shown to the country.

b. The cash reimbursement procedure will be used for cash procurement only under special circumstances. In clearing each cash reimbursement requisition the justification for handling the procurement in this way must be set forth in writing.

c. In handling cash reimbursement requisitions Lend-Lease procurement procedure will be modified to accord as closely as possible with normal commercial export practices and to permit greater recognition of trade names, closer contact with exporters and allowances for export services rendered.

In many cases foreign governments file requisitions under Lend-Lease involving materials for which they have also issued import licenses, foreign exchange permits, etc. to cover commercial shipments. It is the policy of the Office of Lend-Lease Administration that such commitments shall be carried out, and in such cases Lend-Lease procurement, either under straight Lend-Lease or under cash reimbursement, shall not be called into action unless there is a very good reason for so doing.

AIRGRAM

Dispatched:

**FROM: American Legation
Cairo**

Dated: October 27, 1943

Rec'd.:

**Secretary of State
Washington**

A-234, October 27, 9:30 a.m.

For OLLA from Short

***1. The trend to the extension of Bulk Indenting under which USA supplies come forward on Lend-Lease displace commercial transactions.**

2. MESC advises me that some London Ministries were not in agreement among themselves as to necessity and advisability of Bulk Indenting procedure, especially on medical supplies.

3. Understand one of the factors which occasioned the inauguration of Bulk Indenting was the belief held by the British in Washington as reflected by Christelow and which also existed in MESC, that Bulk Indenting would facilitate procurement in the USA.

4. Landis has requested MESC to defer recommending the placing of any more commodities under Bulk Indenting procedure until the whole subject has been reviewed.

5. It is my understanding that procurement by Lend-Lease under program license plan is equally as efficacious for procurement by Lend-Lease as bulk indenting procedure.

6. As this subject will be reviewed again by Landis please cable specifically answers to following questions immediately:

(a) Am I correct in believing that it is the position of Lend-Lease that the use of a program license in general is preferable to Bulk Indents so that civilian goods may wherever possible come forward through normal commercial channels rather than on Lend-Lease, thus maintaining the principle of private trade.

(b) Please advise if the program license procedure can be utilized for civilian goods included in Bulk Indents on:

- 1. Iron and steel products**
- 2. Medical supplies**
- 3. Agricultural machinery**
- 4. Textiles**
- 5. Tires**

(page 2)

7. Please understand it is not my intention to suggest any change in the Bulk Indenting procedure now established until I have discussed the matter with Landis and the NESC. The above information is being requested so that we may have it in front of us in studying the whole problem.

8. In addition to cable reply to paragraph six above advise by Airgram operating procedure to be followed under Program License plan which we understand is now in effect for Middle East.

9. The foregoing was prepared as a telegram for dispatch on October 21, 1943 but due to congestion in code room and lack of staff it could not be so dispatched and is being sent now as an airgram."

KRM

File
LLS:nms

OFFICE OF LEND LEASE ADMINISTRATION

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA



AMERICAN LEGATION

Cairo, October 28, 1943

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

My dear Mr. Secretary:

In accordance with your request, I am attaching a copy of the cable advising us that the Inter-Departmental Committee in Washington had ruled that the proceeds of the sale of civilian supplies coming into British Colonies and Mandated Territories would be retained by the British.

I am listing below a few examples showing the type of civilian supplies being brought into Palestine on a credit Lend-Lease basis:

<u>Requisition No.</u>	<u>Commodity</u>	<u>Value</u>
17329	Agricultural Machinery	
	Spare Parts	\$ 4,500.53
17075	32 Crawler Tractors	75,000.00
16818	900 18" Discs for harrows	1,410.75
16602	Agric. Mach. Spare Parts	1,500.00
16511	" " " "	5,579.00
15852	750 L.T. American Sulphur	445,448.00

In view of the fact that all Lend-Lease supplies, including consumer goods, are being furnished under a credit Lend-Lease basis, we do not have a record of the disposition made of the supplies by the Colonial Governments. It is possible, therefore, that some of the items I have listed have not been sold or, in the case of agricultural machinery, may have been rented or even retained by the Government itself.

Sincerely yours,

Livingston L. Short
Principal Lend-Lease Representative
in the Middle East

LLS:nws

encl.

PARAPHRASE

Rec'd. Sept. 28, 1943

FROM THE DEPARTMENT

AMEMBASSY

LONDON

5969, September 28, 6 p.m.

"For Reed for Short from Stettinius.

Your 6418, for Fred Winant.

Until further notice from us Lend Lease aid to
Britannic Mandates, Protectorates and Colonies in Middle
East such as Palestine, Trans-Jordan, Cyprus and Aden
shall continue to be furnished on credit basis. In
such territories reciprocal aid from British applicable.
Winant concurs.

BERLE ACTING

OFFICE OF LEND-LEASE ADMINISTRATION

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA



AMERICAN LEGATION

Cairo, October 28, 1943

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

My dear Mr. Secretary:

I am handing you herewith a copy of the latest cable received from Washington advising me that Lend-Lease on medical supplies would be continued on a credit basis in British Mandates, Protectorates and Colonies.

I am also handing you herewith a copy of the letter Mr. Landis showed you in which the Economic Section of the Spears Mission, which is wholly British, advised certain importers in Syria that agricultural machinery might be imported from the U. K. through regular commercial channels.

Sincerely yours,

A handwritten signature in dark ink that reads "Livingston L. Short". The signature is written in a cursive style with a large, sweeping flourish at the end.

Livingston L. Short
Principal Lend-Lease Representative
in the Middle East

LLS:nws

Encls.

PARAPHRASE

October 9, 10 pm 1943

1506

October 12, 1943

For Short from Knollenberg.

"Drugs and medical supplies requisitioned under BSC 50299 - A109 although procured through War Department are for civilian use. Your A-141. Without reference to Lend-Lease representative consignment made to Minister of War Transport Cairo. All shipments received in Middle East under above requisition you should handle. Complete information on transportation both by sea and air of drugs and medical supplies under above requisition furnished to MESC Cairo British advise. Air transportation from here furnished by British planes. All drug and medical supply requirements in general submitted by MESC which are filled from United States source are Lend-Lease and for civilian use. You should handle all in all cooperation with MESC and medical and health boards. Basised credit Lend-Lease in British Mandates Protectorates and Colonies and cash in all other territories. Payment should be in United States dollars in cases of cash transactions when possible unless United States has need of local currency in particular territory. Since British have requisitioned all drug and medical supplies up to this time for Middle East and are therefore charged with such supplies on our books there is no necessity of your accounting for releases to British territories. However we suggest you record such transfers to British territories on the basis of date of transfers commodity description quantity destination of use and original requisition number."

Hull

(COPY OF CIRCULAR LETTER SENT TO THE FOLLOWING)

Jellad, Damascus
Baki "
Coudsi "
Maayem Import Company, Beirut

Import of Agricultural Machinery

Economic Section
Spears Mission

SS/601/2/E/132

July 9, 1943.

Please note that authority may be given to import agricultural machinery from England of the following categories:

Tractor ploughs
Disc tillers
Cultivators (tractor and animal)
Machinery spare parts
Harrows (tractor)

Requests for import of any of these articles should be made to this office within six weeks, ordering by way of your usual suppliers.

Note that this is not Lend-Lease material.

(Signed) Howard Jones
Major
Agricultural Adviser

November 2, 1943

Meeting in Secretary Morgenthau's Office
November 2, 1943
10:30 A.M.

Present: Messrs. Crowley, Cox and Currie of F.E.A.
Messrs. Bell, White and Miss Kistler

The Secretary opened the meeting by stating that he intended to speak to the President about various aspects of our lend-lease policy which he disapproved of and which he thinks may endanger the whole program. He stated that in doing so he wanted to be able to say that he had spoken to Mr. Crowley and that there had been a meeting of minds between the two agencies.

First he wanted to comment on the set up of the Lend-Lease offices in the field. He stated that all the men he had spoken to said that Lend-Lease personnel in the field were operating without instructions from Lend-Lease, that they were functioning as a part of the State Department.

Mr. Crowley commented that the reorganization of his agency presented many problems and that they were having difficulties in working out a modus operandi with the State Department. He said he would be glad to get the Secretary's report and work with him on this matter.

The Secretary reviewed the Treasury responsibility for the origin of Lend-Lease and for the financial aspects of the program. He said he was particularly disturbed by the fact that Lend-Lease was doing a number of things which Congress never intended should be done and that these deviations from the original directives endangered the whole program.

Secondly, the Secretary wondered why Lend-Lease is in the merchandising business. He expressed concern over Congressional reaction to the knowledge that U.S. goods are being distributed through British channels often resulting in the receipt of sterling by the British. He stated that the British were using private exporting channels wherever possible whereas the result of our policy is to force private exporters out of business and to build up sterling balances held by members of the Sterling Area.

Mr. Currie stated that a joint committee of O.E.W. and Lend-Lease had been reviewing the possibilities of switching over to private trade in North Africa. The Secretary replied that what he is recommending is an over-all review of the Lend-Lease set up. In reply to a question by Mr. Crowley, Mr. Cox said that he did not know the theory on which it had been decided to let the British distribute U.S. lend-lease goods in the Middle East.

Division of Monetary
Research

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For Mr. Crowley's benefit, Mr. White sketched developments in Lend-Lease policy to date so far as concerns the Treasury. He explained the reasons for the original decision for lend-leasing civilian goods and he reviewed developments concerning the limitation placed on British balances. Mr. Cox stated that there was no question that the Secretary would be held responsible for British balances. He agreed with Mr. Crowley that Congress thinks of lend-lease assistance as an emergency measure to keep the British in the war and that the Senators have a feeling now that all is not well but they have not yet been able to put their fingers on anything tangible. Both he and Mr. Crowley think the whole thing may explode at any moment and that steps should be taken immediately to rectify as much of the situation as possible. It was agreed that ~~the~~ Congressional interest was first aroused by U.S. purchases of British facilities. Mr. Cox stated that one of the first things to be done was to get the British to turn over as reciprocal aid plants in this country the construction of which they financed. Mr. White explained that the Treasury has always taken the position that if new criteria are to be employed in determining Lend-Lease policy, that Congress should be so informed and given a chance to express its views.

The Secretary stated that the second suggestion he has to make is that an inventory should be taken of supplies, particularly lend-lease supplies, in each country. Mr. Cox stated that he and Mr. Currie had discussed this matter and had agreed on the need for such information. He pointed out that these data are absolutely essential for the operations of the United Nations Relief Program. The Secretary stated that the Treasury intends to make two further recommendations. The first is that credit lend-lease to the French be discontinued and that the French be made to pay cash for supplies obtained here. This would strengthen our bargaining position vis-a-vis the French and would place the treatment being accorded the French on a more equal basis with the decision regarding the British as laid down in the Report to the President of January 1, 1943.

The last recommendation to be made by the Treasury is that when lend-lease assistance is extended to Italy it be placed on a lira basis. This would also strengthen our bargaining position. The Secretary asked out of what appropriation food shipped to Italy was being paid. Mr. Cox replied out of War Department appropriations. There was some discussion of the expediency of this policy. Mr. Cox pointed out that there is a clear legal authority but he thought that the Army should go to Congress and inform Congress what it is doing. There was also some discussion of the Allied Control Mission which is to move into the areas under the control of the King and which is something distinct from "Amgot Rear".

