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Harry White
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Secretary Morgenthau

November 5, 1943

STRICTLY CONFIDENTIAL

Ed Stettinius called at 6:30 last night and said that he thought that we should wait until Mr. Hull and the President and I could get together on this Argentinian matter; that the people in the State Department felt very strongly about the whole thing and they felt that if we froze the Argentinian assets that it might upset the apple cart. I said that I was willing to wait provided something didn't happen on the economic and financial front, that the Argentinians didn't either draw a lot of gold out of this country or transfer a lot of gold to Sweden but if that happened I'd have to bring it to his attention again. He said that was perfectly fair. Then I said, "I think that the cable that you sent to Mr. Hull was wholly unfair and put the Treasury in an entirely false light and made it appear as though we at the Treasury were trying to upset the Argentinian Government." Well, he said he'd have to take a look at the cable again since the drafting of the cable and the whole matter has been handled by Acheson, and I said that if I had been Hull and had received that cable I would have acted the way he had but I repeated that I thought the Treasury position was presented in that cable in a wholly unfair manner, and that I was very much upset when I read it on my return. He was very pleasant the way he always is and

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said he'd see me soon, and he assured me that in the-not-too-distant future I'd have an opportunity to see both the President and Mr. Hull, and that's that.

November 5, 1943
9:30 a.m.

GROUP

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

H.M.JR: They didn't ask me yesterday at press about the Banco de la Provincia or one of the other ones--the national one.

MR. PAUL: It's all right, if they didn't ask you. I just wanted you to be prepared.

H.M.JR: I think the thing to do is to let Fred tell them that they could say these things have been frozen, and, after all, the more we get into the hands of the public on the Argentinian front, the more difficult it is for the State Department to reverse their position.

MR. PAUL: Except that that should be more or less unofficial.

H.M.JR: It would be. He would simply say that the story which was written of the freezing of these two banks is correct.

MR. PAUL: As long as you have brought up that subject, I want to call your attention to another cable which has been received from Armour.

H.M.JR: I can't hear you.

MR. PAUL: It is dated October 30, but we didn't get it until yesterday. It reads--it's quite

short: "The Department may desire to re-examine the whole matter and determine whether, in view of the action already taken, it would not be advisable to adopt a general freezing measure in the manner which the Embassy has recommended, and announce that the action taken against the two banks was merely a precautionary measure."

This is a cable from Armour to the State Department, and Pehle had suggested that we write a further memorandum to Stettinius.

H.M.JR: No. Did you get my memorandum of my conversation with Stettinius?

MR. PAUL: Yes.

H.M.JR: Well, he called me last night.

MR. PAUL: This just came to my desk last night.

H.M.JR: Let me finish what I was saying.

Stettinius called last night and he evidently just got my letter and would I wait until Mr. Hull and the President and I could get together before we did any more. I said I would wait provided nothing serious happened in the meantime, but that I thought that the cable that they had sent to Mr. Hull was very unfair to the Treasury, and that if I were Mr. Hull I would do just what he did in view of that cable. He said the whole thing was handled by Acheson. He drafted the cable. He said, "I'll have to re-examine." So I said, "I think it was most unfair." I was very much upset about it.

MR. PAUL: What kind of a delay does that mean, do you know?

H.M.JR: Not too long. I don't know. The memorandum must be in your room by now.

I asked them to keep me posted by eleven today if anything has happened about transfers.

MR. PAUL: Well, this memorandum deals with the thing.

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H.M.JR: Have any other funds moved in the last twenty-four or forty-eight hours?

MR. PAUL: November 3 and 4--what date is today?

H.M.JR: The fifth.

MR. PAUL: Nine hundred thousand went out of the Argentine accounts to Portugal, Uruguay, and Mexico; two hundred thousand dollars were transferred from the Central Bank account by other Argentine banks; and the first shipment of gold, which wasn't pursuant to this, left New Orleans November 4.

H.M.JR: Now, besides these two banks there is a Central Bank?

MR. WHITE: The Bank of Argentina--yes.

H.M.JR: That hasn't been frozen?

MR. WHITE: No.

H.M.JR: Why wasn't that frozen?

MR. WHITE: It is a government institution.

H.M.JR: Well, they say one of these banks--the Nacion, I think they told me--was wholly government.

MR. PAUL: The reason we froze those two was because they were making specific movements. It was the response to information received in advance.

H.M.JR: These movements come out of what bank?

MR. PAUL: It is a general movement for a lot of them, totalling nine hundred thousand--Argentine accounts, not banks--various Argentine accounts. Then the Argentine banks, as distinguished from individuals, transferred about two hundred thousand.

MR. WHITE: To freeze the Central Bank would be tantamount to taking official action against the government, itself. It would have been included in a general freezing.

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H.M.JR: It seems ridiculous to do these two banks and sort of stand there in the middle of the stream and not know which direction you are going.

MR. PAUL: Well, the two banks had given some excuse for doing it.

H.M.JR: These that you have listed, what banks are they going from?

MR. PAUL: I haven't got that before me, but it looks as if it is probably quite a number of banks. But that is a small amount; that is only two hundred thousand.

MR. WHITE: You remember that Argentina wanted to transfer a couple of hundred million dollars of gold a few months ago, probably in anticipation of these difficulties. We said that it would be all right. At the same time we made arrangements with the State Department and with other agencies that when it came to a question of shipping, we wanted to be consulted, and that we would take steps to make certain that shipping would be available only very sparsely so that they couldn't get very much out.

But so far as the Argentinian is concerned, we told them they could have it any time they wanted it. They have tried to get some out.

MR. PAUL: They also tried to get it out by air.

H.M.JR: Can I have that cable, the last one from Armour?

MR. PAUL: Yes. (Hands cable to the Secretary) You can just disregard the other part. There is a quotation in the cable, but I attached a memorandum, if you don't want that.

H.M.JR: Fred, you can tell the Press Room, if they ask, that those two banks have been frozen. You see?

MR. SMITH: It has been in nearly all the papers, anyway.

H.M.JR: If they ask, the answer is yes.

MR. SMITH: Yes.

MR. PAUL: They were willing to pay fifty thousand dollars in insurance.

MR. GASTON: I haven't anything.

H.M.JR: I thought I'd have a little meeting at ten-thirty on law enforcement. I haven't done that in eight years.

MR. GASTON: There is one thing that I can mention to you, and that is the return of the forms for the 1943 income tax return.

H.M.JR: Well, you fellows handle it. I don't want to be bothered. I am going to try--at least I have a resolution--to pick my work; and I am going to try not to get into too many details. So I oughtn't to have to do forms.

MR. SULLIVAN: That is right.

H.M.JR: The three of you can do it. (Indicates Mr. Gaston, Mr. Sullivan, and Mr. Smith)

I would love to do bootlegging, so I can find out where these good supplies are!

MR. GASTON: You are going to talk about alcohol tax, among other things, are you?

H.M.JR: Who is checking up on bootlegging? That is what I want to know.

MR. SULLIVAN: I will tell you.

MR. GASTON: Well, there is rather an interesting situation there.

H.M.JR: Well, the enforcement man, Elmer Ireys, the Commissioner, Sullivan, Gaston, and Fred Smith, who is an expert--

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MR. SULLIVAN: And Stewart Berkshire.

MR. PAUL: I would like whatever information you get, because the committee is always asking me about it.

H.M.JR: Will you inform Paul?

MR. SULLIVAN: Yes.

MR. PAUL: It is an excuse to them not to put the tax up.

MR. GASTON: I can tell you what the situation is. It is quite interesting.

I haven't anything.

MR. SULLIVAN: How was the General yesterday?

H.M.JR: As far as that was concerned, he didn't know anything about it, and I gave him your memorandum, incidentally--Mr. Sullivan's memorandum on Enforcement of Liquor on Army Reservations, so Mr. Sullivan can give me another one. As far as that was concerned, he didn't seem to register much. He may later on. But I might say, very much in this room, that he was more encouraging on the war than any time I have met with him.

MR. SULLIVAN: Good!

H.M.JR: On the duration of the war; I mean, largely based on the internal situation in Germany.

MR. GASTON: The Germans are permitting quite a bit of unfavorable stuff to be printed in their German newspapers, now, which is a pretty good tip-off.

H.M.JR: I mean, the internal situation was more encouraging than any time I have heard it.

MR. SULLIVAN: What do I do about this other thing?

H.M.JR: Sit tight.

MR. SULLIVAN: You are going to hear from him?

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H.M.JR: Oh, sure. He is very efficient.

I wrote you a memorandum on this thing. (Indicating Mr. Smith)

MR. SMITH: Yes, I have it.

H.M.JR: That was on the same cylinder. (Hands Evening Star of November 4, 1943, to Mr. Smith)

MR. SMITH: That is right. I am trying to ride down somebody to check up.

H.M.JR: What is the name of the little fellow with the mustache?

MR. SMITH: He could do it, yes.

H.M.JR: Radio script?

MR. SMITH: Yes, he stutters. I can't recall his name.

H.M.JR: George, if I have time this morning, which I may--I am making work for myself this morning--I may call on you sometime around eleven o'clock to give me a lecture on excess reserves.

MR. HAAS: Fine. I am glad you are getting interested.

H.M.JR: So if you have any charts or exhibits, will you put them up across the hall?

MR. HAAS: I am fearful we don't have a large one. We will be prepared for it.

H.M.JR: Harry, anything more on the Italian soldiers in the U.S.A.

MR. WHITE: Yes, there is rather an amusing post-script to the discussion.

H.M.JR: I don't know. I am going to have my ears tested. I think there is something the matter with my left ear!

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MRS. KLOTZ: Maybe there's something the matter with your left ear, but there must be something the matter with mine, too!

MR. WHITE: Maybe it is my voice. (Laughter)

MR. SULLIVAN: You asked me to report back after checking the transcript, and I did say our inspectors were to accompany theirs.

H.M.JR: You did?

MR. SULLIVAN: Were to accompany theirs?

H.M.JR: It is to be a joint operation.

MR. SULLIVAN: I didn't use the word "joint" operations and I didn't stress that phase.

H.M.JR: Where do we stand?

MR. SULLIVAN: I think we are both right.

H.M.JR: O.K. I like it that way.

Now, Harry?

MR. WHITE: Since four ears can't be wrong, I'll shout.

A General White called me, and said--

H.M.JR: That is what I thought at first! (Laughter)

MR. WHITE: He said that General Marshall had got in touch with him and said that Secretary Morgenthau had been informed by this General White with respect to Italian prisoners. He assumed there was something wrong, and hunted it down. He thought it probably was a mistake.

H.M.JR: But Marshall had already acted?

MR. WHITE: General Marshall apparently thought you were talking about General White in his staff, his having given you the information. When I told the

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General what our information had been which we had received from General Hilldring's office, he said, "Well, they have it all twisted." He said, "They are not going to be in the Army. They are going to continue to have the status of war prisoners, and they are going to be paid out of exactly the same fund that war prisoners are going to be paid out of. They are going to be broken up into units and used as labor groups." And therefore he said this business about their being in the Italian Army and being American-trained is all erroneous.

H.M.JR: Whose mistake was it?

MR. WHITE: I said that was my information, and I would check up. I checked up and I got a memorandum from General White to Hilldring, in which it said that this relates to the status of Italians when they cease to be prisoners of war. So he was all confused. He said that he would check up, too.

But it was amusing that the memorandum on which our information was based was his memorandum; so that the mistake, if any, was his.

H.M.JR: You mean that this memorandum existed prior to yesterday?

MR. WHITE: Yes, this was the memorandum on which our discussion had been based, although it wasn't wholly clear. It did refer to the status after Italians ceased to be war prisoners, and the question of their being American-trained and all the other trimmings came from Colonel Pforzheimer in General Hilldring's office orally.

H.M.JR: Pforzheimer and Whiteheimer! (Laughter)
As long as we keep it on the black and white!

MR. WHITE: Generals are too common.

H.M.JR: I think it is very funny, between General White and General Pforzheimer.

MR. WHITE: It is Colonel, not General.

Now, that is the story. He is going to clear the

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at his end.

H.M.JR: Who is Colonel Pforzheimer?

MR. WHITE: He was the fellow who amplified the memorandum by oral discussion. The next move is this: he told us not to do anything until we heard from him.

H.M.JR: Now, after you have gone all through the Generals and Colonels, what are they trying to do with the Italian prisoners? Is it clear in your mind, in the U.S.A.?

MR. WHITE: General White over the phone gave me a different story from that General White put in his memorandum. He will have to get together with himself and decide what they propose to do. In his memorandum he did refer to the status of these Italian prisoners after they ceased to be prisoners of war.

MR. SULLIVAN: I think the feeling is they weren't willing to fight for themselves; they wouldn't fight for us. I have heard this discussed elsewhere.

H.M.JR: What I said to General Marshall as emphatically as I could was, "The one thing in the world the Italians don't want to do is to fight."

MRS. KLOTZ: That is funny!

H.M.JR: It is the one thing they don't want to do.

MR. SULLIVAN: They have been able to accomplish that pretty well, too.

MR. WHITE: You remember, General Holmes said the generals at the front don't want any Italian divisions. They are going to have one as a token division.

H.M.JR: In this discussion did you tell him the money would have to come out of the General Staff?

MR. WHITE: He said that question did not rise, because they were going to be paid out of exactly the same funds out of which prisoners of war were paid, and

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that they were prisoners of war and were going to continue to be prisoners of war. He said to sit tight until he gets in touch with me.

H.M.JR: They are not prisoners of war.

MR. WHITE: The Italians? What are they?

H.M.JR: They are co-belligerents.

MR. WHITE: I think they are prisoners of war. We were told over in Italy that they would continue to be prisoners of war.

H.M.JR: What was the name of the General in England?

MR. WHITE: Betts. Well, he had a different view, that is true. He said their status was undetermined. Well, apparently the next move is theirs.

H.M.JR: Just as a satisfaction to me, would you put a lawyer on to the thing, Paul, please?

MR. PAUL: The status of Italian prisoners in this country captured before the Italian armistice?

H.M.JR: Yes.

MR. WHITE: They weren't captured; they just flocked in as guests!

MR. SULLIVAN: Harry, who has the funds for the payment of prisoners of war?

MR. WHITE: I don't know. I assume it is out of the regular Army appropriation.

MR. SULLIVAN: The Secretary spoke of the General Staff Fund. Isn't it the same place?

MR. WHITE: There is a Chief of Staff Fund which is to be used for a variety of purposes. Whether the prisoners of war are being paid out of that fund, I don't know. I received a letter from Whaley in which he informs us that the British treasury would like to

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see the Chinese stabilization loan and board renewed for certain reasons. That is against our decision and if it is all right with you we'll draft them a letter telling them that it is our opinion that under the present circumstances there is nothing to be gained by renewing the stabilization arrangement and that if the stabilization board is to be continued, that is a matter between the British and the Chinese, but the American member will not be on.

H.M.JR: Harry, would we be in any more advantageous position if we had a board to help them with inflation?

MR. WHITE: I don't think so, and Adler agrees with me. We talked it over. I think we are in a poorer position.

H.M.JR: Then I go along with you.

MR. WHITE: And there is certainly no advantage in renewing the stabilization fund, and I think the Chinese would resent our asking them to maintain a board without the stabilization arrangement.

H.M.JR: I go along with you.

MR. WHITE: Now, with respect to the letter that Crowley--

H.M.JR: I want to talk to you about that alone, later. I have changed, because I remembered I said that when he got the thing fixed he and I would go to see the President together. I think if I wrote a letter today and presented it to him, he would have a perfect right to think I had kept faith with him.

MR. WHITE: Well, also, if you are going to see the President with Crowley about this, I'd like to have your permission to tell Acheson that, because up to now he has been in on every step. Up to now we have operated as a committee, and he will feel I am double-crossing him by not telling him about an important step.

MR. PAUL: The double-crossing is supposed to be the other way around.

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H.M.JR: Well, let's wait now until this committee of you and Cox and Currie get together, and then you three and Crowley and I will see each other right.

MR. WHITE: Before you see the President?

H.M.JR: Before you say anything to Acheson.

MR. WHITE: And before you see the President.

H.M.JR: Yes. That was my second thought, because if you told Acheson now, the British would know it right away.

MR. WHITE: The British know already. I don't know how much they know specifically, but you can judge for yourself. Whaley came to see me yesterday, and he said his government is finding it embarrassing, not knowing exactly what we propose to do with respect to dollar balances and Lend-Lease. I asked him, "What do you mean, embarrassing? What is embarrassing about it?" He said, "Well, you know there is a good deal of discussion going on, and they don't know where they're at. They would very much like to know."

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H.M.JR: Good.

MR. WHITE: I said that before any definite action would be taken they would be informed. That is the position we have taken with them right along, definite action with respect to cutting down their balances.

H.M.JR: All right. But let's keep it within the Treasury and Crowley's organization until we get together so that nobody can drive a horse and team between us. All right?

MR. WHITE: Yes, as long, as I say, you don't go to the President.

H.M.JR: I won't go. I decided I wouldn't.

MR. WHITE: Chile is in asking for a stabilization arrangement. It hasn't reached the serious stage yet. That is all.

MR. PAUL: You might be interested to know, if you don't know already, that we have a copy of the Italian armistice here in the Treasury, which we forced out of the War Department when the question came up of the validity after the armistice of this currency that is being issued. We couldn't pass on that. We raised the question with the War Department, that because previous currency is being issued under the International Law that the military were in control. But the minute the armistice came we didn't know who was in control and couldn't tell until we got the armistice. We have it now so it will be helpful in connection with this other question of Italian prisoners.

MR. GASTON: It shows that Eisenhower is in control in about sixteen different ways.

MR. PAUL: They didn't want to give it to us, but we just told them we couldn't pass on the question without the facts.

On that Argentine situation I have mentioned a couple of times - I don't know whether it has really forced itself on your attention - the first installment of this

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gold shipment left New Orleans yesterday by boat. The Argentines tried for a long time to get that sent down by plane.

H.M.JR: You told me yourself.

MR. PAUL: They were so anxious to do it they were ready to pay fifty thousand dollars per million dollars insurance, which shows their desire.

H.M.JR: You told me.

MR. PAUL: I wasn't sure. I just mentioned it very much in passing before.

The other thing I wanted to tell you--

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

November 5, 1943
9:58 a.m.

HMJr: I read part of your speech before the Bankers.
I want to congratulate you.

Fred
Vinson: Well, thank you. It was a damn good speech,
Henry.

HMJr: What?

V: It was a damn good speech.

HMJr: (Laughs) That's what I think. You take the words
out of my mouth. Hello.

V: Yes.

HMJr: Fred, I was going to try to get you and Jimmy
Byrnes for lunch Monday and sort of talk over
what I might say when I appear before the
Senate.

V: I see.

HMJr: Are you free?

V: I think I am, Henry. Let's see -- that's the
8th, isn't it? Yes, sir, I'm free.

HMJr: Well, I haven't been able to get hold of Jimmy.
He isn't in yet but would you put it down and if
he's free, the three of us and Paul might have
lunch and....

V: Yes. Yes, I'll mark it down, Henry.

HMJr: Right.

V: All right. Thank you.

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H.M.JR: He said, yes, that it was a damned good speech.

MR. PAUL: It was. It came to us about six-thirty.

H.M.JR: What time did he give it?

MR. PAUL: Eight-thirty. It was a good speech. We made a few suggestions.

H.M.JR: Did they accept them?

MR. PAUL: I don't know; we gave them to OWI.

H.M.JR: But I wanted to say something in press conference about being political, you know.

MR. PAUL: He did it all right.

H.M.JR: He did it ten times stronger.

MR. GASTON: Did you notice how Time backtracked on the tax thing? They now say that Congress is treating this as a political matter, and the only thing of which they accuse the Treasury is bungling in its presentation.

MRS. KLOTZ: Mr. Paul said he wouldn't be here Monday.

MR. PAUL: I have a date in Columbus, which was cancelled before; the previous date being October 4 when we appeared before the committee.

H.M.JR: Excuse me.

(The Secretary left the conference.)

MR. PAUL: I think it would be interesting for you to take a look at Vinson's speech.

MR. GASTON: He was pretty late in letting us see it.

MR. PAUL: OWI got it to us, and we did the best we could with it.

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MR. GASTON: Prichard didn't bring it over?

MR. PAUL: Prichard called me, but the official thing came from OWT and they read it over the phone. They didn't have a copy, and my secretary had to work about an hour and a half to get it.

MR. GASTON: Prichard should have brought a copy over to us.

MR. PAUL: They don't do things that way.

MR. GASTON: I thought he volunteered he would do that.

(The Secretary reentered the conference.)

H.M.JR: Will you be here Tuesday?

MR. PAUL: Yes.

H.M.JR: I will try to make it Tuesday.

MR. SULLIVAN: Incidentally, Mr. Secretary, we are about to enter into treaty negotiations with Canada on death taxes. They start the 15th of November. Eldon King will be designated. Mr. Blough was before. I would like to have him designated this time. Whether or not he can be there will depend on what happens on the Hill and the time of those hearings. But if he is designated, he will be able to get in on at least a part of it.

H.M.JR: Who?

MR. SULLIVAN: Roy.

H.M.JR: You work it out between Paul, Roy, and yourself.

MR. PAUL: I would like to suggest your going to see Vinson and have a talk with him. Certainly I think Vinson, while you were away and all through, has completely backed up the Treasury. He has done a pretty good job on it.

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H.M.JR: He certainly was good last night.

MR. PAUL: I would like to send the end of his speech in to you.

H.M.JR: I want Fred to have the whole speech.

MR. SMITH: I will get it.

MR. GASTON: Prichard came over to talk about it, gave me the general outline of what he was going to say, and asked if we had any objection to making the speech. Randolph and I told him that we had no objections; we thought it was a good idea for him to make the speech. So he consulted us before he decided to make the speech.

H.M.JR: Well, when I have them the 9th, I would like both Smith and Gaston to be present, and Paul.

MR. PAUL: You mean when you have them for lunch?

H.M.JR: Yes.

MR. PAUL: That is all.

MR. THOMPSON: I don't know whether you have been told of the action of the Appropriations Committee on our deficit estimates. On the Expense of Loans they cut two million. You might be interested to hear what they had to say. "The Committee desires to reiterate a previous admonition to the Treasury Department that greater care and economy should be exercised in the quantities of printed and other advertising material being utilized and in the distribution of it to the field agencies. There is no desire to hamper the onerous responsibilities of the Department in the herculean task it has of raising this huge sum of money by the sale of bonds.... The Committee feels, however, that close application and watchfulness will enable the Department to save two million dollars and still maintain all essential services throughout all the activities of the Public Debt operations."

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We can't make any saving on the Public Debt operation. It probably will all have to come out of Ted Gamble's branches. Ted is away.

H.M.JR: When did that come in?

MR. THOMPSON: This was yesterday.

H.M.JR: Are you and Ted worried about it?

MR. THOMPSON: I don't think it is serious; because if we need more money we will go up in the spring.

H.M.JR: I am not going to worry about it. When it gets to the point where you fellows can't do it, come and see me.

MR. THOMPSON: They cut one million dollars out of a hundred million on Internal Revenue.

I have reports from the various bureaus and divisions on deferment matters. They are all very general. There is nothing urgent today. I don't know whether you want to have a meeting or wait until Dan gets back.

H.M.JR: What do we have on the calendar?

MRS. KLOTZ: You only have one appointment in the morning at eleven.

H.M.JR: I will give you ten o'clock for deferments, ten o'clock Monday.

Who is on that committee?

MR. THOMPSON: Mr. Gaston is chairman, and Ted Wilson and I are the other members.

H.M.JR: And I only learned yesterday that Mrs. Doyle--

MR. THOMPSON: She came in while you were away.

H.M.JR: Where is she located.

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MR. THOMPSON: On the first floor.

H.M.JR: I want to see Mrs. Doyle.

MR. THOMPSON: She is getting acquainted and reading mostly. I think she will be very helpful as an employee counselor. That is the main thing she is working on right now.

H.M.JR: I want to have a talk with her and tell her why I wanted her in the Department.

MR. WHITE: Before we adjourn I would like to reopen one question that we discussed yesterday about this using of the Allied Military Currency. I went back and looked at our records, and your decision places us in a slightly embarrassing position because we already had agreed that it would be all right. We would accept the use of those local currencies with this important provision which they have not accepted yet, namely, that it would be turned over to us under the same conditions as the Allied Military Currency will. They are not ready to turn it over under the same conditions, so we have an out. But in the event they agree they will be ready, then we could find excuses for going back, because there are new factors in the situation.

H.M.JR: I thought that over during the night, and I like the suggestion that I made.

MR. WHITE: We can find justification for it. This is the justification, if I may express it and see if it seems cogent to you.

H.M.JR: It does. It was so small. My gawd, to have a separate conference on every one of those separate countries - you spread out over Holland and Belgium and these countries. I mean, the size of the armies, and everything else.

MR. WHITE: This is the argument then we would like to use which will support this position, that they have

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not agreed to recognize any French Government. Therefore, there is no authority to issue French currency. The amount of French currency available to us is inadequate. Since we are going to use Allied Military Currency in France, we don't want to mix the thing up by using other currencies in other countries.

H.M.JR: I would say that gets you out of your embarrassment very nicely.

MR. WHITE: Now we will expect trouble on that, but I take it you are willing to back us up.

H.M.JR: Well, it is my suggestion.

MR. WHITE: The British Government, the Army, the State Department, and the Combined Chiefs of Staff are against us, but that shouldn't bother us.

MR. GASTON: How about the Russians?

MR. WHITE: We haven't asked them.

H.M.JR: That would make it a nice fight.

MR. WHITE: That will make it about even.

H.M.JR: All right, I want to stop now.

Do you have anything, Harry, at ten o'clock?

MR. WHITE: No, not until eleven.

H.M.JR: Then if you and Fred Smith will wait outside, I want to see Mr. Edward C. Carter, head of the Russian Relief, whom we met in Cairo.

Miss Chauncey

Mr. Paul took this memo to the Secretary's staff meeting at 9:30, November 5, 1943.

Mr. Paul said the Secretary decided not to send the memo to State. Mr. Paul read the cable to the Secretary and advised him of the transfers mentioned in the proposed memo to State.

Hold for sig.

From: MR. PAUL

NOV 4 1943

Secretary Morgenthau
Randolph Paul

Attached is the latest cable from Armour, dated October 30, 1943, which deals principally with the special blocking of the Banco de la Provincia and the Banco de la Nacion. The following sentence from Armour's cable is particularly interesting:

"The Department may desire to reexamine the whole matter to determine whether, in view of the action already taken, it would not be advisable to adopt the general freezing measure in the manner which the Embassy has recommended, and announce that the action taken against the two banks was merely a precautionary measure."

Attached is a proposed memorandum to Stettinius following up on your memorandum of November 2.

(initialed) R.E.P.

JWPehle:mgt 11/4/43

NOV. 3 RECD.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires
TO: Secretary of State, Washington
DATE: October 30, 1943
NUMBER: 2581

SECRET

This morning I received a telephone call from the Minister of Finance who stated that the large attempted dollar transfers made to Central Bank by Provincia and Nacion were related to exchange operations exclusively, and that he could assure us that these transfers could not conceivably be considered as inimical to United States interests. Since the Central Bank was taking up spot and future exchange to which it had a legal right, as the Department was previously advised, the Embassy is prepared to confirm in general these statements.

The Dresdner Bank case referred to in the Embassy's telegram of October 29, 1943, no. 2572 has been investigated by the Embassy and it finds that the Province of Buenos Aires has apparently not even paid the funds to Provincia, the latter receiving from the Central Bank instructions to follow the procedure outlined in the despatch of July 17, 1943, no. 11,027. Consequently the only real hope of the Embassy to establish a case has been dissipated to a large degree.

(*) intercept material indicating operations with Europe by these two banks, but it must be borne in mind that the position taken by the Central Bank has always been that it approved such operations and full statistical information concerning the transfers has been given to the Embassy by the Central Bank. Also the question of loans to Proclaimed List firms is on a weak basis as these two institutions were merely following Governmental policy. If these two banks were not Governmental institutions the Treasury's case would be strong but, as is often pointed out, a case against the Government of Argentina and not the banks is the only case which would stand up, nationally and internationally. Since the institutions are highly regarded in all Argentine circles, taking action against these institutions can easily be interpreted by even our friends here as directed both against the Government and the people of Argentina. Moreover, should the Government be disposed to make reprisals, these would as likely result from the action already taken as from the more general measure which would have the undoubted advantage of being based on the self-avowed neutrality of Argentina.

COPY

- 2 -

The Department may desire to reexamine the whole matter to determine whether, in view of the action already taken, it would not be advisable to adopt the general freezing measure in the manner which the Embassy has recommended, and announce that the action taken against the two banks was merely a precautionary measure.

It is fortunate that Monday is a holiday here and Tuesday in New York. It is felt by me that by Wednesday November 3 some answer should be given to the Foreign Office.

ARMOUR

(*) Apparent omission

MEMORANDUM FOR THE ACTING SECRETARY OF STATE.

Reference is made to my memorandum of November 2, 1943, relating to the extension of the freezing controls to Argentina.

I want to draw your attention to the following transfers of Argentine dollar assets that are not related to normal commercial transactions, effected since November 2, 1943.

On November 3 and 4, there was a flight of \$900,000 out of Argentine accounts to the accounts of other countries, including Portugal, Uruguay, and Mexico, and \$200,000 was transferred to the Central Bank account by other Argentine banks. In addition, I am advised that the first shipment of gold, amounting to approximately \$1,250,000, formerly held by the Federal Reserve Bank of New York for account of the Central Bank of Argentina, left New Orleans for Argentina on the SS "Rio Parana" early November 4.

I presume that you have already seen the cable from Ambassador Armour, dated October 30, 1943, (No. 2581), dealing principally with the special blocking of the Banco de la Provincia and the Banco de la Nacion, in which he states:

"The Department may desire to reexamine the whole matter to determine whether, in view of the action already taken, it would not be advisable to adopt the general freezing measure in the manner which the Embassy has recommended, and announce that the action taken against the two banks was merely a precautionary measure."

AUF:JED:ecr
11/4/43

November 5, 1943
11:02 a.m.

HMJr:speaking.

Jimmy
Byrnes: Yes, Henry.

HMJr: How are you?

B: All right.

HMJr: That's good. Jimmy, I got word that you couldn't do it Tuesday. What I had in mind -- I thought it would be very helpful to me if I could talk with you and with Fred Vinson before I appear before the Senate and I wanted to get your advice.

B: Well....

HMJr: And I wondered if....

B: You go ahead and talk with Fred about it because I haven't followed -- uh -- since the day it was submitted....

HMJr: Yeah.

B:I haven't -- I haven't followed the tax bill at all.

HMJr: You mean you'd rather....

B: I'd rather not. You talk to Fred about it, Henry.

HMJr: You'd rather not get in on it?

B: Right.

HMJr: Well, I didn't know -- I mean....

B: I -- I haven't -- I'm not -- I just have taken no time out on it and Fred has and he's kept up with it and he knows and I've got so darn many things to do that....

HMJr: Well....

B:I have got that I'd rather have him -- have you talk to him about it. He knows it and I don't.

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HMJr: All right. Well, then maybe sometime other....

B: Fine.

HMJr: Okay.

B: All right. Bye.

November 5, 1948
11:15 a.m.

LAW ENFORCEMENT

Present: Mr. Stewart Berkshire
Mr. Robert E. Hannegan
Mr. Herbert E. Gaston
Mr. John L. Sullivan
Mr. Elmer L. Irey

H.M.JR: Well, how is the bootlegging business?

MR. BERKSHIRE: Well, Mr. Secretary, the bootlegging business, as we understand it--have always understood it--is at its very lowest level. By bootlegging business we mean the production of illicit, non-tax-paid spirits. They can't get sugar, and have a limited amount of sirup. They are producing an unusual crop of sorghum in the South because of the shortage of sugar. That sorghum eventually finds its way around to a still.

(The Secretary places call to Justice Byrnes.)

H.M.JR: Let me talk to his secretary.

Go ahead. (indicating Mr. Berkshire).

MR. BERKSHIRE: As far as the purely bootleg flow of liquor is concerned, it is low or lower than it has ever been at any time.

H.M.JR: That isn't what you read in the papers. I read in the papers all the time about bootleggers.

MR. BERKSHIRE: They use that term loosely and they don't refer to bootleg spirits at all. They are talking about a black market product that is fully tax-paid. The distributor has purchased it from the distiller, on which the tax has been paid. It goes to some retailer and he prefers to sell it out the back door for prices in violation of the OPA's ceiling price, rather than put it on the

- 2 -

shelf and sell it within the ceiling price.

H.M.JR: Suppose you give me a little report which I would like to have, because certainly from reading the newspapers I was under the impression there was a lot of non-Federal-tax-paid liquor reaching the market.

MR. BERKSHIRE: That is not the case, Mr. Secretary.

H.M.JR: Let's have it come through channels from you to Hannegan, to Sullivan, to me; then we will know the thing is in the Army.

MR. SULLIVAN: Mr. Berkshire has already been making a survey on that, and one got to his desk this morning. I am a little disturbed about your remark that the newspapers have been talking about non-tax-paid.

H.M.JR: Wait a minute - here is the thing (reading from newspaper): "U.S. mobilizes 4400 men to check black market. Hard to get liquor. Rise in bootlegging is feared."

MR. SULLIVAN: That says it is all tax-paid. (Clipping is pointed out to Mr. Sullivan.)

(The Secretary held a telephone conversation with Justice Byrnes' secretary, as follows:)

Hello.

This is Mr. Morgenthau. I hear that Justice Byrnes is up on the Hill. Well, this is what I would like: I would like to get the Justice and Mr. Vinson, if they could come over to lunch on Tuesday - to have lunch with me and Mr. Paul and Mr. Gaston. I want to talk over what I am going to say when I appear before the Senate on the tax bill.

Yes.

If you would let Mr. Fitzgerald know - will you do that?

Thank you.

(End of telephone conversation)

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(The Secretary speaks to Mr. Fitzgerald over the interphone)

Let me get this straight. I asked Fred Vinson to come over here Monday for lunch and I find Mr. Paul won't be here, so I am making it Tuesday. I just spoke to Justice Byrnes' secretary. She is going to let you know. If he can say yes to us, then you let Fred Vinson know it is Tuesday.

MR. FITZGERALD: Yes, sir.

H.M.JR: I also want Gaston, Smith, and Paul there.

MR. FITZGERALD: Right, sir.

H.M.JR: One o'clock, Tuesday.

MR. FITZGERALD: Right, sir.

MR. GASTON: There are some quite disturbing factors in the situation that, of course, need to be watched. The reason we are not getting moonshine liquor is because they can't get the materials--sugar rationing and the shortage of other materials. If the sugar market ever opened up so they could get a lot of sugar and molasses, then we would have something on our hands. Everybody agrees on that. The other features of the situation are these extremely high black market prices, and the fact that some of the old bootleg racketeers in different parts of the country are now in the black market game--some of the known bootleg racketeers.

MR. BERKSHIRE: That is correct. Just like they got into meat, and they are the fellows who get into all these rackets.

MR. GASTON: There is the situation you have, an extreme pressure to cause bootlegging, caused by the racketeers in the market, and the high prices, and high taxes. But the moonshining is being held down to the lowest minimum it has ever been, purely because they can't get the stuff with which to make the liquor.

- 4 -

H.M.JR: Let me get the story from you to Hannegan to Sullivan to me. Don't let anybody put any bases in between. But let me have it soon, see?

MR. BERKSHIRE: Yes, sir.

H.M.JR: And you (Hannegan) take a look at it yourself, will you? I mean, just to make sure. Maybe Berkshire is kidding himself.

MR. SULLIVAN: Which survey is that?

MR. BERKSHIRE: The District of Columbia one, which came in this morning. That doesn't affect the bootleg situation. That is merely the black market in Baltimore.

H.M.JR: What are they doing in Baltimore?

MR. BERKSHIRE: I will have the report of our investigation there on Monday morning. I have the one this morning from Washington. There it is the same, about, as the country over. They are merely selling this whiskey under the counter and not over the counter, Mr. Secretary, and they are violating the ceiling regulations. They are selling it for twice the ceiling price.

H.M.JR: Do we give those reports to OPA?

MR. BERKSHIRE: We have cooperated with OPA for the past six or eight months with respect to these very matters.

MR. SULLIVAN: But OPA hasn't been actively interested.

MR. BERKSHIRE: They merely say this, "We are regulating it; we are watching it; but we haven't had time to make any case, as we should. We are occupied with food and these other things, and don't have time to do it." That is what they tell us.

I would say, "If you had a bad situation--if you had a case in any one of the large cities where you could make

- 5 -

a respectable conspiracy case, we would be glad to go in with you. It has just come to us. I will notify our supervisor out there; he will give you all the cooperation in the world." And they haven't been there yet.

H.M.JR: Have you any good information or cases from them?

MR. BERKSHIRE: No, sir, unless this survey that we are making now develops that. That is the reason we are doing this.

H.M.JR: I will wait until it comes to me.

MR. SULLIVAN: When do you start in Chicago?

MR. BERKSHIRE: Immediately, in Chicago. We just started Baltimore and Washington to see the local situation.

H.M.JR: But right now, if I said, "Do you have any good cases for OPA?"--

MR. BERKSHIRE: I would say no. I would say it would be too much on the rumor and not enough evidence.

H.M.JR: But you are sure as far as non-tax-paid Federal liquor is concerned, you are right?

MR. BERKSHIRE: I am positive of that, Mr. Secretary.

MR. IREY: We will all be watching that for months, Mr. Secretary, and conferring almost daily. We feel that there isn't any un-tax-paid bootlegging.

MR. HANNEGAN: It is true in the city of St. Louis. The newspapers called the attention of the OPA to the fact that the dealers in liquor were not obeying the ceiling prices of OPA, and their answer was that they were limited with their staff of personnel, and were devoting their time to watching food stuffs and not liquor, and didn't intend to.

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H.M.JR: Well, I want to make sure my own skirts are clean.

MR. SULLIVAN: On this line, Mr. Secretary, I would like to tell you about something that happened while you were away, although I think you heard from Mr. Rosenstiel. You remember we amended the regulation allowing a distiller to reuse his own bottles. I told you about that before I cleared it. That is because of the bottle shortage.

Beneman, the counsel for Schenley, was in yesterday. He wanted to see you and I took the appointment, and Stewart was over. It was for his benefit that we put in this amended regulation. He said he found it was too expensive to pick up just their own bottles. What he wanted to do was to have the right to use anybody's bottles.

Stewart takes the position, and correctly so, that this means that all of the protection--

H.M.JR: Again, I don't want to get in on that.

MR. SULLIVAN: Excuse me, just one second. However, it is to our interest to see that all of the liquor they can get bottles for will be distributed.

Now, WPB gave everybody a quota of sixty-five percent of what they had last year.

H.M.JR: New bottles?

MR. SULLIVAN: Yes. Many of the distillers aren't using it. I told Stewart that I thought that we should get in touch with WPB and see if they won't be willing to allocate to distillers that had increased production, the unused part of the sixty-five percent quota of the people who couldn't use it. I just wanted you to know that we were trying to get WPB to modify their ruling on that.

H.M.JR: That is all right.

O.K. Thank you.

Telephone Conversation
November 5, 1943, 9:15 A.M.
Mr. H. D. White
and
Mr. Ballantine of
State Department

I telephoned Mr. Ballantine of the State Department this morning and informed him that Mr. Hsi Te-mou was going to call me later in the day, doubtless to press for a reply with respect to the renewal of the 1941 stabilization arrangement. I reminded Mr. Ballantine of our understanding with him that we did not intend to renew the arrangement but we would delay definitive answers to the Chinese as long as possible. I indicated we could hardly delay comment further; if Mr. Hsi raised the question we would inform him that under existing conditions we did not feel it wise to go ahead with a renewal of the Stabilization Fund. Mr. Ballantine wanted to know whether we intended to close the door to the reopening should they alter the yuan exchange rate. I replied definitely not, that the discussion could be reopened at any time.

I also informed him of Waley's communication to me of the views of the British Government with respect to the stabilization arrangement and the continuation of the Board. I told Mr. Ballantine that we were not in agreement with the British on this point. So far as the American member is concerned we felt he should resign and wind up his affairs on the Stabilization Board, inasmuch as the Board itself was created by the stabilization arrangement and in our opinion was an intricate part of that arrangement even though legally it might be possible to continue the Board without stabilization arrangements.

I told Mr. Ballantine that I had assumed that in the light of our past conversations that Treasury's view with respect to the renewal of the stabilization arrangement with China was in line with their own and that unless I heard from him prior to the meeting with Mr. Hsi I would assume they had no objection to our going ahead along lines I had indicated. Mr. Ballantine replied that it sounded all right to him but he would take it up with the boys in his shop and he would give me a ring if there was any objection to our course of action.

H. D. White

Fred Smith

November 5, 1943

The Secretary

Have you got a copy of that Readers Digest which had something about International Boondoggling. I'd like to take that with me to the President. *Dane -*

Pires said: 5 Nov 5, 1943

THE WHITE HOUSE

WASHINGTON

Mr. Weizman
is supposed to
have sent English
Archaeologist to
Saudis Arabia who
offered him 100 million
English £ as a
bribe if he would
be pro-Palestine.
Since then his feelings
have been hurt.
Pres. told Jolson he could
not send Jew to Saudis Arabia.



TREASURY DEPARTMENT
WASHINGTON

November 5, 1943

MEMORANDUM ON MEETING OF THE JOINT
COMMITTEE ON REDUCTION OF NON-DEFENSE EXPENDITURES

A meeting was called at 10:30 A.M., November 5, 1943, in the Senate Claims Committee Room (Room 457) in the Senate Office Building. There were present:

Senator Byrd
Bureau of the Budget:
Mr. Lawton
Navy Department:
Assistant Secretary Bard
Rear Admiral Fisher accompanied by
3 naval and 2 civilian aides.

The meeting was opened at 10:30 A.M. The Committee reporter made a stenographic transcript of the meeting. Reporters were present.

Senator Byrd opened the meeting and said that Assistant Secretary Bard had been requested to furnish certain information concerning the civilian personnel of the Navy Department.

Mr. Bard read from prepared statements and said the civilian personnel of the Navy Department on June 30, 1943 amounted to 664,362, of which 607,041 were in the United States, 48,198 in United States possessions and 9,123 at foreign stations.

Mr. Bard gave a breakdown of the types of activities in which this personnel was employed, such as navy yards, etc., and by types of employment, such as unskilled labor, skilled labor, etc. Mr. Bard also gave additional classifications of the civilian personnel, such as professional, sub-professional, clerical, administrative and fiscal, with further breakdowns under each category, such as engineers, technicians, stenographers, typists, etc. He also gave information showing comparison of employees between male and female and the number of employees required per thousand of enlisted personnel.