Division of Monetary
Research

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In reply to a question of the Secretary, Mr. Cox stated that the French have already paid up \$41 million for civilian goods shipped to French North and West Africa.

For the Secretary's information, Mr. Currie reported on the status of the reciprocal aid negotiations. He also reviewed developments here during the Secretary's absence. Mr. Currie stated that the instructions received by O.E.W. from the State Department concerning the reciprocal aid negotiations were to the effect that O.E.W. should negotiate with the British on the details of negotiations but were not to touch on the principle underlying the agreement. The British originally suggested that any reciprocal aid of raw materials be reciprocal aid in the real sense, that requisitions be submitted to the British and that the British take over the procurement of the material. O.E.W. replied that it could not accept this proposal and that it could go ahead only if an arrangement could be worked out involving as little disturbance as possible with the established procedures. The British countered with the proposal that this would be acceptable if the White Paper of September 10, 1941 on exports were scrapped. Dean Acheson intervened at this point and assured the British that the White Paper need not be tied up with the reciprocal aid proposal, that he was sure the White Paper difficulty could be adjusted independently. The British then dropped this request as a price for acceding to O.E.W. demands on the method to be used in procuring raw materials. O.E.W. has accordingly prepared for submission to the British in the near future a list of contracts which might be taken over by the British and the conditions under which they are willing to accept raw material as reciprocal aid. In answer to Mr. White, Mr. Currie stated that he could not give us an estimate of how much this would amount to.

Concerning the British balances and the proposed reduction of lend-lease, Mr. Currie explained that shortly after the receipt of the draft letter to Mr. Crowley, the question was raised at a meeting at the White House between Crowley, Byrnes, Hopkins and Stettinius which had been called to deal with questions likely to be asked on Lend-Lease policy at a forthcoming Executive Committee meeting on the Hill. It was agreed at this meeting that O.E.W. should initiate action to reduce lend-lease of civilian goods. This decision was raised after Stettinius had left the meeting but it represented a unanimous opinion of the remainder of the group. Dean Acheson then intervened and drafted a cable to the Secretary to go to London. O.E.W. protested and wanted it clearly on the record that O.E.W. had asked for a reduction of lend-lease.

Division of Monetary
Research

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Mr. Crowley was a little uncertain as to just how far the President would go along with us in the contemplated revision of Lend-Lease policy. The Secretary assured him that he (the President) would go along 100 percent. The Secretary stated that if the State Department protested and would not go along with the decision to cut lend-lease to keep the British balances down, he would tell Hull that he himself would have to go to Congress and explain the matter. Mr. Cox pointed out that in planning our strategy we should be prepared to meet State Department objections. He indicated that the State Department after all has no basic responsibility in this matter, that they can take a position and leave it to someone else to do the explaining. On Mr. Crowley's suggestion, it was agreed that Mr. Cox, Mr. Currie and Mr. White would get together to work out what the two agencies could agree upon and that then Mr. Crowley and the Secretary would get together to prepare for an interview with the President.

T. M. Kistler

November 2, 1943
12:35 p.m.

HMJr: Hello.

Basil
O'Connor: Hello, Henry. Welcome home.

HMJr: Thank you, Doc.

O: I'm on the second day of an eighteen-day trip on infantile paralysis and that's the only reason I'm calling you from Kansas City, Missouri.

HMJr: Yes.

O: Some of my co-workers have been telling me for the last two or three weeks that the Government would have to have a Fourth War Bond Drive in January.

HMJr: That's right.

O: And they have pointed out -- let me finish this story and I think you'll get a little laugh -- they have pointed out that the Birthday Celebration comes from the 14th to the 31st of January.

HMJr: Yeah.

O: I told them not to worry about that, that when you got back I'd fix it all up.

HMJr: Yeah.

O: Of course, they were quite interested to know how I'd do that and I said that I would have the war called off in December.

HMJr: Yeah.

O: Now, I've thought that over and I don't think I should do that because you call off a big war that precipitously and it won't work.

HMJr: Yeah.

O: So I've called you up to say that I think you had just better go ahead with your war loan in January.

HMJr: Well, that's very nice of you.

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O: And the only thing -- the only observation I'm making is that if the Government won't be impaired....

HMJr: Uh....

O:and the loan was inaugurated on the 5th....

HMJr: Yeah.

O:let's say, instead of the 15th, that would be helpful but I think the Government comes first.

HMJr: I'm afraid so.

O: Now, that's all I say to you.

HMJr: Well, I thank you for calling me.

O: I have been very much amused with -- uh -- people calling me up and I have said, "Is that so? Really?"

HMJr: Yeah.

O: Now, of course, now you know my attitude fully.

HMJr: Yeah.

O: And if -- if -- if it could come on the 5th or the 10th instead of the 15th, let's say, well that's fine but if it can't I think we'd better keep on with the war.

HMJr: I think so.

O: Yeah.

HMJr: Well, cheerio.

O: Uh -- did you have a good trip, Henry?

HMJr: Very good.

O: Good. Bye, boy. Thanks a lot.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Fred Smith

November 2, 1943

You will be interested to note that Packard is still using your Rolls-Royce story, as per the attached. They are now about to make a poster for use in the plant. They tell me that it has helped production immensely.

FS

Morgenthau Praises Packard Aircraft Engine Production

Treasury Secretary Reveals Facts Leading to Rolls-Royce Manufacture in the United States

Drop-In Visit Surprises All Employees

All Packard was surprised on September 7 by a drop-in visit from Henry C. Morgenthau, Jr., Secretary of the Treasury, here for a Labor Day War Bond rally, to "see the plant where American enterprise was daring enough to mass-produce the intricate Rolls-Royce aircraft engine."

Touring the huge war factory on foot, despite a knee ailment which necessitated a cane, Secretary Morgenthau showed keen interest in production processes and expressed satisfaction with the volume of war engines pouring off the Packard assembly lines.

Aircraft Engine Production



Secretary of the Treasury Henry C. Morgenthau, Jr. (center) learns first-hand about women in war work from Charlotte Sordacki, KB production dynamometer recorder, while Mr. Christopher listens in.

New Winners of Gold Merit Award Pins

- Adams, T. SDK
- Auburn, M. GDF
- Appel, H. TGA
- Baba, R. MBR
- Bain, E. BR
- Bardie, E. MAC
- Beane, O. SIB
- Buchanan, H. BC
- Bulger, J. DDA
- Burton, J. F
- Block, H. ADY
- Domarowicz, J. GDF
- Bucowski, C. FOK
- Boiza, R. YDF
- Scott, E. YMI
- Greenall, G. MAC
- Brozdzinski, E. UDC
- Brown, E. GDF
- Buch, D. GTC
- Bushaker, F. FDB
- Buzanowicz, G. GDM
- Buzanowicz, L. DDE
- Cackowski, G. DM
- Carroll, G. DM
- Cardinal, J. SGB
- Cherry, W. KID
- Cina, J. UDA
- Conroy, T. MRF
- Courtesy, E. DDA
- Craig, M. DAG
- Crowe, F. RRS
- Daley, C. DDM
- Dalrymple, W. GDF
- Dalrymple, H. DDD
- Danielson, C. RRE
- DeSiderio, F. TFS
- DeVita, E. KXD
- DeWick, H. GDX
- Diaz, A. DDA
- Draker, D. GDM
- Drown, C. YTB
- Duke, W. YDA
- Felder, H. GFA
- Fisch, J. KB
- Fisher, G. FDE
- Fisher, W. KDG
- Fisher, H. UDL
- Fisher, H. MRF
- Gross, H. DDB
- Guzda, S. UDA
- Guzda, D. MFP
- Guzda, G. SP
- Grant, H. UGC
- Gusterson, M. DDM
- Guzma, M. PDL
- Gusterson, J. M
- Gurman, A. UAG
- Hamilson, W. UDA
- Hammann, E. MRF
- Hankle, E. KDG
- Hartman, E. SDE
- Hart, R. GDF
- Hawley, S. YTB
- Hawley, R. UDF
- Hawley, G. UDF
- Hess, H. Jr. GDF
- Hill, A. UDA
- Hoffman, H. UDL
- Hoffman, E. CAG
- Holloway, L. J. YAG
- Hoof, F. UDA
- Holmes, H. M
- Johnson, F. BRB
- Jaskolski, J. FGA
- Kanigowski, E. GDM
- Knows, W. GDM
- Korbenstein, W. UDC
- King, E. YF
- Kirk, W. RM
- Kreiser, H. HG
- Kubo, H. SGB
- Konopka, A. SBY
- Konopka, G. UPP
- Kvazna, J. DME
- Leach, J. UDL
- Leak, A. KDG
- Leak, H. GDF
- Lewis, E. UDA
- Likins, B. GDF
- Lindstrom, E. GDF

PRaises Planes With Packard-Built Power

"This is a very happy occasion, to come here and see what a wonderful job Packard war workers are doing," he said. "It is impressive to note that it is realized today, with the engine you built flying nightly over Germany in Lancaster and Mosquito bombers and powering the new North American P-51 Mustang which, if not the most important job, is one of the most important in the air today."

"I can't help but get a little satisfaction to think that I played a small part in bringing this engine over here and that Packard is doing the rest."

FOREMAN NEED FOR MORE ENGINES

"That was pre-Lend-Lease," said Secretary Morgenthau. "In those days I was handling all foreign purchases and I was very much disturbed to think that the entire airplane effort included only one type of liquid-cooled engine. It seemed to be too important to depend upon just one engine."

"Study of the engine for manufacture in America was delayed by the secrecy surrounding their arrival, the Secretary recalled."

"Rolls-Royce kept saying the plans were here," Mr. Morgenthau recounted, "but we couldn't find them. Finally they were discovered in the vaults of the Bank of Montreal. Nobody knew what they were. No one knew what was in the boxes until, under secret service escort, they were at last opened at Wright Field."

BATTLESHIP BROUGHT FIRST ENGINE

"Finally we got a Rolls-Royce engine, sent across in a battleship, the whole engine was laid on a table in the Treasury. Industrialists would come in to consider manufacturing it, but wouldn't touch it. They said it couldn't be built in volume, that it was too complicated and intricate."

"Then Packard took it. I am happy to have my judgment confirmed by what I have seen today of the job you are doing with it."

The Treasury head, speaking from experience as a central figure in originating a war production project whose output is increasing Air strength over the Continent, commended on the Anglo-American teamwork that made it possible.

"Arthur Purvis and myself on this end, and Lord Beaverbrook on the other, helped do the trick," Mr. Morgenthau concluded. "We got the Rolls-Royce plans plus an engine. Packard had the nerve to take it on. The Air Corps was entirely sympathetic to the whole

British Writer Inspects Our Production

"When I was in England, everybody in the English Air Corps said: The one thing we hope you'll get us is more of these Mustangs and the American engine. The Packard-built engine and North American Mustang combination is unbeatable."

More Cigs for Our Boys

The Detroit News Cigaret Fund got another healthy Packard push recently. With Sidney Brodie, UGC, doing the collecting, employees in 30 departments contributed enough to send 122,000 smokes to American fighting men abroad.

Our Apologies, "Red!"

Remember that pictures in our last issue showing two Packard service technicians at a Texas air base? Identity of the third man in the picture wasn't given in the caption that accompanied the photo from Texas but MGR employees were quick to recognize him as "Red" Meisler. "Red" used to work in their department before he joined the armed forces last February. Our apologies for the omission of his name!

Son of SDK Worker Wounded in South Pacific

Among Detroiters announced by the War Department as wounded in the Southwest Pacific was Pvt. Norman H. Greshak, son of Stephen J. Greshak, SDK metal worker. See page seven for picture of this father-and-son team.

"Each of Us Has His Own Job to Do"

"We must remember always that it's the same war on the farm and in the factory, on the assembly line and on the battle line, in the homes of America, and in the trenches."

"We dare not forget that there can be no personal profit for anyone, in money or in comfort or in fame. Each of us has his own small job to do. That job must be meshed into the stupendous job of saving the world from chaos and the peoples of the world from slavery."

"Only the united effort of every man and every woman, no matter where employed, can give us that victory. We must face this fact squarely—we must never forget it."

—LIEUT.-GEN. BASTION H. SOWERVELL, Commanding General of the Army Service Forces, in a Memorial Day address at the tent of the Unknown Soldier.



OUTPUT FAR SHORT

This summer's lag in American war production demands a 40% boost in this Fall's output to meet 1944 schedule.

Five thousand Labor-Management War Production Drive Committees in war plants throughout the nation the end of '43! This is a "mat" assignment set for War Production Drive Headquarters by WPH Chairman Donald M. Nelson and Executive Vice-President Charles E. Wilson.

62. ✓
231

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

November 2, 1943

FROM Fred Smith

This is to remind you to see what you can do about getting us copies of the Censorship reports from the War Department.

general slowwans - reports

FS

TREASURY DEPARTMENT

232

INTER OFFICE COMMUNICATION

DATE

November 2, 1948

Secretary Morgenthau

Ed Smith

Do you want me to take over the responsibility of directing the Treasury war map some place where it can be seen? I would like to see it done right, and would like to see us have regular War Department maps. I think we could find wall space to do it.

FS

*O.K.
H.M.P.*

*Should be located
15th St. entrance to Treas.*

November 2, 1943.

Dear Mr. President:

As you requested, I am enclosing suggested replies to the letters of Senators Tydings and Radcliffe and Representative D'Alesandro recommending the appointment of Mr. George Hofferbert as Collector of Internal Revenue at Baltimore.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President

The White House

Del. by S. S. H. out 3:30

November 2, 1943.

My dear Senator Tydings:

This is to acknowledge receipt of a letter, dated October 26, signed jointly by you and Senator Radcliffe, recommending the appointment of Mr. George Hofferbert as Collector of Internal Revenue in Baltimore to fill the vacancy caused by the resignation of Mr. M. Hampton Magruder.

I thank you for the recommendation and have asked the Secretary of the Treasury to make the usual investigation and report to me.

Sincerely,

The Honorable Millard E. Tydings
United States Senate

November 2, 1943.

My dear Senator Radcliffe:

This is to acknowledge receipt of a letter, dated October 26, signed jointly by you and Senator Tydings, recommending the appointment of Mr. George Hofferbert as Collector of Internal Revenue in Baltimore to fill the vacancy caused by the resignation of Mr. M. Hampton Magruder.

I thank you for the recommendation and have asked the Secretary of the Treasury to make the usual investigation and report to me.

Sincerely,

The Honorable George L. Radcliffe
United States Senate

November 2, 1943.

Dear Tommy:

Thanks for your letter of October 27, in which you advise me that the Maryland Congressional delegation joins with Senators Tydings and Radcliffe in recommending Mr. George Hofferbert for Collector of Internal Revenue at Baltimore.

The Secretary of the Treasury is being asked to make the usual investigation and report to me.

Sincerely,

The Honorable Thomas D'Alesandro, Jr.
House of Representatives

COPY

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THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY:

FOR PREPARATION OF REPLY FOR
MY SIGNATURE.

F. D. R.

WILLARD S. TYDINGS
GEORGE L. MADCLIFFE
MAY 1943

United States Senate

WASHINGTON, D. C.

THE WHITE HOUSE

October 26, 1943
OCT 27 10 21 AM '43

RECEIVED

Honorable Franklin D. Roosevelt
The President
The White House

Dear Mr. President:

We hereby recommend that Mr. George Hofferbert be appointed Collector of Internal Revenue in Baltimore to fill the vacancy caused by the resignation of Mr. M. Hampton Magruder.

Mr. Hofferbert was born in Baltimore and has lived there all of his life. In 1923, at the age of 21, he was admitted to the Maryland Bar after graduating in law at the University of Maryland. Since then he has had wide and successful experience in the practice of law and in business matters. For instance, for 10 years he has been counsel for the Independent Retail Grocers and Meat Dealers Association of Baltimore. He is a bank director and he has helped organize several business concerns, including building and loan companies, serving as counsel and director of them. During two sessions of the Maryland Legislature he was chairman of the Judiciary Committee. He has also been a member of the State Senate of Maryland, and has been a member and later president of the Board of Commissioners for the Opening of Streets.

Mr. Hofferbert is a man of ability and integrity, and we feel confident that he will devote himself industriously and efficiently to the affairs of the office of Collector of Internal Revenue for Maryland, and that his record there will be a satisfactory one.

Very respectfully yours,

Willard S. Tydings
George L. Madcliffe

R/c

THOMAS D'ALESSANDRO, Jr.
in District Membership

QUARTER
INTERNAL AND FOREIGN COMMERCE

Congress of the United States
House of Representatives
Washington, D. C.

OCT 27 1943
THE WHITE HOUSE
OCT 28 1943 46 AM '43
RECEIVED

The President
The White House
Washington, D. C.

My dear Mr. President:

The Maryland Congressional Delegation in the House joins with Senators Tydings and Redcliffe in endorsing George Hofferbert for the position of Collector of Internal Revenue for Baltimore.

We are confident that his appointment would be a credit to you and your administration, and we sincerely hope that you will recommend his appointment to the Senate for confirmation.

With kindest personal regards, I am,

Faithfully yours,

Tommy
Thomas D'Alessandro, Jr.
Dean, Maryland Delegation

TD'A:10

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

NOV - 2 1943

FOR YOUR INFORMATION

You may be interested in the action recently taken by Foreign Funds Control in connection with what appears to be the fraudulent acquisition of substantial Japanese assets by American citizens in violation of the freezing regulations. Mrs. Roosevelt, Senator Downey, and Congressman Outland are taking an interest in this matter and we understand that the developments leading up to our action have been closely followed by a steadily growing number of persons in California. The significant facts, as reported to us, are as follows:

H. Y. Minami and his two sons, Japanese aliens, are the owners of valuable lettuce farming and packing facilities situated in the Santa Maria Valley in California. On the night of December 7, 1941, Leo T. McMahon, attorney for the Minamis, threatening that their property would be confiscated by the United States Government unless it were "cloaked," prevailed upon the Minamis to transfer their assets to General Farming Company, which was at the time ostensibly owned by two American-born Japanese employees of Minami.

Subsequently, after H. Y. Minami, Senior, had been interned and his sons moved to a relocation center in Arizona, McMahon was instrumental in having control over General Farming Company transferred to himself and his associates. McMahon and his associates then proceeded to transfer assets of the General Farming Company amounting to over \$500,000 to corporations which they themselves owned completely. If the facts reported to us are correct, McMahon and his associates have used the powers which they acquired over this property entirely to further their own interests and have completely ignored the instructions and protestations of the true owners.

On October 26, 1943, Foreign Funds Control, in order to preserve and protect the property of these Japanese nationals, blocked

- 2 -

the assets of Leo T. McMahon and his associates and the companies owned by them. At the time of the blocking we advised the principals that the Treasury Department is prepared to revoke its blocking instructions only upon receipt of proof satisfactory to the Department that all the funds of the Minamis have been segregated by deposit into appropriate blocked accounts and that any other Minami property is fully accounted for and held in a manner satisfactory to the Treasury Department.

We have also instructed the San Francisco Federal Reserve Bank to place supervisors in the business enterprises and to take any appropriate steps necessary for the preservation of the property and the efficient operation of the business enterprises. The case has been discussed with the Alien Property Custodian, who expects to take over the supervision of these business enterprises in the very near future. The case has also been referred to the Attorney General with the view towards possible criminal prosecution.

As we see it, our action in this case is in fulfillment of the obligation of this Government to afford protection to these persons who, by reason of governmental action taken in the interests of our war effort, are not in a position to protect themselves or their property.





TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON 25



OFFICE OF THE DIRECTOR

November 2, 1943

SECRET

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the weekly report of Lend-Lease purchases.

Due to increased shipping facilities, Russian stocks previously released for domestic distribution are being diverted back to the Russians for shipment.

A. J. Walsh
Acting Director of Procurement

SECRET

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF OCTOBER 27, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$3967.3 (3966.7)	\$1977.1 (1976.8)	\$1557.7 (1557.5)	\$109.7 (109.7)	\$11.0 (11.0)	\$311.8 (311.7)
Purchase Authoriza- tions (Requisitions)	\$3213.4 (3171.7)	\$1698.0 (1689.0)	\$1310.2 (1281.5)	\$43.5 (43.4)	- -	\$161.7 (157.8)
Requisitions Cleared for Purchase	\$3122.9 (3076.6)	\$1649.3 (1638.5)	\$1280.4 (1243.4)	\$43.2 (43.1)	- -	\$150.0 (151.6)
Obligations (Purchases)	\$3007.9 (2975.6)	\$1619.5 (1609.4)	\$1214.7 (1201.2)	\$43.1 (43.1)	\$8.1 (8.1)	\$122.5 (113.8)
Deliveries to Foreign Governments at U. S. Ports*	\$1392.5 (1363.5)	\$ 965.5 (950.1)	\$389.5 (375.9)	\$19.5 (19.5)	- -	\$18.0 (18.0)

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

Note: Figures in parentheses are those shown on report of October 20, 1943.

SECRET

EXPLANATION OF DIFFERENCE.

The reduction in the Miscellaneous
Column for Requisitions Cleared for Purchase
is a result of amendments to contracts.

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UNITED KINGDOM TREASURY DELEGATION

BOX 660
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

REFERENCE: 4-B

TELEPHONE EXECUTIVE 2020

November 2, 1943.

Dear Bernstein,

In continuation of my letter of October 16, I am now able to send you figures of our gold and dollar holdings, in million dollars, at September 30, 1943.

Gold	-	975
<u>Less</u> gold liabilities		257
Net gold		718
Official dollar balances		538
<u>Less</u> dollar liabilities		108
Net dollars		430
Net gold and dollars		<u>1,148</u>

Yours sincerely,

D. H. Robertson

DHR/mlw

D. H. Robertson.

Mr. E. M. Bernstein,
U. S. Treasury,
Washington, D.C.

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BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statements Nos. 108 and 109 —
Aircraft Despatched — for weeks ended October
19th and October 26th respectively.

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

November 2, 1943.