FOR DEFENSE



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Senator Byrd announced that the Senate was voting on a very important bill and he had to terminate the hearing. He said he would request Mr. Bard to furnish further information for the record and information showing the unexpended balances of naval appropriations similar to that furnished the Committee on August 27. The August 27 report showed the status of appropriations as of July 31, 1943 and Senator Byrd said the Committee desired later figures.

Senator Byrd apologized for asking Mr. Bard to appear before the Committee and not giving him an opportunity to complete his statement. He said he would try to arrange for another meeting later.

The meeting adjourned at 11:15 A.M.

Wf

78TH CONGRESS
1st Session

SENATE

43
19
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2-
REPORT NO. 10
PART 12

INVESTIGATION OF THE NATIONAL
DEFENSE PROGRAM

ADDITIONAL REPORT
OF THE
SPECIAL COMMITTEE INVESTIGATING THE
NATIONAL DEFENSE PROGRAM

PURSUANT TO

S. Res. 71

(77th Congress, and S. Res. 6, 78th Congress)

RESOLUTIONS AUTHORIZING AND DIRECTING
AN INVESTIGATION OF THE NATIONAL
DEFENSE PROGRAM

OUTLINES OF PROBLEMS OF CONVERSION
FROM WAR PRODUCTION



NOVEMBER 5 (legislative day OCTOBER 25), 1943.—Ordered to be printed

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INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

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Mr. TRUMAN, from the Special Committee to Investigate the National Defense Program, submitted the following

ADDITIONAL REPORT

[Pursuant to S. Res. 71, 77th Cong., and S. Res. 6, 78th Cong.]

OUTLINES OF PROBLEMS OF CONVERSION FROM WAR PRODUCTION

When the Senate passed a resolution organizing this committee it charged it with the duty of preventing waste. This requires the committee to make every effort to prevent any wasteful practices which increase the cost of the war program. Waste occurs in two ways: First, by spending more than necessary to procure the article or material needed for the war; and second, by so constructing plants and facilities needed for the war program that they will have no salvage value. The latter type of waste sometimes receives little attention, but is vitally important. The plants and facilities built for the war program have cost our Government approximately 15 billions of dollars. The size and importance of these expenditures can best be understood by contrasting them with the 15 billions of dollars, which were expended for manufacturing plants and facilities during the 5-year period from 1925 through 1929, the era of our great prosperity.

Not all plants and facilities will have salvage value. Some were so constructed that they are useful only for the special purposes for which they were built. Examples are some of our special ordnance installations. Others were equipped with special machinery of such size that there would be little peacetime demand for articles that could be made. Examples of this are found in the plants to make heavy, long-range gun barrels. The best and most important of these plants should be kept as stand-by plants, ready for use in the event that we should again be required to undertake a huge armament program. The War and Navy Departments have already made some plans along this line.

However, the great bulk of all war plants and the machine tools and facilities contained in them, and many of the machine tools and facilities in the special war plants, can be utilized for civilian production. Any assumption that they cannot be used is as baseless as the contention made in 1941 that our automobile plants and tools could

not be used to produce war materials. Of course, some of the tools cannot be used, additional tools will have to be acquired, and the arrangement of tools will have to be changed, but, by and large, most war plants are suitable to produce peacetime goods. Many of them, such as high-octane gasoline and synthetic rubber facilities, can be used as they are.

These war plants are the most modern that our architects could design. In general, they are well-lighted, well-ventilated, have high ceilings and heavy-duty cranes, and floors capable of carrying the heaviest machinery. They are the finest plants in the world and are far superior to what a few years ago were the finest in the United States.

We should use them not only because of the cost required to build them, but also because we must use them. The population of the United States have been reshuffled from one end of the country to the other, and today millions of people live in communities different from those where they lived before the war. Some of these communities grew up around war plants, and many more are largely dependent upon war plants for jobs for their people. It is no answer to say that they might return to their former jobs, because tens of thousands of small businesses by which they were formerly employed are now out of business and many more companies which are still in business will never have need for the number of employees that they formerly hired. Some communities with war industries will become ghost towns, and others will lose most of their increase in population. But a very large proportion of the war plants can produce useful peacetime articles and can continue to provide employment for their workers if we have the courage and the intelligence to utilize the vast industrial resources which we have already created and which we will have to pay for during the next generation through taxes.

Even if we could go back to the pre-war situation, we do not want to do it, because at the beginning of the war in 1939 we had approximately 9,000,000 unemployed. Our soldiers and sailors are entitled to jobs. Many of the women who have gone into our factories and done such splendid work during the war, will want to continue working, and they are entitled to a chance to earn a good living at jobs that they have shown they can do. The last war put the women into the offices on a large scale. This war put them into the factories. They are there to stay.

We have the factories, the tools, and the labor supply. During the war we have vastly increased our facilities to produce raw materials, and at the end of the war there will be tremendous inventories of materials ready for processing and semiprocessed, which should be utilized to create articles for civilian use. Unless so used, those inventories will flood the markets and threaten our prosperity.

During the war we have also learned new uses for aluminum and magnesium, the miracle metals of the future, plastics, and steel alloys. New processes for fabricating them have been developed, and new precision machinery developed and built. These open up new vistas for the future.

The purchasing power will be available because during the war most families have paid off their indebtedness for automobiles and household goods, reduced their indebtedness for housing and, in addition, have increased their bank savings and purchased War bonds.

If they can be given assurance that their jobs will be safe, they will purchase huge quantities of consumer goods, and many will be in the market for new homes.

Thus, we will have the plants, the tools, the labor, new materials, new processes, new products, and the purchasing power on which to base the greatest and soundest era of prosperity that this Nation ever enjoyed, if we have peace and a measure of stability for a substantial period of years.

The United States has led the nations of the world in industrial progress and can continue to do so in the future. American business is vigorous, talented, and enterprising. We must see to it that it has the facilities to establish and maintain sound industrial progress after the war.

The task of the Government is to determine the standards by which business is to operate in such a way that businessmen will know where they stand, what they can do and what they cannot do. If Government performs this task, each business man will be able to make his own plans for the operation of his business. Until these standards are determined, it will be difficult for him to make his post-war plans. Such plans cannot be made in a vacuum. Businessmen, no matter how able, cannot make plans that are worth while until they know the conditions under which they will have to operate.

By referring to the necessity of a determination by Government of the standards and conditions on which business is to operate, the committee does not mean to infer that the Government should determine, or even strongly influence the determination of, what products are to be made, by whom, in what quantity, and when. Reliance cannot be placed upon plans by Government agencies for action to be taken in the future. If anyone questions this, let him look at the plans which the Army and Navy made during a quarter of a century of peace for the conversion of American industry to war production. Some of the plans had value, but the actual operations of American industry in wartime bear little resemblance to the plans which the Army and Navy assured us a few years ago had been so carefully made.

The determinations which Government must make include (1) the method by which contracts are to be terminated after the war, (2) the advance notice which industry can have of the terminations, (3) the methods for insuring the early removal of Government property from private plants so as to make them available for the production of civilian articles, (4) the extent to which the Government will make or guarantee loans to provide business with working capital, and (5) the conditions upon which the Government will lease or sell the plants and facilities which had been constructed for the war effort.

The purpose of the committee in this report is not to propose short-cut solutions to these problems, but rather to point out the importance of directing attention now to their existence, and obtaining the best information from all competent sources on how to solve them.

The committee will hold a series of public hearings at which representatives of Government, business, and labor will be asked to testify on some of these subjects so that the necessary work can be done now to obtain satisfactory solutions. Even if the solutions are not entirely

satisfactory, it is important that certainty be substituted for the doubt that now prevents business from making its plans.

TERMINATION OF CONTRACTS

In January 1942, this committee pointed out how important it was that the Government insert in its contracts provisions entitling it to terminate its war contracts on terms fair to the Government whenever the Government ascertains that it will have no need for the articles to be produced. Although more than \$300,000,000,000 have been appropriated for the war program as of August 1943, and more than \$128,000,000,000 were expended as of August 31, 1943, contracts for many billion dollars' worth of materials have not been completed. Work on some of them has scarcely been started, and will not be completed for several years to come. The cost of the war will be greatly decreased if the course of the war should warrant the termination of these contracts before their completion.

Articles produced after the end of the war would have to be warehoused and cared for at great trouble and expense, and in most instances would be too obsolete to be used in the event of another war. It is already apparent that many items originally thought necessary in this war will not be necessary, at least not in the quantities for which contracts were executed. Contracts for their procurement are being terminated or reduced. For example, the Army is terminating many of its contracts for tanks, and the Navy is terminating many of its contracts for submarine chasers and destroyer escorts. As we approach victory, there will be more and more of these terminations.

Unquestionably there will be objections from business concerns which will lose war profits, and from labor which will lose war wages, but it will be the duty of the Army and the Navy to stop expenditures for military goods not needed as soon as the Joint Chiefs of Staff determine that such goods are in fact not required for military purposes.

Objections to such terminations will be valid only where business or labor can show that the Army and the Navy did not exercise fairness and intelligence in determining which contracts should be canceled or cut back. There must be no favoritism.

The Joint Chiefs of Staff should constantly review Army and Navy needs for the purpose of eliminating contracts for the procurement of articles not needed just as soon as it becomes possible to determine the lack of need. The decision should be made as much in advance of the actual termination of the contract as it is possible to make it, so that notice can be given to the industries involved. For example, if the Army knows now that it will not need more than a certain quantity of machine guns which could be produced by the end of March in 1944, it should notify the producers of machine guns now that they should plan to produce no more machine guns after March 1944. This would not only have the advantage of preventing them from accumulating an enormous inventory of partially manufactured material, but it will also enable the industry to make orderly plans for the conversion of factories to the production of other goods.

Special attention to such conversion should be given by the War Production Board, which should be prepared to assist by promptly making the necessary decisions to allocate materials. In such conversion, the manufacture of other war articles should be given a

preference if there is a real need for them. Otherwise, the industry should be permitted to make essential civilian articles, or even to return to the manufacture of strictly peacetime goods. Any progress that we can accomplish in this direction before the end of the war will lessen the problem of converting industry from war to peace.

The committee has noted suggestions, particularly by Army officials in public speeches, that the War Department will not release soldiers from the Army until it believes that industry is ready to provide them with jobs and that it will continue its war contracts until industry is ready to make a transition. Such suggestions are beyond the authority of the War Department.

The Congress has never authorized either the War or Navy Department to provide a new Work Projects Administration by forcing soldiers or sailors to remain in the Army or Navy, or by permitting the production of war goods for which there is no military use. The Congress did not vote billions of dollars of appropriations to the War and Navy Departments for such purposes as these, and the job which the Army and Navy did in peacetime planning for wartime needs does not support a conclusion that they should be allowed to determine the conditions under which our peacetime business is to be operated. That is not a military function.

The methods by which contracts are to be terminated should be determined by the Congress. Contracts involving approximately six billions of dollars and two billions of dollars, respectively, have already been terminated by the War and Navy Departments, respectively. This is considerably greater than the total of all war contracts terminated at the close of the last war.

The subject of termination is now being studied by subcommittees of the Senate and the House. The chairman of this committee is a member of the Senate subcommittee. This committee will not attempt to duplicate the work of the other committees now studying this matter, but will render them all possible assistance.

The Senate bill (S. 1268) would authorize any department or agency to make advance or partial payments upon contracts related to the prosecution of the war, to make loans or guarantees, and to purchase the interests of contractors, subcontractors, and suppliers, subject to rules and regulations to be promulgated by the Chairman of the War Production Board or such other official as the President may designate.

The House bill (H. R. 3022) would authorize the Secretary of War to use any appropriation in connection with the termination of War Department contracts under regulations to be prescribed by him.

There is a considerable difference of opinion as to whether the contract officials of the procurement agencies should be allowed to make settlement agreements which would be final, except upon proof of fraud. There is also disagreement as to whether such contracts should be subject to the audit of the General Accounting Office. These and other related matters are the subject of public and private hearings.

The problem of determining the conditions under which contracts are to be terminated is most difficult, and no solution can be entirely satisfactory. For this reason, provisions should be made for guarantees by the Government of loans to contractors involved in disputes as to the amounts due them after the termination of their contracts. These loans should be for a substantial percentage of the amount claimed by the contractors.

Provision should also be made for an expeditious determination of litigation either by the courts or by a special agency set up to hear and determine disputes. We should avoid a recurrence of the protracted litigation which followed the last war, where, litigation relating to the termination of contracts, in many cases, extended over a period of years. Some of the cases have only recently been determined.

INVENTORIES

In this war, the amounts involved are so great that unless a satisfactory termination is obtained, most of the corporations will not have sufficient working capital. Bankers will find it difficult to make loans to such corporations because the difference between the allowance and disallowance of their claims against the Government, in some instances, will represent the difference between solvency and bankruptcy.

For these reasons, it is especially important that inventories be reduced to a minimum so that the difficulties of termination and the impact of an unsuccessful termination upon the financial structure of the corporations involved will be as small as possible.

During wartime it has been natural that large inventories have been built up. A very large amount of the contracts were cost-plus contracts, and many of the fixed-price contracts were so loosely priced that they had to be renegotiated to prevent excessive profits and thereby became in effect cost-plus-whatever-the-Government-would-allow-as-profit contracts.

Since they were operating with Government money and since they were urged to make speed the primary consideration, the businessmen naturally ordered all their materials and parts as far in advance as they could obtain delivery. They would be blamed if schedules could not be met for lack of materials or parts, and they would not be blamed for ordering more than they could use. Some of the worst offenders in this respect were the Army, Navy, and Maritime Commission themselves. The result was that huge quantities of raw materials were ordered before they could be processed and that throughout industry, and in the services themselves, huge stocks of semifinished materials and parts were accumulated.

One of the principal purposes of the Controlled Materials Plan was to limit the amount of inventory to that necessary so as to enable the spread of scarce materials to other desirable uses.

As of June 30, 1943, industry reported to the War Production Board that it held the following amounts of the materials:

Material:	Inventory June 30, 1943
Carbon steel.....	tons.. 7,399,150
Alloy steel.....	do.. 1,155,991
Copper products and alloys.....	pounds.. 575,253,087
Aluminum.....	do.. 405,481,869
Zinc.....	do.. 235,961,394
Nickel.....	do.. 13,551,157

The holdings in excess of metal necessary for 60 days of production, as reported to the War Production Board by the individual firms was:

Material:	Excess reported
Carbon steel.....	tons.. 2,296,564
Alloy steel.....	do.. 333,175
Copper.....	pounds.. 176,804,375
Aluminum.....	do.. 89,622,169

The extent and importance of the above inventories can be judged by contrasting them with the total production of the primary metals for the year 1939:

Material:	1939 production in the United States
Aluminum.....	pounds.. 327,090,000
Copper.....	short tons.. 1,009,515
Zinc.....	do.. 507,236
Nickel.....	do.. 394
Carbon steel.....	long tons.. 44,950,226
Alloy steel.....	do.. 2,828,384

The increase in inventories is also evidenced by the following table prepared by the Department of Commerce:

Manufacturers' inventories, by stages of fabrication¹

End of month	Raw materials	Goods in process	Finished goods	Total
1939: December.....	\$4,515,000,000	\$1,880,000,000	\$4,255,000,000	\$10,650,000,000
1943: June.....	8,057,000,000	4,413,000,000	4,349,000,000	17,219,000,000

¹ Classification by stages of fabrication is as reported by manufacturing companies and does not necessarily reflect economic stages of fabrication.

While manufacturers' inventories of finished goods remained almost stationary, inventories of raw materials increased by 73 percent and inventories of goods in process increased by 155 percent. There would be an even greater disparity in these figures, if it were not for the fact that the declining inventories of civilian goods and the decreasing rate of manufacture of such goods tended to offset a large part of the increase in inventories of war goods.

At this stage of the war, the procurement agencies have had the benefit of several years of experience, and are much more nearly able to determine their needs. Also, the manufacturers have produced the articles and should now be able to determine exactly what materials they will need, and when they will need them. There is, therefore, no longer the same excuse for having so large a backlog of raw materials, semifinished materials, and parts.

Every effort should be made by the War Production Board, the procurement agencies themselves, and industry to reduce the amount of such materials to a minimum. To the extent that the controlled materials plan has been put into effect and is working, there is little excuse for any contractor having in his possession more materials than those allocated under that plan. Consideration should therefore be given to disallowing any payment upon termination of contract, for materials in excess of those permitted under the controlled materials plan, except where the accumulation of excess materials was specifically authorized.

DISPOSITION OF SURPLUS MATERIALS

Even if inventories are reduced to a minimum, the Government will have to face the problem of disposing of huge stocks of materials. This might be done through the organization of a Surplus Commodities Corporation, which might be engaged in liquidating operations over a number of years. It might also be done through the procurement

agencies themselves. The latter procedure would have the disadvantage that there might be different policies followed by the several different agencies and that they might operate without full knowledge of the activities of each other. Any such liquidating operations would constitute a specialized marketing job bearing no relation to a military function and would have a major effect upon markets and market prices. If the inventories are very large and the market job unskillfully done, the markets and the confidence of business might be so seriously disturbed as to retard conversion from war time to peace time production. This happened in 1920-21 after the last war, and a number of businesses failed because of large inventories and the inability to dispose of them in competition with the Government at prices approaching the wartime costs of acquisition.

Consequently, every reduction in inventory or in materials and parts, warehoused or in course of production, that we can make between now and the end of the war will not only reduce the cost of the war, but will have a substantial and beneficial effect upon post-war conversion. We must not use scarce materials and even scarcer manpower to create parts and semifinished articles, the chief effect of which will be to depress our post-war economy.

The War and Navy Departments and other agencies of the Government will also possess large tracts of real estate acquired for war purposes, much of which will have to be reconveyed for private use. Arrangements for this purpose will have to be made.

REMOVAL OF GOVERNMENT PROPERTY FROM PRIVATE PLANTS

Many private plants have machine tools, dies, jigs, and fixtures which were installed for the purpose of enabling the plants to produce war matériel, but the title to which is in the Government. In many cases such articles, plus the inventory of parts and materials, occupy a considerable portion of the floor space and would have to be removed before steps could be taken to make the private plants ready for the production of peacetime goods.

When private plants were converted to the production of wartime goods, the owners were dealing with their own property and could issue orders for its immediate removal, even though in many cases there were no storage facilities and the articles had to be stored in the open, subject to deterioration from weather.

In approaching the comparable problem of converting back to the production of peacetime goods, the corporations will be hampered by the necessity of obtaining Government permission to remove the articles. If there is delay in the granting of such permission or if the permission is made conditional upon obtaining warehouse facilities which may not be available, substantial delays might occur which, in the aggregate, would have a deterrent effect upon industry.

To avoid such a situation, plans should be made now by the procurement agencies involved and procedures determined so as to permit the expeditious removal of Government property from private plants.

NECESSITY OF PROVIDING WORKING CAPITAL FOR BUSINESS

There necessarily is a lag between the time when plants are tooled, jigs and dies are built and materials are acquired for processing on the one hand, and the time when finished articles can be delivered and the payment therefor received. During this interval, business must have sufficient working capital to finance the operations. Our pre-war production for the years 1935 through 1939 averaged only about \$82,000,000,000 per year, as contrasted to approximately 100 billions in 1929 and approximately 188 billions estimated for 1943.

We hope that after the war we will have a civilian business very much greater than that during the pre-war peacetime years. The Department of Commerce has estimated for 1946 that it would be 142 billions expressed in 1940 prices. Yet the working capital of our corporations is geared to a peacetime economy of only 82 billions.

Some corporations have been able to improve their financial position during the war by reason of the profits which they made during the war, but, by and large, taxation and renegotiation and the efforts of the procurement agencies to prevent excessive profits have prevented corporations from greatly increasing their working capital at the expense of the Government.

This is as it should be, because we have been determined that there should be no profiteering in this war. The Congress has taken various tax actions which will assist corporations in meeting post-war problems. These include provisions for accelerated depreciation, and amortization of emergency facilities, for adjustment of taxable income retroactively to reflect changes in inventory values and to cover a 2-year instead of a 1-year period. But with all these steps, many corporations will not have sufficient reserves.

In order to provide part of the reserves which such corporations would have to have after the war, Senator Carl Hatch, chairman of the subcommittee on renegotiation of this committee, introduced an amendment to the renegotiation statute, by which he suggested that the tax law be amended so as to provide:

- (1) That reserves claimed by taxpayers in amounts not exceeding 20 per centum of their taxable income shall be deductible as an operating expense in computing Federal income and excess-profits taxes, subject to the following conditions:
- (2) that the amount set aside in such reserves be invested in a special issue of nonnegotiable, non-interest-bearing government bonds, redeemable at any time prior to a date 18 months after the cessation of all hostilities;
- (3) that simultaneously with the liquidation of such securities, the taxpayer must return the amount derived from such liquidation to his taxable income for the year of liquidation.

This plan has the advantage that it automatically differentiates between those contractors who have a serious post-war expense and declining income problem and those who have not. The former would get the maximum benefit of this provision, while the latter would get little or no benefit from it. Moreover, the plan would keep all moneys required for these intangible post-war items now in the form of Government securities, making such funds completely available for war purposes until they are actually needed for post-war purposes.

The committee has checked with a number of the corporations to ascertain the extent to which they believe that reserves should be set up now for post-war purposes, and from an examination of the returns of some of those corporations is of the opinion that such a provision would constitute a major assistance to corporations which in fact will have large post-war needs without providing a vehicle for the escape from taxation of those obtaining excessive profits.

On the whole, the interests of business have been well safeguarded where they are consistent with fairness to the Government. The difficulty of working capital arises because business has been expanded with Government capital during the war, and we want it to continue to function after the Government ceases to provide, as it does now, an unlimited buyer and prompt payment for all that can be produced.

During the war, business has obtained relatively little additional private capital from the flotation of security issues.

In addition, business will probably require more working capital proportionately than it did in the years 1935 through 1939. During that time, business operations had become relatively stabilized. Through the extension of part-time payment plans and other special means of financing, and the working out of an elaborate program of commitments for the purchase of products by dealers and distributors prior to their manufacture, business in general had reduced the amount of working capital required.

When we seek to convert war production to peacetime production, many corporations will find that their marketing organizations and practices will have to be modified substantially; others will find that it will be necessary for them to carry the cost of production for a longer period than they have previously been accustomed to; and some will be new businesses which had little or no pre-war experience or marketing organizations. The latter category includes the aircraft industry, which has grown from a very small industry to a very large one, and which will have to have large sums for working capital if it hopes to enter post-war competition with other major industries in the United States.

Many of these corporations have argued in connection with the renegotiation of their profits that they should be allowed to retain sufficient sums to provide working capital to do business later. This argument, of course, amounts to a request that the Government allow them excessive profits on the theory that the economy would benefit by their being sound, healthy companies capable of engaging in profitable post-war operations which would produce employment and provide articles necessary for civilian use.

There may be some justification for this position, but it is unfair to existing businesses and to the taxpayers to subsidize their competitors at taxpayers' expense, and primarily the obligation is on the corporations that need working capital to seek and obtain funds for that purpose on their own initiative.

To the extent that it is possible, the additional working capital which is needed should be obtained through the sale of bonds and stocks to private investors who have confidence in the corporations in question and are willing to invest in their future. To the extent that private banking has the facilities to bring such investors and the corporations together, it should be encouraged to do so. Measures to expedite and facilitate this should be considered and adopted where consistent

with the protection of the investing public against a repetition of the financial frauds and excesses of the twenties.

However, it will be difficult if not impossible for private banking to provide sufficient working capital soon enough. It will, therefore, be necessary for the Government to formulate plans to supplement private banking. Some agency, such as the Reconstruction Finance Corporation, will have to be ready to provide working capital quickly to worthy business corporations which would otherwise not be able to obtain it. This should be confined, as was the Reconstruction Finance Corporation, to strictly banking operations and should not be used as a vehicle to place the Government in business or by which the Government would determine the articles to be manufactured or the prices to be paid for them. In short, it should supplement private banking where private banking is not able to do the job, but should not try to supplant it or to place the Government in control of business.

Every effort should be made to induce the corporations to obtain their working capital through the investing public and not by loans from a Government agency. In order to accomplish this purpose, consideration should be given as to whether Government loans or loans guaranteed by the Government should not bear a higher interest rate than private loans and as to whether the profits to be made by corporations with working capital loaned by the Government or guaranteed by the Government should not be taxed at a higher rate.

It is vitally important that the standards upon which such loans can be obtained should be determined as soon as possible, so that corporations could determine now whether they would be eligible for Government loans and, if so, the amounts which they could borrow and the terms upon which they could borrow.

In general, the corporations which we relied upon for the production of war goods and which made good records in such production, ought to be regarded as worthy of financial assistance through loans for working-capital purposes, so long as care is taken to provide practical banking standards for the protection of the Government, and to prevent favoritism or discrimination in the distribution of funds.

ACQUISITION OF GOVERNMENT-OWNED PLANTS AND FACILITIES

Many corporations will want to acquire, by lease or purchase, the right to use for civilian production plants and facilities erected at the expense of the Defense Plants Corporation or the War and Navy Departments. In many cases, the contracts for the construction and management of the plant and facilities provide specific terms upon which they can be acquired. These were agreed upon at the time that it was determined to erect the facilities and would not necessarily bear a proper relation to the value of the plant or facility at the end of the war. Many other contracts simply provide that the corporation operating the plant or facility can have the plant or facility if it equals or betters all other offers.

It must be recognized that the value of the plant or facility is not its cost to the Government. In the first place, construction costs are considerably greater in wartime than in peacetime. In the second place, the facilities were specially designed for the production of particular war items, and an equal expenditure of materials and labor for facilities specially designed for particular peacetime goods would produce a plant superior for that purpose. Government must,

therefore, be prepared to lease or sell these facilities in accordance with a realistic understanding of their true value to those interested in acquiring them. If the Government asks too much for these facilities, they will not be acquired by private business, and their entire cost will have to be written off as loss. This would not only greatly increase the cost of the war, but it would prevent the utilization of these facilities, the finest and most modern in the world, to provide jobs for returning soldiers and sailors and to produce, in mass quantities, the civilian goods necessary to maintain and increase the standard of American living.

At the same time, there must be no gift of Government-owned facilities to favored corporations, and the contracts for the construction and operation of such plants should not permit competitive advantages to one corporation or industry at the expense of another. To prevent this, the committee, since its inception, has checked and rechecked a number of the principal contracts for the construction and operation of Government-owned plants and facilities. The committee has been particularly interested in making certain that the plants, as constructed, will be capable of operating at least as efficiently as those owned by private industry.

The committee believes that corporations engaged in operating Government-built plants should be giving consideration now to the extent to which they could utilize such plants in peacetime operations, and should negotiate now with the Defense Plants Corporation for the purpose of ascertaining the terms and conditions upon which such plants could be made available to them after they are no longer needed for war purposes. Here again, the procurement agencies should give as much notice as possible of the date when the plants can be made available.

Since most of these corporations have insufficient working capital, it is quite clear that most of them could not afford to pay cash for Government-owned plants operated by them until and unless they can obtain additional capital by the sale of stocks and bonds to private investors. This would take time. For this reason, it is desirable that arrangements be made for leasing such plants to the private corporations operating them upon fair terms, which might include an option on the part of the lessee to purchase the plant within a specified time and to apply rentals paid under the lease as part payment of the purchase price.

It has also been suggested that the Government might attempt to value the plant for peacetime uses and then sell it under an arrangement whereby the corporation would pay for it over its useful lifetime by annual payments equal to the amortization plus interest on the unpaid balance.

INTERNATIONAL SITUATION

Our domestic economy will be greatly affected by the determination which is to be made of our international problems.

If there is to be an international police force, our military forces will have to determine the nature of the equipment to be supplied to our portion of it. In those categories where obsolescence is greatest, plans will have to be made for new weapons, for this war has established the absolute necessity of developing new and better weapons in advance of all possible enemies.

We know now that we can build airplanes with longer range and greater weight-carrying capacity, equipped with lighter and more powerful engines, and that we can build lighter and faster naval craft.

A limited and sound program in this direction would be good insurance and would prevent the scattering of engineering and design talent that is essential to the development of superior military matériel. We must not, like France, rely upon a vast mass of warehoused obsolete matériel or, like England and ourselves, upon our ability to produce and fabricate huge quantities of the basic raw materials.

Many of our industries, particularly agriculture, will be greatly dependent upon the extent of our foreign trade, which, in turn, will depend upon the policies we adopt with respect to lend-lease and rehabilitation. Such programs are now so huge that their sudden termination would have serious effects upon important parts of our economy, and yet their maintenance constitutes a most serious burden upon our taxpayers and, in some cases, a serious drain upon limited natural resources.

Consequently, these programs should be determined as soon and as definitely as possible and made known to industry and to the public. Furthermore, every effort should be made to reduce the cost to our taxpayers to a minimum, both by obtaining reverse lend-lease, and by compelling the recipients of lend-lease to utilize the resources they have to a maximum before requesting aid from us. In the latter connection, we should never forget that lend-lease was originally authorized by the Congress, solely because the English and others whom we desired to assist did not have sufficient American exchange to purchase materials needed by them. Lend-lease was never intended as a device to shift a portion of their war costs to us, but only as a realistic recognition that they did not have the means with which to pay for materials they needed.

Before authorizing lend-lease, the Congress expressly requested and received assurances that lend-lease assistance would be extended only where the recipient was fully utilizing all of its own resources. Such resources, of course, include foreign-held American securities and foreign-held securities which control basic raw materials abroad.

For example, if England cannot pay us dollars for petroleum needed by her and cannot, by reason of a shipping shortage or other situation, procure the petroleum she needs from the petroleum resources she controls in Asia, South America, and the Dutch East Indies, consideration should be given as to whether she should not pay for the petroleum obtained from us by transferring to us her ownership of an equivalent value of foreign petroleum reserves or of the English-held securities of the corporations having title to such reserves.

Similarly, we have had to supply rubber and rubber products to England, which did not build an adequate stock pile and which, through the English and Dutch controlled International Rubber Regulations Committee, hindered Mr. Jesse Jones in his efforts to obtain a stock pile of rubber. (See Committee report on Rubber, dated May 26, 1942, pp. 25-30.) Consideration should be given now as to the terms and conditions under which any such rubber monopoly should be continued after the war. We should insure that we will never again be the victims of a plan like the Stevenson

plan, by which we were forced in the twenties to pay exorbitant prices for rubber at the same time that we were being called shylocks in the English press for requesting repayment of war loans which we had made to England.

Attention should also be given to the possibility of acquiring rights in the deposits of British-owned resources of nickel, copper, tin and iron in countries outside England, and the right to receive manganese from Russia after the war in return for lend-lease articles furnished to it now.

LABOR

No business can determine the cost of its products, and consequently, the selling price, until it knows the conditions under which labor can be obtained, because the cost of labor constitutes a large portion of the cost of production. During the war, the cost of living, particularly the cost of food and clothing, rose very much above the levels prevailing in peacetime, and labor naturally asked for increases to compensate it. The increases that were obtained differed with different trades and with different sections of the country. Also, the actual working time was greatly increased in most war industries, with payment of overtime for work in excess of 40 hours per week, and a consequent increase in the total wage or "take-home" per week.

The return to peacetime operations will require many wage adjustments. Business must be fair to labor, but labor will have to take a realistic view of the situation. Specifically, it must understand the importance to labor of stabilizing working conditions in a manner that will permit increased production and a widespread distribution to labor of the articles produced. In wartime, additional labor costs are absorbed by the Government. In peacetime, they have to be taken out of profits or added to prices. Many industries will not have a sufficient profit margin and will not be able to increase prices and still sell their products in competition with other products filling similar wants. A demand for too much in such an industry would simply result in closing the plants.

Much will depend upon the courage and ability of leadership in labor. Labor leaders will find it difficult to walk the tightrope of getting the best terms possible for their members and at the same time take a realistic approach to hard facts, often made more difficult by lack of control over their members and by fear of raids by rival unions.

The great gains which labor has made must not be imperiled. But labor, like business, must recognize and fulfill its obligations to society. The alternative is Government regulation. The decision rests with labor.

The problems facing labor leadership are further complicated by the industrial progress made as a result of war activities in developing new materials and new processes. This means either that some of the craft unions will have to make new determinations of their several jurisdictions and the conditions under which they work, or that they will insist upon a continuance of the present situation. The latter course, in many instances, would result in jurisdictional disputes, and possibly even the failure to obtain production of new articles or of old articles by cheaper means.

This situation will be especially acute in the housing industry, where prefabrication and the use of new materials have an opportunity to revolutionize housing, with the result that every worker in the United States would have an opportunity to have improved housing for his family. To do this, however, it will be necessary to revise some municipal building codes and some of the conditions under which the building trades operate. If possible, such revision should be made by the building trades, themselves, so as to protect all the rights of labor and, at the same time, to enable them and all other laborers to have better housing. If progress along these lines can be made, housing can become a great industry, particularly useful in providing jobs during the period of conversion from wartime industry to peacetime production.

PUBLIC WORKS PROGRAM

It is also important that the State and local governments give consideration now to programs for the construction of public works such as highways, schools, slum clearance, and sewer and water projects. These projects are of secondary importance when compared to those of private industry for the production of consumer goods. The latter are essential to a sound economy, but public works projects, if planned now, can be undertaken immediately after the termination of the war, and would provide cushion jobs until private industry is able to get into production.

November 5, 1943

Fred Smith
The Secretary

In connection with my speech for November 18th before the Advertising Group, I have noticed in the last few days pages and pages of advertising of the Bethlehem Steel advertising that they have built a Destroyer Escort in 25 days. It would be interesting to know what, if anything, they've done at the plant where this Destroyer, the Reynolds, was built. It was built at the Bethlehem-Hingham Shipyard. My suggestion is that we send somebody from War Bonds up to the Bethlehem-Hingham Plant tomorrow and see what, if anything, they've done to inform the workers about this plant's 25-day record. Have they done anything to advertise to the workers? Or is it just that they have taken these pages in the newspapers? If you think well of the idea, please do something about it tomorrow.

*Smith is holding this report
until he finishes with the message - Finished -
Per Hep 11/18/43 -*

November 5, 1943

Dear Mr. Fulton:

I want you to know that the Treasury Department is once again deeply appreciative of the generous and patriotic cooperation displayed by the Outdoor Industry in helping to make the 3rd War Loan, the greatest financial undertaking of all time, an outstanding success.

I hope you will convey to the members of your Industry my sincere thanks for their great work in bringing home the War Bond message through the important medium of Outdoor Advertising.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. K. H. Fulton, President
Outdoor Advertising Association
of America
60 East 42nd Street
New York, New York

eg

November 5, 1943

Dear Mr. Gamble:

That the 3rd War Loan Drive was such an outstanding success is due in no small part to what our figures reveal is by far the largest advertising campaign the world has ever seen.

Credit for this astounding barrage of promotion belongs to national and local advertisers, the various media, advertising agencies, and the advertising profession in general.

Through you, I would like to express to the advertising agencies of America my deep and sincere appreciation for the important part they played in this great undertaking.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Frederic Gamble
American Association of
Advertising Agencies
420 Lexington Avenue
New York, New York

eg

November 5, 1943

Dear Mr. Tripp:

I would like to express to you, and through you to the Allied Newspaper Council and to every daily and weekly newspaper my very great appreciation for their tremendous support in the 3rd War Loan Drive, in their advertising, news, and editorial columns.

Here, indeed is a record of which not only newspapermen, but all America, may well be proud.

Sincerely,

(Signed) H. Morgenthau, Jr

Mr. Frank Tripp
The Gannett Newspapers
Elmira, New York

eg

November 5, 1943

Dear Mr. West:

I would like to express, through you, the deep appreciation of the Treasury Department for the splendid assistance rendered by hundreds and hundreds of national advertisers in the recently completed 3rd War Loan Drive.

This largest financing of its kind in all history could not have succeeded without corresponding advertising and promotion. The heaviest barrage of all was that laid down by the countless national advertisers who utilized every known advertising medium to "Back the Attack".

I am deeply grateful for the vital and important part which they played in this undertaking.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Paul West
Association of National
Advertisers
330 West 42nd Street
New York, New York

eg

November 5, 1943

Dear Mr. Rubicam:

The success of the 3rd War Loan was due in no small part to the quality of its promotion, which you and the people of your agency helped to forge.

I would like to express to you, therefore, my deep appreciation for this valuable assistance rendered to the Treasury Department. That this assistance was rendered without charge makes it even more momentous, and I hope you will convey my sincere thanks to all who participated in this great undertaking.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Raymond Rubicam
Young & Rubicam, Inc.
285 Madison Avenue
New York, New York

eg

November 5, 1943

Dear Mr. Grady:

The success of the 3rd War Loan was due in no small part to the quality of its promotion, which you and the people of your agency helped to forge.

I would like to express to you, therefore, my deep appreciation for this valuable assistance rendered to the Treasury Department. That this assistance was rendered without charge makes it even more momentous, and I hope you will convey my sincere thanks to all who participated in this great undertaking.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. E. J. Grady
Executive Vice President
Ruthrauff & Ryan, Inc.
405 Lexington Avenue
New York, New York

eg

November 5, 1943

Dear Mr. Corrigan:

The success of the 3rd War Loan was due in no small part to the quality of its promotion, which you and the people of your agency helped to forge.

I would like to express to you, therefore, my deep appreciation for this valuable assistance rendered to the Treasury Department. That this assistance was rendered without charge makes it even more momentous, and I hope you will convey my sincere thanks to all who participated in this great undertaking.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Emmett Corrigan
Chairman of the Board
Albert Frank-Guenther Law, Inc.
131 Cedar Street
New York, New York

eg

November 5, 1943

Dear Mr. LaRoche:

The success of the 3rd War Loan Drive was due in no small part, I am sure, to the valuable assistance rendered the Treasury Department by the War Advertising Council.

I would like to take this opportunity to thank you once again for the patriotic and unselfish work which you are doing. Your consistent aid has made the problem of war finance a great deal easier than it would be without you.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Chester LaRoche
War Advertising Council, Inc.
60 East 42nd Street
New York, New York

eg

MEMORANDUM FOR THE SECRETARY.

November 5, 1943.

Mail Report

Everything was very quiet on the correspondence front during the past week. The mail was so light and so much like that of preceding weeks that there is little to report, and only a few quotations from letters are attached.

There was scattered opposition to the tax proposals of the Treasury, and, in general, to higher taxes. There were a few questions about deductions and refunds, but even the postal card campaign endorsing the CIO tax program was dormant. Some 25 writers suggested sources for further revenue, the only new idea being that of a heavy tax on the hormone preparations now purchased by many of the well-to-do who are advancing in years!

In the Bond mail questions as to procedures ran as usual, but suggestions for increasing sales and complaints about delays dropped sharply. The 30 reports of failure to receive interest when due, though above normal, represents only half the number received last week. Complaints from personnel of the War Department fell to 20, the lowest figure for many months. Also, the number of Bonds submitted for redemption -- 46 in all -- was less than returns for some time.

The general mail contained a few unfavorable references to the Secretary's trip abroad. There were 7 protests, all transmitted by Congressmen, against the Salary Stabilization Amendment. The few comments on the Bankhead Advertising Bill were evenly divided as to approval and disapproval. There were 1 or 2 letters opposing the proposal to increase postal rates. This week we had only 2 applications for the position of top flight salesman in the Sicilian area. There were numerous communications about the census of foreign-owned property, largely routine but a few protesting its necessity or usefulness.

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Memorandum for the Secretary.

November 5, 1943.

During October we received 506 communications from the White House, of which 230 were acknowledged in this office. This is the highest figure of monthly receipts except for that of October 1942, when the White House sent 1,128 for handling here. The receipts of this month included a number of the postal cards advocating the CIO tax program.

W. F. Fairbank

General Comments

S. J. LaDue, White Ice Cream Company, Minot, N.D. We live in a section where the Farmers' Union is very strong, and we have Government financed creameries, grocery and general stores, poultry plants, lumber yards, and even undertaking parlors, all financed by cheap Government loans, either directly or through the famous (or infamous) Land O'Lakes organization with home office at Minneapolis, Minn. * * * There is now a Co-operative Creamery here called the Equity Cooperative Creamery, with headquarters at Aberdeen, S.D. The Government made a loan on this plant and the one at Jamestown, N.D. for, in our opinion, more than the cost or replacement cost of the plants. * * Now comes the Minot Farmers' Union which financed either directly or indirectly through Governmental agencies, proposes to start another co-operative creamery in this city. They are trying to put out the Equity Union local creamery, but failing to do this, announce their intention to either buy out, if they can, some local creamery, or else start a new one. * * * We understood that no co-operative would be Government financed where there was already a co-operative in the field, or where there were already sufficient privately owned creameries to handle all the business in any given territory. * * * To us there seems no justice or fairness in loaning Government money to set up co-operatives in any line of business, up to 100%, which you as a banker would not consider for a minute, and at rates lower than private business can command. * * * To add injustice to injustice, these co-operative corporations are exempt from Federal taxes! Why should they be tax-exempt? More and more such organizations, Government spawned, are being formed. And the Federal Government loses more and more taxes and helps put out of business the co-operatives' competitors, most of which pay a double tax, first on the corporation, and again on the dividends paid the stockholder. Out of the non-taxable profits of the co-operative, a very nice dividend can be paid the stockholders, and a fine showing made

- 2 -

to the stockholders, while the corporation, after paying income taxes, may have no net profits with which to pay its stockholders dividends. * * * The Government is losing and has lost money on loans to co-operatives, and is losing taxes and will continue to lose taxes in greater and greater amounts unless the laws are changed and the Governmental agencies quit loaning money on a basis not consistent with sound banking practices.