TOP SECRETSTATEMENT NO.108

Aircraft Despatched from the United States
Week Ended October 19th, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Catalina IV	U.K.	U.K.		4	
<u>GLENN MARTIN</u>					
Baltimore V	M.E.	M.E.		18	
Marauder II	M.E.	M.E.		4	
Mariner GR I	U.K.	U.K.		7	
<u>NORTH AMERICAN</u>					
Mitchell II	U.K.	U.K.		2	
Harvard	Ceylon	Ceylon	1		
<u>VEGA</u>					
Ventura GR V	U.K.	U.K.		1	
<u>GRUMMAN</u>					
Martlet	U.K.	U.K.		2	
Martlet V	Ceylon	Ceylon		9	
Tarpon	S. Africa	Capetown		3	
Tarpon	Ceylon	Ceylon		11	
<u>CURTISS</u>					
Kittyhawk	Australia	Sydney		8	
Kittyhawk	N.W. Africa	Casablanca		40	
Kittyhawk	S. Africa	Capetown		10	
<u>FAIRCHILD</u>					
Fairchild C-61	India	Karachi		12	
<u>NOORDUYN</u>					
Harvard	India	Bombay		8	
			Total	104	36
					0

Movements Division
 British Air Commission

October 23rd, 1943

mmh

Regraded Unclassified

STATEMENT NO. 109

Aircraft Despatched from the United States
Week Ended October 26, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>BOEING</u>					
Catalina IV	U.K.	U.K.		1	
<u>CONSOLIDATED</u>					
Catalina IV	U.K.	U.K.		1	
Liberator III	India	India		3	
Liberator GR V	U.K.	U.K.		4	
Liberator GR V	India	India		2	
Liberator GR V	Bahamas	Nassau		1	
<u>DOUGLAS</u>					
Dakota III	U.K.	U.K.		1	
<u>GLENN MARTIN</u>					
Baltimore V	M.E.	M.E.		22	
Marauder II	M.E.	M.E.		9	
Mariner GR I	U.K.	U.K.		1	
<u>NORTH AMERICAN</u>					
Mitchell II	Bahamas	Nassau		2	
Mitchell II	U.K.	U.K.		25	
Mustang	U.K.	U.K.	58		
Harvards	M.E.	Alexandria	6		
Harvards	S. Africa	Capetown	6		
<u>NOorduyn</u>					
Harvards	India	Karachi	27		
Harvards	U.K.	U.K.	23		
Harvards	India	Bombay	12		
<u>CURTISS</u>					
Seawew	U.K.	U.K.	14		
Kittyhawk	Australia	Sydney	15		
<u>STINSON</u>					
Reliant	U.K.	U.K.		5	
<u>VULTURE</u>					
Vengeance	Australia	Sydney		4	
<u>FAIRCHILD</u>					
Fairchild C61	Algiers	Algiers		11	
<u>GRUMMAN</u>					
Martlet V	U.K.	U.K.		24	

MOST SECRET

Page 2Statement No. 109

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>VEGA</u>					
Ventura	Canada	Canada			2
			Total	205	72
					2

Movements Division
British Air Commission.

November 1, 1943
mmh

November 2, 1943

Mr. Livesey

Mr. White

Please transmit the following cable to President Juan Jose Ameghna of Uruguay from Secretary Morgenthau:

"I have just been informed of the untimely death of finance Minister Ricardo Cosío and wish to express to you and to your official family my feeling of sympathy and condolence. I am sensible of the loss suffered by the United States as well as by the Republic of Uruguay."

NTN;inc;11/2/43

TELEGRAM SENT

PLAIN

November 2, 1943

EMBASSY,

MONTEVIDEO.

539, Second

FROM SECRETARY MORGENTHAU FOR PRESIDENT
JUAN JOSE ABEZAGA OF URUGUAY.

QUOTE I have just been informed of the
untimely death of Finance Minister Ricardo Cosío
and wish to express to you and to your official
family my feeling of sympathy and condolence.
I am sensible of the loss suffered by the United
States as well as by the Republic of Uruguay.
UNQUOTE.

STETTINIUS
(Acting)
(FL)

FD:ML:3

C
O
P
Y

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EMBAJADA DE VENEZUELA

Washington

The Ambassador of Venezuela
presents his compliments to The Honorable
Henry Morgenthau, Jr., Secretary of the
Treasury of the United States, and has pleas-
ure in transmitting herewith enclosed a letter
from the Venezuelan Minister of the Treasury.

Washington, D.C., November 2, 1943

D.E.

Enclosure

E/em

TRANSLATION

THE MINISTER OF FINANCE

Caracas, October 22, 1943.

Excellency:

It is a special pleasure for me to acknowledge receipt of your courteous communication of September 21, with which you were so kind as to send me a copy of the revised project for the formation of an International Stabilization Fund, prepared by the technical experts of the United States Treasury Department, after informal discussions with experts sent to Washington by other countries, among whom two Venezuelans had the honor to be included.

With great interest I propose to submit this project for the study and consideration of the technical organizations of the Venezuelan Government. Without prejudice to the observations which they may formulate, I may anticipate that the Government of Venezuela will consider the above-mentioned project with the same firm spirit of cooperation and solidarity which has characterized its attitude in the difficult circumstances of the present times.

It is with the greatest pleasure that I acknowledge your expressions honoring the labors of the Venezuelan experts sent to Washington. I am pleased to receive your important offer to keep my Department informed of what occurs in the near future in relation to these interesting questions of international monetary cooperation.

I take this opportunity to express to your Excellency the sentiments of my most distinguished consideration and appreciation.

(Signed) Arturo Usler Pietri

His Excellency,
H. Morgenthau, Jr.,
Secretary of the Treasury of the
United States of America,
Washington, D. C.

AUP/RMP
No. 000359 G.

NOT TO BE RE-TRANSMITTEDU.S. SECRETBRITISH SECRETCOPY No 12OPTEL No. 360

Information received up to 10 A.M. 2nd November, 1943

1. NAVAL

A convoy of Russian Minesweepers and Motor Launches from Iceland (C) arrived safely at KOLA INLET on 30th. One of H.M. ships which had been damaged by air attack has arrived safely at Alexandria. Two of H.M. Destroyers and an Italian submarine disembarked personnel and stores at LEROS on 31st/1st. One of H.M. Submarines sank a U-boat West of Corsica on 31st.

2. MILITARY Italy 8th Army. No Change. 5th Army. We now command the heights above CAPRIATI and PRATELLA on the upper VOLTURNO with forward elements on the MONTE SAN Croc**.

3. AIR OPERATIONS

Objectives in the Battle Area were attacked by total of 268 medium and light bombers and fighters. 30th/31st. Wellingtons dropped 35 tons at NERUGIN Airfield. 31st. Medium Bombers dropped total of 104 tons at CIVITAVECCHIA and ANZIO.

France 31st Fortresses dropped 108 tons at ANTHEOR Viaduct. Accurate Observation was prevented by smoke but the Viaduct is believed damaged. 2 fortresses missing.

Albania 31st. 32 Lightnings bombed and machine gunned buildings and aircraft on TIRANA Airfield.

Dodecanese 30th. Total of 30 escorted enemy bombers made 3 further attacks on shipping off CASTELORIZZO, LEROS and PATMOS were raided by 4 and 5 enemy aircraft respectively.

31st 14 JU 87 bombed CASTELORIZZO and 7 JU 88 LEROS.

OFFICE
SECRETARY OF TREASURY

1943 NOV 3 PM 3 47

TREASURY DEPARTMENT

** Second action received corrupt - repetition requested.

November 3, 1943
11:00 a.m.

GROUP

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

MR. THOMPSON: I have a deferment case here for Mr. Orvis A. Schmidt. He is Assistant Director of Foreign Funds. It has already been approved by the Deferment Committee as a key position.

H.M.JR: How long is this?

MR. THOMPSON: Six months. He is thirty-one years old, married, and has one child.

H.M.JR: Yes, sir. (Deferment of Orvis A. Schmidt approved by the Secretary)

MR. THOMPSON: Mrs. Spangler is back and unless you particularly want her back on the board, she is just going to do supervisory and clerical work there. There is a little less strain in that than the actual phone work. She will be delighted to come back if you want her.

H.M.JR: Let me think that over, will you?

MR. THOMPSON: She has been back about two weeks. She is doing very nicely.

H.M.JR: Is there anything else?

- 2 -

MR. THOMPSON: No, sir.

H.M.JR: Dan?

MR. BELL: Speaking of deferments, we are about to lose some very good people in the Chicago office. They have been offered commissions in the Navy. They are asking what the policy of the Department is with respect to their status. Now they can go or wait to be drafted. I don't think we ought to hold them.

I think we probably ought to review our policy on the married men because we have got a terrible administrative job in Chicago.

H.M.JR: It is absolutely contrary to the present Department order that they give commissions. Are they still doing that?

MR. BELL: I think they are probably not commissions. What are they - warrant officers?

MR. THOMPSON: The Navy is still giving commissions; I think the Army has discontinued it.

MR. PAUL: I don't know about that, Norman. They called up Joe O'Connell the other day. If he hadn't had a bad physical record on eyes, they no doubt would offer him a commission in the Army.

H.M.JR: You mean they are out seeking people?

MR. PAUL: Apparently. I mentioned that because that was the Army, not the Navy.

MR. SULLIVAN: I think the freeze is on more completely in the Army than in the Navy, but when they find a fellow with specialized talent, and they can't get any present officers that can do that type of work, I think both of them are free to commission.

- 3 -

H.M.JR: I would like to know the first man from the Treasury that gets a commission in either the Army or Navy; the first one you know about that happens.

MR. BELL: Some of these boys in Chicago have contact with the Naval officers at Great Lakes, and they become acquainted with their work and their administrative ability.

I think that was probably the offer of a couple of weeks ago, of commissions as warrant officers, whereby a man would get about the same income as he is now getting.

But we have got quite a problem in the Chicago office, handling these Savings Bond records. We are going to get into a lot of difficulty if we don't keep some of these experienced boys.

H.M.JR: That thing I just O.K.'d is different from my normal policy.

MR. BELL: That is a six months'.

H.M.JR: Yes, but he is thirty-one; I haven't done that before, have I?

MR. THOMPSON: No, that is rather young.

H.M.JR: But, of course, it just makes me sick to my stomach. When you go over there you see all these young fellows, twenty-one, twenty-two, twenty-three, doing administrative desk jobs in uniform. A uniform is a cloak for what? I mean, they rush them out of Washington and throw them all into Algiers - Allied Headquarters - hundreds of them.

MR. PAUL: The same problem that Dan mentions in that Chicago bond office, I take it.

MR. BELL: Yes.

MR. PAUL: It is very present in several places right here in the Treasury.

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H.M.JR: I tell you what you gentlemen do: Get the stuff together with Norman Thompson in the next day or two, and we will convene the little group I meet with on deferments. We will have a talk. But give me some typical cases - anybody. I am inviting you.

MR. GASTON: We have a situation of a little different kind. It is the difficulty of holding our guards on the ships in New York. We are just having a terrible time trying to keep up those guards.

H.M.JR: That wouldn't worry me.

MR. GASTON: It is a pretty military operation. If they don't have those guards, they will put twice as many soldiers and sailors on the same guarding duty, which they don't know how to do.

H.M.JR: There will be some more jobs for some soldiers and sailors.

MR. PAUL: I am told that this problem can be met by some way handing them two or three months, during which time sufficient new people will arrive at the military age to fill the quotas.

MR. THOMPSON: Possibly there may be legislation, too, on the married men.

H.M.JR: Get the stuff together and we will have a little session. There is no use doing isolated cases. I think that Norman ought to get the thing kind of summarized with me. We will spend as much time as necessary on it. I will be glad to do it this week.

MR. BELL: I think a couple of these boys I have in mind are cases that have been up before and been turned down. I think, on paper, it is a little difficult to explain their cases.

But I have been through the shop out there and I have never seen such an immense organization, and the volume of

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work that passes through these channels. If we don't have the right people, we will have a mess on our hands. We may, anyhow.

H.M.JR: Well, get the stuff together and let's take a look at it.

MR. BELL: All right.

Would you be prepared to meet Eccles, say, Monday afternoon on the Reserve position? I hope we can get it ready by that time. They are having a meeting Friday.

H.M.JR: Three o'clock, Monday.

MR. BELL: It is rather urgent that we do this thing quickly. Monday is about the quickest we could get them all together.

I would like to call the Banking Committee for the 15th and 16th, if I may. I don't think you have to see them until the 16th, but I can work with them on the 15th.

H.M.JR: What is that? Is that Gamble's crowd?

MRS. KLOTZ: No, no.

H.M.JR: The 15th and 16th is next week?

MR. BELL: No, Gamble's crowd is coming next week, the 9th and 10th.

MRS. KLOTZ: Is that when it was? No, the 11th and 12th. (Mrs. Klotz left the conference temporarily.)

H.M.JR: I think it is the 10th and 11th. Now, what do you want, young fellow?

MR. BELL: The 15th and 16th, ABA Committee. You would have to see them sometime the 16th, and I would work with them on the 15th.

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H.M.JR: What are you working with them about?

MR. BELL: On the drive and the basket, and so forth - announce the basket for the next drive around the 20th or 25th.

H.M.JR: Is that so? Well, do you want it in the morning or the afternoon?

MR. BELL: Well, you might like to see them twice. I will see them all day the 15th and you could put down, say, eleven o'clock the 16th; and if it is necessary to see them the second time, you might want to see them a little while in the afternoon.

H.M.JR: ABA plus Bell - right?

MR. BELL: Yes.

H.M.JR: Then put down three o'clock, also?

MR. BELL: Three o'clock could be tentative, in case you raise some questions at eleven that you would like to have them reconsider.

MRS. KLOTZ: You were right - the 10th and 11th.

MR. BELL: That is all I have.

H.M.JR: Paul?

MR. PAUL: I have nothing.

H.M.JR: No repercussions from State?

MR. PAUL: Not yet.

H.M.JR: When they do I would like to talk to them.

(Secretary places a call on the White House phone)

Hello. Is anybody there?

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Good morning. How are you?

Wonderful, thank you.

Before I went away, I spoke to the President about seeing the State Chairmen of our War Bond Drive. We have a State Chairman for each State on the War Bond Drive, you know - in the Third War Loan. He said he would be glad to see them.

Now, they are going to be in town November 10th and 11th, and if you would take it up with him--

Oh, I guess about fifty of them. I think it would be nice if the President would say something to them, thanking them for what they have done. I would be much appreciated.

More or less the leading citizens in each State - all volunteers - none of them are paid. They don't have to give them cocktails.

Thank you.

(End of telephone conversation.)

Are you all in the clear?

MR. PAUL: Yes. What do you mean "all in the clear"?

H.M.JR: As far as I am concerned, just now.

MR. PAUL: Yes. We covered this deferment question.

H.M.JR: Harry?

MR. WHITE: That matter that I called you up about yesterday afternoon - as a result of that it went through - Stettinius over-ruled. It relates to a question of compensation for the destruction of minority properties in Tunis, and it went forward to the President with a note saying that this proposal had Secretary Morgenthau's full approval. We are going to have a brief memorandum giving you an outline, in case it comes to you.

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H.M.JR: When you have finished with that, I want to say something else.

I read Paul's memorandum to me. Now, what happened to our cables in connection with that money for the Rumanian ransom money? I think what the State Department does with our cables and the way they hold them up, is the most outrageous thing I have ever seen. I think it is absolutely a public disgrace.

MR. PAUL: Of course, it works the other way, too. Frequently we don't get cables we ought to get.

MR. WHITE: Periodically.

H.M.JR: I think it is a public disgrace.

MR. WHITE: Hull backs you up every time you take it up with him.

H.M.JR: Every time we go to his office it is all right.

MRS. KLOTZ: We went to his office on that thing, too. They couldn't do anything. I read that memorandum.

H.M.JR: It is a public disgrace.

MR. PAUL: You understand it works the other way - cables which come in to State.

H.M.JR: Yes. Well, that was the one that came back from Berne, just now.

MRS. KLOTZ: In and out.

MR. WHITE: We don't get cables and material that we should, that deal with monetary and economic matters. Somebody uses their judgment as to what they think they ought to let us have and what they oughtn't, and there is no clear-cut policy. You know what I might suggest? How about drafting - do you think we could get away with this - drafting a note for Hull to go to his respective heads, with respect to these matters - receipts and cables - and tell

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them on the basis that we know that this carries out his intentions, but somebody down the line is not--

H.M.JR: I think the thing to do is what I originally did; ask Mr. Hull to designate one person to look after us. He designated Acheson, but that didn't work well.

MR. WHITE: I don't think it works well because it emanates from so many sources down the line that it requires an order from Hull refreshing their memory as to what is expected, and is something that we would have to go on if we had access to the order which they gave them.

H.M.JR: I would rather not use this one of Berne for an example. I would rather wait for another.

MR. PAUL: You will get one soon.

H.M.JR: The next one that happens, I will take up.

MR. WHITE: You remember, before we left there was a Congressional committee either in the process of being appointed or was appointed to take up with us and to keep contact with us the progress being made on post-war monetary problems. I think the time has come when we ought to ask them down here and tell them what we have done and what we are doing.

H.M.JR: Can you handle it?

MR. WHITE: With your permission, I can handle it.

H.M.JR: I wish you would.

MR. PAUL: That reminds me of something. There is a great deal of misunderstanding in Congress about this money being issued in Italy and Sicily, and so forth.

H.M.JR: Yes, well, I am recommending we bring back General McSherry to explain it.

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MR. PAUL: Well, temporarily - I had a question, for instance, from Roy Woodruff the other day showing a complete ignorance of the basic points; for instance, charging against the Army appropriations, and so forth.

H.M.JR: We went into that thing.

MR. PAUL: We got up a short memorandum which we cleared with the War Department, giving a little explanation of the thing just for Woodruff.

H.M.JR: I am recommending they bring back General McSherry to explain the whole thing.

MR. PAUL: It is very important, because they just get off on the wrong track.

MR. WHITE: They don't in the Senate any more, do they? A memorandum doesn't do the trick; there has to be a committee meeting.

You might consider doing with the House what you did with the Senate, because unless they have specific questions, which are usually very confused and very strange, they are not cleared up by anything you tell them unless directly in response to questions they ask.

I think it worked out well in the Senate.

H.M.JR: But I am not going to do it. Let the Army carry it, it is their burden.

MR. WHITE: The Army will never be able to do it properly.

H.M.JR: Well, I am going to have a talk with Mr. Stimson, and so forth, and tell them that there are certain things I would like to take up after I talk with General Marshall. He is having lunch with me. I am going to say, "Now, look, which shall you take up, and which shall I take up with Mr. Stimson?"

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MR. WHITE: I suggest that when the Army goes up to explain, that they have a Treasury person along with them. I am sure they will ask McSherry questions he will not be able to answer, and it leaves confusion in their minds.

We have a good case; we can clarify, and we can stop the doubt, and we can win this support.

MR. BELL: I think it is dying down and I wouldn't raise it unless it is raised.

MR. PAUL: They ask me every day.

H.M.JR: You are wrong. They have many reasons to ask questions which the Army should explain and hasn't.

Why, Dan, the questions are simple questions we have asked at Allied Headquarters in Algiers. They didn't know.

MR. BELL: I mean this subject of currency is dying down, publicly, and I think it is dying down on the Hill.

MR. PAUL: It doesn't seem so to me.

H.M.JR: There are always things going on that should be explained.

MR. BELL: They asked me when I was up there, but they weren't bitter as they were at first. I think it is dying down on the Hill.

H.M.JR: I don't agree with you.

MR. SULLIVAN: I would like a copy of that memorandum, Randolph. I think it might be well to circulate it among the group here.

H.M.JR: I think McSherry should come back. He has a good story and he can tell it. The story is good with everything except the Brindisi government - the King and Bagdolio. They have given them four counties there. The thing is the worst mess you have ever seen.

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MR. WHITE: Did you see Bagdolio?

H.M.JR: Yes.

MR. WHITE: I think that is a direct consequence of this discussion.

H.M.JR: About telling the King to get out?

MR. WHITE: I think your staff would be interested, whenever you get around to telling them about that episode.

H.M.JR: You tell them. I will listen.

MR. WHITE: Well, MacMillan, who is--

H.M.JR: Do you mind if I eat? I got up at six to get Bob off. I have had no breakfast.

MR. WHITE: If it is rye crisp, it is all right.

MacMillan is the head of Civil Affairs in the North African sector for the British.

H.M.JR: Did you see the new job he has? He is being sent to London to be the man to sit on this new commission in Russia.

MR. WHITE: I didn't see that.

H.M.JR: He is to be the English member.

MR. WHITE: He is a shrewd, able, and pleasant chap.

MR. BELL: Is he the one that wrote the famous MacMillan Report back in '34 or '35?

MR. WHITE: Is he? I don't know.

MR. PAUL: Lord MacMillan?

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MR. WHITE: Harold MacMillan. He is head of the publishing company. I think he wrote a housing report. Maybe you are correct. He is the top man for the British and is the opposite number of Murphy, the American representative.

In a number of discussions which the Secretary had with both of them relating to several matters, including the question of Italy, the Secretary stressed the fact that people at home didn't understand and weren't favorable to the King and Bagdolio regime, and that they were interpreting it, whether rightly or wrongly, as a species of another Darian act.

He spoke at considerable length about them, and--

H.M.JR: I am always saying that I am just talking for myself and nobody else.

MR. WHITE: He did stress that. He was talking as a friend of both and telling them they didn't understand the reaction back home or in England.

But MacMillan said he fully appreciated the reaction in England was unfavorable, and that they were inclined to agree, but didn't know what to do. They wanted to wait until they got into Rome and then make some changes. The Secretary thought it would be a mistake to wait until they got to Rome.

Firstly, it didn't look as promising as it had earlier that they would get to Rome quickly, and in the second place, it was desirable to move as soon as possible. And after each discussion on his part, they promised him - they asked him when he was returning and I think he said about ten days. They said that in ten days they could have the situation changed. That is what I gathered - maybe I was wrong on that particular point - but I think they promised they would.

H.M.JR: We saw them another time and they still kept after me as to what to do.

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MR. WHITE: The Secretary put some more pressure on them after he had talked to a number of people in Italy that endorsed his opinion that not only was the King unpopular, but he was much more unpopular with the Italians, who have no use whatsoever for the present King and feel less antagonistic to Bagdolio, but are not enthusiastic about him, either.

And when he spoke to them again about that, in response to their coming up and wanting to talk to him, individually and both together, they said they were going to do something and were going to Brindisi, I think, about five or six days ago, if I am not mistaken.

We didn't hear anything about it until I read in the paper yesterday that Bagdolio has told the King he had better get out - something to that effect - and that they are going to broaden the base of the party.