Copy of telegram sent to the President by A. N. Spanel, International Latex Corporation, N.Y.C. * * * In this morning's Herald Tribune Mark Sullivan hits a new all-time journalistic low. He viciously slaps at every freedom loving American and his sons who are fighting and dying in the cause of human freedom everywhere. * * * It is the more vicious because he snares the reader with a disarming and engaging backyard nature story that will no doubt be reprinted in full by the Goebbels and Tojos whose present line Sullivan sneak-punches over on his fellow Americans. It is our understanding that many columnists are syndicated to official service publications that go to our fighting men. If so, this morale destroyer column should either be killed or publicly branded for what it is. * * *

Congressman Albert E. Carter (California) forwards a letter he has received from the E. B. Field Company, (Real Estate - Insurance) Oakland, Calif., which reads as follows: May I add my protest to the many others which you undoubtedly are receiving to the ruling of the Treasury Department limiting the income of commission salesmen. I am an Industry Member of the Regional War Labor Board, so I am thoroughly familiar with the President's Executive Orders, and the only order which would apply to this would be #9250, Oct. 3, 1942, which limits only the percentage that can be paid. Therefore, the Treasury Department ruling means that they are planning on collecting additional tax, which is unauthorized. It is my belief that Congress is the tax-making body, and the only one. I will give you an example of the unfairness of this. One of my salesmen was ill half of 1942 and his earnings were small. This year he is in good health and will double his earnings. * * *

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Favorable Comments on Bonds

Ralph W. Wright, Director of Music, Indianapolis Schools, Indianapolis, Ind. May I commend you for the program, as a part of your Department, in promoting community singing. In the Indianapolis Schools, we distributed the song sheets, "Songs for the Home Front", at the beginning of school in September. The heartiest response from the pupils in the singing of these songs was apparent from the beginning. We considered the singing of these songs a project in morale building, as well as one of stimulating the sale of Stamps and Bonds. The response in the purchase of Stamps and Bonds in our schools speaks well for the stimulus given through the singing of these songs. In September, the pupils of our schools purchased many times the amount of Stamps and Bonds that they did a year ago. * * * I believe the program which you established through Mr. Augustus Zanzig gave the original impetus which has resulted in the increased purchase of Stamps and Bonds. * * *

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Unfavorable Comments on Bonds

Gardner Campbell, Wakefield Daily Item, Wakefield, Mass. (Letter dated October 28.) On October 5 we wrote to you asking if there were available any mats which could be used for general War Bond advertising, excluding any that were issued for the Second or Third War Loans, as we already have used those. We explained that we have a solicitor who is trying to put out a series of at least 26 pages to be sponsored by 75 or more merchants and industrialists in Wakefield, Mass. We have had no reply. Sometime ago we complained because the Treasury was wasting paper and mats in sending out certain kinds of publicity to the press without knowing whether or not the newspapers could use it -- ours being one. We received a reply that it was not the intent to waste the people's money and that if we didn't want the stuff, it would be suspended. It has continued to come along -- just as we expected. Now when we really want something we could use and which would be of benefit to the Government, we get no reply to an inquiry. * * *

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Unfavorable Comments on Taxation

Mrs. M. J. Gaines, LaJunta, Colorado. Enclosed is a certified copy of Otero County expenditures for Sept. Specially marked in the list are the amounts which the county pays to the Treasury as the withholding tax of their various employees. Is this legal to pay out of county funds these taxes for their employees? Crowley to the north of us does not; neither does Pueblo nor Bent. * * * It is not fair to the small taxpayer, who in many instances has smaller incomes than those received by county employees, to have to pay these additional taxes as well as their own. If the county has a surplus of funds, then why are not the taxpayers benefited by lower assessments or lower rates of taxation? It is a most unfair practice and though I am a Republican, and all the employees of the county are also, I thought it best to have your decision on it. Many people are greatly incensed over the situation. Comments have been made in various papers.

C. T. Sears, Springfield, Mass. I am interested to learn what we low income taxpayers are entitled to, and will get in the way of cash refunds from your Department, from this combination of Victory tax and Income tax deductions from our daily wages. I happen to be a building tradesman, namely a painter, and our scale of wages here is no higher now than in 1928-29-30, and the cost of living then did not begin to equal the out of reason high cost of living at present, yet we are unable to get higher wages because of the Little Steel Formula, and the War Labor Board. We are deprived of ability to purchase necessary and accustomed amounts of food items and meat, that has always made up our daily diet, by O.P.A. * * * Before the 20% deductions went into effect I could save a few dollars for a rainy day, but now it takes all my wages for existence and clothing, high rents, etc. Yet to the present date the deductions made from my wages at the 20% rate have exceeded more than what my

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actual net income tax for a year would be after taking the deductions allowed by law. What I want to know is the Government going to actually keep these surplus wages of mine that I have worked hard for? * * * If this be true, then in my opinion there is no further need for one to continue working for wages he earns and does not get. * * *

Stanley Switlik, Switlik Parachute Company, Trenton, N.J.
* * * The writer has a contract as Consulting Engineer to a parachute company in Canada, under the terms of which he is to receive \$2.00 per parachute. The contract was made offering my name and knowledge to help form a parachute factory, and using my advice, for a period of three years. The first year I received around \$20,000. * * * This money was deposited to the writer's account in Canada; however, it is frozen there, and cannot be forwarded to me in this country. Yet I must pay income taxes to the United States Treasury on the basis of the income received in Canada. I am in the high brackets, viz. 6% income, 82% surtax, and 5% Victory Tax -- which total 93%; and therefore on deposit of \$20,000 I must pay \$18,600.00 in United States currency for taxes, although everything is tied up in a foreign country. My contract expires this month, and I was approached by the same concern to accept it on the same basis as previously. I refused, as there is no incentive for me to sign a contract for practically no compensation at all. It would not be so bad if I could bring this money into this country and use it, but as it is, I must tie up 93% of my funds here for whatever stays in a foreign country. I was approached by some other foreign governments for advice and help in organizing parachute factories; however, instead of making anything, it would actually cost me money to tie myself to such contracts, and therefore I refused these also. I know of quite a few other individuals and concerns who are in the same position. I would therefore suggest that income for royalties and services performed in foreign countries

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be separated from general income, and taxed on a different basis, say 50% of the regular income. This would provide some incentive for a man to go out and sell his foreign services; and in my estimation the more contracts that are thus made by consultants and professional men to foreign countries, the more American trade would follow. * * *

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

November 5, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended October 27, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

ELMB

FEDERAL RESERVE BANK
OF NEW YORK

November 4, 1943.

CONFIDENTIAL

Dear Mr. Secretary:

Attention: Mr. H. D. White

I am enclosing our compilation for the week ended October 27, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended October 27, 1943

Strictly
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)									COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	D E B I T S			C R E D I T S						D E B I T S			C R E D I T S			
	Total Debits	Transfers to Official British A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in \$Rnds(e)	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$Rnds(e)
First year of war (a)	323.0	16.6	306.4	304.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	5.1	+ 4.9
Second year of war (b)	477.2	16.6	460.6	707.4	524.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Third year of war (c)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Fourth year of war (d)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	+ 5.0
1943	723.6	-	723.6	958.8	47.1	170.4	-	741.3	+ 235.2	197.0	155.1	41.9	200.4	-	200.4	+ 3.4
Sept. 2 - Sept. 29	46.4	-	46.4	65.1	-	10.6	-	54.5	+ 18.7	15.8	14.0	1.8	4.8	-	4.8	- 11.0
Sept. 30 - Nov. 3																
Nov. 4 - Dec. 1																
Dec. 2 - Dec. 29																
Oct. 8	4.9	-	4.9	20.6	-	-	-	20.6	+ 15.7	17.1	16.0	1.1	21.1	-	21.1	+ 4.0
October 13	6.1	-	6.1	11.4	-	-	-	11.4	+ 5.1	8.2	8.0	0.2	0.6	-	0.6	- 7.6
October 20	5.1	-	5.1	13.5	-	-	-	13.5	+ 8.4	0.1	-	0.1	3.8	-	3.8	+ 3.7
October 27	8.0(f)	-	8.0	21.6(f)	-	-	-	21.6(f)	+ 13.6	-	-	-	15.5(h)	-	15.5(h)	+ 15.5

Average Monthly Expenditures for

First year of war	6.2 million.
Second year of war	8.9 million.
Third year of war	10.1 million.
Fourth year of war	13.9 million.
Fifth year of war (through October 27, 1943)	8.8 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.
 (b) For monthly breakdown see tabulations prior to October 8, 1941.
 (c) For monthly breakdown see tabulations prior to October 14, 1942.
 (d) For monthly breakdown see tabulations prior to September 29, 1943.
 (e) Reflects changes in all dollar holdings payable on demand or maturing in one year.
 (f) Does not reflect transactions in short term U. S. securities.
 (g) Includes \$ 3.4 million deposited by War Supplies, Ltd. and \$18.0 million received from N.Y. accounts of Canadian Chartered Banks.
 (h) Includes \$15.0 million held for credit of the U.S. armed forces.

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Strictly
Confidential
Week Ended October 27, 1943

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)									BANK OF FRANCE			
	DEBITS				CREDITS					Net Incr.(+) or Decr.(-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expendi- tures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of		Transfers from Official Australian Account	Other Credits (c)				
						Gold	Securities (Official) (b)						
First year of war(a)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,424.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war(b)	2,205.0	1,392.2	3.4	1,071.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war(c)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+ 125.9	18.5	4.4	- 14.1
Fourth year of war(i)	764.0	312.7	170.4	280.9	1,072.3	-	0.5	155.1	916.7	+ 308.3	10.3	1.0	- 9.3
1943													
Sept. 2 - Sept. 29	46.3	15.5	10.6	20.2	78.1	-	-	14.0	64.1	+ 31.8	-	-	-
Sept. 30 - Nov. 3													
Nov. 4 - Dec. 1													
Dec. 2 - Dec. 29													

Average Weekly Expenditures Since Outbreak of War
 France (through June 19, 1940) \$19.6 million
 England (through June 19, 1940) \$27.6 million
 England (June 20, 1940 to March 12, 1941) \$54.9 million
 England (since March 12, 1941) \$20.7 million

See attached sheet for footnotes.

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts. See (k) below.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) For monthly breakdown see tabulations prior to September 29, 1943.
- (k) Includes \$ 3.0 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports, and \$25.8 million to be held for credit of U.S. armed forces abroad.

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BRITISH MOST SECRETCOPY NO. 12OFFEL No. 363

Information received up to 10 PM 5th November, 1943.

1. NAVAL Home Waters 3rd/4th. During action off Dutch Coast enemy losses were one trawler sunk, one cargo ship and Trawler set on fire, 2 E-Boats seriously damaged.

Mediterranean 3rd. 2 of H.M. Destroyers supported 8th Army attack by successful bombardment.

Levant Stores and personnel landed LEBNUS nights 3rd/4th and 4th/5th.

2. MILITARY Italy 8th Army. 3rd. Our troops occupied positions North of SAN SALVO near coast and also ISERNIA.

5th Army. U.S. Troops reached general line from south of ISERNIA to VENAFRO. In coastal sector U.K. troops improved their positions. Lowlands Southeast of river GARIGLIANO flooded by enemy.

Russia Russians captured BILSK (west of DNIPIER 22 miles North Northwest of KIEV).

3. AIR OPERATIONS Western Front 3rd/4th 2180 tons dropped on DUSSELDORF and 248 tons on COLOGNE.

4th/5th. Aircraft despatched GEVERAUSEN (West COLOGNE) 24, AACHEN 4, See Mining 36, (4 missing), 4 enemy aircraft crossed East Coast. No casualties.

Italy 2nd. Medium Bomber dropped 35 tons at CIVITAVECCHIA with good results.

2nd/3rd. Wellingtons dropped 52 tons on airfields 19 miles North North East of ROMA.

3rd. 442 Fighter-bombers, Fighters and light bombers attacked targets in battle area.

Greece 3rd. 45 escorted medium bombers attacked ARAXOS Airfield and destroyed or damaged 8 aircraft on the ground.

OFFICE
SECRETARY OF TREASURY
1943 NOV 6 PM 2 52
TREASURY DEPARTMENT

November 6, 1943
9:55 a.m.

HMJr: Hello.

Sam
Rosenman: Henry?

HMJr: In person. In the flesh.

R: I wanted to say hello. That's all -- and greetings.

HMJr: Goodbye.

R: Goodbye.

HMJr: Hello.

R: Yes.

HMJr: How are you?

R: All right. Are you feeling all right?

HMJr: I feel a little tired but I have a little....

R: Why don't you get up to the farm for a while?

HMJr: Well, we thought -- I'm speaking in New York on the 18th and then I thought I might go up to the farm then.

R: Uh huh.

HMJr: How are things by you yet?

R: They're all right.

HMJr: I hope....

R: (Aside: In a minute.)

HMJr: What?

R: Just a minute, Henry. (Aside: I got it. I'll send it down.)

HMJr: Well, when you have a chance for gossip, I'd like to see you.

R: All right, Henry. There's one thing I wanted to ask you about but (Aside: I'll send it downstairs) I don't want to bother you so soon. You -- sometime

R: Cont'd. ago, to wit: on August 2nd....

HMJr: Yeah.

R:the President sent over to you with a letter a report from SEC on the Empire Ordnance Company....

HMJr: Yes.

R:headed by a man by the name of Cohen....

HMJr: That's right.

R:who is a first class....

HMJr: Yes.

R:and the reason it was sent to you was that there was some question of taxes....

HMJr: Yeah.

R:and particularly a fellow involved by the name of Elisha Walker.

HMJr: Yeah.

R: Now....

HMJr: What's the name of that ordnance company again?

R: Empire Ordnance.

HMJr: Empire Ordnance, yes.

R: Now, Lauch Currie has sort of been handling it here and he's made some inquiries in the Internal Revenue....

HMJr: Yeah.

R:and was told by some of the boys there that it would be months.

HMJr: Oh.

R: That seems absurd.

HMJr: Yeah.

R: And I was waiting for you to get back.

HMJr: Yeah.

R: I know you could jack them up a little.

HMJr: "Accelerate" it is the word.

R: That's the word. It's just absurd. They ought to -- they ought to be able to report by now.

HMJr: Yeah. Well....

R: It's more than two months.

HMJr: I will -- I will -- I know Lauch Currie is interested in it but I'll see what we can do.

R: All right, boy.

HMJr: Did ~~you~~...

R: It's sort of been dumped on my lap.

HMJr: Yeah.

R: That's why I'm calling.

HMJr: That's all right.

R: I'm jacking up the Attorney General, too.

HMJr: Did you ever talk to the Attorney General about a man by the name of Lewis?

R: No. But he talked to me about it.

HMJr: Yeah.

R: And some inquiry came in to Steve....

HMJr: Yeah.

R:as to whether the President was in it.

HMJr: Yes.

R: He wasn't.

HMJr: Well, is anything going to happen?

R: From what he said, it doesn't seem very likely.

HMJr: I see.

R: Everything's a very weak case.

HMJr: Uh huh.

R: He also said this Empire Ordnance was a weak case.

HMJr: Uh huh.

R: By God, that's no weak case, I'll tell you.

HMJr: Oke-doke. I'll get right on it.

R: When -- Henry, when you have some time I'd like to come over and hear about your trip.

HMJr: Well, I've got time anytime.

R: Well, what -- you going to be in town next week?

HMJr: Yeah.

R: All right. Well, when would you -- when would you be free?

HMJr: Well, I'm free Thursday. It sounds silly but I'd love to have you Thursday for lunch. I can't give you apple pie but I can give you....

R: Well, what will you give me?

HMJr: Something good.

R: Thursday.

HMJr: Cafiltafish.

R: That's fine. One o'clock?

HMJr: Thursday, one o'clock.

- 5 -

R: All right.
HMJr: I'll look forward.
R: All right, Henry.
HMJr: Good bye.

November 6, 1943
10:00 a.m.

HMJr: Tell Mr. Sullivan that Judge Rosenman wants to know when we're going to have an answer on the Empire Ordnance Company in which Mr. Lauch Currie and he are both interested.

Ellen
Henderson: Empire Ordnance Company?

HMJr: Yes. There's a tax case against them.

H: Judge -- who wants to know?

HMJr: Rosenman.

H: Rosenman?

HMJr: Yes. And Lauch Currie. Who is this?

H: Miss Henderson.

HMJr: Oh, you don't know the names?

H: No. He'll know them.

HMJr: You haven't ever heard of Judge Rosenman?

H: No.

HMJr: Well, he's the President's personal counsel.
Do you know who Lauch Currie is?

H: Well, I've heard of him but I don't know who he is.

HMJr: All right.

H: All right, sir. I'll tell him.

HMJr: All right.

November 6, 1943
10:09 a.m.

HMJr: Would you have somebody in your organization -- I should think it would be Surrey -- prepare for me so I could have it if possible not later than Tuesday morning, Monday afternoon preferred....

Randolph
Paul: Yeah.

HMJr:the arguments which have been put up in the Ways and Means Committee against the various Treasury proposals. I mean, in other words, if I was preparing for a rebuttal....

P: We already have a memorandum on that. We can perhaps boil it down.

HMJr: Can you?

P: Yes.

HMJr: Well, could I....

P: It's a sort of a rebuttal argument....

HMJr: That's what I....

P:on all the arguments made.

HMJr: That's just what I want.

P: Well, we have it all done but we probably ought to boil it down and put it in a little less technical shape.

HMJr: And would you get it into the hands of Fred Smith as soon as possible?

P: Yeah. We can give him the present one now if he wants to work on it over the week-end.

HMJr: Would you do that?

P: And then we'll have another more revised edition Monday.

HMJr: If you please.

P: All right. Are you in the office today?

HMJr: This morning.

- 2 -

P: Oh, I see. I'm up now at the Committee.

HMJr: Right.

P: Okay.

HMJr: Thank you.

69-A

November 6, 1943
11:00 a.m.

HMJr: Hello.

John L.
Sullivan: Good morning, Mr. Secretary.

HMJr: Good morning, John.

S: In view -- in response to your inquiry about
Empire Ordnance....

HMJr: Yeah.

S:the SEC, about two years ago, was asked by
the President to make a confidential investigation.
We had already sent our files to the Field. The
SEC asked us to stop. They didn't want two investi-
gations going on at the same time. Last August we
received a copy of the SEC report....

HMJr: Yeah.

S:which was mostly conclusions and rumors and not
very helpful.

HMJr: Yeah.

S: We started immediately but had to start anew and
fresh. We've had men working in New York on it
ever since last August. We have a man in Chicago
working on it. We have further investigations to
conduct in Philadelphia, Pittsburgh and Dallas.

HMJr: Uh huh.

S: There's one Congressman who is involved and how
deeply we are not yet sure.

HMJr: Well, how long would it take? That's what Judge
Rosenman wants....

S: It looks like at least four months.

HMJr: My God.

S: Mooney tells me that it's as complicated as the
Annenberg Case.

- 2 -

HMJr: Could you -- can you put any of this in writing?
I mean to give Rosenman.

S: I'll send you a memorandum right away.

HMJr: No hurry. He's coming Thursday and if I could
have it Monday I'll take it up with him Thursday
at lunch.

S: Certainly. Do you think I should put in the
memorandum that this Congressman is involved?
We don't know yet how deeply.

HMJr: I don't think so.

S: I think not.

HMJr: No.

S: Right.

HMJr: Okay.

S: Thank you.

November 6, 1943
11:25 a.m.

Harry White: Hello.

HMJr: Hello. Have you got a pencil?

W: Yes, I have.

HMJr: Well, I've had two chances yesterday to talk to the President about the -- cutting out the French on Lend-lease military.

W: Right.

HMJr: And he said please to pursue it. He'd like us to go through with it.

W: Well, who -- that, I suppose then the next step would be for Crowley to call them in, wouldn't it? And tell them from now on -- isn't that his bailiwick?

HMJr: I should think so.

W: I mean....

HMJr: Well, we can write a letter to Crowley recommending this and say I have spoken to the President about it. Now, let me....

W: Well, that would be the -- that would be the better way since, supposedly, Crowley should get his instructions with respect to the ability to pay from us.

HMJr: Yeah.

W: From then on it becomes his responsibility.

HMJr: Yeah. Now, let me tell you what happened. You know how anxious you and I were to play ball with Crowley?

W: That's right.

HMJr: Well, last night the President said to me, "Oh, by the way, Henry," he said, "Crowley and Jimmy Byrnes stayed after Cabinet and Crowley brought up the question about the English balances."

- 2 -

W: Yeah.

HMJr: And he said -- the President said, "I told Crowley that -- to keep them as they were, not to let them get any higher." Well -- so I said, "Well, it's funny that I was in Cabinet and Crowley didn't ask me, or something, to be there." So the President said, "Well, Crowley said that you were in agreement with him."

W: Yeah.

HMJr: But the point that I'm making is: You and I lean over backwards to play ball.

W: Yeah, I know how you feel.

HMJr: But he and Jimmy Byrnes get to see the President and leave me outside.

W: Yeah.

HMJr: And, after all, let's go back when Crowley was fighting me to get control of Foreign Funds, you remember? And Jimmy Byrnes sided with him, too.

W: Well, I think then the thing to do is to do it through the mail from now on.

HMJr: Uh -- I'd like to give him a little more rope.

W: Yeah.

HMJr: I don't want you to tell this to anybody. I'd just like to see what he does. See?

W: Yeah. Well, the next -- I called him up again yesterday about preparing the materials....

HMJr: Yeah.

W:and they're not quite ready on it. They're going through their various....

HMJr: No, don't -- don't tell this to anybody but I'd like to give him a little more rope.

W: Yeah.

HMJr: It just....

- 3 -

W: All right, I'll do that.

HMJr: See? You sound awful sick.

W: No, it's just -- I'm not sick. It's just cold and I'm going to stay home. I've got a lot of work anyway that I can't do in the office and I'd rather stay home.

HMJr: All right.

W: Haven't been out.

HMJr: But Crowley -- evidently he's going to back-talk me just the way Jimmy Byrnes does.

W: Yeah. Of course -- did he stay after just to see the President....

HMJr: He -- he....

W:on that point?

HMJr:after -- that I don't know -- but after Cabinet when he -- the President came to Crowley, Crowley comes to Cabinet now, and the President said, "Have you got anything, Leo?" And he said I'd like to stay behind with Jimmy Byrnes and talk to you about a matter." Now all I know is that after supper the President told me that he had talked about how much the English balances should be.

W: Well, of course, as it is, the instructions -- the information that you got from the President is not clear. What does he mean? That he would like to keep them at their present level and not....

HMJr: Yeah.

W:raise them?

HMJr: Present level.

W: Does he know that that's higher than his instructions?

HMJr: I'm not....

W: I mean all that might not have been explained to him.

- 4 -

HMJr: I'm sure it wasn't. But here's the thing that I want -- the seed that I want to plant in your mind. I wouldn't hold it beyond those people at all to tell Congress, "Well, the Treasury didn't tell us -- give us the red signal. It was up to the Treasury." Now, how good is our record in the last six months to try to keep these balances down?

W: Well, our....

HMJr: How good is our written record?

W: Our written record is not -- is not good because we have been operating orally.

HMJr: Well, I think what you'd better do is to give me a written -- have prepared a written record of what's happened since the President signed that thing.

W: All right.

HMJr: Now, with the idea that I may want to sign it -- just the way I cleaned up that mess the way Paul left it on Foreign Funds vs. Stettinius -- you see?

W: Yeah.

HMJr: I cleaned up that record.

W: Yeah.

HMJr: Now, I think what you ought to do is to put somebody to work, starting with the time that the President signed it: what have we done to try to keep the English balances down?

W: Yeah. Well, we've got minutes of our meetings and in the minutes of our meetings, our record is clear.

HMJr: Well, I would build up....

W: We haven't sent any letters or anything like that.

HMJr: Well, I'd build that into a letter.

W: Yeah.

- 5 -

HMJr: And then we could say, "Now, my patience is exhausted. During the six or eight months we have tried to do this thing and, therefore, I feel it is incumbent upon me to sum up and make a definite recommendation."

W: Yes, we can do that.

HMJr: Otherwise, these people may perfectly well go up on the Hill and say, "Well, we look to the Treasury. It was up to the Treasury to tell us when it got too high."

W: Yeah. Well, we can have something -- it's there if you want it. You can look at it and see what you want to do with it.

HMJr: Don't you think that's a good idea?

W: Well, I do think that from now on we had better operate alone. I mean we've got to operate as though -- whatever we do I think from now on we ought to do by letters.

HMJr: I agree. Save a lot of conferences.

W: That's right.

HMJr: Okay. Take care of yourself.

W: All right. Thank you.

November 6, 1943
12:43 p.m.

HMJr:on the Argentinean thing?

John W.
Pehle:

Not very much. There's a memorandum that is on its way to you. Yesterday there was approximately \$430,000.

HMJr: Well, why don't you give me a letter to write to Stettinius which I could sign Monday morning?

P: I will do that.

HMJr: And bringing up to date what's happened.

P: Right. We had one yesterday. I take it you didn't want to send that one.

HMJr: It never came to me.

P: Well, Paul gave it to you at the 9:30 meeting didn't he?

HMJr: I don't....

P: He told me that he had given it to you and you decided in view of your conversation the night before with Stettinius....

HMJr: No. Well....

P:that you didn't want to send it. I'll have one for you Monday morning.

HMJr: I don't -- Well, anyway, let me have something -- from the time I wrote him bringing -- covering this week and let me have it Monday morning.


P: I will do that.

HMJr: Please.

P: Right.

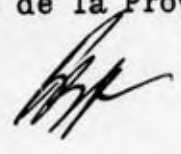
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION


DATE NOV 6 1943

TO Secretary Morgenthau
FROM Randolph Paul

We have just received from State the attached cable, dated November 3, from Armour with regard to the reaction by the banking community in Argentina on the special blocking of the Banco de la Provincia and the Banco de la Nacion.



NOV. 5 RECD 77

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires
TO: Secretary of State, Washington
DATE: November 3, 1943
NUMBER: 2608

CONFIDENTIAL

In as much as the banking fraternity is (not?) fully informed concerning the extent of Treasury measures, it is still difficult to obtain an accurate determination of reaction. During the day, however, the following reactions have been obtained.

1. It was reported by Welch of the City Bank that the consensus at a luncheon meeting of Bankers was that ad hoc blocking of Nacion and Provincia would not be effective and only result in strengthening the Government's hand.
2. A somewhat chilly atmosphere in Central Bank is reported by Wilcox of Boston Bank although officials are marking time and advising the Government to go slowly with possible counter measures. The position of the bank vis-a-vis the Government has been complicated by another source which apparently feel unkindly towards the U.S.
3. It is stated by the manager of the Banco Holandes that general blocking was understandable but that the action taken places unblocked institutions in an unenviable position. The Royal Bank of Canada reported the same reaction.
4. It was reported by the manager of Frances Y Rio de La Plata that he could not understand the action although general freezing measures would not have been surprising to him.
5. It was stated by a former high government official that it was felt by him that the action would create irritation among groups friendly to us as well as in the Government.
6. It was stated by Wilcox and Welch that, in their opinion, consideration might be given to some general license permitting controls satisfactory to the Treasury but face-saving to the local institutions if a clear-cut case does not exist against the banks. It is agreed by both that a measure of supervision should continue.

COPY

- 2 -

7. The Embassy was informed to day by the Minister of Finance that full information concerning any operation would willingly be supplied to Federal Reserve by the Banks.

Tomorrow we will report further reaction.

ARMOUR

NOV 6 1943

TO THE MAGAZINE PUBLISHERS OF AMERICA:

Now that the 3rd War Loan is history, I want you to know that the Treasury Department is deeply appreciative of the generous and patriotic cooperation displayed by the magazines of America in helping to make this, the greatest financial undertaking of all time, a resounding success.

A review of the truly outstanding contribution made by magazines in this \$15,000,000,000 drive shows that the various 3rd War Loan advertisements issued by the War Finance Division were sponsored gratuitously by 235 general magazines, 525 business publications, and 65 farm publications.

Here indeed is a record of which not only publishers, but all Americans can well be proud.

To all concerned I take this opportunity of expressing my sincere gratitude.

Sincerely,

(Signed) H. Morgenthau, Jr.

80

Sources of Funds
Fourth War Loan

PREPARED BY: Mr. Mayo
Mr. Lindow
Mr. Murphy,
Mr. Haas

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 6, 1943

TO Secretary Morgenthau
FROM Mr. Haas

Sources of Funds for the
Fourth War Loan

(1) The first section of this memorandum discusses the amount of funds required by the Federal Government for the four-month period October 1943 through January 1944. Interim sales of securities before the Fourth War Loan are deducted from total requirements, leaving \$16 billions to be provided through the Fourth War Loan.

(2) The second section summarizes the sources of funds material and outlines the proposed \$16 billions goal for the Fourth War Loan by classes of investors. This total would be divided between \$6.7 billions for individuals, partnerships, and personal trust accounts, \$2.5 billions for insurance companies and mutual savings banks, and \$6.8 billions for corporations, associations, and State and local governments.

(3) The last section of the memorandum presents a detailed analysis of the sources of funds for Federal borrowing during the October-January period. In this section, the goals for the various classes of investors for the Fourth War Loan are developed by reference to the liquid savings and accumulations of individuals, corporations, and governmental accounts during the period.

A separate memorandum analyzes the lessons of the Third War Loan and develops a program for the Fourth War Loan.

Secretary Morgenthau - 2

I. Amount of Funds Required

At the close of the Third War Loan the working balance of the Treasury was \$20.6 billions. This represents the working balance reported in the Daily Treasury Statement as of September 30 plus the amount of sales during the Third War Loan which were not reflected in the working balance until October. According to present estimates of expenditures and receipts and of funds to be supplied by interim security sales in the next few months, the Treasury will have sufficient money to carry it until receipts begin to come in from the Fourth War Loan around the middle of January.

In the four months October 1943 through January 1944, it is estimated that financial requirements will aggregate about \$25 billions as follows:

	(In billions of dollars)
Expenditures.....	33.1
Less: Receipts.....	<u>11.0</u>
Equals: Deficit.....	22.1
Cash maturities and redemptions ^{1/}	<u>3.2</u>
Total financial requirements.....	<u>25.3</u>

The financing of this \$25.3 billions will fall into two parts as follows:

1. Interim financing.
2. Fourth War Loan.

Interim financing will provide a total of \$9.3 billions, through several sources, as follows:

^{1/} This allows for estimated redemptions of savings bonds and savings notes and assumes that the December note maturity will be paid off in cash, with the December certificate refunded into a new issue.

Secretary Morgenthau - 3

	(In billions of dollars)
Continuing sales of savings bonds, October 18 through December 31.....	2.3
Continuing sales of savings notes, October 4 through December 31.....	1.0
October bank financing.....	3.2
Increases in bills outstanding, November 12 through January 31.....	1.2
Other (mostly special issues to Government agencies and trust funds) October 1 through January 31.....	1.6
Total.....	9.3

The estimates of sales of savings bonds and savings notes are based on a continuation of past trends.

The estimate for increases in bills outstanding is based on the assumptions that needed increases in bank reserves (as a result of the growth of both currency and bank deposits) will be met at least partly by Federal Reserve open-market purchases and that increases in Treasury bills outstanding will be made to facilitate such purchases. For convenience it has been assumed that the amount of Treasury bills outstanding will be increased \$100 millions a week beginning with November 12 -- and it has been further assumed that such increases will continue indefinitely. The assumption of an increase of \$100 millions a week should be viewed as an average increase over a period rather than as a precise forecast of action to be taken. In other words, the bill program may begin later than is assumed, but it may also reach weekly increases of \$200 millions rather than \$100 millions. ^{1/}

In the case of Government agencies and trust funds, it has been assumed that no purchases of securities will be made as a part of the Fourth War Loan.

^{1/} For a discussion of the question of required bank reserves and the place of the bill program see a separate memorandum on this subject entitled "Current Problems with Respect to Excess Reserves, Treasury Bills, and Interest Rates", dated October 29, 1943.

Secretary Morgenthau - 4

A total of \$9.3 billions of the required \$25.3 billions will thus be provided through interim financing. This leaves requirements of \$16.0 billions to be raised through the Fourth War Loan. This would provide a working balance of \$20.6 billions at the end of the Fourth War Loan or the same as the balance at the end of the Third War Loan.

This balance would permit the Fifth War Loan to be scheduled for about the middle of May.

II. Summary of Sources of Funds

It has been pointed out above that the Federal deficit for the period October 1943 through January 1944 is estimated at \$22 billions. Liquid savings and accumulations on the part of the civilian economy, representing gross money incomes which are currently received but not spent, are estimated at \$21 billions during the period.

This similarity in magnitude between the Federal deficit and the new liquid accumulations of individuals, corporations, and governmental accounts is the result of a functional relationship which reflects the distribution of production and incomes as between the Federal Government on the one hand and private persons and businesses (including State and local governments) on the other. If it were not for certain required adjustments, the two figures would be identical.

The production of goods and services generates money income to the full value of production. Some of the production is purchased by the Federal Government (mostly for war purposes), while the remainder is purchased for private use. Similarly, some of the money income generated by production goes to the Government in the form of taxes, while the rest remains in private hands. At the present time the Federal Government is taking about one-half of current output, although taxes are bringing in only about one-sixth of the total income generated. The difference, or about a third of the value of total output (or income), is equivalent to the Federal deficit. Private businesses and individuals thus get only the one-half of current output which is not taken by the Government, but they retain about five-sixths of the total income. The difference -- which is again about a third of total output (or income) -- represents the liquid surpluses which are being accumulated in the private sector of the economy and is, of course, the counterpart of the Federal deficit.

Secretary Morgenthau - 5

Present estimates of the composition of these liquid surpluses (or new liquid savings and accumulations) in the October-January period are as follows:

	(In billions of dollars)
Liquid savings of individuals.....	13.0
Liquid corporate accumulations.....	6.2
Liquid accumulations in governmental accounts (Federal, State and local).....	<u>1.8</u>
Total liquid savings and accumulations.....	<u>21.0</u>

In section III of this memorandum the absorption of these liquid savings through the purchase of Federal securities is analyzed for each class of investor. Also, estimates of the liquidations of Federal securities through cash maturities and redemptions are made for the various investor groups, since schedules of gross sales must include replacements for liquidations as well as net absorption of Federal securities.

Table I summarizes sales for each of these purposes, classified by investor groups, and arrives at the total amount of gross sales scheduled for the October-January financing period. This total is \$25.3 billions, the same, of course, as the total financing requirements for the period outlined in Section I of this memorandum.

Secretary Morgenthau - 6

Table I. Gross Sales of Federal Securities Scheduled
for October-January Financing Period
by Classes of Investors

(In billions of dollars)

Class of investor	Net absorption of securities	Replacements		Total gross sales sched- uled
		Due to : cash maturi- ties and redemp- tions	Due to : market sales	
Individuals, partner- ships, and personal trust accounts.....	7.8	.8	.3	8.9
Insurance companies.....	1.2	*	.5	1.7
Mutual savings banks.....	.5	*	.3	.8
Other corporations and associations 1/.....	4.0	2.0	1.4	7.4
State and local govern- ments.....	.5	*	*	.5
Federal agencies and trust funds.....	1.4	*	.1	1.5
Bank sources.....	6.7	.4	-2.6	4.5
Total.....	22.1	3.2	-	25.3

Note: Figures are rounded to nearest tenth of a billion
and will not necessarily add to totals.

* Less than \$50 millions.

1/ Includes dealers and brokers.

Total gross sales scheduled represent, of course, the goals for the sales of securities to the various classes of investors during the entire October-January financing period. In the analysis in section III of the sources of funds by classes of investors, total gross sales scheduled are broken down as between interim financing and the Fourth War Loan. Table II summarizes this information:

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Table II. Goals for Classes of Investors in October-January Financing Period Divided Between Interim Financing and Fourth War Loan

(In billions of dollars)

Class of investor	: Interim financing:	: Fourth War Loan:	: Total gross sales scheduled
Individuals, partnerships, and personal trust accounts.....	2.2	6.7	8.9
Insurance companies.....	*	1.7	1.7
Mutual savings banks.....	*	.8	.8
Other corporations and associations 1/.....	1.1	6.3	7.4
State and local governments.....	*	.5	.5
Federal agencies and trust funds.....	1.5	-	1.5
Bank sources.....	4.5	-	4.5
Total.....	9.3	16.0	25.3

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

* Less than \$50 millions.

1/ Includes dealers and brokers.

Various alternatives for reaching these goals are discussed in a separate memorandum entitled "A Program for the Fourth War Loan Drive", but the total for the Fourth War Loan ought to be essentially the same regardless of which type of plan is adopted. In making the estimates, it has been assumed that free riding and market switches will be considerably reduced from the level of the Third War Loan, by eliminating the 2 percent bonds from the basket, and substituting a 2-1/4 percent bond with the same restrictions as the 2-1/2 percent bonds have had. If the 2 percent bond should be offered, the goals for corporate investors will probably have to be increased to allow for greater market liquidations and free riding.

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III. Sources of Funds Analysis

This section presents a discussion of the sources of funds data for each of the principal classes of investors.

1. Individuals, partnerships, and personal trust accounts

As pointed out above, it is estimated that liquid savings of individuals will amount to about \$13.0 billions in the October-January financing period. Of this total about \$2.6 billions will be invested in life insurance, savings accounts, and debt repayment, leaving \$10.4 billions as the reservoir available for the direct purchase of Federal securities. This compares with a total of \$8.5 billions so available in the first four months of this year and \$10.4 billions available in the five months May through September.

In the May-September period, sales of securities in the Third War Loan and in the preceding four months absorbed \$7.2 billions of the available ~~total~~ or 69 percent. Similarly, 68 percent was absorbed in the first four months of the year. In short, in the two financing periods which have already taken place this year over two-thirds of individuals' liquid savings other than savings invested in institutional forms 1/ has been placed directly in Federal securities.

It is expected that this percentage may be increased to 75 percent in the October-January period as a result of the better sales effort which will be forthcoming. Applying this percentage to the \$10.4 billions estimated to be available in the period provides a goal of \$7.8 billions of sales of securities to individuals. In addition, replacements will have to be made for cash redemptions and maturities of \$.8 billions and estimated market sales of \$.3 billions during the period. Gross sales would thus be scheduled for \$8.9 billions of which \$2.2 billions would be provided through interim financing, leaving \$6.7 billions as the goal for the Fourth War Loan.

The figures are summarized in the following table:

1/ Life insurance, savings accounts, and debt repayment.

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Sources of Funds for Individuals 1/
January 1943-January 1944

(In billions of dollars)

	:Jan.-:May-:Oct.-		
	:April:Sept.:Jan.		
Total liquid savings of individuals.....	11.4	13.8	13.0
Less: Savings invested in insurance, savings accounts, and debt repayment.....	2.9	3.4	2.6
Remainder available for direct investment.....	8.5	10.4	10.4
Percent invested in Federal securities 2/..	68%	69%	75%
Net new absorption of Federal securities...	5.8	7.2	7.8
Add: Replacements for cash redemptions and maturities of Federal securities.....	.5	1.0	.8
Add: Replacements for Federal securities sold in the market.....	*	1.0	.3
Equals: Gross purchases of Federal securities.....	6.3	9.2	8.9
Less: Gross interim purchases.....	3.0	3.8	2.2
Equals: Gross purchases during drive.....	3.3	5.4	6.7

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

* Less than \$50 millions.

1/ Including partnerships and personal trust accounts.

2/ Most of the portion not invested in Federal securities is placed in currency and checking accounts.

Of the total individual goal of \$6.7 billions for the Fourth War Loan, we are assigning about \$3-1/2 billions to Series E bonds, and about \$1 billion to Series F and G bonds, leaving \$2.2 billions for other issues.

2. Insurance companies and mutual savings banks

Sales of securities to insurance companies and mutual savings banks in the Fourth War Loan drive have been set at a goal of \$2.5 billions, representing increases of \$1.7 billions in their net holdings and the replacement of

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\$1.8 billions of Federal securities sold in the market. The goal of \$2.5 billions would represent a considerable reduction from actual sales in the Second and Third War Loans which amounted to \$3.6 billions and \$4.1 billions, respectively. This reduction is based partly on the expectation that the shifts from other assets to Federal securities will continue the indicated downward trend, and partly on the assumption that sales of Federal securities in the market by these organizations will be substantially reduced during the Fourth War Loan.

The figures for insurance companies and mutual savings banks are shown in separate tables below:

Sources of Funds for Insurance Companies
January 1943-January 1944

(In billions of dollars)

		:Jan.-:May-:Oct.-	
		:April:Sept.:Jan.	
Liquid savings of individuals received.....	1.1	1.3	1.1
Net new absorption of Federal securities...	1.8	1.5	1.2
Add: Replacements for cash redemptions and maturities of Federal securities.....	*	*	*
Add: Replacements for Federal securities sold in the market.....	.7	1.2	.5
Equals: Gross purchases of Federal securities.....	2.5	2.7	1.7
Less: Gross interim purchases.....	.1	.1	*
Equals: Gross purchases during drive.....	2.4	2.6	1.7

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

* Less than \$50 millions.

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Sources of Funds for Mutual Savings Banks
January 1943-January 1944

(In billions of dollars)

	:Jan.-:May-:Oct.-		
	:April:Sept.:Jan.		
Liquid savings of individuals received..	.3	.4	.3
Net new absorption of Federal securities.....	.7	.7	.5
Add: Replacements for cash redemptions and maturities of Federal securities.....	*	*	*
Add: Replacements for Federal securities sold in the market.....	.6	.9	.3
Equals: Gross purchases of Federal securities.....	1.3	1.6	.8
Less: Gross interim purchases.....	.1	.1	*
Equals: Gross purchases during drive...	1.2	1.5	.8

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

* Less than \$50 millions.

3. Other corporations and associations (including dealers and brokers), and State and local governments

Analysis of the funds available to other corporations, associations, and State and local governments during the October-January period leads to the conclusion that gross sales should be scheduled for these investors to the extent of \$6.8 billions during the Fourth War Loan. This goal consists of \$6.3 billions for other corporations and associations, and \$.5 billions for State and local governments. The total of \$6.8 billions compares with \$8.8 billions of sales in the Third War Loan and \$6.2 billions of sales in the Second War Loan. The reduction for the Fourth War Loan as compared with the Third would be accounted for principally by a sharp reduction in expected market sales, rather than by an important change in the volume of new funds available for investment.

The figures for (a) other corporations and associations, and (b) State and local governments, are discussed in the following paragraphs:

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a. Other corporations and associations (including dealers and brokers)

This group of investors is made up of the large non-financial corporate group, dealers and brokers, various associations such as building and loan associations, fraternal benefit societies, and eleemosynary institutions.

It has been previously noted that liquid accumulations of corporations are expected to aggregate \$6.2 billions in the October-January period. In the January-April period, net absorption of Federal securities by the group "other corporations and associations" was equivalent to 81 percent of the liquid corporate accumulations. This was reduced to 65 percent in the May-September period. This is presumably due, in large part, to the fact that in the case of the Second War Loan the most readily available backlog of old accumulations was brought forth and invested. It is reasonable to expect that in successive war loan drives the funds obtained from such old accumulations will be continually diminished.

For the October-January period it is assumed that 65 percent of new liquid corporate accumulations represents a reasonable expectation for the net absorption of Federal securities. This would mean a net increase in holdings of \$4.0 billions.

In addition, replacements will have to be provided for cash maturities and redemptions and liquidations which will occur in the market by corporations and associations as the Fourth War Loan progresses. These investors will probably have cash maturities and redemptions alone aggregating about \$2 billions.