MR. BELL: What did he tell him?

MR. WHITE: Who? Well, that remains to be seen.

MR. GASTON: He is being reserved. He is Haile Selassie's share in the peace settlement.

H.M.JR: Well, MacMillan's argument is very interesting, that they have some form of government to hang onto. They must have some legal form of government which they have got to work with. That is their excuse. But he was very, very conscious of the revolt with England.

MR. PAUL: Who was this?

H.M.JR: MacMillan.

He was very, very conscious of the coal situation, that the coal miners of England or Wales weren't particularly anxious to mine coal to go to Italy and be cold themselves.

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MR. PAUL: I wonder if he is the Lord MacMillan. Is he a lawyer?

MR. WHITE: He is a publisher - MacMillan Publishing Company.

H.M.JR: He has a very good sense of humor and is very good looking. He has a nice twinkle in his eye, and is very quick on the uptake.

MRS. KLOTZ: I don't think Harry agrees with you on the looks.

H.M.JR: I thought he had a very honest face. But they asked me - Murphy and me - they didn't seem to know, so I told them.

MR. WHITE: Anyway, the King owes you no good.

MR. SULLIVAN: Well, we carried one State this week, didn't we?

H.M.JR: One State?

MR. WHITE: The King carried one State.

MR. SULLIVAN: We carried one State.

MR. GASTON: We lost New York and New Jersey and Pennsylvania, but carried Brindisi.

H.M.JR: Carried the State of Sicily under Charlie Poletti.

MR. WHITE: Give them another month and they will get a lot more voters. Having this conference in Atlantic City, this international conference - they had sometime previously asked whether I wouldn't go and advise them on financial matters. I told them I couldn't, and they asked if we couldn't lend them somebody, so I said I would lend them Glasser to work with them. He has been working with them on it, and they want him to go to Atlantic City. I said it would be all right if I could get your approval.

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H.M.JR: Sure.

MR. WHITE: There are a couple of matters that I would like to take up with you, if Dan would remain right after this meeting. It will only take a couple of minutes.

H.M.JR: I have to take up something else. I have a personal matter I want to take up with Smith and Gaston.

MR. WHITE: It should be handled this morning.

H.M.JR: All right. I will see you if you two men - is it something they can't hear?

MR. WHITE: Through no choice of mine, the answer is yes.

H.M.JR: Will you and Smith go back to your office and let Joe O'Connell go with you and tell you what the problem is. It will take a couple of minutes. By the time he is through telling you about it--

MR. GASTON: We will come back.

MRS. KLOTZ: I don't want him to influence them if you want to get an unbiased opinion. That is the whole idea.

H.M.JR: Why would it be biased without you? I don't want to know. Let nature take its course. Then after the three of them get together--

MR. GASTON: We will listen to the prosecuting attorney and then to the defense.

MRS. KLOTZ: I would like to hear what he says.

H.M.JR: All right, the meeting will take place here.

MRS. KLOTZ: I want to be fair.

H.M.JR: I can sell apples under straight legality, and Joe is leaning over backwards and doesn't think I should

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do it that way. He may be right. I just want to hear the Public Relations' angle. After the blast I got I don't want to do anything else.

What else?

MR. WHITE: That is all.

H.M.JR: How are you feeling?

MR. WHITE: A little better.

H.M.JR: Fred?

MR. SMITH: The March of Time called about an hour ago. They would like to have you go on for three or four minutes Thursday. They suggested that you talk about the atrocities that they gave you a list of in Naples.

H.M.JR: The answer is no. I didn't get the list.

MR. SMITH: I got the list.

H.M.JR: Did you? Oh, you are the fellow who got the list.

MR. SMITH: I got everything.

MRS. KLOTZ: You took a--

MR. SMITH: When Whittaker gave you that list in Naples, he also released a story that he was doing it and credited it to Colonel Hume, and it has been built up all over the country. They will ask you about it in your press conference. It has been pretty badly oversold. It isn't anywhere near as good as the advance publicity.

H.M.JR: Why should I do that for Willkie, Life and Time? I don't want to do it.

MR. SMITH: I don't blame you. It is awfully quick, anyway, and I think it will just pull the plug on a good speech you will want to make some place, if you do.

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H.M.JR: By Harold Mager.

MR. SMITH: If he can take time off from running the War Savings Staff.

That is all I have.

H.M.JR: Wonderful.

John?

MR. SULLIVAN: Hamilton Fish wrote to the local Revenue Agent in Charge, protesting an adjustment in his income taxes. That was the Trujillo situation.

H.M.JR: Who wrote it?

MR. SULLIVAN: Hamilton Fish.

H.M.JR: Where does he work?

MR. SULLIVAN: He has an office on the Hill, and he sent a copy.

MR. PAUL: He works in other places though!

MR. SULLIVAN: He sent a letter to you and Bob Hannegan. In this letter he says this assessment is entirely due to political reasons, and he makes certain charges against members of the Service. I have talked with Randolph about it. He also asked to be notified of his rights in the matter. We have agreed that the Agent to whom the original letter was addressed should write him and tell him about all of his rights, and that the Commissioner should write to him and ask for facts to support these charges so that we can advise them. The question arises as to whether or not you want to acknowledge the receipt of a copy of the letter.

H.M.JR: What do you advise?

MR. SULLIVAN: I think you might very well write him and acknowledge receipt of the copy and say you understand

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that he has received letters from the Agent in Charge and the Commissioner, and you will be glad to receive copies of the charges he is making against members of the Bureau which he has been asked to send to the Commissioner.

H.M.JR: Would you prepare such a letter?

MR. SULLIVAN: I will. I think he is trying to make a record.

H.M.JR: Prepare it; and before it comes to me, let Mr. Gaston look at it.

MR. SULLIVAN: I will be glad to.

We have had a running war with the War Department and the Alcohol Tax Unit for over a year. I think we are winning now. Our inspectors go a round to look over an officers' club and they are just not let in. The War Department has protested that liquor couldn't be sold under Army regulations in officers' clubs and there was no need of it. So we got together a list of some seventy-five officers' clubs where they had not only been selling liquor but taken out a license and voluntarily paid their taxes and presented it to the War Department in a letter addressed to the Secretary of War on October 15. Yesterday morning Colonel Walsh and Colonel Berneys came over from McNarney's office, and they were very much upset about the whole thing.

We are working out a procedure now whereby the War Department will notify every service command that an inspector is to be ready to go from the service command into any installation our man wants to go into, and we are planning to crack down in about three weeks. It will take about two weeks to do the whole job all over the country, because the War Department wants it cleaned up as much as we do.

H.M.JR: Can't officers' clubs sell liquor?

MR. SULLIVAN: No. It is against the Army regulations.

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MR. PAUL: Is it against Army regulations to have liquor there?

MR. SULLIVAN: No. An officer can have his own bottle kept there, and he can have a drink himself or give a drink to his friends out of that bottle. But what they have been doing is have the steward of the club buy for all the officers, and that constitutes the sale.

H.M.JR: Wait a minute. Why should the Treasury clean up the Army's business? Why shouldn't the Inspector General out of General Marshall's office do that?

MR. SULLIVAN: Because it is our business, too.

H.M.JR: I beg to differ with you. If there is an Army regulation, let the first job be done by the Inspector General who works out of General Marshall's office. Let them be the unpopular fellows. Let them come in with their sword and pen and then we will check up on the Inspector General, but let the first impact come from the Inspector General.

MR. SULLIVAN: But they have tried it. They have sent out all kinds of orders which haven't been complied with. That is why McNarney is so upset about it.

H.M.JR: I am very sorry. I will not go along.

MR. SULLIVAN: Well, I think if you hear the whole story you will, sir.

H.M.JR: No, I am not going to clean up the Army's business. If the United States Army cannot, I am going to say then, "I will take it up with General Marshall tomorrow." I am not going to be the S.O.B. for the Army officers all over the United States because I sent my men in there. It is up to the Army to run the Army.

MR. SULLIVAN: Excuse me, you are charged with the responsibility as Secretary of the Treasury to do that.

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H.M.JR: What?

MR. SULLIVAN: You have to send your men into any place where liquor is being sold.

H.M.JR: Have you found any bootleg stuff?

MR. SULLIVAN: No.

H.M.JR: Then why does it concern me?

MR. SULLIVAN: You just have to collect the tax on these places that are selling liquor.

H.M.JR: Occupational tax?

MR. SULLIVAN: Certainly.

H.M.JR: The twenty-five dollar tax?

MR. SULLIVAN: Certainly.

MR. BELL: Any difference between this group and any other group? You would have to go into the YMCA.

MR. SULLIVAN: Certainly.

H.M.JR: I don't agree with you. If you give me the facts, I am going to tell General Marshall that I am going to give the Army the first chance to clean up its own mess.

MR. SULLIVAN: But we have done that for a year and a half.

H.M.JR: But let me take it up direct with General Marshall. He will be here tomorrow. Give me the facts.

MR. SULLIVAN: Here is something, Mr. Secretary, that has gone on for a year and a half. Finally the Army has come over and they want to do exactly what we have been trying to do. We have been trying to help them police a situation with men who are experienced in handling

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that, and we are not wading in on the Army. We are now proposing to do exactly what the Army wants us to do.

H.M.JR: But no officer knows this, and I am not going to be the prize S.O.B. for the United States Army.

MR. SULLIVAN: That is exactly what I am trying to tell you. Instructions are going out to every service command and to every field installation.

H.M.JR: Ever hear of Wild Bill Donovan and the club he raided in Buffalo and what they thought?

MR. SULLIVAN: No.

H.M.JR: I have. They never forgave him as long as they lived. He went into his own private club and raided that club. Now, I would have said to General Marshall if it had been brought to me a year and a half ago, "I am going to give the Army the first chance." I will say to him, "Which do you want me to do?" He will say, "Let me clean it up first."

MR. WHITE: From a legal point of view, doesn't the Army have complete sovereignty over the areas which it occupies? I mean, you couldn't go in and arrest a soldier for breaking the rule. He would be under Army jurisdiction and court-martial. Now, here are soldiers who are breaking a law with regard to liquor. Under whose jurisdiction is it?

H.M.JR: That never bothers you; go ahead.

MR. WHITE: It doesn't bother me, but I thought I would mention it.

MR. GASTON: We do arrest soldiers repeatedly. The Army turns them over.

MR. WHITE: On Army grounds?

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MR. GASTON: No, we don't go in on Army grounds.

MR. SULLIVAN: In every instance where we have collected a tax, Mr. Secretary, the officer in charge of that club has gone ahead and asked for a license.

H.M.JR: Now listen, John, if you don't mind, this is one time I am going to assert myself, see. If you will give me the facts, I would like to lay them before General Marshall tomorrow.

MR. SULLIVAN: Sure, I will be very glad to.

H.M.JR: Now, listen, every place I went in Cairo a plain-clothesmen army passed me. Finally I asked one who he was and made him show his identification. We asked him to come down and have a drink. Why, the place is lousy with Military Intelligence people in plain clothes. They can do this thing overnight if they want to. I couldn't go any place but what I was followed by Military Intelligence in Cairo. They were worried with bombing and other stuff.

MR. WHITE: It spoiled a couple of good times, too.