The memorandum on "A Program for the Fourth War Loan Drive" discusses various alternatives for handling sales to corporations, some of which would minimize market sales of their present holdings of securities. As a tentative matter, it has been assumed that market liquidations will amount to \$1.4 billions during the October-January period. This would be about half of the estimate of liquidations during the Third War Loan period, but seems reasonable in view of the fact that the drive will probably be arranged to make the liquidation of existing holdings less attractive in one way or another.

Total liquidations through cash maturities and redemptions and market sales would thus amount to \$3.4 billions. As against these liquidations, interim purchases of Federal

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securities are estimated at \$1.1 billions, which means that the goal for other corporations and associations reaches \$6.3 billions for the Fourth War Loan drive. The figures for corporations and associations are summarized below:

Sources of Funds for Other
Corporations and Associations
(Including Dealers and Brokers)
January 1943-January 1944

(In billions of dollars)

	:Jan.-:May-:Oct.-		
	:April:Sept.:Jan.		
Total liquid accumulations of corporations.....	6.1	6.2	6.2
Percent represented by net purchases of Federal securities by "other corporations and associations".....	81%	65%	65%
Net new absorption of Federal securities.....	4.9	4.0	4.0
Add: Replacements for cash maturities and redemptions of Federal securities.....	1.4	2.9	2.0
Add: Replacements for Federal securities sold in the market.....	1.1	2.9	1.4
Equals: Gross purchases of Federal securities.....	7.4	9.8	7.4
Less: Gross interim purchases.....	1.8	1.8	1.1
Equals: Gross purchases during drive...	5.7	8.0	6.3

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

No separate goal has been set for dealers and brokers in this memorandum, and it is assumed that any such sales will be included with the above group of other corporations and associations. Such sales will be relatively small if the basket for the Fourth War Loan is changed to eliminate certificates and 2 percent bonds, at least with respect to individuals, as recommended in our memorandum suggesting a program for the Fourth War Loan.

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b. State and local governments

The goal for State and local governmental accounts in the Fourth War Loan has been set at \$500 millions, based largely on the estimate of the aggregate liquid surplus of State and local governments accumulating during the period. This goal compares with sales of \$500 millions in the Second War Loan and \$800 millions in the Third War Loan, as is shown in the following table:

Sources of Funds for
State and Local Governments
January 1943-January 1944

(In billions of dollars)

	Jan.-:April:	May-:Sept.:	Oct.-:Jan.:
New liquid surplus of State and local governments.....	1.0	1.0	.6
Net absorption of Federal securities.....	.5	.8	.5
Gross purchases of Federal securities during drive.....	.5	.8	.5

4. Federal agencies and trust funds

In the Third War Loan, Federal agencies and trust funds purchased \$630 millions of Federal securities. These purchases were made by agencies and trust funds whose investments are handled through the facilities of the Treasury Department. Purchases by other agencies were included with the group "other corporations and associations". For the period which includes the Fourth War Loan it is tentatively assumed that purchases made by the group of agencies and trust funds for which the Treasury handles investments will be undertaken as part of the interim financing program rather than as part of the drive.

5. Bank sources

The memorandum on "A Program for the Fourth War Loan Drive" discusses several alternatives for the drive, but in no case does it propose that commercial banks be included. Banking sources will, however, represent a source of funds for

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the Federal Government during the October-January financing period (either directly or indirectly) insofar as they acquire securities on balance in the market and also to the extent that the bill program is increased. The participation of banking sources during the period is compared with that of prior periods in the following table:

Bank Absorption of Federal Securities 1/
January 1943-January 1944

(In billions of dollars)

	:Jan.-:May-:Oct.-		
	:April:Sept.:Jan.		
Net new absorption of Federal securities..	10.3	10.9	6.7
Add: Replacements for cash maturities and redemptions.....	.1	1.2	.4
Add: Federal securities sold in the market 2/.....	-2.5	-6.2	-2.6
Equals: Gross purchases of Federal securities from the Treasury.....	7.8	5.8	4.5
Less: Gross interim purchases:			
Treasury bills.....	3.4	3.0	1.2
Other securities.....	.1	2.8	3.3
Equals: Gross purchases during drive (excluding bills).....	4.3	-	-

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

1/ Includes Federal securities absorbed by Federal Reserve Banks.

2/ Negative figures indicate net purchases.

6. Recapitulation of sources of funds by investor groups

Table III brings together the information on liquid savings and accumulations received and the net absorption of Federal securities by each of the various classes of investors. The table covers three financing periods, January-April 1943, May-September 1943, and October 1943-January 1944.

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The classes of investors are arranged into four groups classified by sources of funds, as follows:

- (1) Liquid savings of individuals
- (2) Liquid corporate accumulations
- (3) Liquid accumulations in governmental accounts
(Federal and State and local)
- (4) Bank sources

The table shows that the scheduled goals for the various classes of investors for the October-January financing period would result in a smaller dependence on bank sources than in either of the first two financing periods this year. Total borrowing in the October-January period would amount to \$22.1 billions with nonbank sources providing \$15.3 billions and bank sources providing \$6.7 billions. This compares with total borrowing in the May-September period of \$27.5 billions which was divided between \$16.6 billions absorption by non-bank sources and \$10.9 billions absorption by bank sources. Thus bank financing would drop from 40 percent of total borrowing in the May-September period to 30 percent in the October-January period.

Table III

**Sources of Funds for Federal Borrowing, January 1943-January 1944
by Financing Periods
(In billions of dollars)**

Sources of funds and investor group	January-April 1943			May-September 1943			October 1943-January 1944		
	Savings received	Securities absorbed	Percent	Savings received	Securities absorbed	Percent	Savings received	Securities absorbed	Percent
A. Nonbank sources:									
1. Liquid savings of individuals:									
a. Insurance companies.....	1.1	1.8		1.3	1.5		1.1	1.2	
b. Savings accounts:									
(1) Mutual savings banks.....	.3	.7		.4	.7		.3	.5	
(2) Commercial banks (time deposits) 1/.....	.8	...		1.08	...	
c. Recipients of debt repayment 2/.....	.875	...	
d. Individuals 3/.....	8.5	5.8	68%	10.4	7.2	69%	10.4	7.8	75%
e. Total.....	<u>11.4</u>	<u>8.4</u>		<u>13.8</u>	<u>9.4</u>		<u>13.0</u>	<u>9.4</u>	
2. Liquid corporate accumulations:									
a. Corporations 4/.....	6.1	4.9	81%	6.2	4.0	65%	6.2	4.0	65%
3. Liquid accumulations in govern- mental accounts:									
a. Federal.....	.8	1.1		2.1	2.4		1.2	1.4	
b. State and local.....	<u>1.0</u>	<u>.5</u>		<u>1.0</u>	<u>.8</u>		<u>.6</u>	<u>.5</u>	
c. Total.....	1.8	1.6		3.0	3.2		1.8	1.9	
4. Total for nonbank sources.....	<u>19.3</u>	<u>14.9</u>		<u>23.1</u>	<u>16.6</u>		<u>21.0</u>	<u>15.3</u>	
B. Bank sources:									
1. Net absorption allocable to increases in time deposits (see above).....		.8			1.0			.8	
2. Net absorption allocable to increases in demand deposits and currency 5/.....		<u>9.5</u>			<u>9.9</u>			<u>5.9</u>	
3. Total for bank sources.....		<u>10.3</u>			<u>10.9</u>			<u>6.7</u>	
C. Total borrowing.....		<u>25.1</u>			<u>27.5</u>			<u>22.1</u> 6/	

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

November 6, 1943.

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

1/ Absorption of securities is shown below under bank sources.

2/ Not followed through to absorption of securities by recipients of debt repayment funds.

3/ Individuals, partnerships and personal trust accounts.

4/ Corporations and associations other than banks and insurance companies.

5/ Includes Federal securities absorbed by Federal Reserve Banks.

6/ Estimated deficit for period.

Program for the
Fourth War Loan

PREPARED BY: Mr. Tickton
Mr. Lindow
Mr. Murphy
Mr. Haas

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 6, 1943

TO Secretary Morgenthau
FROM Mr. Haas *HAAS*
Subject: A Program for the Fourth War Loan Drive

I am transmitting herewith a memorandum which analyzes the Third War Loan and, in the light of that experience and our prospective cash requirements, discusses a program for a Fourth War Loan drive starting about the middle of January. This memorandum is organized in the following manner:

- (a) Section I summarizes the results of the Third War Loan.
- (b) Section II discusses some of the important lessons of the Third War Loan which we feel should be kept immediately in mind in laying plans for the Fourth War Loan drive.
- (c) Section III discusses some alternative plans for conducting the Fourth War Loan drive.
- (d) Section IV presents a financing program designed to raise \$16 billions of new money from a Fourth War Loan drive starting in January.
- (e) Section V takes up some policy decisions that will have to be reached during your consideration of the Fourth War Loan drive.

A separate memorandum analyzes the sources of funds for Treasury borrowing and sets forth the basis upon which the figures on, and the distribution of, the new money borrowing between the various classes of investors -- individuals, insurance companies, mutual savings banks, and other corporations -- have been derived for the Fourth War Loan.

I. Summary of the
Third War Loan

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I. Summary of the Third War Loan Drive

The Third War Loan drive produced a total of \$18.9 billions in nonbanking subscriptions. Excluding subscriptions of \$.6 billions by Government trust funds which were not included in the goal, this amount exceeded the \$15 billion quota by \$3.3 billions, or 22 percent. This amount was nearly \$5.5 billions more than the amount subscribed by all nonbanking investors in the Second War Loan and \$11.1 billions more than the amount subscribed by such investors in the First War Loan.

Sales of securities to individuals totaled \$5.4 billions as compared with a quota of \$5 billions and Second War Loan sales of \$3.3 billions. Of the amount raised, nearly \$2.5 billions came from the sale of E bonds. This compares with the E bond quota of \$3 billions and E bond sales in April of \$1.5 billions.

Insurance companies and mutual savings banks acquired \$4.1 billions during the Third War Loan as compared with their \$3 billions quota. Other corporations and associations, (including dealers and brokers) and State and local Governments subscribed \$6.8 billions against a quota of \$7 billions.

The foregoing figures represent gross sales to the respective investor classes during the drive. These sales, it should be noted, include about \$5 billions of securities financed by the extension of bank credit, directly or indirectly. That is, the subscriptions for about \$5 billions of securities included in the above figures were paid for by loans from banks or by switching to banks the government securities previously held in the portfolios of the nonbanking subscribers.

The large amount of subscriptions in excess of the quota (including, of course, the indirect bank participation) made it possible for most of the States to meet their quotas. All States but Vermont made their total quotas and all States but Arkansas and Kentucky made their corporation quotas. Thirty States made their individual quotas. Bank participation did not extend to the E bond portion of the drive, however, and only ten States made their E bond quotas. Eight of these were in the north midwest farming area -- Iowa, Minnesota, North Dakota, South Dakota, Nebraska, Colorado,

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Wyoming and Montana. The other two States that made their E bond quotas were Oklahoma and Mississippi. Maryland was the farthest from making its E bond goal, sales amounting to only 57 percent of the quota.

With respect to E bond sales in the large industrial States, Michigan led, making 93 percent of its quota. Because of issuing agents' difficulties, the Michigan figures did not reflect some of the sales of E bonds in some of the large automobile plants; had these sales been included, it is reported that Michigan would have made its E bond quota.

End

II. Lessons learned
in Third War Loan

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II. Lessons Learned from the Experience of the Third War Loan

A detailed analysis of the statistics of the Third War Loan and a careful review of some of the reports that have reached us from the field have focused our attention since the drive closed on a number of developments that occurred during the drive. Some of these might well serve as lessons in the mechanics of conducting large-scale war-financing operations. Inasmuch as they are directly concerned with decisions that must be made in connection with the Fourth War Loan drive, they are discussed below.

1. Favorable developments. There were a number of important accomplishments during the Third War Loan drive.

- (a) Organization by States. The organization of the Third War Loan along State lines, as compared with the organization of the previous campaign by Federal Reserve Districts, proved very successful. It was shown conclusively that State organizations are able to appeal to local pride and to command the services of the best available personnel in a manner which organizations along District lines could never hope to equal.
- (b) Canvass of individuals. The drive proved that large numbers of persons can be sold Government securities if the contact is a personal one made in the community, in the home, in the factory, and in the office. No data on the exact number of persons reached during the drive are available, but it is obvious, from the 52-1/2 million pieces of E bonds and the 2 million pieces of other securities sold, that many millions of persons were reached for the first time in a war loan drive. Some of the extensive person-to-person campaigns did, it is true, turn in disappointing amounts of money because many contacts resulted in the sale of only a single \$25 bond to persons who could have purchased more. It is generally agreed, however, that the underlying philosophy with respect to the approach was

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satisfactory and that the technique employed should be retained, but extended and perfected.

(c) New sales ideas. There were a number of new sales ideas used during the drive. Two of the more successful were the plant quota and the campaign to sell an extra \$100 bond. These promotion devices were popular in war industries and were used extensively in some areas. They were not found practicable in many nonwar industries, however, and in such cases, devices such as percentage-of-pay plans were substituted. More intensive use of sales devices applicable to local conditions appears to be called for, and the experience gained in September should be useful in making such devices effective during the next drive.

(d) Administrative operation. One of the most gratifying developments of the Third War Loan was the smoothness of the operation administratively. None of the divergence in aims and confusion of purpose that existed during the previous drives was discernible, and there seemed to have been complete harmony among all the persons connected with the operation in the field. There were some excellent jobs done, moreover, by many persons whose connection with the drive was indirect, but whose cooperation helped put it over. Included among these were the employees of issuing agents, some of whom handled ten times as many securities during the drive as during any previous period of time of similar length. Also included were the employees of banks, brokerage houses, accounting firms, and other business organizations who spent much time tabulating and counting subscriptions received by the local committees in order to keep the solicitors informed of the progress made on a day-to-day basis.

2. Unfavorable developments. There were, however, a number of things that occurred as a result of the pressure and enthusiasm of the local War Finance Committees and their anxiety to meet their quotas that bear further examination. Some of these are so important as to warrant consideration

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of changes in the technique to be employed during the Fourth War Loan drive.

- (a) "Bad selling". The attainment of the quota became an end in itself in some areas during the Third War Loan drive, it appears; and as a result, there was a considerable volume of what we consider as "bad selling". This "bad selling" took two forms:

(1) Switching. Insurance companies and mutual savings banks were put under great pressure to buy large amounts of securities during the drive to help the States in which their home offices were located to make a successful showing. One State committee was so anxious to make its quota, it was reported, that it sent a letter to its mutual savings banks advising them that the Treasury expected them to buy large amounts of securities during the drive and to switch out of their tax-exempt bonds in order to do so. Such pressure was commonplace, and for this and other reasons many companies sold an important volume of issues from their portfolios in order to have funds available to take up drive securities. The switching that occurred just before and during the drive was very considerable. It may have exceeded \$2 billions, or approximately one-half of the \$4.1 billions of new securities acquired by these institutions during the drive. "Other" corporations also did some switching, the aggregate amount of which was probably around \$1 billion.

These operations were immediately reflected, of course, in the banking statistics. In the month of September commercial banks and the Federal Reserve Banks acquired more than \$3 billions of Government securities net from financial and other corporations and individuals. In the first two weeks of October preliminary data indicate that they acquired at least another \$.5 billion of these securities.

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(2) Bank borrowing. Between September 8 and October 6 loans of weekly reporting member banks rose from \$9.8 billions to \$12.1 billions, an increase of \$2.3 billions. Our analysis leads us to believe that a figure of about this magnitude measures the volume of loans extended directly or indirectly during the drive for the purchase of Government securities. This analysis makes allowance for some seasonal loans during the drive period, which did not result in Government security purchases, on the one hand, and loans made by banks not in the weekly reporting series on the other.

Of the \$2.3 billions in bank borrowing, about \$.9 billion was accounted for by loans made to dealers and brokers and about \$.8 billion by loans made to other persons and corporations to carry securities. The remainder represented loans made on open account or on collateral other than securities, the proceeds of which, however, went directly into the Government securities market.

All of the above mentioned \$5.8 billions of bank credit financing of nonbanking purchases of drive securities cannot, of course, be placed in the category of "bad selling". Some of the dealer and broker purchases were made, it is true, for future acquisition by insurance companies; some corporations undoubtedly borrowed in order to buy bonds in anticipation of seasonal inventory declines; some farmers certainly borrowed in anticipation of funds to become available from the liquidation of their crops; and some of the insurance companies and mutual savings banks had legitimate requirements that would have involved switching some securities in their portfolios to commercial banks sooner or later. The amount of bank credit extended for these purposes, however, was probably a drop in the bucket when compared to the total credit involved; and we feel it fair to say that about \$5 billions of the total came along for the ride. Much of the "riding" that occurred was not for purposes of making a profit or of improving

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the portfolio position but was distinctly for the purpose of helping a State or county make its quota. Rumor has it that more than half of the marketable issues sold to individuals in one southern State should be placed in the "free-riding" category. In another State which was not even close to its goal a week before the drive closed it was reported that "free-riding" by corporations was being counted on to carry subscriptions over the quota just before the drive closed. In a third State it was reported that a "free-riding" subscription entered toward the end of the drive was being divided by counties in a manner calculated to put each one over the top. Activities such as these make the assignment of quotas farcical. They result, furthermore, in the greatest credit for "doing a good job" going to the States where there has been the most free riding. This is extremely destructive to the morale of State organizations which are trying to make their quotas solely by sales to bona fide investors; and, if carried sufficiently far, could wreck the entire campaign.

- (b) Allocations. A development that was troublesome during the Third War Loan was the large number of allocations by corporate subscribers. The local committees brought so much pressure on the national corporations that many of them were forced to pass credits to the hundreds of towns and cities in which they did business. A chain store was reported to have allocated its subscription to 1,600 towns throughout the country. Railroads and oil companies were asked to give credit to every town in which they maintain a station. The allocation question was a headache to the treasurers of large corporations and many criticisms were directed at the system that required such allocations.

The results of the allocation system were bad from the Treasury's point of view because allocations in the volume that occurred had not

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been -- and could not have been -- taken into account in arriving at the quotas. As a result, the fact that some States made their quotas was due more to the utilization of pressure tactics on corporations doing business in the State than to success in the program of soliciting subscriptions from individuals.

- (c) Payroll savings plan. One of the unfortunate consequences of periodic drives is that they make emphasis on continuous programs rather difficult. The payroll savings plan which the Treasury has been pushing for nearly two years has had to take a back seat during the drives -- a back seat which we are afraid has begun to reduce its popularity. The payroll savings program has leveled off as a matter of fact ever since the Second War Loan, notwithstanding the fact that a considerable program to extend participation in the plan was undertaken during the summer. Indications are that as a result of the Third War Loan the participation in the plan will start to fall off from the level obtained at the close of August. Persons buying bonds on the payroll savings plan feel discriminated against when persons participating in the drives only are rewarded by free tickets to movies and other special events or are given other inducements to buy bonds.

III. Alternative
types of drives

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III. Alternative Types of Drives

There are a number of possible alternatives with respect to the form which the Fourth War Loan might take. The most important of these alternatives are as follows:

- (1) A drive covering both individuals and corporations in the same period and with over-all as well as separate quotas -- i.e., the same type of drive as the Third War Loan.
- (2) A drive in two separate portions covering separate (although possibly adjacent) periods. One portion would be for individuals and one for corporations. Each portion would have its own quota distributed by States.
- (3) Three separate portions, the first two as in (2) above. The third would be open to all investors except commercial banks, but would consist only of certificates (which would have been excluded from the basket of the two prior portions). A greater or lesser degree of emphasis would be placed on the third portion, depending upon the volume of sales in the first two. There would be no State quotas in the third portion.

Any one of these programs would, of course, have to be announced as a whole before the initiation of the first step. In making such an announcement, the total amount to be raised by the whole operation could be emphasized and a comparison thereby made with the Third War Loan.

The principal points to be considered pro and con in weighing the different programs are as follows:

- (1) A combined drive similar to the Third War Loan

Pro:

- (a) This would require the least retraining and reorganization of personnel and would allow the experience gained in the Third War Loan to be applied most directly.
- (b) It would also result in the greatest publicity being given to the over-all figures, possibly bringing about a

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greater public appreciation of the significance of the drive.

Con:

- (a) It would be very difficult to get adequate emphasis on sales to individuals in such a drive, as sales to corporations are easier to make, and attainment of aggregate quotas would probably get the lion's share of the publicity and credit.
- (b) It would be difficult to have this type of drive without including a security susceptible to "free riding".

- (2) Separate drives for individuals and corporations, each with State quotas.

Pro:

- (a) It would be possible in such a split drive to get adequate attention for both individual and corporate subscriptions.

Con:

- (a) The figures to which the major publicity would be accorded in each part of the drive would be smaller than in the preceding type of drive.
- (b) It would be difficult to have this type of drive without including a security susceptible to "free riding".

- (3) Separate individual and corporation drives with State quotas, plus a subsequent certificate offering without State quotas.

Pro:

- (a) A drive of this type would make it possible to eliminate all securities eligible for bank holding from the first two portions of the drive without seriously jeopardizing the attainment of the total goal. This would almost completely eliminate free riding in these portions of the drive.

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Con:

- (a) The amount which would be left over for the certificate offering would not be known until after the conclusion of the second portion of the drive. The certificate offering, if large, might be very poorly distributed due to a lack of local sales effort.

The "free riding" commented upon in the "cons" above is primarily a matter of the basket of securities, rather than the timing of the drive. The third type of drive has a special merit, however, in that it permits the elimination of the securities particularly susceptible to free riding from the "pressure" portion of the drive without seriously jeopardizing the probable attainment of the aggregate goal.

None of the three alternatives set forth above, it will be noted, handles the problem of the allocation of corporate subscriptions between States. It seems to us that the only way this problem could be met would be to handle the corporation goal on a nation-wide basis, rather than on a State basis. We are advised by the chairmen of the States in which most of the corporation subscriptions are obtained that it would be absolutely impossible to conduct a corporation drive without State and county quotas. In view of this situation, it will be necessary to live with the allocation problem, no matter how troublesome might become the burden placed on corporation treasurers.

Weighing all the considerations involved, we believe that a drive of the third type has the greatest net balance of advantage. It should be remembered, however, that a program of this type involves more risk than any of the other alternative programs discussed. These alternatives have, as a matter of fact, been presented in this memorandum in the order of the risk involved; that is, the first alternative carries with it the least possibility of failure, whereas the third alternative requires that the Treasury assume the greatest degree of exposure.

A continued following of what appears to be the safest course cannot be wholly recommended for successive drives, however, for such successes as will be achieved on this basis will be deprecated by those who wish to find cause to criticize the Treasury's program.

IV. General outline
of financing program

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IV. General Outline of the Financing Program

The preceding section has discussed the planning for a Fourth War Loan drive starting in January from the point of view of State quotas and a separation of activity as between sales to individuals and sales to corporations. There remains the question of the total goal and the basket for the Loan.

The total goal is developed in a separate memorandum on sources of funds. It amounts to \$16 billions and would provide the Treasury with a working balance of \$20.6 billions at the close of the drive, which, when added to interim sales of securities, would be sufficient to carry the Treasury until about May 15, 1944 as is indicated below.

	(Billions of dollars)
(1) Working balance end of Fourth War Loan*	20.6
(2) Interim sales of securities, February 1 - May 15:	
(a) Continuing sales of savings bonds and savings notes	3.6
(b) Net increase in Treasury bills out- standing, February 1 - May 15, 1944	1.5
(c) Other, mostly special issues to Government agencies and trust funds	1.6
(d) Total interim financing	6.7
(3) Subtotal	27.3
(4) Financial requirements, February 1 - May 15, 1944:	
(a) Deficit	17.3
(b) Redemptions of savings bonds and savings notes	2.5
(c) Cash maturities	3.4
(d) Total requirements	23.2
(5) Working balance as of May 15, 1944	4.1

* For convenience in exposition the entire amount of the Fourth War Loan drive has been added to the January 31, 1944 working balance in arriving at the figure of \$20.6 billions, although it is recognized that part of the Fourth War Loan funds will not be obtained until some time after that date.

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With respect to the basket, it is proposed that it be significantly changed from the Third War Loan in order to minimize "free riding" and switches of securities in order to make quotas. Briefly, it is proposed that the 7/8 percent certificate and the 2 percent bond be withdrawn from the basket for individuals and that a restricted 2-1/4 percent bond be added. For corporate investors the 7/8 percent certificate would be retained, but the 2 percent bond would be replaced by the 2-1/4 percent restricted issue.

With the basket of securities adjusted in this manner, it is proposed that the Fourth War Loan drive raise \$6.7 billions from individuals, \$2.5 billions from insurance companies and mutual savings banks, and \$6.8 billions from other corporations, associations, and investors. The table that follows distributes these amounts by investor classes. The technique of the drive will determine the relative distribution of Treasury savings notes and certificates of indebtedness among corporate purchasers, however, and it is necessary to make one estimate of absorption for the first and second types of drives set forth above and another estimate for the third type of drive. Both of these estimates, it should be noted, are based on the assumption that our view that no pressure be used to sell long-term bonds to corporations who have no need for such issues be followed in the Fourth War Loan as it has been in the Third War Loan.

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Proposed Program for Fourth War Loan Drive

Investor class and issues	Amount (In billions of dollars)	
	Alter- native Drives (1) and (2)	Alter- native Drive (3)
<u>Individuals, partnerships, and personal trust accounts</u>		
E bonds*	3.5	3.5
F and G bonds	1.0	1.0
Treasury savings notes	.4	.4
2-1/4 percent bonds 1956-59 (restricted)	.9	.9
2-1/2 percent bonds 1965-70 (restricted)	.9	.9
Subtotal	<u>6.7</u>	<u>6.7</u>
<u>Insurance companies and mutual savings banks</u>		
7/8 percent certificate of indebtedness	.2	.1
2-1/4 percent bonds 1956-59 (restricted)	1.2	1.2
2-1/2 percent bonds 1965-70 (restricted)	<u>1.1</u>	<u>1.2</u>
Subtotal	<u>2.5</u>	<u>2.5</u>
<u>Other corporations and investors**</u>		
F and G bonds	.4	.4
Treasury savings notes	2.3	3.3
7/8 percent certificate of indebtedness	3.0	2.0
2-1/4 percent bonds 1956-59 (restricted)	.4	.4
2-1/2 percent bonds 1965-70 (restricted)	.7	.7
Subtotal	<u>6.8</u>	<u>6.8</u>
Grand total - Fourth War Loan Drive	<u>16.0</u>	<u>16.0</u>

* The method of counting receipts from E bonds under various alternative methods of conducting the Fourth War Loan Drive is discussed in Section V of this memorandum.

**Including eleemosynary institutions, associations, credit unions, dealers and brokers and State and local governments.

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In the Fourth War Loan financing program set forth above, it is suggested that the entire \$16 billions of new money to be raised come from a nonbanking operation and that \$6.7 billions be obtained directly from individuals. Savings bonds -- E bonds at \$3.5 billions and F and G at \$1.0 billions -- would provide the major share of the individual money. The sale of these securities to individuals in the amount of \$4.5 billions will represent substantial progress over the level of \$3.0 billions achieved during the Third War Loan. "Riding" issues would not be offered to individuals.

The basket offered corporations (including associations and State and local governments) would consist of F and G bonds, savings notes, certificates of indebtedness and two issues of restricted bonds. Neither of the bonds would be available for commercial bank holding for a period of ten years from date of issue.

The 2-1/4 percent bond would be a 1956-59 issue. It would fit into a maturity range in which the Treasury has offered no securities since May 1941. It is likely to be very popular with insurance companies and mutual savings banks and other corporations who desire an issue shorter than the 2-1/2 percent series.

The 2-1/2 percent bond would be a June 15, 1965-70 issue, a security six months longer than the bond offered in September. This would extend the term of the new 2-1/2 percent bond by about two months over the term of the 2-1/2 offered during the Third War Loan. It has been our contention that it is good sales psychology to make the issues offered in each succeeding drive just a little bit longer in term in order to prevent prospective purchasers from holding out from drive to drive in the hope of getting a "sweeter" issue.

A 7/8 percent one-year certificate of indebtedness and savings notes are suggested for inclusion in the corporation basket in order to attract the funds arising from current corporation accumulations -- funds accumulating in depreciation reserves which cannot be reinvested in new equipment, funds arising from accounts receivable repayments and those going into tax reserves. These accumulations are short-termed in nature and it cannot be expected that corporations will wish to keep them invested

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beyond the duration of the war. A short-term security is called for, therefore, rather than a medium or long-term bond. Moreover, even if corporations were persuaded to purchase a bond with these funds the Treasury would have gained no real advantage from their action. Instead, a future market problem would have been created should corporations wish to liquidate the bulk of the issue at some period prior to its maturity because of the termination of the war.

Both Series C notes and the certificate have been included in the basket because neither seems to be a wholly satisfactory security alone to satisfy all corporate accumulations. Many corporations prefer the certificate type of instrument, yet sales of the C note have increased substantially. In the Third War Loan drive corporations purchased \$3,754 millions of certificates and \$2,290 millions of Series C notes.

The financing program suggested for the period January 1 to May 15, 1944 makes no provision for a bank offering, except for the offering of Treasury bills, most of which, it is assumed, will flow on net balance into the portfolio of the Federal Reserve Banks. This exclusion of a bank offering from the next financing period is the result of the high level of commercial bank acquisitions during the Third War Loan and the period immediately thereafter. As has already been pointed out, banks acquired or are in the process of acquiring \$5 billions of Governments as a result of "bad selling" during the drive. In addition, banks were allotted \$3.2 billions of new securities directly in October. The total of these items -- over \$8 billions -- is a high figure for bank borrowing by the Government, directly or indirectly, for a period of a few months.

It is interesting to note that if effect be given to the foregoing figures, acquisitions of Government securities by commercial banks and the Federal Reserve Banks will have amounted to over \$12 billions since the beginning of the fiscal year, or 19 percent of total borrowing expected for the entire fiscal year 1944. This figure will be added to in a substantial way in the Fourth War Loan even if the volume of riding and borrowing noted in September is reduced.

During the fiscal year 1943 -- the period when the drive technique had just begun to get under way -- borrowing from commercial and Federal Reserve Banks amounted to \$30.5 billions, or 48 percent of total borrowing. About

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\$6.5 billions of the borrowing, it will be recalled, was for the purpose of building up the working balance. If bank borrowing is to be kept substantially below the 1943 figure, no substantial offerings directly to banks should be made during the financing period now under consideration.

V. Policy matters

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V. Policy Matters which will Require Some Consideration

There are a number of important technical and policy matters in connection with the Fourth War Loan financing that will require some attention. They are discussed briefly in the following paragraphs.

(1) Tie the payroll savings plan in closer to the drive. As has been outlined previously, the payroll savings plan did not tie in very closely with selling activities conducted during the Third War Loan drive. The matter of correlating the plan with the drives is of rather considerable importance, however, even though it is very difficult to construct a mechanical method which will accomplish this end. It may be that four-month quotas or a special insignia, or some other method of tie-in is required. The matter is so important, however, that no opportunity for improving the situation should remain uninvestigated.

(2) Insignia. For a long time there has been discussion of and a desire for a national insignia for bond buyers. Recently it has been brought to our attention that, as a result of observations made during the Third War Loan, some insignia for use during drives had been considered favorably as a promotion device by some members of the War Advertising Council.

Insignia have their disadvantages as well as their advantages. Awarding them arbitrarily on the basis of the dollar amount of bonds purchased involves a rigid formula such as the Treasury has opposed continually in its discussion of compulsory savings plans. In order that the insignia could be worn by all persons who did their share during the Fourth War Loan drive, it is suggested that a three-way program be considered and the insignia be awarded (a) to persons who authorized a payroll savings deduction of 20 percent of their pay for the period January 1 to May 1944; (b) to persons who bought \$100 in E bonds, face value, during the drive; and (c) to persons who subscribed on the partial payment system described in the next section of this memorandum.

The insignia, it should be mentioned, does not have to be made of metal or be of complicated design. It could be made up very simply and out of the least critical of the materials available. The War Advertising Council has already done some work on designs, we are informed, and may be ready to give you some suggestions along these lines.

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(3) Partial Payment for E bonds. It is suggested that the Treasury establish a plan that would permit individuals to buy \$100 or \$500 denomination E bonds dated in January through a system of partial payments extending to May 1 or thereabouts -- a date at any rate not beyond the beginning of the next War Loan drive.

It is becoming more and more evident that the drives must make some attempt to pick up funds that will accrue after the drive closes. If these funds could be obtained before they go into bank deposits or hoarded cash, or before they are expended for the purchase of goods and services, their inflationary potential would be reduced considerably.

We need to add to the sales kit something that will appeal to prospective buyers in a new way. A partial payment system might be very helpful in this connection. If the time factor is such that the mechanics cannot be set up throughout the country as a whole, the plan could certainly be tried out in a few States where its popularity and the success of its operation can be observed.

There are a number of ways a partial payment plan might be worked out. The Manufacturers Trust Company of New York handled a successful one last year using the Christmas Club principle. One idea we have in mind could be worked out by the use of a special series of war savings stamps and a special series of stamp albums, all of which could be printed rather quickly. The stamps involved would be a new \$25 denomination stamp and a new \$10 denomination stamp. The purchase of a \$25 stamp and its insertion in an album would constitute a pledge to buy a \$100 E bond dated in January within a period of seventy-five days. (Three \$25 stamps and an album would constitute a \$500 bond pledge.) Pledges would be counted at their pledge value in determining the percentage of quota accomplished, although the figures would be shown separately. Albums and the \$25 stamps would be on sale only during the drive. The \$10 stamps would be on sale until April 15 and albums would have to be completed and turned in by May 1 in order to qualify for the purchase of an E bond dated in January.

A partial payment plan such as this would make it possible to sell a much larger volume of war bonds than might otherwise be possible to persons who are short on cash in January because of Christmas and other seasonal expenditures, and to persons whose steady income, month after month, can be tapped by something in addition to

Secretary Morgenthau - 21

the payroll savings plan. A program such as this could pin down significant sales to employees of many firms too small to warrant the setting up of the mechanics of the payroll savings system. It might also adapt itself well to the needs of professional persons and the self-employed and might become very popular among farmers for whom a drive month is not always a convenient month for War Bond purchases. For the Treasury it would conserve the efforts of field solicitors and canvassers by turning what otherwise might have been the sale of a \$25 E bond into the prospective sale of a \$100 E bond.

It is true that there will be some defaults on the partial payment system due to overselling and declining enthusiasm during the post-drive period. This is not a serious disadvantage and may be met by a planned post-drive activity.

(4) Statement on Withdrawal of Bank Deposits. There was considerable confusion in the field during the Third War Loan as to the Government's position on the matter of withdrawing bank deposits for the purchase of Government securities. It seems to be patent that if we are to have no more than three drives a year, a considerable volume of liquid savings will accumulate in the hands of individuals between those drives. An important proportion of these funds will find their way into commercial bank deposits. If the Treasury is to acquire the significant portion of the current accumulations that it desires to be invested in Government securities, it must tap these funds to as large an extent as possible.

A drive that will acquire \$6.7 billions of subscriptions from individuals will require public approval by the Treasury and the Federal Reserve of local activities encouraging individuals to withdraw large portions of their commercial bank accounts for investment in savings bonds. The need for a policy approving bank deposit withdrawals has become more and more evident as the war financing program has progressed, and it should be formulated completely before the start of the Fourth War Loan inasmuch as the success of the individual part of the drive may well depend upon it.

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Some bankers have questioned whether they can afford the drain on their deposits which will result from a vigorous program of sales of Government securities to their depositors. Their leaders, as represented by the members of the Economic Policy Commission of the American Bankers Association, have, however, been in favor of a deposit-withdrawal-for-Government-security-investment policy. In the Commission's report on "The \$100 Billions Budget and the Banks", issued in March, bankers were advised to look upon such deposit withdrawals with complacency. The report explained, you will recall, that "as the deposits go out through customer subscriptions for bonds or through Government withdrawals, there is reasonable certainty that over a period they will return, though usually under different ownership."

(5) The Elimination of the Federal Trust Funds from the Drive. There has been a general tendency to include the purchases of Federal trust funds in the drive figures and to compare the total so arrived at with the \$15 billions quota in spite of the fact that the purchases by these trust funds were supposed to be outside of the drive. It is suggested that during the Fourth War Loan purchases by Federal trust funds made through the Office of the Treasurer of the United States be handled as a special transaction; and that the subscriptions be excluded from all the statistics and reports released on the progress of the Fourth War Loan drive.

(6) Deferment Payments by Insurance Companies. The deferred payment plan set up for insurance companies during the Third War Loan which allowed them until November 1 to pay for issues subscribed for, was availed of to only a minor extent by these companies. Subscriptions received on which deferred payments were stipulated amounted to only \$191 millions, while the amount of such deferred payments was only \$91 millions. This compares with total cash subscriptions of \$2,529 millions received from insurance companies during the drive. Insurance companies, we are informed, found it cheaper to borrow the funds from private sources or to arrange with Government bond dealers for post-drive acquisition of drive securities than to pay the accrued interest on the issues that were acquired under the deferred payment plan. In view of the relatively small use of this provision and in light of the prospect that other classes of financial investors might start coming forward with a request that the post-drive payment plan on marketable issues be extended to them, it is suggested that the deferred payment be dropped.

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(7) Change in Reporting. If the combined-drive alternative discussed in Section III of this memorandum is adopted, it is suggested that a change be made in the accounting for the sale of E bonds to permit E bonds not issued by the close of the reporting period to be counted in the totals as sales during the drive. This change in procedure should be announced before the drive opens, and should involve a certification by the issuing agent to the Federal Reserve Banks and by the Federal Banks to the Treasury on the last day that accounting for E bonds was permitted, showing the amount involved by States. The failure of issuing agents to transmit funds to the Federal Reserve Banks in time to be counted was not general in the Third War Loan drive, but it did occur in a few instances. In any one State or area a manpower breakdown or shortage at the issuing agent level could easily cost the State the credit of doing an outstanding sales job even though it was known generally that such a job had been done, and a provision such as the one suggested may be quite desirable and necessary during the Fourth War Loan.

If a split drive is adopted, it will be necessary, it would seem to us, to change the whole method of reporting E bond sales altogether, in order to avoid allowing the lag in reporting to completely overshadow the success of the sales campaign. Until now, E bonds have been counted in the sales figures only when their stubs have been processed through the Federal Reserve Banks and the funds have been placed to the credit of the Treasurer of the United States. On the average, this counting occurs ten days or two weeks after the bonds are sold. The delay has not been serious inasmuch as the total sales have been brought up sharply by early corporate subscriptions.

In a straight individual drive, however, the delay in reporting a volume of sales representing any significant proportion of the total goal would be so great -- say, seven or eight days -- as to give the drive a psychological setback. Similarly, at the end of the drive the lag would make it impossible to establish the success of the operation until at least ten days and probably two weeks after the closing date. We do not feel that it is desirable to plan a drive, the success of which cannot be established for such a long period after sales have been accomplished. Accordingly, we are recommending that if a program is adopted in which the individual drive is conducted separately, a new system of reporting based on issuing agent transactions and estimates of volunteers be set up throughout the country.

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November 6, 1943.

Dear Mr. Folger:

It was with great pleasure that I learned of your election as president of the Investment Bankers Association of America. I want to congratulate you upon this honor that has come to you, and wish you all success in carrying out the duties of this important office. I shall look forward to our association as you take up this new work, and shall be glad to have you call upon my office if at any time we can be of service to you.

Sincerely,

(Signed) H. Morgenthau, Jr

Mr. John C. Folger,
President, Investment Bankers
Association of America,
c/o Folger, Helan & Company,
American Security Building,
730 Fifteenth Street, N.W.,
Washington, D. C.

GEF/dbs

John C. Folger Elected Head of Bankers' Group

By EDWARD HOTZE

The Investment Bankers Association of America, at the final sessions of the annual convention in New York yesterday, named John Clifford Folger of Washington as president for the ensuing year.

Folger, a partner in the banking firm of Folger, Nolan Company, succeeds Jay N. Whipple and is the first local member of the national association to receive this signal honor.

Folger's inaugural address was received with great interest by the convention delegates. He declared that the decade following the war would be marked by the greatest investment era the country has ever known, as there would be more liquid capital seeking investment than ever before. Folger went on record as opposing compulsory competitive bidding for securities.

The new president is a native of Washington State but came to the capital many years ago. His career here has been marked by wholehearted co-operation in many drives for the Red Cross, Community Chest, War Loans and other philanthropic and patriotic endeavors. He is a director of the Chesapeake and Potomac Telephone Company, the Empire Trust Company of New York and many other concerns.

Passenger travel from Washington via Pennsylvania-Central Airlines was up 15 per cent during September as compared to the same month of 1942, District Traffic Manager H. E. Kennedy announced last night. Kennedy also stated that express pounds sent from the city via R.C.A. reflected a 40 per cent gain and air mail 16 per cent.

Washington department store sales were off 1 per cent during the week ended October 30 as against the same week of last year, the Federal Reserve Bank of Richmond reported yesterday. The week was also 12 per cent under the previous week.

For the four-week cumulative period ended October 30, however, sales were 8 per cent ahead of the same four weeks of 1942. The Fifth Federal Reserve District, as a whole, averaged about the same changes as the local stores, the statement concluded.

TREASURY DEPARTMENT

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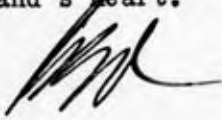
INTER OFFICE COMMUNICATION

DATE

November 6, 1943

TO Secretary Morgenthau
FROM Randolph Paul

I thought you might be interested in the attached copy of letter from Mr. Picchione to Mr. Forand, Rhode Island member of the Ways and Means Committee. I am speaking in Providence on November 15 at the specific request of Mr. Forand. The date was made many months ago and the meeting is close to Mr. Forand's heart.



NICHOLAS PICCHIONE & COMPANY
Accountants and Auditors

Nicholas Picchione, C.P.A.
B. C. Hammond

Industrial Trust
Building
Providence, R.I.

October 29, 1943

Honorable Aime J. Forand
New House Office Building
Washington, D. C.

Dear Aime:

Rumors are flying thick and fast that Mr. Paul will not come to Providence on November 15. It seems that he did not show up in New York on October 21 when he was scheduled to speak before the national convention of the American Institute of Accountants. Some are saying that if he did not make his appearance at a national meeting in New York, he certainly won't appear at a meeting in Rhode Island. I have always felt that Mr. Paul would come and that has been my answer to the doubting Thomases.

I am enclosing a couple of the announcements that were sent to the members of all the participating organizations. The recent reports indicate that tickets are going very fast and it is reasonably certain that the house will be sold out. The Committee has been working hard to make this affair a real success and a credit to those taking active part. Elaborate arrangements have been made for Mr. Paul's reception when he arrives on the morning of November 15. The Governor, as you know, has made arrangements to receive Mr. Paul in his office and has arranged a tour of inspection of Quonset Point, to be followed by a luncheon for the Official Party.

It would be a severe blow to all of us, and especially to Mr. Paul and the Treasury Department, if at the last minute he sends a substitute speaker. In order to allay the fears in the minds of many and to stop these ugly rumors, I think it might be a good idea if you could have Mr. Paul reassure us that he is coming to Providence. Perhaps a letter written by Mr. Paul to you or to me, as Chairman of the Committee, saying that he definitely will be here and stating the time of his arrival would be most helpful; for then, we could publicize this letter.

Aime, I have made reservations at the Narragansett Hotel for you for the nights of November 14 and November 15. As for train reservations, you will have to take care of them on your end, and we will, of course, reimburse both you and Mr. Paul.

Sincerely,

NP:MEG
Enclosure

/s/ Nick
Nicholas Picchione

Nov. 6, 1943

Mr. Sullivan
Secretary Morgenthau

I am sending you herewith a copy of a memorandum which I have received from General Marshall. I suggest that we go ahead and make a joint inspection.

WAR DEPARTMENT
THE CHIEF OF STAFF
WASHINGTON, D. C.

5 November 1943

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

I have looked into the matters discussed in Mr. Sullivan's memorandum, which you handed me at luncheon yesterday. There is apparently some misunderstanding as to the situation. During the period of the Army's rapid expansion, some officers' and noncommissioned officers' clubs acquired an erroneous notion concerning the handling of liquor on military reservations. This situation has been corrected. The directive of March 12, 1943, a copy of which was left with Mr. Sullivan, prescribes clearly our present policy.

The purpose in suggesting that military inspectors accompany Treasury Department personnel was to aid the Treasury Department, who could then collect taxes due it if any taxable transactions are going on, and to enable the War Department to take the necessary disciplinary action if War Department orders were being violated. These two functions are entirely separate and it is not our desire to have the Treasury Department act to enforce Army regulations. The arrangement agreed upon by our representatives, as I understand it, was that past transactions which occurred during the Army's rapid expansion are no longer in question and that the Treasury Department's inspections will have to do only with current practices. Far from leading to difficulty, I believe that this cooperation of the two Departments will further the interests of both.


Chief of Staff.

MEMORANDUM

November 3, 1943.

TO: The Secretary

JLS

FROM: Mr. Sullivan

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 Bolling 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.

- 2 -

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.

November 6, 1943

My dear General Marshall:

I wish to thank you for directing General Strong to send me weekly copies of the Joint Intelligence Committee Weekly Summary. I have already begun to read these, and have found them most instructive.

If there is in existence a summary of the censorship of soldiers' mail, I also would appreciate receiving that regularly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff,
United States Army,
War Department,
Washington, D.C.

November 6, 1943

My dear General Strong:

I wish to acknowledge receipt of your letter of November 5th, enclosing copy of the Joint Intelligence Committee Weekly Summary. I have started to read these very carefully, and I find them most instructive. I also want to compliment your organization on the excellent way these reports are put together. I will guard them carefully, and they will be for my eyes only.

I am particularly interested in the Argentinian situation, and if you have any recent reports showing what repercussions, if any, resulted from our freezing two of their banks, I would like to have this information *promptly*.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Major General George V. Strong,
War Department General Staff,
Military Intelligence Division,
Washington, D.C.

SECRET

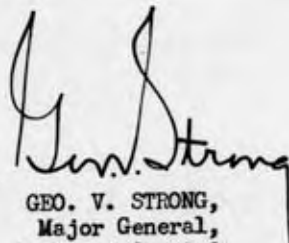
139

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

5 November 1943

MEMORANDUM FOR MR. MORGENTHAU:

General Marshall has directed me to furnish you, for your personal use, copies of the Joint Intelligence Committee Weekly Summary. The current number and the two preceding numbers are enclosed herewith. Hereafter a copy marked for YOUR EYES ONLY will be furnished every Friday.


GEO. V. STRONG,
Major General,
A. C. of S., G-2.

Incls.



SECRET

November 6, 1943

My dear General Clark:

I want to take this opportunity to thank you for the wonderful twenty-four hours you gave me while I was in your area. The day I spent with you will always be a high-water mark in my life.

I have had an opportunity to report to the President, Secretary Stimson and General Marshall my very high regard of the way in which you are conducting the war against the enemy.

Knowing how seldom newspapers reach you, I am enclosing herewith a clipping from the New York Times which ran the story of my visit with you. Also, in the not too distant future, I hope that you will receive a box of apples from my farm. 10/22

If I can ever be of any service to you, please feel free to call on me.

With kind regards,

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Lieutenant General Mark W. Clark,

United States Army.

November 6, 1943

My dear General Eisenhower:

I was sorry that I did not have an opportunity to see you on my return from Italy, but I understood that you were away.

I want to take this opportunity to thank you for having made my trip to the front possible, also for having sent General Hughes with me. He was a most excellent traveling companion.

The whole trip, from my standpoint, was a great success and I have so reported to the President, Secretary Stimson and General Marshall.

Keep up the good work and I hope if at any time I can be of service to you, you will feel free to call on me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

General Dwight D. Eisenhower,
United States Army.

November 6, 1943

My dear Mrs. Poletti:

I think you might be pleased to know that I spent a morning with Charley at Palermo.

He is in excellent health and doing a perfectly swell job. I sat in his office with him while he sent for various Italians and I am confident from their attitude towards Charley that he can run for anything in Sicily and be elected "hands down".

With kind regards,

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Charles Poletti,
40 West 77th Street,
New York, N. Y.

WINTON HOUSE
BERNARDSVILLE, NEW JERSEY

Dear Mr. Morgenthau,

Thank you so very much for your kind and thoughtful letter telling me that you had seen Bernard in North Africa. I do appreciate the effort you have made in my behalf. When I write to him tonight I shall tell him of your kindness in speaking to both General

McSherry and General Holmes in his behalf.
I cant tell you how nice it was to hear
from some one who really had seen him.
Since taking up his residence in Africa.
Bernard seems so very far away.

Do please give our love to Henry when
you catch up with him. He should have
manoeuvred himself into a leave by
now! I have a play by play description
of life at Riley to render him some-
day at his leisure.

12-1-41
PLeasing that by now Mrs. Morgenthau
has fully recovered and again thanking
you most sincerely for your kind interest
in Bernard

Affectionately,

Maureen J. Shanley

Monday November the eighth.

November 6, 1943

My dear Mrs. Shanley:

I thought that you would like to know that I saw Bernard in North Africa and found him very well.

It's going to take a little time for him to find the right groove for his ability, but I am hoping that that will not be too far off. When you write him will you tell him that I had an opportunity, after I saw him, to speak to both General McSherry and General Julius Holmes in his behalf and I hope it will bear fruit. I would like to hear from Bernard as to just what work they do give him.

Henry's manoeuvres are about over and although I have been back a week I have not heard from him.

With kind regards,

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Bernard Shanley,

Bernardsville, New Jersey.

HOLD FOR RELEASE -- CONFIDENTIAL UNTIL RELEASED

NOTE: Release is automatic, at eight (8) P.M., E.W.T.,
Today, November 6, 1943.

James F. Byrnes, War Mobilization Director, announced today that he had appointed Mr. Bernard M. Baruch as head of the new unit which is being set up within the Office of War Mobilization to deal with war and post-war adjustment problems and to develop unified programs and policies to be pursued by the various agencies of government concerned.

Justice Byrnes stressed the fact that the first adjustments which would demand the attention of Mr. Baruch and his unit would be adjustments rendered necessary not by the cessation of hostilities but by the changing requirements of our war strategy. Such reshaping of our war programs, he stated, must of course be carried through with a view to increasing the effectiveness of our war effort.

Since the President asked Justice Byrnes to organize this work within the Office of War Mobilization, he has held meetings with the representatives of various procurement agencies. The reports and proposals of these agencies have been under study by Mr. Baruch. Mr. Baruch has called a special meeting for next Tuesday of the representatives of these agencies to consider plans for uniform policies to be applied, so far as feasible, by all procurement agencies in the termination and revision of war contracts.

In announcing Mr. Baruch's appointment, Justice Byrnes said: "Mr. Baruch's acceptance of this vitally important post should assure the country that the adjustment problems will be handled with both statesmanlike efficiency and broad vision."

Mr. Secretary:

file

6

Oscar Cox phoned and said that both he and Harry White thought you would like to read the attached document over the weekend.

Mrs. McHugh

November 6, 1943

Memorandum

To: Secretary Morgenthau
From: Oscar Cox

The attached document is intended to parallel the British White Paper on the same subject. It is anticipated that the British White Paper will be presented to Parliament on November 11th.

The President may possibly want to sign the attached or a revised version of it sometime on Monday. Harry White went over an earlier copy, and all of his suggestions have been incorporated in this revised draft. Both Harry and I thought that you might want to look at this over the weekend if you find it convenient to do so. I understand Harry will talk to you about it Monday morning.

THE PRESIDENT OF THE SENATE,

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES:

Since the enactment of the Lend-Lease Act in March of 1941, I have transmitted to the Congress eleven reports describing in detail the lend-lease aid which has been furnished by the United States. These reports have also included information with respect to the types and quantities of reverse lend-lease aid provided to the United States by the various Lend-Lease countries. While a complete account of the reverse lend-lease aid which we have received is not yet available, the statements recently received from ~~the Government of the United Kingdom, the Government of the British Commonwealth of Australia and New Zealand~~ ^{the Government of the United Kingdom, Australia and New Zealand} ~~from~~ ^{from} our Army make it possible for me to report to you at this time regarding the scope of some of the ^{expenditures for} reverse lend-lease aid furnished the United States ^{under} by the British Commonwealth of Nations.

The overwhelming benefit which the United States has received from its Lend-Lease program has, of course, been the pooling of resources and the combined effort of the United Nations against the Axis countries. Each of the United Nations has contributed. Some have contributed primarily their manpower; others, their manpower and supplies. And still others have contributed primarily supplies. There is, of course, no physical or financial standard of value by which we can measure the military contribution to the war on land or sea or in the air which has been

made by our allies or ourselves. One thing is clear: By the help which our friends and allies have given us, and by the help which we have given them in the common cause, we have not only made progress in the war, but we have saved the lives of many of our own boys as well as those of our allies.

The Master Agreements entered into with Great Britain, the Soviet Union, China and other United Nations receiving lend-lease aid establish the principles which govern the lend-lease relationship. The United States has agreed to make its contribution through lend-lease articles, information and supplies. The other United Nations have agreed to contribute to the defense of the United States by providing as reverse lend-lease aid all articles, services, facilities or information which they may be in a position to furnish. Under these agreements, all lend-lease supplies, such as, for example, merchant ships or cargo planes, which are not destroyed, exhausted or consumed can be required by the United States to be returned at the end of the present emergency if the President finds that they are useful in the defense of the United States or the Western Hemisphere, or are otherwise of use to the United States of America. Article VII of the Master Agreements entered into with the United Nations receiving lend-lease aid provides that they will join with the United States in assuring some of the economic conditions which are a prerequisite to a secure and lasting peace.

Our allies have more than lived up to the spirit and terms of these agreements. As they have been able to do so, they have expanded the scope and nature of their reverse lend-lease aid. Since the first American soldier landed on foreign soil, our troops abroad have been provided, under reverse lend-lease, with munitions, housing, transportation, training, and a great part of the food that they have consumed. In contrast to the average of about \$ spent per month by the United States Army alone for goods and services in Britain and France during the first World War, the United States Army in this war has spent at the rate of less than \$250,000 per month for goods and services in the British Isles. All of the other goods and services which they have needed have been provided as reverse lend-lease aid.

Early this summer the United Kingdom offered to extend reverse lend-lease aid to include not only goods, services and information for our armed forces, but raw materials and foodstuffs hitherto purchased in the United Kingdom and the British Colonies by or on behalf of United States Government agencies. Since that time discussions on the administration and procedure for ^{the} handling of the contracts, transfers and other details have been had and concluded.

This plan will make available to the United States under reverse lend-lease and without payment such raw materials and foodstuffs as rubber from Ceylon, ^{Trinidad} British Guiana and British Honduras, sisal and pyrethrum from

British East Africa, asbestos and chrome from Southern Rhodesia, cocoa from British West Africa, tea and coconut oil from Ceylon, and benzol and tar acids from the United Kingdom.

The British shipping services for these raw materials and food-stuffs from all parts of the British Commonwealth will also be made available under reverse lend-lease.

Discussions are also under way with the other divisions of the British Commonwealth looking toward a like arrangement for the provision of raw materials and foodstuffs as reverse lend-lease aid.

As of June 30, 1943, the British Commonwealth of Nations had made expenditures of about \$1,200,000,000 for reverse lend-lease aid. The United Kingdom has expended about \$900,000,000 of this amount; and Australia, New Zealand and India have expended approximately \$300,000,000. During the first six months of this year, the rate of expenditure by the British Commonwealth for reverse lend-lease aid to the United States was in excess of \$1,250,000,000 annually.

The data necessary for even an incomplete accounting of the monetary expenditures of the British Commonwealth's reverse lend-lease assistance to the United States ^{have} been gathered in the face of great obstacles. British aid is rendered to the armed forces of the United States all over the world. ~~Generally, it is out of stocks on hand.~~ Usually it is under conditions very different from those surrounding lend-

lease from the United States, which flows from a central source, ~~and begins~~
~~in the procurement stage~~. Many supplies and services have been made avail-
able by the British to United States armed forces under battle conditions
in North Africa, Sicily and elsewhere of which no record is available.

The figures set forth in this report include expenditures made
by the British Commonwealth for newly constructed barracks, military
airports, hospitals and other military facilities for our armed forces.
They do not include such facilities made available to our armed forces where
no out-of-pocket expenditures have been made for their construction since
our entry in the war. These ^{British} expenditures were from appropriated funds
which required financing either through taxation or borrowing. They are
comparable to the expenditures made by the United States from appropriations
for land-lease purposes which include funds for capital installations in
this country, such as munitions plants, shipyards and other facilities.
It has not yet been determined how such land-lease or reverse land-lease
expenditures will be charged or treated in the final settlement under the
land-lease agreements. The Master Agreement provides that in the final
determination of the benefits to be provided to the United States, "full
recognition shall be taken of all property, services, facilities, or other
benefits or considerations provided by the Government of the United Kingdom
subsequent to March 11, 1941, and accepted or acknowledged by the President
on behalf of the United States of America."

The Governments of the British Commonwealth have presented these expenditures for the reverse lend-lease aid covered in this report in pounds. To make these figures more illuminating to the American people, these expenditures have been translated into dollars at the official exchange rates. This is likely to be misleading because the rate of exchange used cannot, especially under war conditions, always reflect comparable values in terms of purchasing power, man-hours of work or materials. Cost prices in the United Kingdom, Australia and New Zealand are generally lower than prices for the same equipment provided by the United States as direct lend-lease. For example, under the official exchange rate with the United Kingdom a pound sterling is valued at \$4.03 $\frac{1}{2}$. However, a pound sterling will buy more goods in the United Kingdom than \$4.03 $\frac{1}{2}$ will purchase in the United States. But aside from the inaccuracies resulting from translating the pound expenditure figures into dollars at the official rates of exchange, I think it is desirable to provide the Congress and the people of this country with the best available indication as to the expenditures made by the British Commonwealth for reverse lend-lease aid.

Exclusive of the expenditures for supplies transferred in Colonial theatres of war, American forces have received, as of June 30, 1943, aid through reverse lend-lease channels, for which the United Kingdom made expenditures of \$891,000,000, as follows:

Goods and Services.....	\$331,000,000
Shipping.....	189,000,000
Airports, Barracks, Hospitals and other construction.....	371,000,000
<hr/>	
Total.....	\$891,000,000

For the first six months of the present year, the United Kingdom's expenditures for aid to American forces was tentatively estimated at about \$463,000,000, indicating a present annual rate of expenditure greater than \$925,000,000, without taking into account the delivery of raw materials and foodstuffs for export to the United States.

We are all familiar with the magnificent role which the Eighth Air Force has played, in collaboration with the Royal Air Force, in preparing the way for the invasion of Europe. It is not as widely known that the operation of reverse lend-lease has made important contributions to the outstanding performance of our air forces based in the United Kingdom.

Under reverse lend-lease, the British have provided our bomber and fighter commands with many necessary items. Specially heated winter flying clothing to protect bomber crews from the intense cold suffered at high altitudes was supplied by the British to our air forces. When certain United States fighter gun sights proved less effective than the sights employed by British fighters, the Royal Air Force provided a substantial number of British-type sights for immediate installation.

American bombers have been equipped by the British with photographic equipment effective in obtaining photographs of the target during the bomb run. The British have also provided facilities for the development and production of a new type of protective body armor designed by their medical authorities.

A variety of other aid has also been provided for our air forces by the United Kingdom. Mobile repair shops located throughout the United Kingdom recondition American bombers forced to make crash landings. A one-man dinghy, developed by the British for parachute landings at sea, provides pilots of American planes with a one-man floating raft. Specialized radio equipment has been installed in American planes which has given greater safety to our bomber crews, and which has proved of the utmost value in improving the effectiveness of our bombing missions. For purposes of recognition training, the Royal Air Force has delivered to the United States Air Forces more than 60,000 items of aircraft, warship and armed vehicle recognition devices. This is but some of the substantive aid which has been provided to our air forces under reverse lend-lease and without payment by us.

Although Great Britain depends upon imports for a large portion of her sharply curtailed food supply, she is providing American forces with substantial amounts of ~~the~~ foodstuffs as reverse lend-lease aid. These range from fresh vegetables, flour and potatoes to corn on the cob and soft drinks.

The British are also supplying munitions and other fighting equipment free of cost to the Soviet Union and the other United Nations. The cost of these supplies sent to the USSR alone up to June 30, 1943, is estimated by the British Government at more than \$750,000,000.

Australia, New Zealand and India have also provided United States forces in those areas with substantial reverse lend-lease aid, including most of their food.

The Australian Government has officially estimated its expenditures for reverse lend-lease aid to the United States at £4 60,792,000 as of June 30, 1943. As the official rate of exchange of £1 equals \$3.23, this indicates a dollar value of about \$196,000,000. This sum is divided into the following major categories:

Stores and Provisions.....	\$ 39,000,000
Technical Equipment.....	7,000,000
Motor Transport.....	14,000,000
Aircraft Stores and Equipment..	16,000,000
General Stores.....	24,000,000
Transportation and Communication	21,000,000
Shipping.....	7,000,000
Works, Buildings & Hirings.....	66,000,000
Miscellaneous.....	2,000,000
Total.....	<hr/> \$196,000,000

Australia and New Zealand have supplied American forces in the South and Southwest Pacific with the bulk of their foodstuff requirements on a ration scale comparable to the basic allowance of the American Army. This program includes fresh, dried and canned products, and in some cases in the latter category requires amounts ranging up to 100% of total

Australian production. The following are the quantities of the principal types of foodstuffs the United States has received from Australia as reverse lend-lease through June 30, 1943:

Meat.....	61,480,000 lbs.
Bread, Biscuits & Cereals...	48,110,000 "
Potatoes.....	29,762,000 "
Vegetables & Fruit.....	49,931,000 "
Canned Foods.....	28,340,000 "
Emergency Rations.....	2,231,000 "
Sugar.....	11,782,000 "
Butter.....	6,628,000 "
Condensed Milk.....	8,711,000 "
Fresh Milk.....	11,500,000 pts.
Fresh Eggs.....	22,000,000 dos.

Although clothing rationing has been introduced in Australia, the Government has undertaken an extensive clothing manufacturing program for the United States forces. This program includes millions of pairs of socks and ~~sweatshirts~~ hundreds of thousands of shirts, ^{jackets,} trousers, pull-overs, underclothing, boots and shoes and blankets.

New Zealand, no less than Australia and the United Kingdom, has supplied its share of reverse lend-lease aid. For the period ending June 30, 1943, the New Zealand Government has officially reported having expended \$48,000,000 for reverse lend-lease aid to the United States, made up as follows:

Supplies, Services and	\$27,000,000
Foodstuffs.....	
Camps.....	6,000,000
Hospitals.....	3,000,000
Warehouses.....	5,000,000
Miscellaneous Building	
Projects.....	7,000,000
Total.....	\$48,000,000

New Zealand, with Australia, is the food basket of American forces stationed throughout the South Pacific area. In order better to provide for the needs of our troops in remote Pacific islands, New Zealand has greatly increased her capacity for the packing, canning and dehydration of meats, vegetables and dairy products. Although its population is less than 1,700,000, this Dominion has supplied the United States under reverse lend-lease and without charge with more than 170,000,000 pounds of foodstuffs during the year ending June 30, 1943, as follows:

Fresh Meat.....	49,650,000 lbs.
Canned and Smoked Meat.....	21,600,000 "
Potatoes.....	9,150,000 "
Other Vegetables.....	24,125,000 "
Fruit.....	10,825,000 "
Butter and Cheese.....	12,550,000 "
Other Dairy Produce.....	10,000,000 "
Sugar.....	7,100,000 "
Flour and other Cereals.....	13,725,000 "
Miscellaneous Supplies.....	11,475,000 "

Recreational needs of American soldiers have been met by an Australian program which calls for every type of game and accessory from boxing gloves and horseshoes, to chess sets, and medicine balls--in all, more than 420,000 items of such equipment.

Numerous hospitals, including the newest and most modern in the country, have been turned over to the United States Army for its exclusive use. More than 100,000 acres of land and more than 7,000,000 square feet of floor space have been provided American forces.

Air, rail, and water passenger fares and freight, cable and telegraph expenses of our troops are paid by the Commonwealth Government as reverse lend-lease aid.

A large number of small ships of various types have been turned over to American authorities, and Australian shipyards are now turning out landing barges and small vessels for the combat use of our forces.

On September 29, 1943, the Australian Minister of Finance introduced the Commonwealth budget for the current fiscal year in the Australian Parliament. He estimated that Australia will spend approximately \$323,000,000 for reverse lend-lease during the year July 1, 1943 to June 30, 1944. This represents some 17% of the total Australian budget for war purposes in comparison with ~~total~~ land-lease expenditures of the United States estimated to be about 12% *of the United States war budget.*

New Zealand also supplies numerous articles of clothing, including shoes and textiles to United States forces as reverse lend-lease aid. When American requirements were added to those of local forces, New Zealand found it necessary to ration the civilian supply of clothing to less than one full outfit per year.

American requirements under reverse lend-lease have also occasioned shortages in many other phases of New Zealand's civilian life. Nevertheless, the Dominion continues greatly to expand the scope and

value of her reverse lend-lease to the United States, and during the present fiscal year, about \$65,000,000 has been budgeted for this purpose.

While no official report has yet been received from the Government of India, our Army reports expenditures by India for reverse lend-

lease aid in a total of approximately \$56,742,000, divided as follows:

Military Stores and Equipment..	\$ 5,239,000
Transportation & Communication.	3,292,000
Petroleum Products.....	8,582,000
Construction.....	30,581,000
Miscellaneous Army - May and June 1943.....	9,048,000
Total.....	\$56,742,000

In view of the critical tanker situation and the great distances involved, the transfer of fuels to American forces by the Indian Government assumes some significance. We have received aviation gasoline, motor gasoline and lubricating oil, and lesser amounts of other petroleum products. A part of the motor fuel has been used in a number of trucks and passenger cars given our troops without payment as reverse lend-lease aid.

In addition, United States Army groups have been afforded post, telegraphic, and telephone facilities, water and electric power, furnishings for buildings, and items of clothing, including mosquito-and gas-proof outfits.

Canada has received no lend-lease aid from the United States. She has paid cash for the supplies obtained in this country. Canada has, however, already made a billion dollars worth of aid available without

payment to the United Kingdom and is now engaged in making available another billion dollars worth of aid to the United Kingdom, Russia, China and the other United Nations on a mutual aid program similar to our Lend-Lease program.

This statement of the expenditures made by the British Commonwealth of Nations for reverse lend-lease aid furnished to the United States and the expansion of this program so as to include exports of raw materials and foodstuffs from the United Kingdom and the British Colonies emphasizes the contribution which the British Commonwealth has made "to the defense of the United States" while taking its place on the front lines of battle. It is an indication of the extent to which the British have been able to pool their resources with ours ^{so} to that the needed weapon may be in the hands of that soldier--whatever may be his nationality--who can at the proper moment use it most effectively to destroy our common enemy.

UNITED KINGDOM TREASURY DELEGATION

ROD AND
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

November 6, 1943

MEMORANDUM

TO: THE SECRETARY OF THE TREASURY

SECRET

Dear Miss Shanahan:

On checking through the figures of Gold and Dollars I find a discrepancy in those for September 30, sent to Dr. White on October 12 and acknowledged by you on the 14th. Will you please make the following corrections on your file:

9750

238

1513*

234

10

1269*

(*corrected)

The error was caused by an oversight in the monthly compilation of figures.

Sincerely,
Benjamin Franklin Station
Washington, D. C.
Secretary to
D. H. Robertson

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Nov. 6, 1948

TO Secretary Morgenthau

FROM Mr. White

Subject: Cable from Winant on Parliamentary discussion
of international monetary arrangements.

Discussion in Parliament reveals anxiety that commitments on international monetary cooperation will be made without previous approval of Parliament. Reference was made to an alleged statement in Cairo by the Secretary of the Treasury that agreement had been reached. The Chancellor said that an appreciable advance has been made towards agreement on principles though important points remain outstanding. He renewed the assurance that no commitment will be entered into without previous debate in the House of Commons.

PLAIN

London

Dated November 3, 1943

Rec'd 9:49 p.m.

Secretary of State,
Washington.

7638, third

FOR SECRETARY OF TREASURY

Members of Parliament continue to express their anxiety lest the British Government should commit the country to arrangements in the international currency field without the previous approval of Parliament. This anxiety was evident from the discussion which took place on October 28th during the Prime Minister's announcements of the schedule of business of the House of Commons. Mr. Greenwood asked whether the Prime Minister would consider having a debate at a fairly early date on the financial discussions in Washington. Mr. Churchill replied he was not sure what would be a convenient time and that some of the publication must depend on the permission of other governments, but that he could not feel that there would not be an opportunity for raising these questions. Reminded by Mr. Pethick-Lawrence that Sir Kingsley Wood had given a pledge that before commitments were entered into the

-2- #7636, third, from London

the House of Commons would have an opportunity of discussing the matter, the Prime Minister replied that the new Chancellor of the Exchequer had specifically renewed the pledge and that it therefore stands.

A few minutes later Mr. Stokes asked whether press reports of the statement made by Secretary Morgenthau in Cairo (that agreement had already been reached on post-war currency) were entirely without foundation.

The Prime Minister replied that he had not seen the actual words attributed to Mr. Morgenthau and added "certainly I would not be prepared to state that any remarks that he made are entirely without foundation, for he is an extremely serious and responsible high official of the United States Government. But the facts are as I have said. The House will be given an opportunity of discussing the matter before any final decision or agreement is made. An agreement may either mean a bond or it may mean a meeting of minds on the subject".

Not content with these assurances, members again referred to Mr. Morgenthau's Cairo statement at question time yesterday when the Chancellor of the Exchequer was asked the nature of the agreement in principle referred to.

Sir John Anderson

-3- #7636, third, from London

Sir John Anderson replied that the exploratory discussions have made an appreciable advance towards agreement on principles, though there remain important points outstanding.

He added that the full report of the discussions had not yet reached him and that the position remains that no commitment in this field will be entered into without previous debate in the House of Commons.

The Chancellor of the Exchequer was also asked to consider laying before the House of Commons, before a debate, a further White Paper giving a general outline of the scope of the discussions and of the British proposals. Sir John Anderson replied that it would not be practicable to publish a White Paper dealing specifically with the discussions between experts, but that he would consider publishing material "as far as it is relevant to the views of His Majesty's Government."

Winant

WMC

Memorandum on a Telephone Conversation with Mr. Livesey
November 6, 1943

I called Mr. Livesey on the telegram from Jidda to London, repeated to Washington, and handed to the Treasury by the United Kingdom Treasury people. The telegram dealt with the currency system of Saudi Arabia. Livesey said he had had little opportunity to go over it carefully but thought it was rather extreme in its position. I told him that I thought the British were probably being insistent on full participation ~~in~~ Saudi Arabia in the sterling area, including the holding of all monetary reserves in sterling and the pooling of exchange resources with other sterling countries.

I told Livesey that Waley had mentioned that the Middle East currency questions would be discussed in London by a group being sent over by the State Department. Livesey said he wasn't aware of that though he had heard of a mission to London on Middle Eastern questions. He expressed the opinion that the Treasury had the principal interest on the currency side of the question and Treasury people ought to be included in the mission for the purpose. Livesey asked me whether we could send anyone to London for the purpose and I told him when the time came we would be glad to consider the personnel of such a mission.

I asked Livesey whether it would not be possible to hold the financial side of the discussions in Washington while the political discussions went forth in London. He said that they would consider that too.

It appeared to me from Livesey's conversation that the State Department was prepared to follow the Treasury's lead on the currency questions of the Middle Eastern countries and that under the circumstances we might shortly call a meeting in Mr. White's office for this purpose.

E. M. Bernstein

cm B

COPY NO 2

London

Dated: _____
 Rec'd: October 25, 1943
 En Clair

IMPORTANT

From Treasury

CAMER SAVING 40

Addressed to Jeddah CAMER SAVING 1, repeated to
 Minister of State Cairo CAMER SAVING 2 and
 Washington.

My CAMER 12/not repeated to Washington./

Following are our views about permanent arrangements
 for Saudi Arabian currency. They involve some recapitulation,
 but we think it necessary to set out the position fully.

2. The first consideration must clearly be the
 interests of Saudi Arabia itself. Trade of that territory is
 almost entirely with sterling area and by far the larger
 number of the pilgrims come from the sterling area. It is
 obvious that in the absence of other cogent reasons stability
 of exchange between currency of Saudi Arabia and sterling area
 currencies is in their best interests.

3. This has apparently been object of measures taken
 (wisely in our view) in the past (1) adopting sovereign as
 standard coin of territory; (2) after Great Britain went off
 gold standard, introducing new rial identical in weight, size
 and fineness with Indian standard rupee, silver content of
 which was then worth ninepence.

4. Whenever difficulties arise owing to appreciation
 of coin in circulation, due to an increase in its bullion
 value above its face value the normal remedy is to reduce
 the fineness of the coin or to introduce a different form of
 currency rather than to alter the parity of the currency from
 that decided upon for general reasons to that suggested by
 fluctuations in bullion prices.

5. It was for this reason that the Treasury proposed
 a note-issue based on sterling for Saudi Arabia (since the
 introduction of quaternary rials was said to be impossible)
 to be introduced at a time when sterling backing could readily
 have been made available from His Majesty's Government's
 subsidy.

From Professor Robertson 11/3/43. Copies to Mr. Friedman,
 Mr. Glendinning, 3 copies to Mr. Livesey 11/4/43.

CAMER SAVING 40

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October 25, 1943

6. Treasury have hitherto continued to treat Saudi Arabia as though its currency were still linked to sterling at old parity, in spite of appreciation of the rial coin, in the hope that some such solution might yet be feasible.

7. It may be that this is now impossible though we should prefer not to express a final opinion until after general discussion of financial position of Saudi Arabia with United States Government. If so Saudi Arabian currency may have to be allowed in future to fluctuate with the price of silver.

8. In this event there will be little or nothing that His Majesty's Government can do to help; for (1) we cannot peg price of silver in general or of a particular weight of silver bullion and should not attempt to do so. (The only sense in which His Majesty's Government would fix a rate or take any responsibility for a rate would be that it would be necessary to fix an official rate, monthly or quarterly, for our own internal purposes (Le. ation salaries, etc.); and this would of course be only a recognition of the actual rate arrived at e.g. by calculation from the price of silver in whichever was the appropriate market, e.g. Bombay). (2) We shall not be prepared to provide sovereigns in the increasing amounts which would be necessitated by substantial further rise in the price of silver in terms of gold. We observe with apprehension reference in paragraph 2 of Minister of State's telegram REMAC 160 to a substantial depreciation of sovereigns in terms of rials, possibly (though it is not clear whether the figures given in that paragraph purport to be equivalents) to 20 rials to the £.

9. It is fairly certain that the present exchange value of the silver rial is not due solely to the price of silver bullion in any of the surrounding countries but includes a scarcity element which will be affected by new supplies coming forward out of lend-lease silver. We think it clear that effect of this must be awaited before a final decision is taken.

10. The responsibility for making a change would of course, rest with Saudi Arabian Government and issue should be fully explained to Ibn Saud himself. He should realise in particular:-

- (1) That there is little or no prospect that conditions will obtain at the end of the war under which sterling backing could be provided otherwise than by Saudi Arabian Government itself out of funds obtained from pilgrims. You will be able to judge what are the prospects that this would in practice be possible.

CAMER SAVING 40

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October 25, 1943

(11) that value of rial in terms of neighbouring currencies will depend

(a) on level of silver price in those countries.

(b) on continued elimination of scarcity element by further supplies of lend-lease silver to Saudi Arabia.

(111) That any substantial rise in price of silver, though it will champion imports into Saudi Arabia in terms of rials, will make it impossible for some of the poorest pilgrims to undertake the pilgrimages and will to this extent lessen rial revenue received from them and for any exports from Saudi Arabia. We should not regard it as safe to assume that some of the causes which operated to raise the price of silver to extremely high levels at the end of the last war may not operate also at the end of this war.

(1v) Treasury have no knowledge of internal wage and price levels in terms of rials in Saudi Arabia and are unaware whether official recognition of a bullion exchange value for the rial would involve immediate alterations in wages, rents, etc. in Saudi Arabia. (In the long run, if price of silver were to rise substantially, especially if cost of cereals etc., from sterling area countries had at the same time fallen, the equivalent in terms of commodities of any rents, salaries, etc. fixed in rials might be so increased as to make it necessary to reduce all rial rents, salaries etc., if this could not be done by a change in the currency itself (see (1) above)).

11. We would be glad to have any information available about questions referred to in (1v); and to learn reactions of Saudi Arabian Government to considerations set out above.

CIRCULATION
Regular List
and Lord Keynes

copy 1r

CAMER SAVING 40

TRANSLATION

REPUBLIC OF COSTA RICA

Secretary of
Finance and Commerce

San Jose, November 6, 1943.

Dear Sir:

I have had the pleasure of receiving from the Commercial Attache of the American Embassy in Costa Rica your Excellency's courteous note, informing this Ministry with respect to the preliminary arrangements made by your Government relative to the plan for establishing an International Stabilization Fund.

Along with your letter, I also received the revised study, to which I am giving my careful attention.

Thanking you for your attention, I remain,

Your obedient servant,

(Signed) F. de P. Gutierrez
Secretary of Finance.

His Excellency, Henry Morgenthau, Jr.,
Secretary of the Treasury of the
United States of America,
Washington, D. C.

AIRGRAM

FROM Montevideo

Dated November 6, 1943

Rec'd Nov. 16, 8 a.m.

Secretary of State,

Washington.

A-583, November 6, 11 a.m.

Department's telegram 538, November 2, transmitting message of condolence from Secretary MORGENTHAU for President ALBIZAGA on occasion of death of Uruguayan Minister of Finance, Ricardo COSIO.

Message was communicated to President Albizaga by means of a formal note to the Foreign Office which has in turn requested me to transmit to Secretary Morgenthau an expression of the President's appreciation of his thoughtful attention.

DAWSON

800.2

WD:rvm

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRET
U.S. SECRETCOPY NO. 12OPTEL NO. 364

Information rec'd up to 10 a.m. 6th November, 1943.

1. NAVAL.HOME WATERS. 4th/5th. 1 E-boat set on fire and another seriously damaged during an attack on North bound coastal convoy off Cromer.ANTI-SUBMARINE OPERATIONS. 5th. U-boat sunk by aircraft S.W. of Ascension Island.2. MILITARY.ITALY. 5th. 8th Army. Our troops entered Vasto.

5th Army. Minturno (North of Riccer Garigliano) reported clear of enemy.

RUSSIA. 5th. Russian troops cut Kiev-Zhitomir road.3. AIR OPERATIONS.WESTERN FRONT. 5th. Sorties by 2052 bombers, fighter bombers and fighters. Principle targets - Gelsenkirchen - 667 tons from 326 Fortresses (B.17) with "poor to good" results. 7 aircraft missing. Munster. 275 tons from 109 Liberators (B.24) and Fortresses (B.17) with "good" results; 3 aircraft missing. Military targets near Calais, 400 tons by 240 Marauders (B.26), Typhoons and Mitchells (B.25) with results good generally. Other targets in France and Belgium attacked by 26 Mustangs (P.51). For these operations 48 squadrons of fighters provided support and escort. Enemy casualties by bombers 20.13.9. Enemy casualties by fighters 18.5.13 for 4 of ours.

5th/6th. Mosquitoes despatched - Bochum 10, Hanover 5, Hamburg 6, Dusseldorf 4, Dortmund 1. Intruders 5, leaflets 32, 1 Mosquito crashed. 6 enemy aircraft operated over Sussex Surrey and Kent, 2 reaching London. Slight damage and few casualties. A 7th enemy aircraft destroyed before crossing coast.

ITALY. 4th. Fortresses dropped 33 tons on railway targets at Cecina and Orbettello (130 and 70 miles N.W. of Rome). 76 light bombers and fighters attacked targets in Rome area.CRETE. 4th/5th. 16 tons dropped on HeraklionOFFICE
SECRETARY OF TREASURY

1943 NOV 8 AM 10 07

TREASURY DEPARTMENT

NOT TO BE RE-TRANSMITTED

U.S. SECRET

BRITISH MOST SECRET

COPY No. 12

OPTCL No. 365

Information received up to 10 A.M. 7th November 1943.

1. NAVAL Leros 4th/5th One of H.M. Destroyers landed Machine Gun Battalion and stores. Two H.M. Sloops each sank a U-boat yesterday about 500 miles East south East of CAPE RACE. 19,000 ton Dutch ship torpedoed yesterday whilst in convoy off PHILIPPEVILLE.

2. MILITARY Italy To noon 6th. 8th Army 78 Division are now firmly established in the area VASTO-CORRADO having advanced 12 miles in 3 days, Enemy made series of counter-attacks supported by tanks but all were repulsed. Further inland 8th Indian Division captured GELLENZA and Canadians have cleared the Area South and Southwest of SAN BLASIO and BAGNOLI. Patrols of 5th Division are now 6 miles Northwest of ISERDIA. All this in spite of bad weather and heavy demolitions.

5th Army Little change in United States Sector where considerable resistance met. In British Sector General advance of about 3 miles on 6th and forward troops established just South of GALLICIC and thence along River GARIGALIAO.

3. AIR OPERATIONS Western Front 6th. Fighters damaged 10 locomotives in Northern FRANCE. 2 Fighters missing. 6th/7th. Aircraft despatched - Mosquitoes-Bochum 9, DUISBURG 6, DUSSELDORF 4. Other aircraft -- sea-mining 16, Lenflets 10, Intruders 11, Anti-shipping 6. 24 enemy aircraft, 1 over LONDON, operated in 3 phases, over East Anglia and Southeast England, 2 were destroyed by night Fighters and 1 by A/A/

Italy 4th/5th. Wellingtons dropped 75 tons on ORTE Railway Centre.

5th. 3 Liberators hit a railway Bridge and road Bridge near ANCONA. Total of 129 Light Bombers and Fighters bombed Roads and M.I. North of ROME. Fighters were working over the Battle Area. More than 20 German Bombers attacked NAPLES harbour after dark.

Albania 5th. 24 Mitchells escorted by 48 Lightnings bombed the airfield at BERAT.

Aegean Area 5th. 6 Beaufighters failed to return from attacks on shipping near ATHENS and from sweeps over RHODES.

5th/6th. heavy bombers bombed MARITZA.

OFFICE
SECRETARY OF TREASURY

43 NOV 8 PM 408

TREASURY DEPARTMENT

November 8, 1943
9:30 a.m.

GROUP

Present: Mr. Bell
Mr. Gaston
Mr. Smith
Mr. Sullivan
Mr. Thompson
Mr. Blough
Mr. Haas
Mr. O'Connell
Mrs. Klotz

H.M.JR: Norman?

MR. THOMPSON: I have nothing.

H.M.JR: Dan?

MR. BELL: I have nothing this morning.

H.M.JR: Has anybody at any time told me when I should approve what you fellows have done about the Fourth War Loan? Don't tell me about ten minutes of ten tomorrow morning to tell these people what is in the basket.

MR. BELL: I don't think you should tell them tomorrow morning. These are all preliminary discussions to your determination of what should go in the basket.

Ted has a program for you, but I should like to go over the cash position at your convenience. I don't think you need to do it before tomorrow's meeting.

H.M.JR: I can do it right after this deferment thing.

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MR. BELL: O.K.

H.M.JR: I don't want to be rushed, have somebody come in at the last second.

MR. HAAS: I sent you in a memorandum on it.

H.M.JR: I will tell you all the story that the President tells. If the shoe fits, O.K. When his father was engaging a coachman he said to the coachman, "James, if there is any drinking to do, I will do it. If there is any waiting to do, you will do it." (Laughter)

If there is any waiting to do - otherwise, I am going to try awfully hard not to try to high-pressure you fellows. I would like the same at least for another week from you. So don't come up at the last minute and say, well, so forth, and so on.

MR. BELL: It seems to me that the details of the basket for the Fourth War Loan ought to be announced sometime around the 22nd or 25th of November.

H.M.JR: All right.

MR. BELL: You have this meeting this week; then there will be a banking meeting next week Monday and Tuesday. We ought to have an executive committee meeting of the Federal Reserve System follow that, and then you ought to make a determination.

H.M.JR: O.K.?

MR. BELL: Yes.

MR. BLOUGH: I assume your tax plans are well underway. You just said a minute ago, "I don't want to be rushed at the last minute."

H.M.JR: Why should they be? I haven't had a single solution from your office, not one, or from Paul's office. I asked whether you people had a sort of summary for rebuttal.

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MR. BLOUGH: That you will get in the course of the day.

H.M.JR: Paul said it was all ready--twenty-five pages--and he'd send it in.

MR. BLOUGH: We understood you didn't want twenty-five pages. You may have been in touch with Smith.

H.M.JR: Smith got in touch with me at three o'clock Saturday.

MR. BLOUGH: The only conversation I had with Smith was when he wanted something this morning.

H.M.JR: He said he talked with Paul.

MR. BLOUGH: We are in position to give you twenty-five pages instantly. We are summarizing it for you.