H.M.JR: The Army can do this thing, and I know how these people feel. And God knows, I have been the chief enforcement officer, but all I am saying is let the Army do it. Then we will check up on what they do.

MR. SULLIVAN: I want you to have firmly in mind that what is being submitted to you is the thing that the Army yesterday morning asked us to do.

H.M.JR: You give it to me, will you?

MR. SULLIVAN: Sure.

H.M.JR: Let me handle it. Let's get a little more zealous about some of the New York night clubs and Washington night clubs and some other places. Send some of our boys in there and check up.

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MR. SULLIVAN: They are going in there all the time.

MR. PAUL: You get your expenses paid when you slip into a night club to get evidence?

H.M.JR: Oh, all right. Why are you so zealous on this thing? Why are you so anxious to go and inspect all the officers' clubs in the United States?

MR. SULLIVAN: We are not going to inspect all the officers' clubs in the United States. What the Army wants us to do is to start in, say, two weeks from Monday morning and have our inspectors and inspectors from the service command walk in to some clubs in every service command. And they say that if we do that the grapevine will pick it up and this situation will be cleared up. You see what they are up against. They had fourteen thousand regular officers, and it got blown up to six hundred thousand officers. Most of these clubs are being operated by people who six months ago were running haberdashery stores, and they don't understand.

H.M.JR: I want General Marshall to tell me he can't police his own Army.

MR. SULLIVAN: He will never in the world tell you that.

H.M.JR: I want General Marshall to say that he cannot keep discipline and order amongst the officers of the United States Army. I think it is the most ridiculous thing I have ever heard.

MR. SULLIVAN: He is wild about it.

H.M.JR: He should be. I don't know if you are familiar with how the thing works. The inspector works directly out of General Marshall's office. They are a picked corps of men. They go anywhere and do anything. They are the boys to do this, not us.

When they are through, if they want help, that is something else. Say listen, I haven't traveled around

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with all these generals for nothing. They see this as a hot potato and let the Treasury pick it up.

MR. SULLIVAN: That isn't their attitude at all.

H.M.JR: Oh, that isn't what they say. I have seen them. Anyway, may I handle it, please? You give me a one-page memorandum.

MR. SULLIVAN: I can't get it on one page. I will make it as short as I can.

This Colonel Connolly in charge of the sale of war bonds in the Third Service Command has gotten out some pretty good stuff, and he has a new poster which he hopes to have used overseas, asking the boys to buy bonds for Christmas presents. I thought that was along the line of what you were interested in. He is going to have that over here tomorrow. If you are available, would you like to see it?

H.M.JR: I don't think so. I have fifty war posters up there waiting for me.

MR. SULLIVAN: This one is for use overseas.

H.M.JR: Let them put it with the others.

MR. SULLIVAN: What he has is the original.

H.M.JR: I haven't time.

MR. BELL: Can't it go to the Poster Committee?

MR. SULLIVAN: He has his own poster committee, I presume.

Only you evidenced an interest in the sale of these things to soldiers, and I think this is the smartest fellow in the country.

H.M.JR: Well, I am policing my time, trying to.

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MR. SULLIVAN: That is all I have, sir.

MR. GASTON: The State Department has sent us a list of thirty-one different shipments, gifts made to Mrs. Roosevelt in Australia and New Zealand which are arriving. Some of them have arrived, some of them yet to arrive in this country, gifts by individuals, associations, paintings, books, figures, book covers, cribbage boards, and various other things. The State Department asks that we admit them free of duty as an act of international courtesy.

They say that Mrs. Roosevelt was in Australia and New Zealand as a representative of the American Red Cross. Here is a proposed letter to the State Department stating that if gifts were made by a foreign government they could come in duty-free as an act of international courtesy, or if Mrs. Roosevelt had been a representative of the United States Government the gifts could come in duty-free, but there is no law under which we can admit these gifts duty-free since she was not a representative of the American Government, and since none of the gifts concerned are from a foreign government.

H.M.JR: Let's sign it.

MR. GASTON: It has been prepared for my signature, but I wanted to check it with you.

MR. BELL: Why isn't she a representative of the American Government?

MR. GASTON: She went over officially as a representative of the American Red Cross.

MR. BELL: How can the First Lady go any place other than as a representative?

MR. GASTON: If the State Department can assure us that she was a representative of the American Government they can come in duty-free.

H.M.JR: Who does the letter come from?

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MR. GASTON: The letter came to the Secretary of the Treasury.

MR. WHITE: The President's wife has no official status, has she?

MR. BELL: She is called the First Lady, and I think we should take notice of it.

MR. GASTON: "The Acting Secretary of State presents his compliments to the Honorable, the Secretary of the Treasury, and so forth."

MR. PAUL: Have you checked the law on that, just to be sure?

MR. GASTON: I haven't personally checked it, but they are very careful over there. Johnson talked it over with me. They looked very thoroughly into the law. There is no question about the law.

MR. PAUL: There doesn't appear to be.

MR. GASTON: The question of her status would be the only question. The State Department has to give us that.

H.M.JR: I would lean that way, anyway, particularly if the Commonwealth of Australia is presenting her with something. That would be one thing.

MR. SULLIVAN: Of course, the difficult part of the situation is that she didn't get the gifts because she was a representative of the Red Cross. She got those gifts because she is the wife of the President of the United States. I agree with Herbert on the latter.

H.M.JR: In the room here we are doing Mrs. Roosevelt a service by turning it down.

MR. SULLIVAN: We are handling this in quite the same way as the tax aspect of certain parts of this trip were handled..

- 28 -

H.M.JR: Will you do something for me, Herbert? Call up Malvina Thompson and explain it to her.

MR. GASTON: Yes, I will. The only things that approach a government gift are a couple of gifts from Honorable H. V. Abbott, Minister of External Affairs, but they were given to her personally.

MRS. KLOTZ: Do you think that ought to be in writing to Mrs. Roosevelt?

H.M.JR: He will call her on the telephone.

MRS. KLOTZ: There ought to be a record.

H.M.JR: Mrs. Klotz raises the question of whether you should do it in writing to Mrs. Roosevelt.

MR. SULLIVAN: I think in the other I gave you a memorandum of my conversation with Miss Thompson.

H.M.JR: What happened to that?

MRS. KLOTZ: We have that.

MR. SULLIVAN: You have it?

H.M.JR: On just a memorandum of the conversation.

MR. SULLIVAN: Advising her we couldn't do that and what she said.

MRS. KLOTZ: If after Mr. Gaston calls on the phone and he gave you a memorandum, we will have a record.

MR. GASTON: Yes, I will talk to Miss Thompson and give you a memorandum.

H.M.JR: What else?

MR. GASTON: That is all.

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H.M.JR: All right. Now White and Bell have asked to see me, so will Gaston and Mr. Smith wait in their offices a couple of minutes.

MEMORANDUM

November 3, 1943.

TO: The Secretary
FROM: Mr. Sullivan

JWS

It has been the practice of inspectors of the Alcohol Tax Unit to inspect Officers' Clubs in those Army installations where the Club has applied for a license to sell alcoholic beverages. A partial list of such inspection shows that seventy-five such organizations paid Floor Stocks Taxes of over \$47,000 in the few months following November 1, 1942. In addition to the type of investigation above referred to, there have been two or three cases in the last year when Alcohol Tax inspectors have attempted to make investigations and have been forbidden by the Commandant. This situation has been the occasion of correspondence between the War Department and the Treasury Department. In every instance permission to inspect was granted until June 1943 when permission to inspect the Officers' Club at Boling Field was denied.

In response to a letter addressed to the Secretary of War (which enclosed a list of the Officers' Clubs and Messes which paid Floor Stocks Taxes last year), yesterday morning Colonel Walsh and Lieutenant Colonel Bernays called to discuss this situation with Mr. Kennedy, Assistant Deputy Commissioner of the Alcohol Tax Unit, and myself. They advised us that on January 25, 1943, General Marshall issued Circular No. 29 calling attention to the prohibition of the sale of any beer, wine, or other liquor containing alcohol content in excess of 3.2 in any Officers' Club or Mess. They also showed us a confidential memorandum issued on this same subject on March 12, 1943, by the Adjutant General.

They stated that the Deputy Chief of Staff, General McNarney, was very much disturbed about the situation and they wished to work out some system with us which would enable the inspectors in the several service commands to accompany our own inspectors in joint investigations of Officers' Clubs and Messes. It was tentatively decided that they should draft instructions to the service commands and to the Commandants of all Army installations and that we would work out a procedure for these investigations. It was contemplated that Mr. Kennedy and I would meet with Colonel Walsh and Lieutenant Colonel Bernays later this week.

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Colonel Walsh and Lieutenant Colonel Bernays stressed the desire of General McNarney to have us assist the Army in doing this work. They further requested that we send informally to them memoranda regarding the most flagrant cases our inspectors encountered. This would serve as a check upon their own inspectors.

They suggested that if we were able to inspect a few installations in each of the service commands simultaneously in company with their own inspectors the situation would be cleared up very shortly. It should be borne in mind that very soon a Floor Stocks Tax of \$2.00 a gallon may become effective.

It is the opinion of Mr. Kennedy and myself that the type of joint inspection proposed by the Army will not only result in the payment of substantial sums of taxes now due, but will also accomplish the more important objective of solving the joint problem of the two Departments. The type of liquor sales discussed in this memorandum are prohibited by Army regulations. Nevertheless, the Internal Revenue Code imposes upon Internal Revenue offices the duty of collecting a tax where such sales are made even though contrary to Army regulations.



TREASURY DEPARTMENT
WASHINGTON

November 3, 1943

MEMORANDUM ON MEETING OF THE JOINT
COMMITTEE ON REDUCTION OF NON-DEFENSE EXPENDITURES

A meeting was called at 10:30 A.M., November 3, 1943, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senators:	Commodity Credit Corporation:
Byrd	Mr. Hutson
George	Mr. Underhill
Nye	Mr. Shields, Solicitor,
Congressman Cannon	Department of
Bureau of the Budget:	Agriculture.
Substitute for Mr. Lawton	

The meeting was opened at 10:35 A.M. Senator Nye arrived at 10:40 and Congressman Cannon at 10:45. Senator George left at 11:10 and Congressman Cannon at 11:35. The Committee reporter made a stenographic transcript of the meeting. Reporters were present.

Senator Byrd opened the meeting and said that Mr. Hutson, President of Commodity Credit Corporation, had been requested to appear before the Committee and furnish information in reply to a list of inquiries submitted to him by the Committee. Mr. Hutson said he had not seen any list of inquiries but understood he was to appear before the Committee to testify in connection with administrative expenses of Commodity Credit Corporation incurred in its subsidy operations.

Mr. Hutson made a general statement explaining that CCC subsidies were paid through commitments to support prices at specified levels. He said these commitments or programs were undertaken several months before particular crops were marketed and involved losses for the Government. If a crop is marketed at or below the support level the Government will acquire the commodity under its loan or purchase program and losses will be incurred when the commodities are subsequently sold. He said net losses incurred to date in these operations since 1933 amount to \$143 millions. He said some losses are also incurred when the support price fixed under the CCC program is higher than the OPA ceilings. He mentioned soy beans and peanuts as crops in this category. Mr. Hutson said that CCC was supporting prices for

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

- 2 -

35 or 40 items, which items were set out in detail in the President's recent Message to Congress and that the estimated losses on such programs for the current fiscal year or current crop year would be about \$350 millions.