H.M.JR: Have you any suggestion for tomorrow's luncheon with Vinson?

MR. BLOUGH: Yes, sir, several.

MR. SULLIVAN: The Bureau is sending some suggestions over on excess profits that I will get in to Randolph as soon as it arrives.

MR. BLOUGH: He is out of town.

MR. SULLIVAN: I'll get it to you, then.

H.M.JR: Why don't we have a meeting, let's say, at nine o'clock tomorrow morning? We'll review the tax situation.

MR. BLOUGH: Fine.

H.M.JR: Theodore Gamble, Jr. has a suggestion. He said, "Mr. Morgenthau, don't you think that if we had lower taxes, you could sell more bonds?"

MR. HAAS: You have something there!

H.M.JR: I asked him why--"How do you figure?" He said, "People have more money left to spend." If you ever

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saw a family that is bond conscious, they are! (Laughter)

MR. BLOUGH: I'll get in touch with Smith immediately and see that he gets that material.

H.M.JR: You fellows sort of live in a suspension.

MR. BLOUGH: No, we don't. We started this thing by sending Smith a memorandum last week.

H.M.JR: Spend a little time with him today, will you?

MR. BLOUGH: Sure, all day, if you wish.

H.M.JR: What else, Roy?

MR. BLOUGH: I think that is all.

H.M.JR: Harry, I read this thing from Oscar Cox-- this so-called "White Paper" on Lend-Lease reverse. I read it very quickly.

MR. WHITE: Was that what you read, or was it the contemplated President's statement?

H.M.JR: I read what I have in my hand.

MR. WHITE: I don't know what that is, but it looks like the contemplated President's statement. I can see why you could have misunderstood.

H.M.JR: The attached is a tentative parallel to the British White Paper.

(The Secretary refers to the President's Lend-Lease Report to Congress)

MR. WHITE: That is right. It is easy to mistake it for a British document.

H.M.JR: This is Monday morning!

All right, Harry.

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MR. WHITE: It is much better than the original was; I mean, it is much less fulsome in praise of what the British are doing and much less misleading. If you think it is all right --

H.M.JR: I'd make a note and say--if you will call Oscar Cox up, as far as I'm concerned, it's all right.

MR. WHITE: This is a revised draft and the President is going to make it simultaneously with the British White Paper.

H.M.JR: You are preparing a White Paper for me on the Treasury position on cutting down the British balances?

MR. WHITE: That is right. It will be a little brash, but it will be a White Paper.

H.M.JR: And also may I remind you about some kind of a document on cutting out the French Lend-Lease? I'd like a copy for my files.

MR. WHITE: Here it is.

(Hands the Secretary "Memorandum for the President" stamped November 4, 1943, which document has been transmitted to Mrs. Klotz)

That is all on the French.

(The Secretary leaves the meeting)

MR. GASTON: Have you seen the Lutz memorandum on simplification this morning? It seems to support the Treasury's position a hundred percent, without saying that it is the Treasury's position.

MR. BLOUGH: He'd like to go further and cut out returns. That is a problem on which there is some difficulty. The Bureau, I understand, would also like to cut out currency, but put the tax on a weekly basis, which strikes me as a little crude.

(The Secretary returns to the meeting)

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H.M.JR: Harry, I want to talk to you about this thing. (Holds up document) In the first place, you don't even attach the memorandum to it. You don't give the facts. You don't give the one you gave the President. I certainly would say, "Based on the attached memorandum to the President." You see? (Refers to attached letter to Mr. Crowley)

MR. WHITE: All right. You want to discuss it besides?

H.M.JR: I just wonder whether it doesn't weaken our position, the fact that I want the President on this.

MR. WHITE: When you spoke to Crowley, you were both going to see him together with recommendations, and I presume you might take the position that it included a recommendation on this.

H.M.JR: Just hold this a day or so. Am I not going to see him?

MR. WHITE: Crowley? Yes, he is waiting on his men and his men are having difficulty. They wanted me to lend them some people to help them on that. We are going to see what we can work out today.

H.M.JR: Let me just wait another day or so.

MR. WHITE: Here is the Truman Report. There are some very pertinent sentences which I have marked.

H.M.JR: I'd like to have that.

(Mr. White hands Truman Report to the Secretary)

MR. WHITE: I think the whole Report is rather interesting to read, though it doesn't bear on that matter which those marked sentences relate to, but on cancellation of contracts, etc.

Yesterday there was a meeting at the War Department which was called urgently. This was on Sunday, and they wanted to discuss a matter which wasn't that urgent at all. I didn't go. Taylor went. They received a cable from Eisenhower saying that an urgent request for money would soon be received from the Italian Government, and they wanted

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permission from Washington to advance them the money directly or indirectly. At the meeting they agreed to advance it indirectly through a bank. They told me about it this morning. I said I thought we would not approve that procedure, but would prefer a procedure of direct grant from the AMFA to the Italian Government, so as to enable the AMFA to carefully consider the reasons for which the Italian Government was utilizing that money.

This relates to a number of discussions which you had. It seems to me that carries out, rather than indirectly through a bank. They wanted to do it through a bank, because they wanted to avoid accounting details and difficulties. But I think the matter is too important to let the question of accounting stand in the way. With your approval, I'll have to send a countermanding telegram.

H.M.JR: The direct way.

MR. WHITE: Saying it should be direct from AMFA to the Italian Government, and that all requests for expenditures should be carefully surveyed to see that it is consonant with the policy of the American Government.

Now, do you have any opinions at this stage as to whether or not any of that money should be used for pay of the Army or anything of that sort--or is it merely sufficient to put it in terms that must harmonize with our policy?

H.M.JR: Well, I think that if the AMGOT is going to give it to the Italian King, then what the Italian King does with it I don't think we can --

MR. WHITE: There is no doubt, I think, that they have got to keep control, because the King is in a position where he wants to spend as much money as he can to solidify himself with his public. That makes for inflation. That is one reason why we should be interested.

The other is that you have the King the way you want him, if he can get money only from them. And that is the only way he can get money, because we have said he can't print it. He has no printing facilities.

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H.M.JR: I think I would put it this way, that I would give it to them in just as small installments as possible.

MR. WHITE: With a careful survey of his expenditures and a recording.

H.M.JR: And every time he asks for another installment, make him account for the previous one.

MR. WHITE: And that a report be sent back here as to the amounts and purposes for which he purports to use them.

H.M.JR: That is right.

MR. SULLIVAN: What is AMFA?

H.M.JR: They didn't like AMGOT. It is Allied Military Government; it is AMG. Before that it was AMGOT. You can't pronounce AMGOT. It is Allied Military Government, which started as a government, a commission, with the Governor General of Gibraltar as the Senior Officer. Then it changed to a rehabilitation commission when they surrendered. Now they are co-belligerents, and while we were there they were fussing as to what was the status. There was a General Joyce who was an American who was supposed to go and be the Senior Officer--a sort of Allied Mission at the court of the King. But the thing wasn't settled when we went. That is why people like Foley didn't know what to do. Every day they change. Nobody seemed to know where they were at.

MR. SULLIVAN: It was really up in the air.

H.M.JR: I called the location "Tizzy-Wizzy," because I couldn't pronounce it.

MR. WHITE: That is as I remember it.

MR. GASTON: Is it in Sicily?

H.M.JR: No, it is back of Algiers about fifty or sixty miles. They have some of these towns which we crossed in flight right on the top of the most barren mountain ridges you ever saw.

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MR. WHITE: An appropriate name for it, the boys say, is "Izzy-Dizzy," but I think the name is "Tizzy-Wizzy."

H.M.JR: What else, Harry?

MR. WHITE: That is all I have.

H.M.JR: There is something I wanted to tell you.

MR. BELL: Does that mean we'll have to increase our output of military notes?

MR. WHITE: As much as possible.

MR. BELL: Probably ought to prepare to go outside, then.

H.M.JR: I had something on that I wanted to tell you that I picked up.

Oh, there is one thing that I spoke about in Cabinet. I mean, I told it to the President at lunch, and he explained about bringing Italian prisoners over here. Well, McNutt is very much interested, and I think he is going to do something about it. But they will bring them over as volunteers.

I know what I wanted to get to: There was nobody at the table--the Attorney General, the Secretary of War--who really knows the legal status of Italian prisoners in this country.

MR. WHITE: The legal boys tell us you can make it anything you want, as usual.

H.M.JR: I asked the Attorney General. You might contact him. (Indicates Mr. O'Connell)

These people coming over from Italy would come over under the contract labor clause. Then they would clearly not be prisoners. They would be organized in labor battalions and paid real wages.

They all agreed that a good part of the money should be kept in escrow until they return.

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MR. SULLIVAN: Will that be done under a treaty?

MR. O'CONNELL: Who knows?

MR. SULLIVAN: We have a tax problem there. We have a treaty with Mexico now, and most of the track workers, on the Southwestern railroads are Mexicans who are exempt from income taxes. Canadians are now being brought in.

MR. O'CONNELL: That will be quite different.

H.M.JR: Like the people from the Bahamas.

MR. O'CONNELL: The Italian situation is different.

H.M.JR: Mr. Stimson knew nothing--nobody at the table knew. I asked Mr. Biddle if he wouldn't please let me know, but he is very sloppy about those things. So I called his office.

MR. BLOUGH: War Manpower was in touch with us again Saturday, so they may be on it.

H.M.JR: On this thing?

MR. BLOUGH: War Manpower wants legislation to permit any laborers to be brought in from anywhere and not have withholding applied to them.

H.M.JR: I made the suggestion that, after all, the boats are coming over empty now to America. They could bring these Italians, and then when they go back to bring our troops back they could bring the Italians back at that time. But I think somebody here ought to work on the phase of a contract and how you put the money in escrow and when you pay it to them and how.

To me, I don't know how that thing is done, but evidently these Bahamans or Mexicans have some kind of an arrangement. I think they ought to be paid when they leave with a draft on the Bank of Italy, so they couldn't actually cash it until they get over there. You people might be looking into that.

MR. O'CONNELL: We are, in a general way. But it is a little difficult to know what the facts are.

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H.M.JR: McNutt said, "Don't just say agricultural workers; we need common laborers."

MR. WHITE: There is an unlimited supply of competent, docile labor there. It is ridiculous for us either to draft fathers or have a shortage of labor when all you have to do is ship them over here. They are waiting in droves. You couldn't keep them off the boats.

MR. GASTON: They will also want to stay, and a large percentage will.

H.M.JR: Not under contract labor.

MR. WHITE: If you want them to stay, there is no harm.

MR. O'CONNELL: They'd have no right to stay.

MR. GASTON: Then you have the problem of getting rid of them if you don't want them to stay.

H.M.JR: Herbert, you bring a man over under contract labor, finger-printed and numbered and everything else. We sign an armistice with Germany, and bingo! I'd send them back.

MR. O'CONNELL: There is no question as to what you can do legally.

MR. GASTON: There will be practical and political difficulties getting rid of them.

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

MR. GASTON: I agree it is a good idea to bring them over, but I say--

H.M.JR: But the difficulty with the Mexicans is that the labor unions don't want them--the railroad unions--on the tracks. And stuff like that.

MR. SULLIVAN: They are in terrific shape on the Southern Pacific. Most of their baggage in their baggage rooms has been handled by soldiers and sailors on leave who wanted to handle it and make a few extra dollars.

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H.M.JR: Incidentally, Pehle was to have had a letter for me this morning on the Argentine.

MR. O'CONNELL: I'll check as soon as I leave.

H.M.JR: George?

MR. HAAS: On the domestic financial front, I think the most urgent question is one of excess reserves. That will affect our whole rate structure and drives and everything else from here on out.

H.M.JR: We are going to do this deferment thing that Bell talked to me about--and then any time after eleven I'll put in on excess reserves.

MR. HAAS: Some of these outside boys are here today and won't be here tomorrow.

MR. BELL: Well, we are going to have a meeting either Wednesday afternoon or Thursday morning with the Federal Reserve, and then you will see them at three o'clock Thursday.

MR. HAAS: You want these outside consultants?

H.M.JR: Are they in today?

MR. HAAS: Three of them, I think.

H.M.JR: I'd rather do it, let's say, at eleven thirty--excess reserves. Then you'll have a half hour.

MR. HAAS: That is all.

MR. O'CONNELL: Yesterday's papers featured the appointment of Barney Baruch in Byrnes' office to work on contract termination problems, and he also announced the meeting tomorrow. I wondered if anyone here had received any word about tomorrow's meeting. It is of great importance to the Department, because they necessarily get into disposition of surplus profits and all that sort of thing.

H.M.JR: Why don't you call up his office? Should I?

MR. O'CONNELL: I don't think that you should,

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Mr. Secretary. I think that we will be contacted. I thought maybe Dan had heard already.

MR. BELL: I assumed we would get notice of the meeting, but we have not.

H.M.JR: Would you call up and say I'd like O'Connell and McConnell to represent the Treasury?

MR. O'CONNELL: If I might say so, if it wouldn't be too many there, there ought to be someone who is familiar with practical termination of contract provisions. People in the Procurement Division have been working on it for about two years.

MR. BELL: I think Sullivan ought to go for Procurement.

H.M.JR: You can't send five people. I'll be glad to have John go.

MR. BELL: I think he ought to go if it is cancellation of contracts. If it is the whole post-war problem, somebody else ought to go. But as I understand it, the first meeting will be on cancellation of contract.

MR. O'CONNELL: That is right.

H.M.JR: Why not let John and McConnell go--the two of them?

MR. BELL: I think that is all right.

MR. SULLIVAN: Let's find out just what the meeting is.

H.M.JR: Will you handle it, Bell?

MR. BELL: All right.

H.M.JR: You stay behind; I have another idea. (Indicates Mr. O'Connell)

MR. O'CONNELL: All right, sir. (Laughter)

H.M.JR: This one is legal!

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MRS. KLOTZ: They are all legal.

H.M.JR: That's right.

Listen, young fellow; your people are here Tuesday and Wednesday?

MR. GAMBLE: Yes, sir. We like that very much. We had this meeting yesterday afternoon and they were unanimous in their acceptance of it. We'd like it Wednesday noon.

H.M.JR: Well, I was thinking I could have them here for lunch and have them come over right after lunch.

MR. GAMBLE: Either that, or have luncheon with us. We'll have a very nice one on Wednesday.

H.M.JR: Will you? Would you like to have me for lunch?

MR. GAMBLE: Yes, sir.

H.M.JR: Does that include me?

MR. GAMBLE: Yes, sir.

H.M.JR: Does everybody pay for himself?

MR. GAMBLE: No, we have it all worked out.

MR. GASTON: Maybe that is what he means--you are being included and not invited!

MR. HAAS: You are a majority stockholder!

H.M.JR: How do you get that way?

MR. GAMBLE: I am entertaining them.

H.M.JR: You are?

MR. GAMBLE: The Treasury is a partner up to a certain percentage. I haven't fixed that percentage.

H.M.JR: Have you worked it out with Norman or Charlie Bell? You can get it deducted.

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MR. GASTON: Put it through one of the New Jersey Banks and Allan Sproul will approve it.

MR. SULLIVAN: You don't know how funny that is.

H.M.JR: Yes, he does. Is there anything else, Ted?

MR. GAMBLE: Yes, the Nelson matter.

H.M.JR: What time is the lunch?

MR. GAMBLE: One o'clock at the Presidential Room at the Statler.

MR. WHITE: Most of the Departments have an entertainment fund, but it is subsidized in another way. They have a little dining room which the Department runs.

H.M.JR: (Secretary places a call to Donald Nelson, inviting him to Mr. Gamble's Wednesday luncheon) He will be glad to come.

MR. GAMBLE: Good. Now, we should spend five minutes with Smith. I am meeting right after this with him about tomorrow morning.

H.M.JR: He has car trouble. You had better get together with him.

MR. WHITE: I don't want to be diverted, because I am serious about this business. The Treasury Department doesn't do five percent of the entertaining, which is almost a vital minimum, and when we take a group of two or three out across the street it costs ten or twelve or fifteen dollars. We do it occasionally, but we don't like to do it. We do it much less than we should.

What do other agencies do--take the Federal Reserve people? They have a nice little dining room in which a meal costs seventy-five cents or a dollar. Then you don't mind taking a half dozen people every week or so. The bulk of expenditure of operating that dining room is somehow or other thrown on the agency. The only charge that the individual has is what practically covers the raw material. I'd seriously like to advance the suggestion

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of having a little dining room, and every one of us-- well, I'll speak for myself. I know that there are a great many people I should have to lunch that I don't have to lunch, and I think it is true of a number of the other men. But they can speak for themselves on it.

Another thing is this: It is very nice to have people come to the Treasury and meet Treasury people. There are any number of occasions when it would have been very nice to have people meet a half dozen or a dozen of the staff members, but you can't do it. It is a question of inviting a half dozen or a dozen staff members out, and of course we don't do it. I think it is a serious lack, and I think it is a little unfair to expect our staff to be placed in the position of receiving invitations all the time and not being able to return them, as it happens in every ministry of finance and every department I know of.

H.M.JR: My dear Harry! I organized that dining room down there on the second floor for that purpose.

MR. WHITE: Unfortunately, it is occupied every day by a different division, and quite legitimately so, so there is rarely an occasion open.

But if there were a regular dining room where you could come and go and make the small, even though additional, expense--

H.M.JR: The purpose of that dining room originally was that the nine-thirty group should invite their friends for lunch. It never was intended that each day somebody should grab it off.

MR. BELL: We'd better stop the staff luncheons, then, and have it available every day for anybody who wants to use it. It is all right with me. It is available only on Fridays and Saturdays now.

H.M.JR: The idea was that the nine-thirty group would have it available; that they could go there for lunch and take their friends there.

MR. WHITE: That would be very nice.

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H.M.JR: I never intended that each department and division would grab it off for a whole day.

MR. WHITE: Does anybody agree with the desirability of it?

MR. SULLIVAN: I think we all do, Harry.

MR. WHITE: To say nothing of the terrible service you get. It takes you an hour and a half.

H.M.JR: If this were run as I intended, so they'd let them know by ten o'clock who was coming and how many and you could have it the way you wanted to--one long table and two or three little tables--

MR. SULLIVAN: It seems to me you can do both things. All you need is one other room on the other side of this kitchen. You can continue to have these staff luncheons and still have the thing Harry is talking about.

MRS. KLOTZ: I don't think the present one is big enough.

H.M.JR: I never intended to have it for the staff luncheon. I think that the purpose Harry is talking about is the original purpose.

Now, if you fellows think it is important to continue the staff, then find an additional room. I think it is much more important to have it for the people you want to drop in with.

MR. BELL: It is important to have the staff meetings; it is not necessarily important to have staff luncheons. It is a little more pleasant to have the luncheon, but it is more important to have the meeting.

MR. WHITE: It would be a shame to eliminate these staff luncheons.

H.M.JR: You haven't got too much kitchen room.

MR. BELL: Nor the help, either.

MR. O'CONNELL: I don't know what the original basis was of setting the room aside, but I do know the General

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Counsel's office uses it every week, and I would hate to have it, from our point of view, discontinued. It is very valuable to us. We have it as a combination staff luncheon and meeting. We also combine a little bit of Harry's idea by having someone or a couple of people from outside come in almost every week to meet the people on our staff.

But even apart from the last thing, it is almost impossible for us to get our people together from Revenue and Procurement and all the other places.

H.M.JR: Why can't you meet during the day?

MR. O'CONNELL: It takes about half of the day's time, but we used to have staff meeting at ten thirty in the morning.

H.M.JR: You people talk with Norman and let Norman get the ideas. He can talk directly to me about it. How is that? I'll appoint Norman and myself as a committee. You fellows talk to Norman first. I don't think we can run two.

MR. THOMPSON: The help is the real problem. The messengers don't like to do the cooking. Some days we have had to discontinue the luncheon because we couldn't get cooks.

H.M.JR: I think Harry has a good idea, and I think his is more important than the staff luncheons.

MR. THOMPSON: I tried to arrange with the Recreational and Welfare Association to serve us and bring the lunches over, but they wouldn't do it.

MRS. KLOTZ: How does Procurement do it?

MR. THOMPSON: The Association runs the cafeteria in the building. Where you have a cafeteria in the building you can do it very easily as an adjunct to the cafeteria, and there isn't so much additional cost to it.

MRS. KLOTZ: Because, really, to go out to lunch you can't get back in an hour, and it is very expensive.

MR. BEIL: Perhaps we could take another room next to

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the present dining room or a smaller room where you could have six or eight people for special occasions such as Harry mentions.

H.M.JR: Will you look into that?

MR. THOMPSON: Yes.

MR. SULLIVAN: Here is that memorandum on Empire Ordinance.

(Hands to the Secretary memorandum of November 6 on Empire Ordinance from Mr. Sullivan to the Secretary)

H.M.JR: Thanks.

Herbert?

MR. GASTON: Not a thing.

H.M.JR: All right. We go immediately into this meeting with Bell, don't we?

MR. BELL: On deferment.

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Dear Mr. Crowley:

Reference is made to the meeting in my office on November 2, 1943 at which time the question of lend-lease assistance to the French was discussed.

I have since spoken to the President on this matter and he has approved the recommendation made by the Treasury that, for the time being, the entire program of lend-lease assistance to the French be placed on a cash reimbursable basis.

In view of this fact, I am writing to suggest that immediate steps be taken to revise our payment arrangements with the French Comite in such a way as to provide for the payment of military goods and services being made available to the French forces.

Very truly yours,

Secretary of the Treasury.

Mr. Lee T. Crowley, Administrator,
Foreign Economic Administration,
Room 414,
National Press Building,
14th & F Streets, N. W.,
Washington, D. C.

TMK:em
11-8-43

November 8, 1943
10:30 a.m.

DEFERMENTS

Present: Mr. Bell
Mr. Gaston
Mr. Thompson
Mr. O'Connell

H.M.JR: O.K., let's go.

MR. BELL: We have no specific individual case to take up, but I surveyed the whole Department and made a summary of the reports that came in.

(Mr. Bell handed paper entitled "Summary of Reports from Treasury Bureaus and Offices Regarding the Department's Draft Deferment Policy" to the Secretary, copy attached.)

H.M.JR: Well, Public Debt has eight positions with two positions now included. That is for occupational deferment, isn't it?

MR. BELL: Yes.

H.M.JR: Is there any harm in having them ask for additional positions?

MR. THOMPSON: It refers to occupants of eight positions to be deferred if they are reached. They put the positions on the key list.

H.M.JR: "Requests permission to add 8 positions to its 2 positions now included in Department's key list."

MR. THOMPSON: The Board of Review decides certain positions are subject to draft deferment or should be. But first you have to get the Draft Deferment Committee to make key positions.

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MR. BELL: That is the manpower problem. Then you still have the decision to make as to whether you want to defer the individual when you come to him.

H.M.JR: I am simply saying - O.K.

MR. GASTON: That doesn't commit you on the individual. You still have his case to take up.

H.M.JR: All I say is, try to get them on. Then we can decide afterwards.

MR. O'CONNELL: I think this disposition is somewhat unrealistic. These positions were selected on the basis of the eight individuals that are in the positions.

MR. THOMPSON: Yes, we wouldn't put the jobs on the key list otherwise.

MR. O'CONNELL: You know the men, and they are in the eight jobs; this is the first of two steps. Admittedly you can break them in two, but you are going pretty far in taking the second step.

MR. BELL: All you are doing here is protecting yourself in case you want to later defer the man. If you don't protect yourself and later want to defer him, you can't defer; he has been passed by occupational deferment.

MR. THOMPSON: Two were. If we don't get them on the key list, then the Board allows them to submit them at the time we defer them.

H.M.JR: But supposing they came to me with tears in their eyes and said, "For God's sake, defer these people." I can't if they are not in key positions?

MR. THOMPSON: You could take it up under another provision.

MR. GASTON: Your position is better if they are on the key list. You could take it up as an individual

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case, but your chances wouldn't be as good as though you had them on the key list.

H.M.JR: I understand what I am doing now, and I say, let's go ahead and get them on the key list.

MR. BELL: That is right.

H.M.JR: Now the Bureau of Customs: "The Customs Service is encountering serious difficulty in performing its functions because there are no deferments for guards and inspectors. Collector Durning particularly urges policy of deferment for these men."

My answer to that is no. If we run out of men, let the Army step in and do it. I haven't done it for Secret Service; why should I do it for this?

MR. GASTON: There is a distinction. I won't make a strong plea on that. There is this distinction: These men are guarding ships and cargoes carrying Lend-Lease and Army supplies. The guarding work is indispensable. If we can't sufficiently man the ships, then the Army or the Navy will have to step in, and they cannot do it as efficiently so it will take more men to do it. That is the situation.

H.M.JR: I still say no, Mr. Gaston. I mean, that is turned down.

MR. THOMPSON: Durning was down. He said that you ought to get sympathy from Washington.

H.M.JR: I can't defend it in view of other steps I have taken. I just can't see it.

MR. THOMPSON: It may not be as bad as he thinks it will be.

H.M.JR: I mean, I am very critical of all the troops, services, and supplies I see in Algiers. I am critical of that, and I have a lot of deferred men guarding persons here. Look, I made the suggestion and nobody has

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taken it. Will somebody take this down? Call on the Home Guard of the State of New York - they are mostly World War Number I veterans - and ask them if they don't want to volunteer for this service. They have a fine organization.

MR. GASTON: Well, this is a full time, twenty-four hour job.

H.M.JR: Maybe you can recruit from that organization.

MR. GASTON: Maybe so, yes. It may be that we are.

H.M.JR: Maybe you can recruit from that. "Deferments for technical and administrative men in special instances is recommended by Mr. Mack." That doesn't mean anything.

MR. THOMPSON: Nothing specific, no.

H.M.JR: "Bureau of Engraving and Printing has lost 545 employees to the military service. The most serious shortage exists among plate printers, printing pressmen, and bank note engravers, and force should not be further depleted. Deferments for these classes are desirable if and when called. "

Well, I thought the Army was going to furlough them.

MR. BELL: We couldn't find anybody within the area. They wanted them to be close around so they wouldn't have to bring them across the country. We couldn't find anybody around here who would fit into that category that we wanted. We particularly wanted pressmen to take care of this military currency, but we haven't found any yet.

H.M.JR: I would be sympathetic if you sent in some names of pressmen, for instance, or plate makers.

MR. BELL: We may have to do that.

MR. THOMPSON: Mr. Hall said that he would rather have deferment on engravers than any other group.

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H.M.JR: Have you got these things set up in key positions, engravers?

MR. THOMPSON: They are on the list of essential jobs.

H.M.JR: Key positions?

MR. THOMPSON: We haven't set them up, but--

MR. BELL: Occupational deferment?

MR. THOMPSON: We have had none of them.

MR. BELL: Some of them have gone to the Army and are not doing anything for which they are qualified.

MR. GASTON: Those are hand engravers?

MR. BELL: Yes, steel engravers.

H.M.JR: Tell them to send in some names. I would be sympathetic to that.

MR. THOMPSON: He has nothing to submit now, but if he gets a case he would like to feel you are sympathetic.

H.M.JR: We have to keep the King of Italy going.

MR. BELL: He hired two thousand two hundred and forty-six people last year, and he lost two thousand two hundred and twenty-six, so he gained twenty on the year.

H.M.JR: He is almost as good as Ford. Ford has a loss of one-third every month.

MR. BELL: In the month of September we lost four hundred and gained five hundred.

H.M.JR: Now listen, don't get into details.

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MR. BELL: I am just telling you how hard it is.

H.M.JR: All right, you are making a little headway here. I am telling you that, after all, let Hall come through with something.

MR. BELL: Yes. Well, that is something new. He has never felt heretofore he could ask.

H.M.JR: "Mint work is highly specialized and it is urged that the Mint should stand on an equal footing with other manufacturing plants with regard to deferment of employees in critical occupations."

Well, again, if their people are making pennies, nickels, and dimes and we are short, you have to have somebody on the presses, or whatever it is.

MR. BELL: It is highly technical.

MR. O'CONNELL: There is a list on the next page. Some are technical, and so of them are evidently not.

H.M.JR: Well, the Assistant is certainly not technical, Assistant Director of the Mint. I am interested in the fellow who works the machine. You can't break in and teach--

MR. THOMPSON: It is getting very technical.

H.M.JR: Let them send in some--

MR. BELL: It is getting critical every place, because you have taken all of the old employees out and they have gone into the military service. You are bringing new people in who are not nearly as good as the old, and they can't learn the supervisory jobs. You are losing all of your qualified people. That is true all over the Government service.

H.M.JR: I am willing to loosen up a little bit on say, the machinists, electricians, assayers, and things like that.

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MR. BELL: Another trouble we are having, particularly in the San Francisco Mint which you can't correct, in this matter is, you can't compete with the airplane industry.

H.M.JR: Don't give me too many; I will never get through with it.

MR. BELL: I will let you know the problems.

H.M.JR: I read the papers.

"Bureau of Internal Revenue - 4,062 employees have entered the armed forces. Commissioner states that continuing loss of technically qualified personnel has seriously affected the efficient conduct of the Bureau's business.

"Commissioner recommends that Bureau employees be deferred whose duties and qualifications are supervisory or of technical or specialized nature, including personnel of the inspectional and investigational services and employees in key positions, who are over 35 years of age or who are not physically qualified for active duty in the armed forces."

I would be sympathetic to seeing some of those.

MR. O'CONNELL: He isn't asking very much. He is only asking for people between thirty-eight and forty-five not physically qualified.

MR. GASTON: Primarily he is asking about intelligence units and technical staff.

H.M.JR: I would be sympathetic.

MR. O'CONNELL: We made a survey of the lawyers in Internal Revenue, and we only had forty out of the three hundred and forty who were between eighteen and thirty-eight. The rest were over thirty-eight. We came to the conclusion that we didn't have any problem, because if we lose all forty, which would be incredible - I mean, we might lose half - we would be able to absorb it.

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H.M.JR: I have to keep moving.

"Foreign Funds Control now has 3 deferred men and asks that, in addition, deferment be obtained if they are called for John S. Richards, Special Assistant to the Assistant Director in charge of Enforcement, and for James J. Saxon, Special Assistant, now in North Africa."

MR. THOMPSON: If those cases come up, I think we can submit them on the merits.

H.M.JR: Yes.

How old is Pehle?

MR. O'CONNELL: About thirty-four or thirty-five. He is on your key list already. We have three men in Foreign Funds on your key list, Pehle, Smith, and Ward Stewart.

H.M.JR: I would be willing to ask for deferments for those.

MR. O'CONNELL: You mean Pehle?

H.M.JR: Yes. You see the reason I changed, you people want to know why I have changed. I see so many people in uniform who are absolutely doing work which is not as important as the Treasury work, and just because they have a uniform on there is nobody criticizing them. They sit behind a desk and are maybe just twirling their thumbs. I am disgusted.

MR. GASTON: There are plenty of them.

H.M.JR: I am disgusted. If the men like Pehle are willing to stay, I would be willing to ask for a deferment.

MR. BELL: The unfortunate part of it is they get all the credit for being in the Army and all the military benefits that flow from it afterward; and these fellows who sit around here and get deferred don't get credit, but abuse.

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MR. GASTON: When you let those fellows go into the Army, you are not doing a favor to the Government, you are doing a favor to the man.

MR. BELL: That is right.

MR. O'CONNELL: It has forced a lot of our people into the Army.

H.M.JR: These things change; it is a changing sentiment. You see all these fellows in uniform with high ranks, it is disgusting. I have changed.

MR. THOMPSON: Pehle makes an interesting suggestion in the next paragraph, that we should insist on a deferment for anyone that you are willing to defer who doesn't want to be deferred.

H.M.JR: That, I think, is something I would not do.

MR. O'CONNELL: We had a problem a week or two ago while you were away. Aarons is one of our best men working in Foreign Funds and Stabilization matters. He was on our-key list, and when his notice came from his draft board to be reclassified, he was entirely unwilling that the Department request his deferment.

H.M.JR: I never would do that. I think that is unfair and unAmerican to insist that a man can't go into the Army if he wants to.

MR. GASTON: I think only the President should ask a man to stay under those circumstances.

H.M.JR: And I don't think he has the right to, either. If a man wants to go into the Army or Navy he should be permitted to.

Now the Division of Tax Research. "The Division has already experienced a substantial loss in personnel to the military services. Eleven employees have enlisted or been drafted.

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"Of the 15 professional employees within draft age, all except 5 are 4-F. All of the 5 not in 4-F are pre-Pearl Harbor fathers. Two of these are in 1-A, one in 3-A, one in 2-A, and one in 3-B. It is possible that some of the 10 now in 4-F may be reclassified. All of the 5 employees not in 4-F are in the upper grades and occupy responsible positions. Requests deferments for 5 professional men."

Well, I would be sympathetic to that.

MR. BELL: They are highly technical people.

MR. GASTON: You can put them on the key list and take them off.

H.M.JR: "The immediate office of the General Counsel has lost 15 men to the Army and 6 by resignation, so that any further defections will increasingly impair the competence of the staff. The present staff comprises 15 lawyers. Seven of these are over 38, 5 are 4-F, 2 are 1-C, and only one is 3-A. It is apparent that future draft calls will not do much to this group."

MR. O'CONNELL: What we are really saying is, we are all right. We have no draft problem, because we have lost all the fellows.

H.M.JR: "The Foreign Funds Control legal section is one of the most important of the legal sections and is the one which will be heaviest hit by the draft. In this group are 38 lawyers. 15 are 4-F, 12 are 3-A, 4 are over 38, 1 is 2-A, and 1 is 2-B. All of these are top-notch men. They can not be replaced even with top-grade lawyers from the outside. Since 19 men have been lost to the Army out of this section and 7 have resigned, the difficulties to be faced if many more are lost become apparent."

Well, send in some names.

MR. O'CONNELL: We are not suggesting there. Our problem relates to the three top men, Luxford, Aarons, and DuBois. They are all on the key list and in the process of being reclassified.

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H.M.JR: Isn't DuBois a hunchback?

MR. O'CONNELL: He has a little muscular something in the back of his neck, and I doubt if he will pass.

H.M.JR: But Aarons has gone?

MR. O'CONNELL: He has not gone. He is being re-classified. He will probably be reached in a month or six weeks. He was classified out in Milwaukee. But we have the three fellows there who are all in the same boat, Luxford, DuBois, and Aarons.

H.M.JR: "Internal Revenue. There are 330 attorneys in this section, including 16 women. It does not appear that losses through the draft will present any very serious problem there. However, 60 lawyers have been lost to the armed services and more than 40 have resigned in the past year and a half." We should have more women!

When they resign, do they go somewhere else?

MR. O'CONNELL: Either to other agencies or private practice.

H.M.JR: They are not asking for anything there?

MR. O'CONNELL: No.

H.M.JR: "Other legal sections. The legal sections of Customs, Procurement, Comptroller of Currency, and the Bureau of the Public Debt are in relatively good shape."

"Tax Legislative Counsel's Office. This office is relatively small, having only 10 lawyers. The key man is Stanley Surrey whose deferment will expire November 21, 1943. The only other man in the office who is subject to draft and difficult to replace is Adrian W. DeWind, who is 30 years old, married and has one child."

Foreign Funds - I would be willing to ask for Surrey.

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MR. O'CONNELL: We thought that if he is willing we would ask for a three-months deferment. They may give us six. Anyway, that would be consistent with the letter you wrote him and the theory under which we asked for him. We are not through with the tax bill yet.

What about DeWind?

H.M.JR: O.K.

MR. O'CONNELL: He is a good man and right square in the middle of the tax bill.

H.M.JR: All right.

"The principal problem is concentrated in Foreign Funds Control, and the Legislative Counsel's Office. The problem revolves around a relatively few men: Surrey, in the one office, and Pehle, Luxford, DuBois, Aarons and possibly one or two others in the other office. The loss of these men will almost cripple these offices."

MR. O'CONNELL: This is just a summary.

H.M.JR: "Division of Monetary Research. Mr. White advises that he will expect to ask for deferment for not more than two or possibly three persons from his Division, if and when called."

That is all right. I loosened up a little bit.

MR. BELL: Quite a bit.

H.M.JR: Well, as I say, I think some of them are doing very much more useful work here than they are sitting behind a desk, even though it is Algiers or Palermo. You take, for instance, Lt. Col. Poletti, the King of Sicily; he has boys twenty and twenty-one years old in offices. He has young English and American Lieutenants looking after things. There is no excuse.

MR. BELL: I agree.

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MR. GASTON: Of course, part of that is the Army's desire to maintain power. They won't have civilians in those jobs.

H.M.JR: But they don't need to have kids twenty-one and twenty-two years old.

MR. GASTON: They won't admit the physically unfit for active service into the Army, and they won't let anybody but Army men do this work.

H.M.JR: Well, why don't we do the whole thing at eleven-thirty with Haas and everything to give you a chance to catch your breath and give me a chance to catch my breath.

SUMMARY OF REPORTS FROM TREASURY BUREAUS AND OFFICES
REGARDING THE DEPARTMENT'S DRAFT DEFERMENT POLICY

Bureau of the Public Debt

Requests permission to add 8 positions to its 2 positions now included in Department's key list. Occupants are all pre-Pearl Harbor fathers, occupying supervisory positions, ages 29 to 37. ✓

Bureau of Customs

The Customs Service is encountering serious difficulty in performing its functions because there are no deferments for guards and inspectors. Collector Durning particularly urges policy of deferment for these men. *no*

Procurement Division

Deferments for technical and administrative men in special instances is recommended by Mr. Mack.

Bureau of Engraving and Printing

Has lost 545 employees to the military service.

The most serious shortage exists among plate printers, printing pressmen, and bank note engravers, and force should not be further depleted. Deferments for these classes are desirable if and when called.

Bureau of the Mint

Mint work is highly specialized and it is urged that the Mint should stand on an equal footing with other manufacturing plants with regard to deferment of employees in critical occupations.

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Deferments are requested for

Assayers
Die setters
Machinists
Electricians
Melters
Assistants and understudies to supervisors
Accountants
Assistant Director of the Mint
Assistant Chief Accountant

Bureau of Internal Revenue

4,062 employees have entered the armed forces.

Commissioner states that continuing loss of technically qualified personnel has seriously affected the efficient conduct of the Bureau's business.

Commissioner recommends that Bureau employees be deferred whose duties and qualifications are supervisory or of technical or specialized nature, including personnel of the inspectional and investigational services and employees in key positions, who are over 35 years of age or who are not physically qualified for active duty in the armed forces.

Foreign Funds Control

Now has 3 deferred men and asks that, in addition, deferment be obtained if they are called for John S. Richards, Special Assistant to the Assistant Director in charge of Enforcement, and for James J. Saxon, Special Assistant, now in North Africa.

Mr. Pehle also is on key list for deferment if called.

Mr. Pehle also recommends that where an employee does not want to be deferred but it is felt his services are so essential that he should

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be deferred, it should be the Treasury's policy in those few cases where it is willing to obtain deferments (a) to use all the moral suasions at its command to keep the employee in the job throughout the period of deferment, and (b) that the Treasury should, in writing, request the employee to stay in his job for such period.

Division of Tax Research

The Division has already experienced a substantial loss in personnel to the military services. Eleven employees have enlisted or been drafted.

Of the 15 professional employees within draft age, all except 5 are in 4-F. All of the 5 not in 4-F are pre-Pearl Harbor fathers. Two of these are in 1-A, one in 3-A, one in 2-A, and one in 3-B. It is possible that some of the 10 now in 4-F may be reclassified. All of the 5 employees not in 4-F are in the upper grades and occupy responsible positions. Requests deferments for 5 professional men.

General Counsel

The immediate office of the General Counsel has lost 15 men to the Army and 6 by resignation, so that any further defections will increasingly impair the competence of the staff. The present staff comprises 15 lawyers. Seven of these are over 38, 5 are 4-F, 2 are 1-C, and only one is 3-A. It is apparent that future draft calls will not do much to this group.

The Foreign Funds Control legal section is one of the most important of the legal sections and is the one which will be heaviest hit by the draft. In this group are 33 lawyers. 15 are 4-F, 12 are 3-A,

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4 are over 38, 1 is 2-A, and 1 is 2-B. All of these are top-notch men. They can not be replaced even with top-grade lawyers from the outside. Since 19 men have been lost to the Army out of this section and 7 have resigned, the difficulties to be faced if many more are lost become apparent.

Internal Revenue. There are 330 attorneys in this section, including 16 women. It does not appear that losses through the draft will present any very serious problem there. However, 60 lawyers have been lost to the armed services and more than 40 have resigned in the past year and a half.

Other legal sections. The legal sections of Customs, Procurement, Comptroller of Currency, and the Bureau of the Public Debt are in relatively good shape.

Tax Legislative Counsel's Office

This office is relatively small, having only 10 lawyers. The key man is Stanley Surrey whose deferment will expire November 21, 1943. The only other man in the office who is subject to draft and difficult to replace is Adrian W. DeWind, who is 30 years old, married and has one child.

The principal problem is concentrated in Foreign Funds Control, and the Legislative Counsel's Office. The problem revolves around a relatively few men: Surrey, in the one office, and Pehle, Luxford, DuBois, Aarons and possibly one or two others in the other office. The loss of these men will almost cripple these offices.

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Many of these men will probably not accept deferments. This is true with Aarons. There is no power to force deferments upon them and the General Counsel is at a loss to know how he can effectively run these two parts of his office.

Division of Monetary Research

Mr. White advises that he will expect to ask for deferment for not more than two or possibly three persons from his Division, if and when called.

cc-Mr. White

213✓
November 8, 1943
2:43 p.m.

STRICTLY CONFIDENTIAL

HMJr: Okay.

Operator: Go ahead.

HMJr: Right.

Leo
Crowley: Hello.

HMJr: Hello, Leo.

C: Friday afternoon I asked Jimmy to stay and let me talk to the President just a minute about the way that he wanted to get the money for Governor Lehman's organization.

HMJr: Yeah.

C: And he said to me just before I left -- he said, "Say, now on this dollar balance position of England," he said, "I have no objection to that going up to two billion dollars." And he said, "They'll need a couple of billion dollars maybe for to help stabilize the currency and things like that after the war." And I said, "Well, now, Mr. President, wait a minute. You signed a memorandum for six hundred to a billion dollars."

HMJr: Yeah.

C: "Now, the Treasury and ourselves, I am sure, are in agreement as to how this thing ought to be handled." And he said, "Well, I don't see any objection to letting them build those balances up to a couple of billion dollars." And I said, "Would you do this, please, now? Let us handle this with the Treasury and if we can get the State to go along, all right, but I'm sure that the Treasury and ourselves are in agreement. Now, we can do more good on this thing if you leave us handle it on the Hill and everything else...."

HMJr: Uh....