Mr. Hutson said the estimated administrative expenses of CCC on these programs range from 1/4% to 3% and average for the group about 1% or \$3,600,000 for the current year. He said different methods of handling programs account for the differences in costs.

Mr. Hutson then outlined the bases for certain subsidy programs and particularly mentioned the program for paying producers of fluid milk. It appeared that the fluid milk program was undertaken to maintain production without an increase in the price of milk and at this point Senator Byrd asked what authority CCC had to pay subsidies not authorized by Congress. Mr. Hutson said the price-support type of subsidy was specially authorized by the so-called Steagall amendment which was contained in Section 4(b) of Public No. 147, 77th Congress. He said the AAA Act of 1938 has certain sections relating to CCC under which loans are authorized to be made on agricultural commodities. He said this Act also directed loans to be made on certain commodities under certain specified conditions.

Senator Byrd said that the price support subsidies were not loans and Mr. Hutson replied that subsidies could be paid either through loans or direct purchases.

Senator Byrd again referred to the fluid milk payments and contended that the CCC had no authority to make such payments. Mr. Hutson said in addition to the authority previously mentioned he understood the milk program was authorized under the broad charter powers of the Corporation and that the Congress had ratified such powers when it authorized the continuation of CCC as an agency of the Government. Mr. Hutson said he had requested Mr. Shields, Solicitor of the Department of Agriculture, to come up to the Committee and explain more definitely the legal authority under which the subsidy operations were conducted.

Mr. Hutson had referred to the efforts made to get out the payments to the producers under the fluid milk program very promptly after the first month of operation, which was October. He referred to the fact that some payments were made on November 1 and Senator Nye tried to get Mr. Hutson to state for the record in what particular areas it was possible to make payments on November 1. Mr. Hutson said he did not have this information but would furnish it to Senator Nye.

Senator Byrd constantly contended that there was no authority from Congress authorizing payments to producers to meet their

- 3 -

increased costs. Mr. Hutson said three methods were used when payments were made to meet increases in costs, as follows:

- (1) Absorption of losses on supplies sold to farmers
- (2) Payments to processors or dealers
- (3) Payments to producers to offset increased costs.

Mr. Hutson referred to the program started in December, 1942 to increase the production of cheddar cheese. He said because of the low OPA price ceiling on this cheese a great deal of milk was diverted to other uses. In this case the CCC offered to buy the cheese at 27 cents a pound and resell at 23-1/4 cents a pound. The difference of 3-3/4 cents was paid to producers. The annual cost of this program was estimated at \$25 millions.

Mr. Hutson also gave details as to the manner in which other types of subsidy operations were carried on. These involved the program for the sale of hay to dairy farmers in drought areas and the dairy feed program. Mr. Hutson said the purpose of these programs was to get the kind of agricultural production needed and to keep production from going down.

Senator Byrd said he understood that in cases where the cost of production is in excess of the OPA ceiling the CCC steps in and pays a subsidy. He said he thinks there is not any law authorizing these operations and asked where CCC gets its direction to pay subsidies.

Mr. Hutson explained that when CCC sees production in any area in danger it takes the matter up with OPA to see

- (1) whether CCC should absorb the loss, or
- (2) whether OPA will authorize an advance in the price ceiling.

If the OPA adjusts prices there is no problem. If OPA does not authorize a price adjustment and it is necessary to absorb the loss before CCC can undertake the program, it is required by law to obtain approval of the President. This may be accomplished by the receipt of a directive from the Director of Economic Stabilization directing or authorizing the program to be put into effect.

Senator Byrd again voiced his objection to the programs for paying subsidies to offset increased costs instead of permitting an increase in cost to consumers. Mr. Hutson pointed out the relationship between increase in cost to consumers and increase

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in wages and that one followed the other in continuous cycle. Senator Byrd, however, reiterated his argument that if costs increase prices should be advanced. He was particularly concerned with the postwar effects of the present programs.

Senator Nye observed that the debt being incurred to carry out the subsidy program must be paid some time and expressed the view that the consumer would never be in a better position and able to pay than he is now.

Senator Byrd asked where CCC gets its money for the losses which it incurs. Mr. Hutson explained that the Corporation comes before the Appropriation Committee each year and on the basis of an appraisal by the Treasury Congress appropriates to make up the Corporation's deficit from operation. He also said that CCC operations are reviewed in great detail when the Corporation comes before Congress to have its life extended. He also said that the Corporation is required to justify before the Appropriation Committee its appropriation for administrative expenses.

Mr. Hutson stated that because of the rapidity in changes in the agricultural picture he was doubtful whether OPA could make the necessary adjustments in prices in time to get needed agricultural production. He said problems arising in drought areas, changes in costs, and large demand required prompt action.

Senator Byrd excused Mr. Hutson at 11:57 A. M. and said the Committee would ask for further information by letter.

Mr. Robert H. Shields, Solicitor of the Department of Agriculture testified with respect to the authority of CCC to pay the subsidy on milk. He said this program was supported on two grounds, namely,

- (1) the charter powers of the Corporation, and
- (2) the authority contained in Section 2 of the NRA Act of 1933.

Mr. Shields discussed briefly this question and referred to the fact that Congress had ratified the charter of the Corporation by its act in extending its life. He also stated in reply to a question that the War Food Administrator could change the charter powers of CCC and that Congress had approved this authority also inasmuch as the charter which he claims Congress has ratified contains a provision providing the manner in which the charter can be amended.

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Senator Byrd stated that he did not think Congress intended to give power to the vast number of Government corporations to spend money solely on the reliance of the charter powers of such corporations and he thought that the charters of the 50 odd Government corporations should be surveyed if it is to be contended that these charters empower such corporations to spend money without regard to the will of Congress.

The meeting adjourned at 12:15 P.M.

WTK

November 3, 1943.

Dear Mr. Christopher:

Your letter of October 29 was very nicely timed to my return from Africa. I arrived here Sunday evening at 10:30, after a speedy trip from Cairo.

I returned very much encouraged by what I saw of the efficient operation of our American and allied forces in the Mediterranean theater and also by reports of the quality of our war machines and materials. As to quantity of combat material, the armies have received much but need much more. The thing that the armed forces fear, from generals down to privates, is that workers and management and the American people generally may get the wholly false and dangerous idea that, now that we are making progress, we can afford to let down. Of course, quite the contrary is the fact, as you know. The further we advance, the greater our expenditure of materials of war.

I feel complimented and gratified by the use you have made of the story of the Rolls-Royce motor. It is an early example of the shoulder-to-shoulder international cooperation that is going to win this war and give us a chance for a decent peace if we are not so stupid as to mess it up.

Packard deserves great credit, and I hope/pride in what you and your people have already done will encourage all to even better effort.

Sincerely,

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

Mr. George T. Christopher
President, Packard Motor Car Company
Detroit, Michigan

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

Recd 292 ✓
530 pm

DATE
November 3, 1943

TO Secretary Morgenthau
FROM Randolph Paul

You will be interested in the attached letter which has just been received from Stettinius on the Argentine situation.



C
O
P
Y

October 27, 1943

PERSONAL AND CONFIDENTIAL

Dear Mr. Stettinius:

I appreciate your furnishing me with a copy of the President's memo on the Argentine matter.

Whether the end of this week is a little soon to review the subject again is a point upon which we will have to be guided by your judgment and events. Obviously we should both follow this matter in close consultation and we will, of course, rely on you to keep us fully informed on all developments bearing on the subject.

Sincerely,

(Signed) Randolph Paul

E. R. Stettinius, Jr.,
Acting Secretary of State
Washington, D. C.

THE UNDER SECRETARY OF STATE
WASHINGTON

November 2, 1943

Dear Mr. Paul:

Since receipt of your letter of October 27, our two Departments, as you know, have again presented the proposed blocking of Argentine funds to the President for his further opinion. This action was taken following receipt of telegram 2530 from Ambassador Armour.

At the present juncture I know of no important action requiring your and my attention, but I will immediately communicate directly with you with respect to any aspect of this matter which, in my judgment, deserves your personal attention. In the meantime I have asked that your department be furnished with the data bearing upon this general subject received from our Embassy in Buenos Aires.

Yours very sincerely,

(Signed) E. R. Stettinius, Jr.

Acting Secretary.

Enclosure:

Paraphrase of
telegram 2530.

Mr. Randolph E. Paul,
General Counsel for the Treasury,
Treasury Department.

NOT TO BE RE-TRANSMITTED

U.S. SECRET

BRITISH MOST SECRET

COPY NO 12

BPTAL No. 361

Information received up to 10 A.M. 3rd November, 1943

1. NAVAL

On 1st one of H.M. submarines sank a small troopship and E-boat full of troops in the Aegean. One of the U.S. destroyers sank a U-boat North West of AZORES on 1st.

2. MILITARY

Italy

To noon 2nd. Eighth Army. A second bridgehead across the river TRIGNO has been established North of MONTEFALCONE by 8th Indian Division. TUFILLO reported captured. Strong enemy opposition has been met by fifth division West of MACCHIAGODENA.

Fifth Army. Slight advance all along the front. U.S. troops now hold MONTE SAN CROCE and the high ground North and North West of TEANO

3. AIR OPERATIONS

Western Front

2nd. Fighters destroyed three enemy aircraft and damaged 17 locomotives in Northern France. Escorted Typhoon bombers damaged two small ships off BREST peninsula. One typhoon fighter missing.

2nd/3rd. 9 enemy aircraft flew over South East England of which 2 penetrated LONDON Area. 1 F.W. 19 destroyed by Mosquito.

Austria

2nd. Preliminary report states that 139 U.S. heavy bombers attacked the Messerschmidt aircraft factory at WEINER NEUSTADT with good results.

Italy

1st. 68 Mitchells attacked RIMINI and ANCONA at the latter a 5,000 ton ship and several small vessels were damaged. 203 Aircraft attacked communications in Central Italy and enemy positions and transport near ISERNIA.

Burma

31st. 20 Mitchells effectively attacked the railway bridge at MEZAONE 50 miles North of MANDALAY.

OFFICE
SECRETARY OF TREASURY

1943 NOV 4 PM 4 07

TREASURY DEPARTMENT

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1943 NOV 4 PM 4 07

OFFICE
ATTN: OFF. TREASURY

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U.S. SECRET

COPY NO 12

BRITISH MOST SECRET

Originator's CORRECTION.

OPTEL No. 360

Para. 2. MILITARY After line 3 read

"Further left the enemy seems to be withdrawing behind the GARIGLIANO and our forward elements have reached the MONTE MASSICO.

BURMA In the CHIN HILLS the Japanese have made a small advance to within 7 miles of FALAM. Their strength in this area is estimated at one Battalion.

3. AIR OPERATIONS

Western Front 1st. In the morning fighters shot down a JU.52 over the CHERBOURG Peninsula. At dusk two enemy raiders were destroyed out of eight which crossed the South coast.

Italy 29th/30th. Wellingtons dropped 58 tons on the railway centre at GROSSETO. 30th. Escorted Fortresses dropped 100 tons at Savrona and other objectives in that area. Liberators dropped 60 tons at GENOA hitting the railway centre, the ANSALDO Steel Works and marshalling yards. Objectives in the etc.

TREASURY DEPARTMENT

1943 NOV 4 PM 4 07