C: "....and if we get too strong on the thing, why we, of course, will always soften up, both agencies will if you tell us to."

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HMJr: Yes.

C: "But won't you please let us handle it?"

HMJr: Yeah.

C: And well, I -- he finally indicated that he would. Now, Harry just called one of our boys....

HMJr: Harry who?

C: Harry White. Your Harry White.

HMJr: Yeah.

C: And there's no differences between our boys but, as I understand, the President is going to try and get away tomorrow.

HMJr: Yeah.

C: Now wouldn't we be better off, both of us, as long as we're in agreement, in place of bothering him, let's take the State Department on -- head-on ourselves and we couldn't get a decision out of him before ~~he~~ he left tomorrow anyhow.

HMJr: Well, let me tell you this, Leo. That was Friday, see?

C: Yeah.

HMJr: And I heard you say that you wanted to stay behind.

C: Yeah.

HMJr: You remember?

C: Yeah.

HMJr: And -- I mean I didn't pay any attention to it 'till I saw the President that night. I had supper with him and then after supper he asked me to come up and talk to him.

C: Yeah.

HMJr: Amongst other things, he said to me, "I saw Leo and Jimmy Byrnes and Leo," he said, "brought up the question...." Hello.

C: Hello.

HMJr: He said, "Leo brought up the question of the English balances." And he said, "I told Leo to leave it about the way it is now."

C: (Laughs) Well, he's -- he's -- he apparently is all confused. Now, who brought it up, apparently, must have been Ed Stettinius. See.

HMJr: So I said -- just one minute -- so I said, "I'm kind of surprised that Leo should bring it up when I wasn't around." And he said, "Well, Leo said tha he and you were in complete agreement." So I said, "Well, I thought we were." See?

C: Yeah.

HMJr: But he said, "Leave it as it is." He didn't say anything about two billion. So, between the time he saw you and he saw me after supper, he said, "Leave it as is."

C: Yeah. Well, you know, I didn't want to argue with him but here's what I think happened. I think that Ed Stettinius had talked with him because when he talked with me about the thing, he seemed to -- I felt he didn't seem to understand that the one billion six hundred million to a billion was what he had signed before, because he started right out on me the first minute and said, "Let it go up to two billion."

HMJr: Well. I know he saw Stettinius in the morning.

C: Yeah. Well, now what are we -- what's the best way for us to handle it? We're in agreement with you on the thing.

HMJr: Well, I think the best way to handle it is the way you outlined it and that is for us to proceed and take the State Department head-on.

C: That's right.

HMJr: And when I mean the State Department, I mean Hull.

C: That's right.

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HMJr: And when Hull gets back and gets his feet on the ground, after you and I have got our stuff all in order, I think that we ought to ask to see Hull.

C: That's right.

HMJr: And then have a talk with him. Now, when I do business with Hull direct, I never have any trouble but I think we ought to have a meeting before that, Leo.

C: Well, let me say this to you now. The thing that disturbed me -- I wanted our boys, with Harry, to get in complete agreement and get a memorandum....

HMJr: Yeah.

C:that both of us could sign and I was a little bit afraid that they wouldn't be able to do it this afternoon. Don't you know?

HMJr: Oh.

C: And....

HMJr: Well....

C:as long as you agree that we don't have to get it over this afternoon....

HMJr: Oh, well....

C:then....

HMJr:he wouldn't -- he wouldn't look at it anyway.

C: Fine and dandy. Then we'll let -- our boys are in complete agreement with Harry -- let them draft it up.

HMJr: Now, one other thing. I -- when I saw the President I had a chance to mention this stopping military lend-lease to the French.

C: Yeah.

HMJr: And he told me twice to go ahead with that. Hello?

C: Hello.

HMJr: So, I want to -- I hope that you and I can see eye-to-eye on that.

C: I'll certainly go along with you on that.

HMJr: And he said to me twice -- particularly since the French have made so much trouble about being left out of the Moscow agreement.

C: Yes.

HMJr: So, I think we might do two things at the same time.

C: Fine and dandy. I'll be glad to do that with you.

HMJr: And you say Harry called up somebody?

C: No - no. Harry White called -- you see the way we left it....

HMJr: Oh.

C:we left it that Harry White and our men were to get together, you know? And then Harry talked to our men and suggested they kind of move along on the thing because they ought to get it over maybe this afternoon or tomorrow.

HMJr: Oh, I see.

C: Oh, there was nothing wrong about it, you understand.

HMJr: Well....

C: He was only -- but the thing that I was getting at -- the President seemed so confused on the thing that I thought it was better as long as you and myself are in agreement, that we handle it together and not bother him about it.

HMJr: I -- I agree with you because I don't think he's got time and I don't think he would move on it until Cordell had a look at it anyway.

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C: Well, here's the way I feel about it, too. You're the Secretary of the Treasury and I'm supposed to have charge of the responsibility of lend-lease.

HMJr: Yeah.

C: Now, Maybe we have to get tough on this program -- tougher than, perhaps, the President could personally get himself.

HMJr: That's right.

C: And if we have to do that, I think we should do it.

HMJr: I agree and I think until we are in agreement and everything I think the less we tell the English, the better.

C: Oh, I'm not -- I don't think we ought to tell them anything at all.

HMJr: Well....

C: Until we get the memorandum all signed up and then you and I will call them in.

HMJr: That's the way I feel.

C: That's the way I'd like to do it.

HMJr: Well, when you're ready, when the boys are ready, let's you and I get together.

C: Fine.

HMJr: Thank you.

Operator: Hello.

HMJr: (Aside: Sounds good.)

Operator: Operator.

HMJr: Who is this?

Operator: Miss Carre.

HMJr: Miss Carre, this conversation with....

Operator: Mr. Crowley?

HMJr:Crowley....

Operator: Yeah.

HMJr: Have it copied and marked "Confidential" and one copy to Harry White.

Operator: Right.

HMJr: And mark it "Strictly confidential".

Operator: Right.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 8, 1943

TO The Secretary

FROM Fred Smith

Notes for informal talk to Bond Chairmen

We think these men want most of all to feel that they are doing a substantial piece of work for the war. Your acknowledgment of this, backed up by references to some of the Generals to whom you talked abroad, should have a substantial effect on the men.

The following points might be covered:

(1) This is the finest civilian volunteer organization in the history of the country. No other country has anything that even approximates it. This organization is doing infinitely more -- on a strictly Democratic basis -- than the Fascists can do with force.

Incidentally, through its efficiency and its effectiveness, you have saved the voluntary method of raising money. This method was on trial in Washington before the Third War Loan, and the people who believed in compulsory savings seemed to be gaining ground. It had been reported that Congressional sentiment was lining up behind the compulsory savings idea. Yet, after the War Loan Drive, when we presented a new tax bill to Congress, the first comment of several Congressmen was that they would have no part of anything that even looked like compulsory savings. They felt that the people had made good.

I think it is important, too, that the Third War Loan was handled so expertly out in the field that criticism was almost non-existent. We found, in a survey that you will hear about this morning, that 85 percent of the people highly approved of the way the drive was run -- the publicity, promotion, and all. That is a fantastic vote of approval which is not approximated by any other home-front activity.

(2) "You are doing a vital job." If you could have been with me on my recent trip to the front in Italy, you would realize how important your bond job is to the war.

I talked at some length with all of the Generals commanding our troops -- Eisenhower, Mark Clark, Patton, Alexander, and Devers. Everyone of them made a point of saying that it was reassuring to have our War Loan Drives working so well back here. It makes the job of the Generals easier, and makes the job of the troops infinitely easier, when they know that the home front stands behind them.

A lot of things that happen on the home front cause both the troops and the Generals to be disconcerted and discouraged -- chief among them being John L. Lewis. The morale officer at Eisenhower's headquarters told me that letters going home from troops were very violent on the subject of John L. Lewis. He also said that the only thing any of them were enthusiastic about, to offset the Lewis Problem, was the War Loan Drives.

Many of our soldiers over there, unfortunately, haven't realized how successful our War Loans are, because communications between the home front and the fighting front are very bad. It is impossible to hear American news on the radio, and I didn't see an American newspaper from the time I left New York until I arrived at Puerto Rico on the way back.

You will be interested to know that General Eisenhower, and all of the commanding Generals, are eager to have us send over top-flight bond men to service the troops. They want us to sell Bonds and thereby absorb some of the excess money that the soldiers have; but more than that, they want the soldiers to get in on the enthusiasm and excitement generated in our Bond drives. General Hughes, Eisenhower's second in command, invited me to send a man over immediately and promised to take him under his own wing. I don't think there is any better way of demonstrating how important the men at the front feel our War Loans to be.

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(3) Our job of selling War Bonds is not going to get any easier. It is going to become increasingly difficult as the end -- or what people believe to be the end -- of the war comes into view. As you doubtlessly have discovered, we are now faced with a pretty general feeling that Germany is about to crack. There is a lot of this feeling in high places of Government, and there is a lot of loose comment generally -- especially from "high Nazi sources" -- to the effect that the war will be over very shortly.

I can assure you, however, that they don't feel that way over where the fighting is going on. If you could see the difficult terrain over which we are trying to wage war in Italy, you would realize that taking the rest of Italy is in itself a job that may consume months. This is not because our effort has bogged down. It is simply because Italy is made-to-order for defensive tactics. The Nazis can get into the mountains, which are heavy with foliage, and have command of everything that lies in the valleys below them. This, of course, puts us at a tremendous disadvantage. And when they are driven out of one mountain, there is always another one to go to just a little farther back. That is the reason the fighting in Italy is going so slowly.

Obviously, I can not give you any real inside information on the state of morale in Germany but I can tell you what we are finding out from German prisoners. Their morale is almost as high now as it ever was. They have not even begun to lose faith in Hitler, and as a matter of fact they are now blaming the Russian episode on the military leaders, saying that Hitler never wanted to attack Russian in the first place. When a prisoner finally breaks down and admits that Hitler is not perfect, he quickly qualifies his statement by indicating that it would be difficult to replace him by another leader, and they seem certain that the German Nation must have a leader. They do not understand Democracy, and they believe that any Nation that runs without a leader is chaotic and unorganized. Many of the prisoners are actually looking forward to finding a new leader who will be strong enough and wise enough to win the next war.

Of course there are reasons for believing that Germany is in a bad way. Some of them sound pretty convincing. We know that our bombing expeditions are doing tremendous damage -- and, incidentally, you have no idea, you can not imagine, how damaging bombs can be. The Island of Malta, which I saw, is little more than a pile of rubble -- and yet Malta was only 25 percent destroyed. Hamburg was 75 percent destroyed, and many German cities are fifty and sixty percent destroyed. With what I have seen of modern bombing, it even staggers my imagination to try to think of what this means. A great deal of Naples looked to me to be a total wreck. Yet Naples was only five percent destroyed.

Obviously, therefore, the Germans are living through a most horrible experience, and it doesn't seem human to expect them to hold out against it for very long. But neither does it seem human to have defeated German soldiers looking forward to a new war, and yet that is what they are doing.

But whether or not there is any reason to expect a collapse of Germany, thinking about it is a luxury that we can't afford. Counter-attacking this tendency is one of the jobs that you can do in the Fourth War Loan. It is a collateral job that we must have well in mind; and if we are able to aid in keeping the urgency of the war in people's minds, that in itself will be almost as important a victory as making our Fourth War Loan quota.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 8, 1943

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: The Business Situation,
 Week ending November 6, 1943.

Summary

Stock market: A resurgence of peace talk growing out of the Moscow agreement and favorable war news appeared to be the dominant influence in a downward trend of stock prices last week. Trading volume on Wednesday and Thursday rose above 1 million shares for the first time since September 20, and stock prices at the close on Saturday averaged nearly 3 percent lower than a week earlier.

Wage stabilization: Increasing pressure for wage increases is expected to follow in the wake of the coal miner's new wage agreement. The CIO has again demanded the scrapping of the "Little Steel" wage formula and the United Steel Workers Union is expected to open a drive for an increase in steel workers' wages.

Commodity prices: Peace rumors had a bearish influence on commodity prices last week, and the BLS index of 28 basic commodities declined slightly. Very heavy marketings caused a sharp drop in hog prices. Government officials fear that the marketing of the 74 million record-breaking spring pig crop may cause prices to break through the official "floor" of \$13.75, and may result in serious marketing difficulties.

Cost of living: The United Kingdom cost-of-living index continues its sidewise movement, while serious difficulties are manifest in stabilizing living costs in the United States and Canada. The President appointed 5 members of the War Labor Board last week to investigate living costs, including the accuracy of the BLS cost-of-living index.

National income: Payments rose slightly more than seasonally in September and attained an annual rate of \$144.9 billions, as compared with \$144.8 billions in the previous month and \$119.8 billions in September 1942. Payments for wages and salaries were 23 percent above 1942 levels while cash farm income, including Government payments, was 14 percent higher.

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General situation

The favorable implications of the Moscow pact, further deterioration of the German military situation, and other promising developments during the past week apparently have prompted a resurgence of peace talk in business and financial circles. Evidence to this effect was seen in a mid-week flurry of selling on the New York Stock Exchange and moderate weakness in commodity prices. Stock transactions on both Wednesday and Thursday rose above 1 million shares for the first time since September 20, and the Dow-Jones averages of industrial, railroad and utility stocks all showed noticeable declines, with the two-day drop in railroad stocks amounting to more than 3 percent. (See Chart 1.) Selling abated somewhat on Friday and Saturday but further moderate declines occurred in prices, so at the close on Saturday the Dow-Jones average of 65 stocks was nearly 3 percent lower than a week earlier.

As might be expected, war stocks suffered the widest losses on the decline, and the improvement in the relative position of war stocks which had been under way for the 7 preceding weeks was abruptly reversed. (See Chart 2.) At the same time it should be noted that peace stocks also declined noticeably and as a group they now stand about 9 percent lower than at the peak last July. At that time considerable optimism was being manifested over the peace-time prospects of many companies. However, the sudden downfall of the Fascist regime in Italy evoked more serious consideration of peace-time dislocations and problems, which seems to have considerably tempered earlier optimism over peace-time prospects.

Pressure on wage stabilization program increases

While the full effects of last week's tentative agreement in the coal wage dispute remain to be seen, present tendencies point toward increased agitation for wage increases by other labor groups and a renewed drive against the "Little Steel" wage formula. During the week the CIO again demanded the scrapping of the formula, and the union's president warned that its continuation would result in local strikes and work stoppages. In addition to commending the wage demands of the United Mine Workers and the Railway Brotherhoods, the CIO in its sessions at Philadelphia also passed a resolution stating that the rollback of prices had not been fulfilled, and claimed that workers' budgets were severely strained as a result of the freezing of wages in the face of excessive prices and profits.

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Indicative of the renewed drive for wage increases, it is reported that the executive board of the United Steel Workers (CIO) will meet today to prepare for a campaign to secure an increase of at least 15 cents an hour for 900,000 steel workers. In addition, other CIO unions are expected to press demands for wage increases.

Wage gain expected to increase coal costs

Under the terms of the new coal wage agreement, which has been approved with one qualification by an 11 to 1 vote of the WLB, bituminous miners will receive an increase of \$1.50 per day for 1 hour additional work, with the miners' normal half-hour lunch period shortened to 15 minutes. The additional quarter of an hour gain in working time resulting from the last-mentioned step is theoretically expected to increase output at a rate of 20 million tons annually. However, whether such results can actually be obtained remains to be seen, with considerable skepticism being evinced over the practicability of a 15 minute lunch period.

Inasmuch as the additional working hour per day will be paid for at time and a half rates, coal production costs are expected to rise. The Fuel Administrator has stated that he will probably ask the OPA to raise the ceiling price on coal to compensate for the increased cost of production, but no specific figures have been mentioned. Some private operators contend that coal prices should be raised from 15 cents to 45 cents per ton.

Coal strike cuts steel output

As a result of earlier wildcat strikes in the coal mines in October, 7 open hearths and 9 blast furnaces were forced out of production in the South by the beginning of last week, but the important Pittsburgh district was not seriously affected until the work stoppage became general around the beginning of this month. By last Thursday, however, the Carnegie-Illinois Steel Corporation in the Pittsburgh-Youngstown District was forced to shut down 49 open hearth furnaces and was losing pig iron production equivalent to the output of 11 blast furnaces. In addition, the huge Clairton coke plant was down to only 50 percent of capacity.

Coal output figures for last week are not yet available, but a heavy drop in production undoubtedly occurred. As late as Friday it was reported that production in the important coal producing state of West Virginia was no more than 25 percent of normal. During the last week in October soft coal

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output dropped 13 percent below the previous week, and was 17 percent below the corresponding period in 1942. In the face of the recent loss in coal output, WMC officials stated near the end of last week that in order to meet the Solid Fuels Administration's 1944 goal of 686 million tons of coal, 85,000 additional miners will be needed by next March.

Peace rumors depress commodity prices

Peace rumors had a bearish effect on commodity prices last week and the BLS index of 28 basic commodities declined slightly. Cotton and wool top prices were the most severely affected by the peace rumors, dropping 1.7 and 1.9 percent, respectively. (See Chart 3.) While wheat prices declined moderately at the middle of the week, they later firmed and at the end of the week were somewhat above week-earlier levels.

Soft wheat ceilings were established last week at approximately full parity basis without consideration of any benefit payment deductions. The new ceilings entail a reduction in soft wheat prices and will tend to moderate the squeeze of millers' margins in soft wheat flour sales. (The ceilings do not effect the basic commodity index, since no soft wheat quotations are included in the index.) It was disclosed last week that the OPA is preparing ceiling price regulations on hard wheat, but the ceilings cannot be imposed until hard wheat prices reach parity. The flour ceiling committee of the Millers National Federation made an appeal to Stabilization Director Vinson last week for relief from the squeeze caused by the high wheat prices. Mr. Vinson promised that immediate action would be taken.

Hog marketings very heavy

Very heavy hog marketings last week caused a sharp decline in hog prices, which are now at the lowest level in over three months. Hog arrivals at Chicago stockyards the first five days of last week were 126,000 head, not counting shipments to packers outside the packinghouse area, as compared with 107,000 head for the corresponding week last year. Moreover, on a few days last week Chicago packers were forced to carry over thousands of hogs which they were unable to slaughter.

Government officials reportedly fear that the movement of the record-breaking spring pig crop, 74 million head, may get out of control and drive prices below the official "floor" of \$13.75. Slaughterers are hindered in attaining maximum operation by manpower shortages. Furthermore, transportation difficulties may create a bottleneck. Estimates of the

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Department of Agriculture indicate a decrease of 5 to 10 percent in the ability of Corn Belt trucks to haul livestock this fall and winter as compared to a year earlier. To cope with these problems, the Department of Agriculture has called three regional meetings of all groups concerned in the hog marketing question, including the ODT, the WMC, Selective Service representatives, agricultural marketing agencies, packers and producers.

The increase in hog marketings, however, may not result in any increase in civilian meat supplies, since it appears likely that the Government will step up its purchases for the armed forces and lend-lease shipments. A forecast was made by the Department of Agriculture last week that civilians will receive only about three-fourths as much meat in 1944 as they did in 1943, despite the fact that total meat output may equal this year's record production of 24 billion pounds. Military, lend-lease, and other Government needs are expected to increase about 25 percent next year.

All-commodity index slightly lower

The BLS all-commodity index continues to move within the narrow range of the past four months. In the week ended October 30 the index declined very slightly to 102.8 percent of the 1926 average. At this level the index is only 3.1 percent above the corresponding week last year, although it is 37.1 percent above the pre-war level of August 1939. Weakening prices for grains and livestock were largely responsible for the decline in the index.

British cost of living steadier than in U. S. and Canada

The United Kingdom cost-of-living index continues its side-wise movement, while serious difficulties are manifest in stabilizing living costs in the United States and Canada. Whereas the United Kingdom cost-of-living index declined slightly in the month ended September 1, the Canadian index continued its gradual rise of the past seven months. (See Chart 4, upper section.) Moreover, after a three-months decline from the May peak, the BLS cost-of-living index in this country renewed its rise in September. The influence of food costs in determining the level of the cost-of-living indexes in the three countries is clearly shown in Chart 4, lower section.)

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President appoints committee to investigate living costs

Labor organizations, dissatisfied with the failure to roll back living costs to the levels of September 1942, are also critical of the BLS cost-of-living index as reflecting inadequately the increased prices to consumers. Fulfilling a recent promise made to labor leaders, the President last week appointed five members of the War Labor Board to investigate the entire matter of living costs, including the accuracy of the BLS index. The committee is to report its findings within 60 days. While it is hoped that the work of this committee will help to clarify for the public what the cost of living means, some observers believe that the investigation is a move to allay labor demands for wage adjustments until Congress has acted upon the food subsidy question.

In connection with criticism of the BLS cost-of-living index, a special committee of the American Statistical Association recently published the results of its investigation of the index made in response to a request of the Secretary of Labor. The committee concluded that, within the limitations established for it, the BLS cost-of-living index provides a trustworthy measure of changes in the prices paid by consumers for goods and services, that is, for price changes affecting urban workers in large cities. Many doubts which have arisen concerning the index have their origin, according to the committee, in attempts to use it for purposes to which it is not adapted. For instance, the index does not and is not intended to measure changes in average family expenditures for goods and services.

The committee further stated that the index, being a national average and relating only to large cities, may not be a good instrument in making wage adjustments in specific cases and in specific areas. "If wages and salaries of workers in particular regions, in particular industries, and at particular income levels are to be adjusted to living cost changes affecting them specifically, indexes of living costs adapted to special circumstances will be required". Finally, the following observation of the committee is of interest: "The use of a cost-of-living formula to adjust the income of one group of citizens will not prevent reduction of consumption for citizens generally. It can result only in shifting a larger share of the burden of that reduction onto the shoulders of those whose income is not geared to the formula".

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National income payments at new peak

National income payments advanced to a new record high in September, but the gain was not greatly in excess of the usual seasonal proportions. The annual rate of payments of \$144.9 billions was only slightly above the previous month's figure of \$144.8 billions. The gain over September 1942 levels, however, was 21 percent. Payments for salaries and wages were 23 percent higher than in September 1942, while cash farm income, including Government payments, was 14 percent higher. (See Chart 5.)

Although cash farm income in the first 9 months of 1943 was 28 percent above the corresponding period in 1942, rural sales of general merchandise on the whole have been running moderately below year-earlier levels since last April. (See Chart 5.) While complete rural sales figures are not yet available for October, sales of Montgomery Ward and Sears, Roebuck during the month were down 20 percent and 10 percent, respectively, from the corresponding month last year. These companies, of course, have been particularly hard hit by the shortages of consumers' durable goods.

Department store sales higher in October

In contrast to the sales showing of the leading mail order houses, department store sales in October were 13 percent higher than in the corresponding month last year. In the first week of October, sales climbed to the highest level of the year and were very strongly maintained during the following three weeks. (See Chart 6.) As a result of the heavy sales volume in October, the FRB adjusted index of department store sales rose to 145 from 132 in September, thus exceeding all previous months on record except February 1943 when the index stood at 168.

Metals supply outlook improved

Although a tight supply situation continues to exist in numerous raw materials, an encouraging development has been the recent improvement in the supplies of nonferrous metals. In reflection of this situation, the WPB recently took various steps tending to curtail production in marginal mines, other than those producing copper and iron ore. Among other measures, premium prices have been ordered withdrawn for lead and zinc mines not already in operation or those having a low labor productivity. Moreover, the Government will not finance any new zinc projects, and premium prices will no longer be paid for the output of marginal mines operating in labor shortage areas.

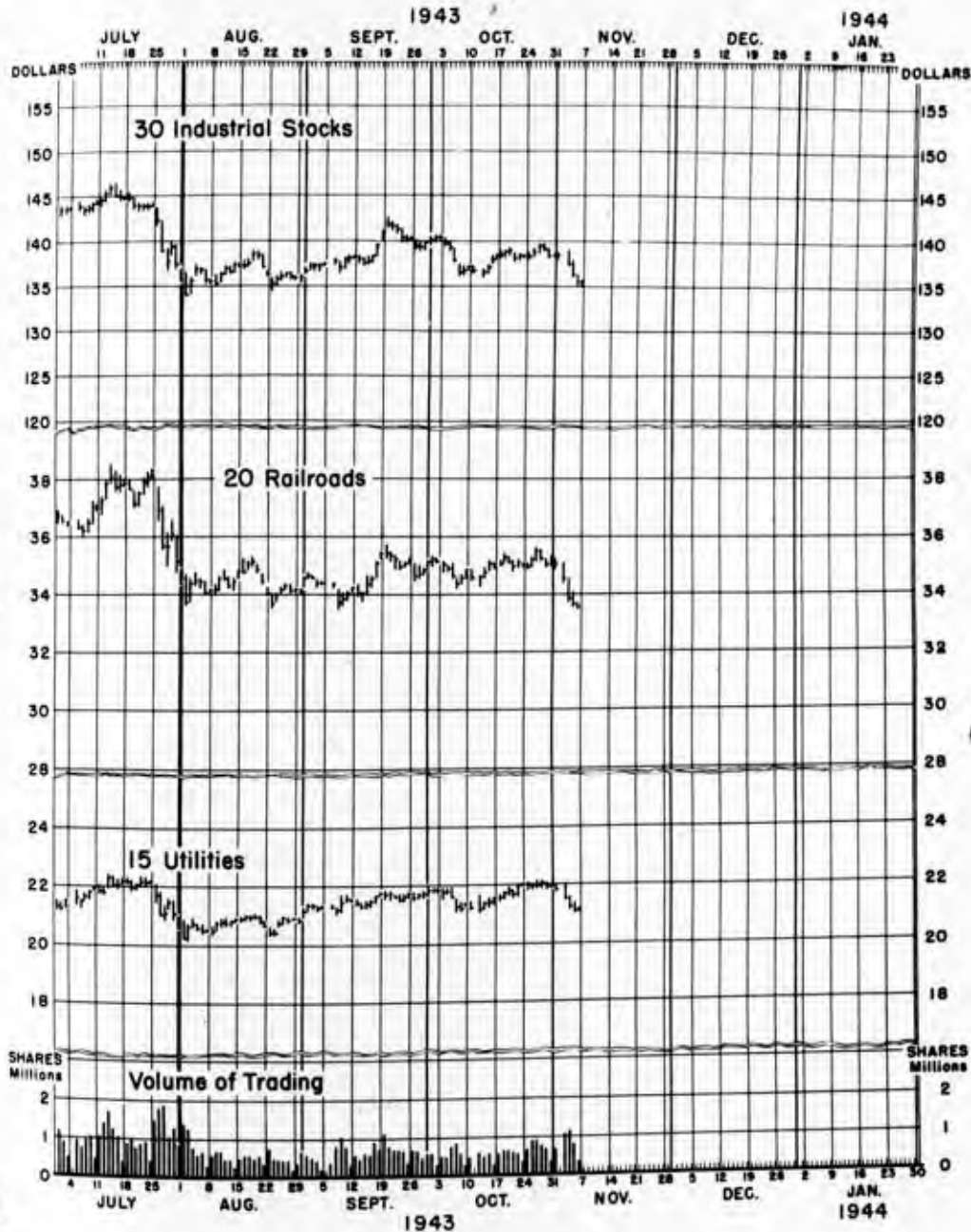
- 8 -

In the case of aluminum it was disclosed last week that supplies in the last quarter of 1943 will be almost 100 million pounds in excess of requirements. Moreover, it was revealed that about 2 months ago WPB officials were confronted with the problems arising from an actual over-supply of about 10 million pounds of aluminum scrap.

An exception to the generally improving metal supply situation is that of steel scrap. Even before the recent coal strike, collection of steel scrap was reported to be falling below desired levels. Curtailment of pig iron production as a result of coal shortages has increased the demand for scrap, and an extremely tight situation in the important Pittsburgh district is now expected by December.

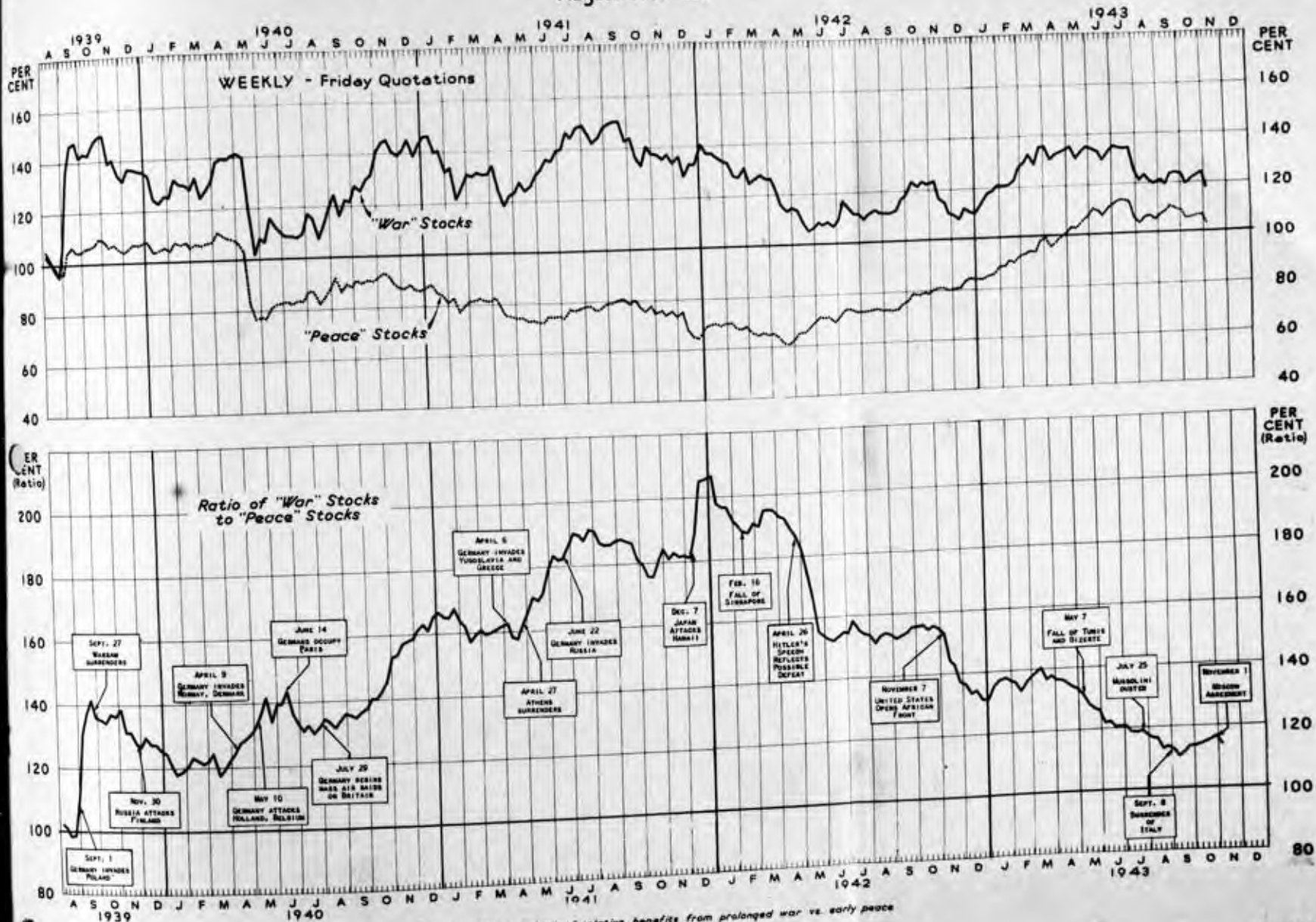
STOCK PRICES, DOW-JONES AVERAGES

Daily



COMPARISON OF PRICE MOVEMENTS OF 20 "WAR" STOCKS AND 20 "PEACE" STOCKS*

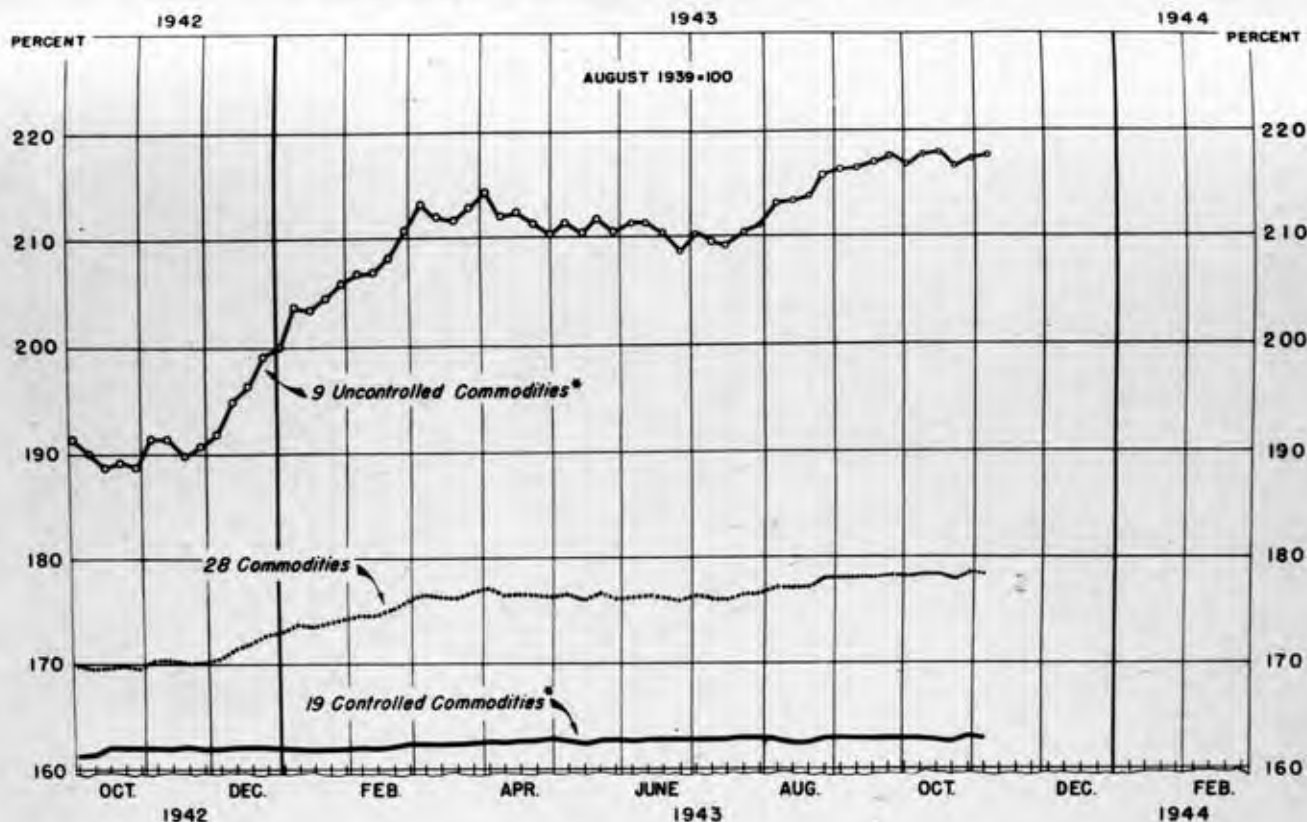
August 1939 = 100



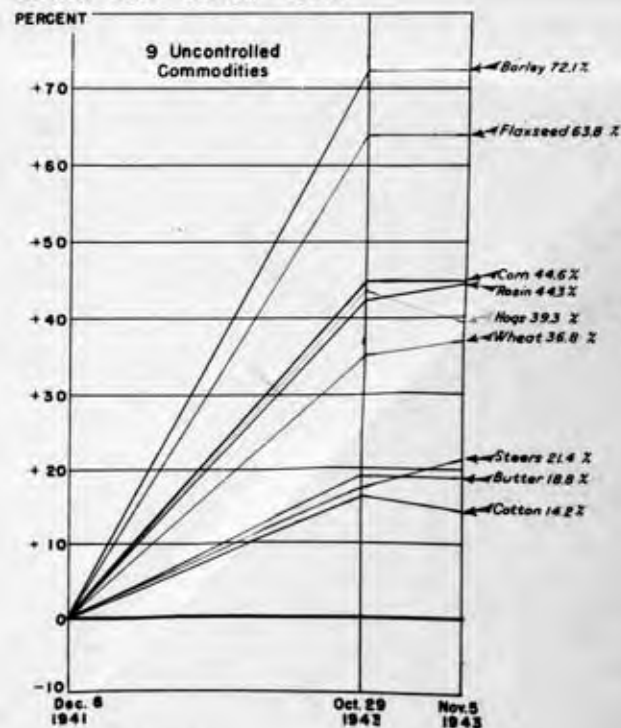
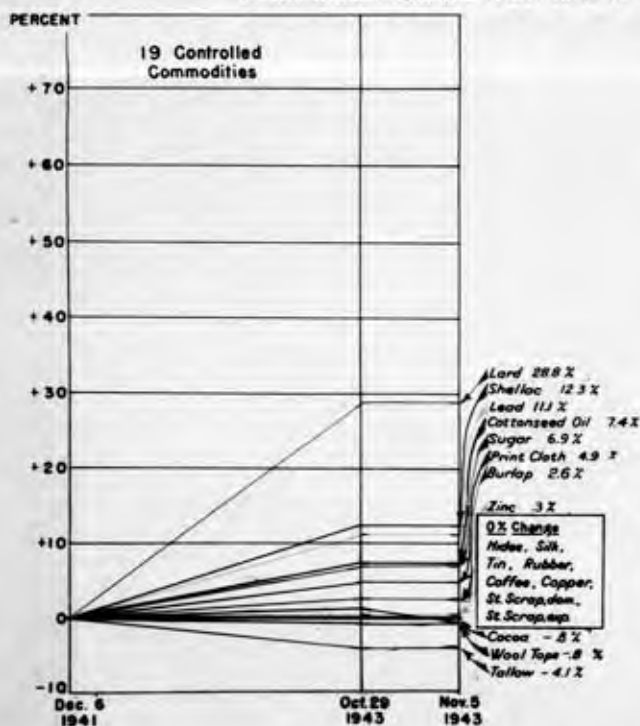
* Stocks selected on basis of relative benefits from prolonged war vs. early peace
Indices are weighted averages of price relatives

P-225-B-1

MOVEMENT OF BASIC COMMODITY PRICES

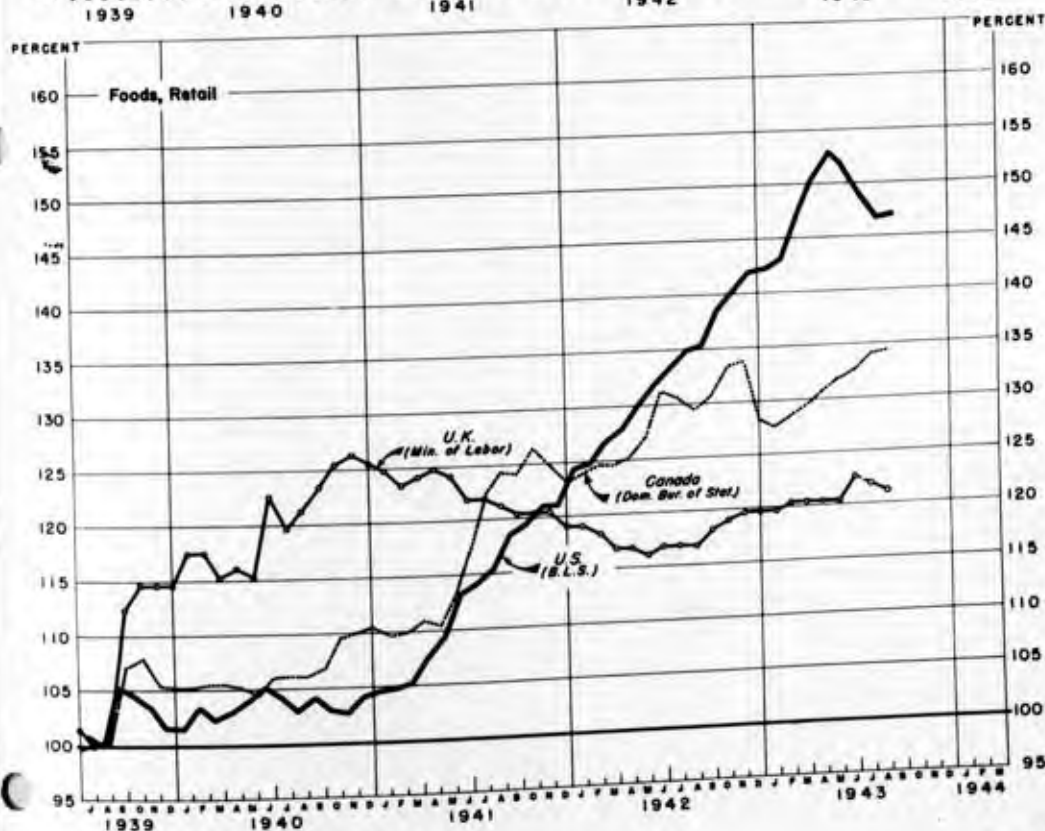
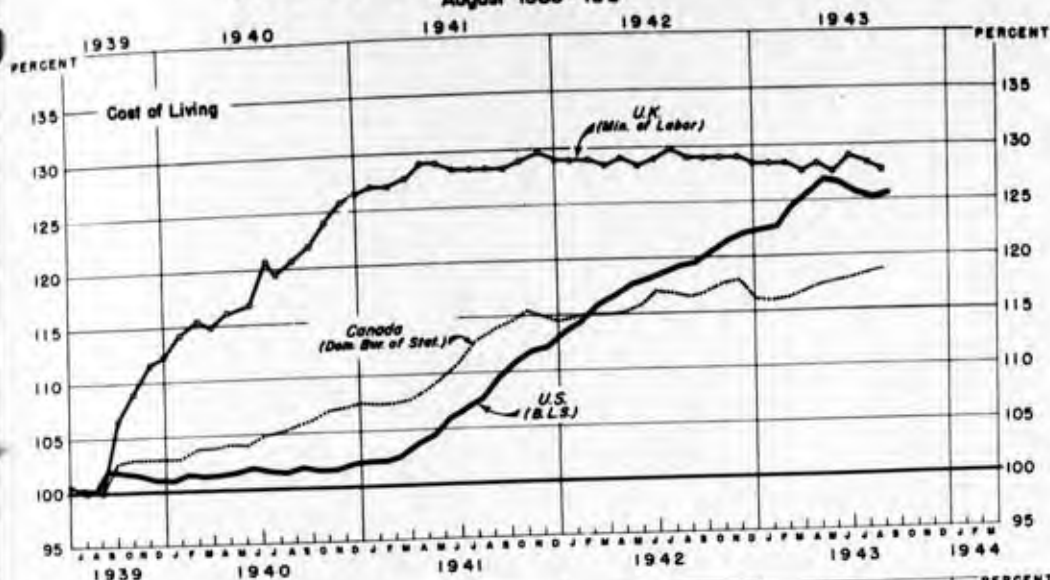


PERCENTAGE CHANGE DEC. 6, 1941 TO OCT. 29, AND NOV. 5, 1943

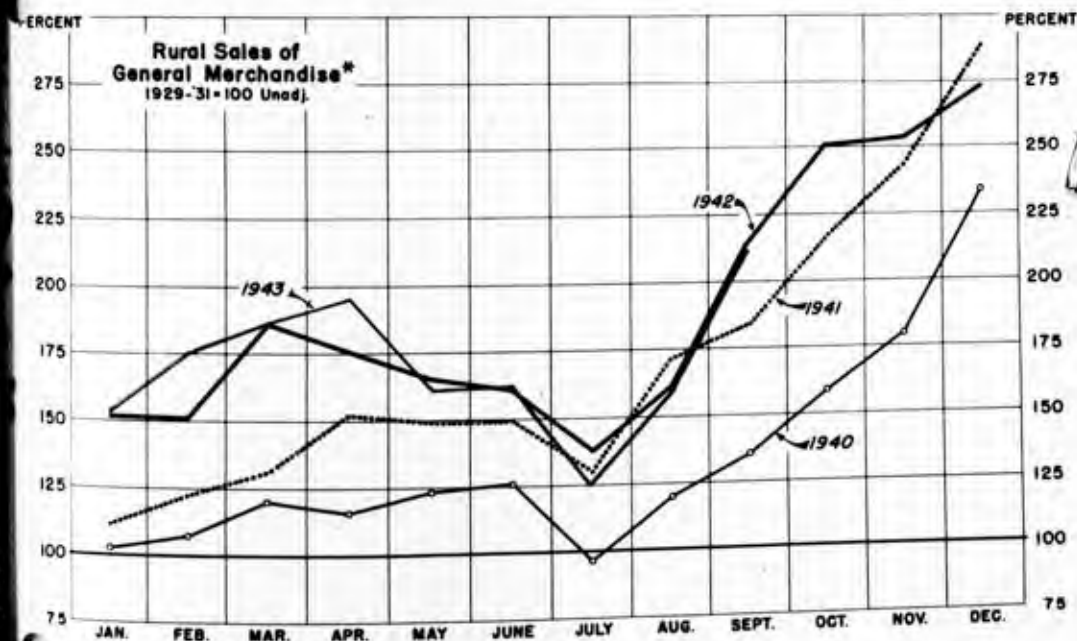
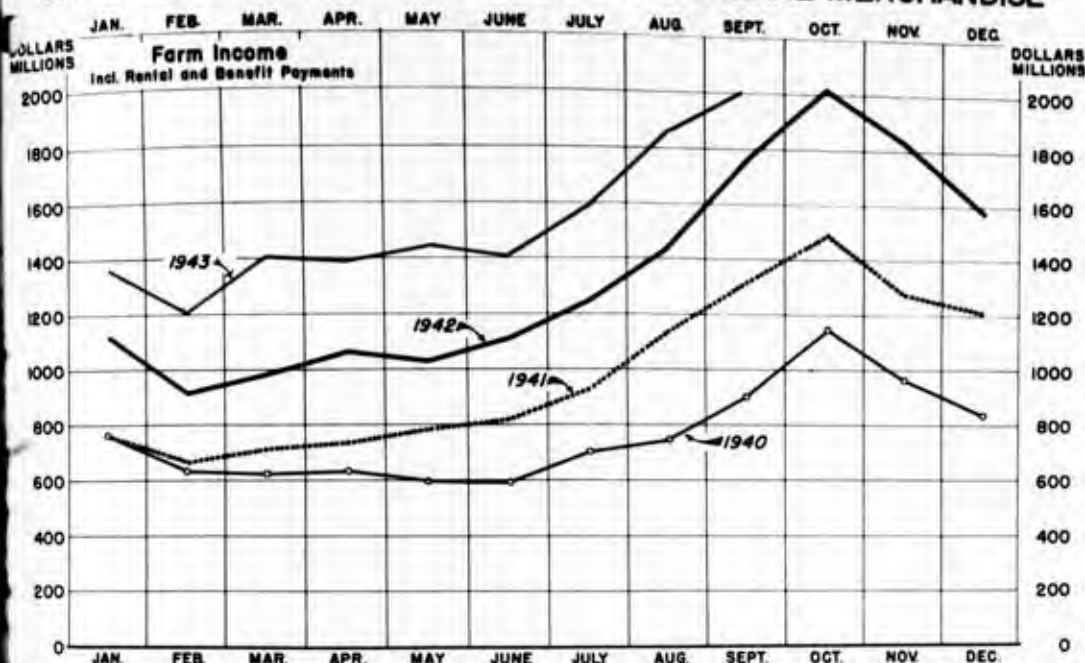


* 20 Controlled & Uncontrolled previous to June 26, 1942

COST OF LIVING, U.S., U.K. AND CANADA August 1939 = 100



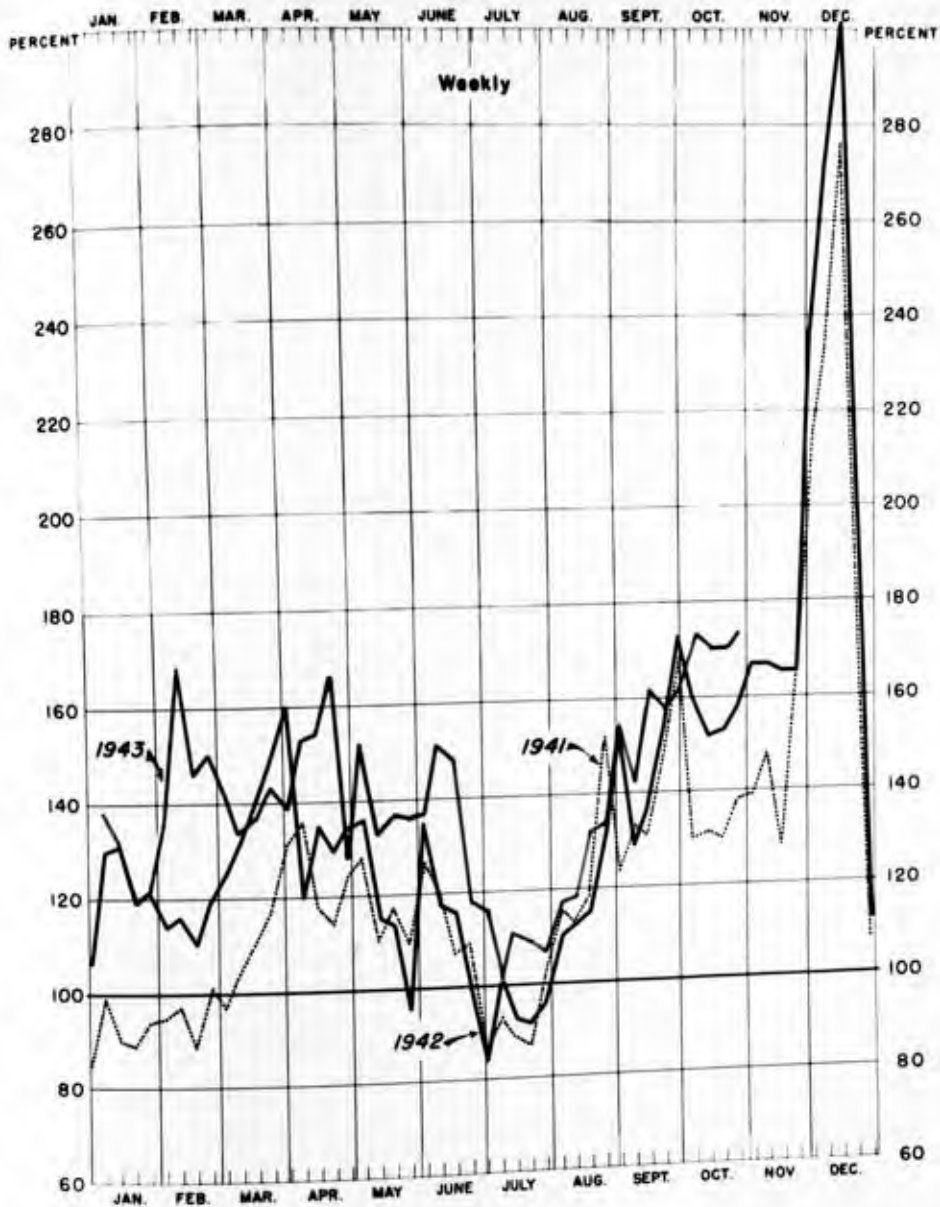
FARM INCOME AND RURAL SALES OF GENERAL MERCHANDISE



* Dept. of Commerce Index of dollar sales of general merchandise in small towns and rural areas.

DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted



11/8/43

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Message to be read at New York meeting
in Madison Square Garden of the National
Council, American Soviet Friendship.

Statement for National
Council of Soviet-American
Friendship



Because of the gallantry and perseverance of the Russian people in defending their homeland against hordes of well-trained, well-equipped Nazi invaders, we Americans are recognizing and appreciating their strength and courage and character. I sincerely hope that on the basis of this awakened interest we will take the trouble to look further and to probe more deeply into the nature of this country and her people, about which there has been so lamentable a lack of understanding.

Russia is a great and powerful and progressive nation. Were Russia to remain the misunderstood and mysterious nation she was before the war, there could never be any real global cooperation or any real stability in the years to come.

Unfortunately, I did not have an opportunity to include Russia in my recent trip to the fighting front; but during the course of my traveling, I talked to a number of men returning from Russia -- high military officials and civilians with first-hand experience in dealing with leaders of the Russian nation.

I can say without hesitation that every report I heard was good. Everyone coming out of Russia after close association with the Russian people spoke highly of their character and integrity. Over and over again, I heard this: "They stand by their word. What they agree to do, they'll do -- and nothing will stop them. There is no hedging, and no deviating from any

commitment that they make, no matter how inconvenient or difficult carrying out their word may seem to be when the time comes to deliver the goods."

I don't know what better recommendation could be given any nation. I don't know any better foundation upon which the post-war reconstruction of the world could be based.

Over and over during the past generation, we have seen nations make commitments for expediency purposes and then forget them on the same basis.

We have seen the worst war in all history develop through a lack of International morality on the part of nations and their leaders. All this would never have happened -- and will not happen again -- if all nations could instil in their neighbors the kind of confidence that the people to whom I talked have in Russia.

I am glad that our two nations are coming closer together. I sincerely hope this trend will continue. It is my considered opinion that the future of our children, and our children's children will be tremendously affected by the degree to which we continue to cooperate with the Russian people -- both now and after the war. I know of few things that can more profoundly influence the future.

Paul T. Culbertson is the younger brother of William S. Culbertson who was tariff commissioner appointed by President Wilson from 1917 to 1925. Paul T. Culbertson entered State Department as a clerk in 1922 and rose rapidly in the Department until 1932 when he was appointed Assistant Chief in the Division of Western European Affairs which position he still holds.

He is considered by the Department to be expert in the negotiation and administration of commercial agreements from the political side. He has evidently never been in the foreign service except in a clerical capacity and sat at a desk in the State Department throughout his career.

In December 1942 he was sent to North Africa as Robert D. Murphy's assistant and was the executive officer in charge of economic operations. He held this position until May 1943 when he was recalled to the Department.

Treasury officials have had contact with Culbertson over the last seven years in trade agreement work and in North Africa. Culbertson can be characterized as being a mediocrity, lacking in confidence in himself, and in general, is a man with little strength of character, few principles and fewer ideas.

November 8, 1943

MEMORANDUM FOR THE FILES

Meeting in Mr. White's Office
November 8, 1943
2:30 P. M.

Present: Mr. White
Sir David Waley
Mr. Mahindra
Mr. Casaday
Mr. Friedman

Re: India: Lend-leasing of silver

Mr. Mahindra and Sir David Waley called at their request to discuss lend-leasing of silver to India. Mr. White informed Sir David and Mr. Mahindra that it was the feeling of the Secretary that we should continue to watch the situation in India before making any final decision regarding the lend-leasing of 100 million ounces.

Some discussion followed regarding whether or not the Treasury in the past had committed itself to granting this 100 million ounces. Sir David Waley indicated that he understood that such a commitment had been made. Mr. White said that as far as he knew no such commitment had been made. Mr. White said that he had been present at the time the Secretary and Lord Halifax had discussed the lend-leasing of 100 million ounces of silver together with the granting by the United Kingdom of raw materials as reciprocal aid. The Secretary had indicated to Lord Halifax that the Treasury had not as yet received any reply to its proposal on raw materials as reciprocal aid and that any decision regarding the lend-leasing of silver would have to await receipt of reply to this proposal. Mr. White pointed out that the granting of this reciprocal aid need not in itself determine the decision on the lend-leasing of the 100 million ounces of silver and, conversely, the granting of the 100 million ounces of silver need not depend on the prior carrying out by the British of their commitments to grant reciprocal aid to the United States in the form of raw materials.

Sir David apologized for having made his assertion without sufficient knowledge of the background and it was agreed by all present, including Mr. Mahindra and Sir David Waley, that the Treasury had made no commitment with regard to the lend-leasing of the 100 million ounces of silver but, rather, had undertaken to follow the inflationary situation within India to see whether conditions might develop which would justify the lend-leasing of the requested 100 million ounces of silver.

The current situation in India was discussed and Mr. Mahindra pointed out that, although the price of silver and the general price index were not rising significantly, the existing famine conditions would have been mitigated by the use of the lend-leased silver which would have been sold to the public with the expectation that it would have resulted in the disharding of commodities. Mr. White took exception to the implication in Mr. Mahindra's remarks that there might be some connection between the present famine conditions and the fact that the U. S. Government had thus far not lend-leased the 100 million ounces of silver. Mr. White pointed out that there were many economic reasons for being very doubtful as to whether the sale of silver would alleviate the current situation. Furthermore, the Government of India's attitude on the lend-leasing of silver contained a number of inconsistencies. On one hand, the Government of India in the past had been arguing that the 100 million ounces would not have to be sold in order to achieve the anti-inflationary effect. The Government of India was now arguing that the silver would be used in such a way as to result in the substitution of hoarded silver for hoarded goods. This would involve the sale of the silver. Moreover, there seemed to be a contradiction between the expressed desire of the Government of India to sell silver to keep the price of silver down with its desire to use the silver for disharding purposes. The decline in the price of silver desired by the Government of India which was to result from large scale sales might well make silver a less attractive investment and thus make the holding of foodstuffs relatively even more attractive than it is at present. With regard to the argument that the sale of silver would mop up purchasing power, Mr. White pointed out that silver was only a small portion of the total means of payment and silver could be purchased with available savings of paper currency without necessitating disharding of goods, particularly since it was likely that the people in India are more anxious to hold goods than to hold silver. Sir David Waley expressed his agreement with Mr. White's views that a decline in the price of silver might not be desirable at this time. He said that in this respect he disagreed with the Government of India. Mr. Mahindra stressed the urgency of the current situation and the desirability of making the silver available as soon as possible.

Mr. White concluded that, however dubious he himself might be from a technical point of view as to the desirability and value of selling silver as an anti-inflationary and disharding measure, he felt that it was primarily the responsibility of the Government of India to analyze conditions in its own country and to make recommendations which would meet existing conditions. He said that he would raise the matter again with the Secretary in the near future and would be glad to forward to the Secretary any documents which the Government of India might wish to present in substantiation of its position.

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Division of Monetary
Research

The possibility of the purchase of silver from Mexico was discussed and Mr. White indicated that, if the Government of India could make such arrangements with Mexico, the Treasury would have no objection. Mr. White said, however, that he did not believe that Mexico was in a position to supply India's needs.

The possibility of purchase of silver in the United States was also discussed and the conditions under which such purchases might be made were outlined by Mr. White to the Indian and British representatives.

I. S. Friedman

Telephone Conversation with Major Palmer
of the War Department
November 8, 1943

Major Palmer of the War Department telephoned me yesterday stating that they were having a meeting with the British the following day and requested Treasury advice as to what they should tell the British on the following matter. He stated that the Board which decides what food-stuffs are to be shipped from what sources had determined that about 300,000 tons of wheat and several thousand pounds of cheese that was to be shipped to Sicily and India for distribution by A.M.G. was to be obtained from the Argentine. He stated that up to now wheat and some other supplies which had been shipped from the United States to A.M.G. in Sicily had been paid for out of regular Army appropriated funds. He said that the British Treasury representatives with whom they had been discussing the matter were willing to pay for the wheat from the Argentine on a 50-50 basis but it was their thought that since the United States was paying for goods that were being shipped from the United States, that the British ought to pay for goods coming from elsewhere. He assumed that the Treasury Department was the proper place to go to get the advice on this matter and I replied that I would take the matter up with the Secretary and let him know very soon.

The next day General Wright, Major Palmer's superior officer, called and amplified the Major's statement somewhat. He said that it had been decided at the request of the Lend-Lease people and OPARO that the Army was to extend from 90 days to 6 months the time in which the Army was to purchase materials from A.M.G. for distribution in Sicily and Italy paying for it out of Army funds. He said that if the 6 months period is considered as a whole, enough wheat and other material will have been purchased in the United States and paid for by the United States Army to make at least one-half of the total cost of such goods to be shipped to A.M.G. He therefore thought that if the British were to pay for all the material to be bought in the Argentine they would be contributing no more than the United States. He said he would like an answer to their request as to what to tell the British as soon as possible.

I telephoned Secretary Morgenthau and explained to him the inquiry and he agreed that the British should be requested to pay the entire cost of getting such materials from the Argentine. He thought, however, that we ought to buy as little as possible in the Argentine in view of recent political developments there. But he said inasmuch as it would be the British who would be paying for it that we would have to leave it up to the British. If, however, the American Government was to pay for the wheat and cheese we ought to raise the question with the appropriate authorities here as to whether or not the purchases might not be passed to Canada. The Secretary said that I should inform

Division of Monetary
Research

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Mr. Currie and the State Department of the decision which I was to communicate to the Army.

I then telephoned Major Palmer and informed him of the Secretary's decision. The Major said that there was also some sugar to be obtained from India and he assumed the British should pay for that too. The Major said that he thought the British would object to paying for it all and would probably say that they ought to raise the question with the Treasury. I replied that he could inform the British that our Treasury would always be glad to discuss the problem with them.

I informed Mr. Currie of our decision and he concurred. Mr. Acheson could not be reached.

H. D. White

November 8, 1943

MEMORANDUM FOR THE FILES

Meeting in Mr. White's Office
November 8, 1943
3:15 P. M.

Present: Mr. White
Mr. Constantin Fotitch,
Yugoslav Ambassador
to United States,
Mr. Casaday

Re: Financial position of
Yugoslav Government

Mr. White explained that the financial assistance being granted by the United States to the various United Nations had imposed additional responsibilities upon the U. S. Treasury for keeping this Government informed as to the financial position of the countries to which aid is being or may be granted.


Mr. White outlined the types of information we should like to have and which the other interested departments of this Government would expect the Treasury to be able to furnish. He stated that information on the following points would be helpful at this time.

1. Gold and dollar assets, showing where held and in what form and the principal sources from which derived.
2. Assets in sterling or other foreign exchange where of significant amounts.
3. Current or prospective annual receipts, showing amount in gold or dollars, amounts in other currencies and the principal sources of each category of receipt.
4. Current or prospective annual expenditures, broken down to show amounts in gold or dollars, amounts in other currencies, and amounts devoted to "administrative" as distinct from "special" expenditures.

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Division of Monetary
Research

Mr. Fotitch said he himself could tell us little that we were not in a position to know already, but that he would contact his Government at once with a view to meeting our request in full. He remarked that it was especially fortunate to have the request come just at this time because on the following day a member of the Yugoslav Embassy staff here was scheduled to leave for Cairo to act as economic and financial expert for the Yugoslav Government there and that this individual would be able to obtain and forward the desired information in due course.

L. W. Casper 

THE WHITE HOUSE
WASHINGTON

November 8, 1943.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Please take this up with
Stettinius and also Secretary Hull
on his return.

F. D. R.



THE SECRETARY OF THE TREASURY
WASHINGTON

November 4, 1943

MEMORANDUM FOR THE PRESIDENT

All civilian goods being exported to French North and West Africa are now being paid for in cash by the French and this procedure is to be extended to cover shipments of civilian goods to other French areas. Military goods, however, are being supplied as credit lend-lease.

These payment arrangements were made on the assumption that the gold and dollar assets of the Central Bank and Government of France were not available to the French Comite. In our opinion, the use of these assets of France to pay for military goods now being made available for the equipping of a French Army on a credit lend-lease basis could easily be justified.

Through September 1943, we lend-leased \$220 million of goods and services to the French forces. (We also transferred \$75 million of civilian goods to French authorities.) By March 1944, military lend-lease assistance to the French is expected to total \$400 million.

According to the information available the French have over \$2.5 billion of gold and U.S. dollar balances, as follows:

(In millions)

Gold.....	\$ 2,300
In French Africa.....	\$935
In the British Empire.....	500
In the United States.....	500
In Martinique.....	285
Official dollar balances in U.S.....	340

Of this \$225 million was deposited for the account of the Central Bank and Government of Metropolitan France, \$85 million for the account of the French Treasury in Africa and \$23 million for the account of French Indo-China.

Private dollar balances in U.S.....

235

All but \$7 million of this amount is held for the account of residents of Metropolitan France.



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In view of the size of these gold and dollar holdings, it is recommended that our policy of lend-lease assistance to the French be reexamined with the idea of placing the entire program for the time being on a cash reimbursable basis.

a. Unless this is done, it would seem that we are granting the French more favorable treatment than the British.

b. Such a procedure would strengthen your bargaining position with the French.

c. It would be consistent with the objectives of lend-lease assistance.

d. It would contribute materially to the fulfillment of Congressional demands for reduction of government expenditures.

The modus vivendi with French North Africa contains a provision which would permit payment for military supplies.

Henry M. Smith and R.

Lend-Lease Exports to French Liberated Areas
through August 1943 as shown by export declarations

(The figures below do not include the value of lend-lease goods which were handled by the Army and shipped to North Africa on Army transports. These shipments were substantial during the early months)

(In millions of dollars)

A. By Principal Commodity Groups

Tanks and other vehicles.....	\$ 78	
Ordnance and ordnance stores.....	22	
Vessels and equipment for vessels.....	2	
Aircraft and aeronautical material.....	<u>2</u>	
Total - Military Goods.....		\$ 104
Foodstuffs and other agricultural commodities.....	37	
Industrial and other commodities.....	<u>34</u>	
Total - Non-Military Goods.....		<u>71</u>
Total - Lend-Lease Exports to French Areas.....		175

B. By Areas

Algeria.....	133
French Morocco.....	24
French West Africa.....	8
French Equatorial Africa.....	4
French West Indies.....	2
Cameroons.....	2
Syria.....	1
French Oceania.....	1
All Other French Areas.....	<u>1</u>
Total.....	175

1/ Less than \$500,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 8 1943

TO Secretary Morgenthau
FROM Randolph Paul

We received late Saturday afternoon the attached two cables from Armour, No. 2619 and No. 2620, both dated November 5, which you will be interested in reading.

R. E. P.
By J. D. C.

Rec'd. 5:30
11/6/43

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Buenos Aires
DATED: November 5, 1943
NUMBER: 2619

In a separate telegram there is being transmitted an aide memoire which I have just left with the Ministers of Foreign Affairs and Finance. Since suggestion made in Department's 1688 of November 3, 4 p.m. largely concerns operations and activities which have either been corrected or are not sufficiently documented, I hope Department will approve presentation. This afternoon I will telegraph further information concerning my interview.

ARMOUR

COPY

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

Rec'd. 5:30
11/6/43

Buenos Aires
November 5, 1943
Rec'd. 5:56 p.m.

Secretary of State,
Washington.

U. S. URGENT

2620, November 5, 2 p.m.

Text of aide-memoire mentioned in my November 5, 1 p.m. number 2619, follows:

As requested by their Excellencies, the Ministers of Foreign Affairs and Worship and of Finance, The Ambassador of the United States of America telegraphed his Government on October 29 for additional details regarding the designation by the United States Treasury Department of the Banco de la Nacion Argentina and the Banco de la Provincia de Buenos Aires as special blocked nationals.

The Ambassador has now received a reply from his Government in which he is informed that the immediate reason for the action taken by the Treasury Department was the unusual movement of funds during the period October 25 to October 28 inclusive. During the first three days of that period, debits to the accounts of the two banks amounted to \$4,184,000 as compared to \$989,000 for the full week ending October 11. Of the three-day total, almost \$1,000,000 was transferred to countries other than the United States. On October 28 transfer orders amounted to almost \$10,000,000, at which time the Treasury Department, as a precautionary measure, blocked further operations.

While the foregoing explains the immediate reason for the action of the Treasury Department, the Ambassador understands that the fundamental causes are more far-reaching and disturbing. For almost two years the United States Treasury Department has been calling attention to operations carried on by these two institutions which had the effect

- 2 -

of benefiting the Axis or Axis-occupied countries or nationals of such countries resident therein. Likewise, the Treasury has pointed out on many occasions that the institutions in question have granted credits and overdrafts to persons and firms whose activities are deemed to be inimical to the security and defense of the hemisphere. The Embassy, in accordance with the provisions of Resolution Eight of the Inter-American Conference on Systems of Economic and Financial Control held in Washington in 1942, brought those observations to the attention of the appropriate agencies of the Argentine Government.

During the course of the present year, informal conversations have been held, as the Ministry of Foreign Affairs is aware, between officers of the Embassy and those agencies. The latter have invariably taken the position that the remittances to Axis or Axis-occupied territory were made in accordance with the established policies of the Argentine Government. With respect to credits and overdrafts, the appropriate agencies, although courteously receiving the Embassy's observations, stated, presumably following directives of the Argentine Government, that they were unable to take corrective measures or alter existing policies.

The United States Treasury Department has maintained that even though the operations carried on by the Banco de la Nacion Argentina and the Banco de la Provincia de Buenos Aires were authorized or condoned by the Argentine authorities, this did not free those institutions from the responsibility of effecting such operations, since, in so far as the use of the financial facilities of the United States was concerned, the Treasury Department was obligated to apply its controls on the basis of the wartime financial regulations of the United States and the recommendations adopted at the Rio de Janeiro and Washington conferences. Accordingly, after more than one year of patient waiting, following the Inter-American Conference on Systems of Economic and Financial Control, the Treasury Department felt that the two banks in question had definitely elected to continue operations and transactions which had the effect of benefiting the Axis Powers and which were inimical

- 3 -

to the security of the hemisphere. Therefore, it was decided that the institutions in question were not entitled to the free and unrestricted use of the financial facilities of the United States. Accordingly, the Treasury has taken action to require that specific licenses be obtained for further transactions by the two institutions, to the end that it may request and obtain information as to the nature of such operations in order to preclude the possibility of the financial facilities of the United States being used in contravention of the existing wartime financial controls and the recommendation of the above-mentioned conference.

The Foreign Minister is advised that this Government has not attempted to list in detail the many transactions which this Government considers inimical to hemispheric interests since the views of this Government concerning such transactions have been made clear to the appropriate agencies of the Argentine Government. It is understood those agencies have access to the detailed records of the transactions to which reference has been made.

The Ambassador desires to make clear that the Treasury Department will, of course, be pleased to consider applications for specific licenses made on behalf of the above mentioned banks.

Buenos Aires November 5, 1943.

ARMOUR

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Sent over to Mr. Stone, Secretary to
○ Mr. Hull, by special messenger at 4:00
p.m., Nov. 8, 1943

11/8/43Text of Cable to Ambassador Armour

PERSONAL FROM SECRETARY MORGENTHAU TO AMBASSADOR
ARMOUR: I want you to know that I am delighted at your
handling of the Argentine freezing matter. The reports
which you have made to the State Department have been most
helpful in giving us a clearer picture of the issues
involved. I feel that the aide memoir which you furnished
to the Ministers of Foreign Affairs and Finance very
effectively made out the case for the special blocking of
Banco de la Nacion and Banco de la Provincia. Please be
assured of our complete sympathy and our continued coopera-
tion on the entire matter.

[Handwritten signature]
AEZ:JWP:nrd - 11/8/43.

NOV 8 1943

MEMORANDUM FOR THE ACTING SECRETARY OF STATE.

Reference is made to my memorandum of November 2, 1943, relating to the extension of the freezing controls to Argentina.

I want to draw your attention to the following transfers of Argentine dollar assets that are not related to normal commercial transactions, effected since November 2, 1943.

On November 3 and 4, there was a flight of \$900,000 out of Argentine accounts to the accounts of other countries, including Portugal, Uruguay, and Mexico, and \$200,000 was transferred to the Central Bank account by other Argentine banks. In addition, I am advised that the first shipment of gold, amounting to approximately \$1,250,000, formerly held by the Federal Reserve Bank of New York for account of the Central Bank of Argentina, left New Orleans for Argentina on the SS "Rio Parana" early November 4.

On November 5 and 6, there was a flight of \$740,000 out of Argentine accounts to the accounts of other countries, including Uruguay and Cuba, and \$750,000 was transferred to the Central Bank account. In addition, I am advised that the second shipment of gold, amounting to approximately \$1,250,000, formerly held for Central Bank account, left New Orleans for Argentina on the SS "Rio Atuel" on November 6.

My attention has been drawn to the cable from Ambassador Armour, dated October 30, 1943 (No. 2581), dealing principally with the special blocking of the Banco de la Provincia and the Banco de la Nacion, in which he states:

"The Department may desire to reexamine the whole matter to determine whether, in view of the action already taken, it would not be advisable to adopt the

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general freezing measure in the manner which the Embassy has recommended, and announce that the action taken against the two banks was merely a precautionary measure."

(Signed) Henry Morgenthau, Jr.

AUFox:rd 11/6/43



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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 Statement No. 110 -- Aircraft
Despatched -- for week ended November 2, 1943.

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

November 8, 1943.

MOST SECRETSTATEMENT NO. 110

Aircraft Despatched from the United States
 Week Ended November 2nd, 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.		6	
Catalina IV	Canada	Canada			1
<u>CONSOLIDATED</u>					
Catalina IV	U.K.	U.K.		1	
Liberator III	U.K.	U.K.		1	
Liberator III	M.E.	M.E.		5	
Liberator III	India	India		8	
Liberator GR V	U.K.	U.K.		2	
<u>DOUGLAS</u>					
Dakota III	U.K.	U.K.		3	
Dauntless SED	U.K.	U.K.	2		
<u>GLENN MARTIN</u>					
Baltimore V	M.E.	M.E.		19	
Marauder II	U.K.	U.K.		1	
Marauder II	M.E.	M.E.		5	
<u>NORTH AMERICAN</u>					
Mitchell II	U.K.	U.K.		7	
Mitchell II	Bahamas	Nassau		2	
Mustang	U.K.	U.K.	28		
<u>NOORDUYN</u>					
Harvard	U.K.	U.K.	23		
<u>CURTIS</u>					
Kittyhawk	Australia	Sydney	30		
Kittyhawk	New Zealand	Auckland	35		
Seawew	U.K.	U.K.	4		
Kohawk	India	Calcutta	16		
<u>GRUMMAN</u>					
Hellcat	Ceylon	Colombo	7		
Martlet V	U.K.	U.K.	25		
<u>VULTURE</u>					
Vengeance	Australia	Brisbane	15		
Total			185	60	1

Movements Division
 British Air Commission

November 6, 1943
 mmh

264 2



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 Monthly Report No. 2 covering
Aircraft Flight Delivery as at October 31, 1943.

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

November 8, 1943.

REF. NO. B-55
MONTHLY REPORT NO. 2

U. S.

SECRET

BRITISH

MOST SECRET

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT
(Covering Movements through October 31, 1943)

	(1) PORT. (BAC-I/L)(BAC)	(2) LIB. (BAC)	(3) HUB. (BAC-I/L)	(4) VENT. (BAC)	(5) FL. BOAT (BAC-I/L)	(6) VENT. (L/L)	(7) POST. (L/L)	(8) BAIR. (L/L)	(9) B24 (L/L)	(10) B25 (L/L)	(11) B26 (L/L)	(12) TRANSP. (L/L)	TOTAL
UNITED KINGDOM	84	96	807	140	354	27	180	1	220	179	5	48	2,141
MIDDLE EAST		5	95						5		48	32	185
WEST AFRICA									12				12
AUSTRALIA					27								27
SINGAPORE					9								9
INDIA									48			2	50
OTU'S IN CANADA			210	68		25							303
BCAF					28		1		16				45
NASBAN									29	53			82
45 GROUP RAFC		11	42	10	5				7				75
Ascom, Takoradi, or Freetown			91	133		95		669			51	184	1,223
En route Overseas				2		2		39	3	1	13	1	61
Comdr, Ocas, etc.				1	8		1		2	5		1	18
Nascom or Bermuda (en route)				1	7			18			5	1	32
Special duty in Canada			1	1				5					7
Montreal				2	3	3	1		13	25	2	4	53
CRASHED AFTER EXPORT			52	19	10	1	16	24	2	2	9	1	196
En route export								7	1	2		3	13
At installation center					76				5	1	1		83
En route installation center					1				4	2			7
At modification center						66			74	55		57	252
En route modification center						40			2				42
Special duty in U. S.		2			1			3	3				9
At starting point (Long Beach, etc)								8	4				12
CRASHED IN U. S.		1	28	5		1	1	14	3	2	7		62
DIVERTED TO U. S.		50	22	281*									353
TOTAL	84	165	1348	663	529	260	200	788	453	327	141	334	5232

* Including 15 returned under Reg. 18C 41018 after use by U.S.A.A.F. for training with 45 off BA-152 also under 41018 after A.A.F. training use. All 60 are included in Column 6.

PLANNING AND AIRFRAME SUPPLY
BRITISH AIR COMMISSION
WASHINGTON, D. C.

Regraded Unclassified

Nov. 8, 1943

Mr. Liversay

Mr. White

Please send the following cable to Winant from the Secretary of the Treasury.

"Reference 7636.

"The statement I made in Cairo interview did not say that agreement had been reached between the British and ourselves on postwar currency problems. I did state that in the exploratory discussions British and American technical experts stated fully their views on postwar currency stabilization. On many points these views were similar, but the discussions revealed differences in position on important points. While some progress has been made, agreement on all points was not reached."

OK
HMM

HDW:EMG/jm 11/8/43

U.S. SECRET

BRITISH MOST SECRET

COPY No

12

OFFEL No. 366

Information received up to 10 A.M. 8th November, 1943

1. NAVAL

Considerable movement and loading of enemy small craft in the AEGEAN was reported yesterday. The large Dutch ship torpedoed by aircraft off PHILIPPOUS has sunk.

2. MILITARY

Italy To noon 7th 8th Army 78th Division have crossed the DINELLIO on a broad front and are continuing their advance toward RIVER SANGRO. CASALBORDING, SCERNI and FURCI have been captured. 8th Indian Division and Canadians also advanced and are close to VASTO-FORLI Road. The VINCHIATURO -ISERNIA Road now clear of mines and open to traffic. Further left FORLI, CAROVILLA and MONTE have been evacuated by the enemy and our patrols are active up to whole length of road VASTO-FORLI.

Fifth Army Enemy resistance very stubborn in centre. He has left a large quantity of mines, mortar and artillery fire have been severe. U.S. Forces repelled a fierce counter attack with strong artillery support north of VENAFRO. In coastal sector a Guards Unit of 56th Division attacked towards MONTE MAGGIORE and gained some ground.

3. AIR OPERATIONS Western Front 7th 121 Fortress were sent out in 2 formations. 57 dropped 115 tons at DUREN with moderate results. 54 dropped 114 tons on other objectives in Western Germany, weather prevented observation of results. Operations supported by 21 squadrons of fighters. All Bombers returned safely. Escorted Bostons and Typhoons dropped total of 27 on 3 Airfields on Northern FRANCE. Mustangs successfully attacked railway objectives and coastal craft. During above operations two enemy aircraft destroyed, we lost 9 fighters.

7th/8th Aircraft despatched EBSEN 6, Mosquitoes Sea Mining 35, Leaflets 9, Anti-shipping 9, Intruders 15 (3 trains and 2 bays damaged, 1 Typhoon missing). 7 enemy aircraft operated over South East ENGLAND, 3 of them penetrated to LONDON. Direct hit on Dance Hall in PUTNEY. 70 fatal casualties so far reported. Other bombs at MILDEN and BECKENHAM caused a few fatal casualties.

Italy 6th. Small scale attacks made on bridges north of ROME. Gun positions, roads and transports attacked in Battle Area.

Yugo-slavia 6th. Warhawks (3 missing) attacked about 200 vehicles parked at MISTROVIC destroying or damaging half of them.

Aegean 6th. Concentration of small naval and other vessels at PAROS attacked, a Naval Auxiliary and 2 large Barges set on fire and other vessels hit. 3 Seafighters lost. NOS landing ground bombed by 4 Hudsons.

TREASURY DEPARTMENT

80 2 PM 9 NOV 1943

Regraded Unclassified

TREASURY DEPARTMENT

WAR FINANCE DIVISION

PROGRAM

National Conference of State Chairmen

Congressional Room - Hotel Statler

November 9-10, 1943

* * * * *

Tuesday - November 9, 1943

10:00 a.m. Welcome by Ted R. Gamble, National Director

10:10 a.m. The Honorable Henry Morgenthau, Jr.

10:25 a.m. The Honorable D. W. Bell

10:40 a.m. The Third War Loan Drive
Appraisal by Dr. Rensis P. Likert, and staff
Program Savings Division, Bureau of Agricultural
Economics, U. S. Department of Agriculture

1:00 p.m. Adjournment for lunch

2:30 p.m. Meeting reconvened

2:35 p.m. The Fourth War Loan
Sources of Funds, Wesley Lindow, Division of Research
and Statistics, U. S. Treasury Department
Fiscal Programs, Sidney Tickton, Division of Research
and Statistics, U. S. Treasury Department
General Discussion

5:00 p.m. Adjournment for dinner

8:00 p.m. Meeting reconvened - Open Forum

Wednesday - November 10, 1943

10:00 a.m. The War Finance Program between War Loan Drives
R. W. Coyne, Assistant National Director
Payroll Savings - Ralph G. Engelsman
Labor - J. L. Houghteling
Agriculture - Merrill L. Predmore
Women's Activities and
Education - Miss Harriet Elliott
Banking and Finance - E. B. Hall
Retailers - Sydney D. Mahan
Radio, Press, Advertising - Vincent Callahan

12:30 p.m. Concluding Remarks
Ted R. Gamble, National Director

1:00 p.m. National Director's Luncheon
South American Room, Hotel Statler

TREASURY DEPARTMENT
WAR FINANCE DIVISION

NATIONAL CONFERENCE OF STATE CHAIRMEN

Congressional Room - Hotel Statler
Washington, D. C.

November 9 and 10, 1943

ROSTER OF STATE ATTENDANCE

<u>State</u>	<u>Name</u>	<u>Title</u>
ALABAMA	Ed Leigh McMillan	Chairman
ARIZONA	Joseph Refsnes	Executive Director
ARKANSAS	W. W. Campbell	Chairman
CALIFORNIA (Northern)	Charles R. Page	Chairman
CALIFORNIA (Southern)	Robert H. Moulton	Chairman
	Howard Mills	Associate Field Director
COLORADO	Clarence H. Adams	Chairman
DELAWARE	Henry T. Bush Donald P. Ross	Chairman Executive Vice Chairman
DISTRICT OF COLUMBIA	John A. Reilly	Chairman
FLORIDA	W. W. McKachern John L. Fahs	Chairman Vice Chairman
GEORGIA	Charles A. Stair	Chairman
ILLINOIS	Norman B. Collins Renslow P. Sherer	Executive Vice Chairman Executive Manager
INDIANA	Eugene C. Pulliam Dwight Peterson	Chairman Vice Chairman
IOWA	Vernon L. Clark	Executive Manager
KANSAS	W. Laird Dean	Chairman
KENTUCKY (Eastern)	Ben Williamson, Jr.	Chairman
KENTUCKY (Western)	S. Albert Phillips	Chairman
MARYLAND	Hooper S. Miles	Chairman
MASSACHUSETTS	Albert P. Everts	Chairman

<u>State</u>	<u>Name</u>	<u>Title</u>
MICHIGAN	Frank N. Isbey	Chairman
MINNESOTA	O. J. Arnold Harold E. Wood	Chairman Executive Vice Chairman
MISSISSIPPI	Rex I. Brown	Chairman
MISSOURI	Walter W. Head	Chairman
MONTANA	A. T. Hibbard	Chairman
NEBRASKA	Leon J. Markham	Executive Manager
NEVADA	Forest B. Lovelock	Chairman
NEW HAMPSHIRE	Winthrop L. Carter R. A. Soderlund	Chairman Executive Manager
NEW JERSEY	Franklin D'Olier George E. Potter Horace K. Corbin	Chairman Vice Chairman Vice Chairman
NEW MEXICO	George M. Bloom	Executive Vice Chairman
NEW YORK	Nevil Ford Bayard F. Pope Oscar A. Doob	Executive Manager Vice Chairman - - -
NORTH CAROLINA	Clarence T. Leinbach	Chairman
NORTH DAKOTA	F. L. Conklin	Chairman
OHIO	Roy D. Moore Philip J. Trounstone	Chairman Associate Chairman
OKLAHOMA	A. E. Bradshaw	Chairman
OREGON	E. C. Sammons	Chairman
PENNSYLVANIA	Ellsworth A. Roberts Robert H. McClintic	Chairman Vice Chairman
RHODE ISLAND	G. Burton Hibbert Roderick Pirnie	Chairman Executive Manager
SOUTH CAROLINA	Christie Benet	Chairman
SOUTH DAKOTA	Walter H. Burke	Chairman
TENNESSEE	G. Cecil Woods	Chairman

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<u>State</u>	<u>Name</u>	<u>Title</u>
TEXAS	Judson S. James, Jr.	Executive Manager
UTAH	Charles L. Smith	Chairman
VERMONT	Levi P. Smith	Chairman
WASHINGTON	Reno Odlin	Chairman
WEST VIRGINIA	A. C. Spurr	Chairman
WISCONSIN	Walter Kasten	Chairman
WYOMING	A. E. Wilde	Executive Manager

~~SECRET~~
MR KLOTZ

Public Relations worked
up this release on your remarks
this morning, to satisfy the
people in the press room.

Is it all right if they
release it?

FS-

For the speech
file -
FS

Fred Smith
Room 2904

Secretary Morgenthau today told War Finance Committee Chairmen assembled here from throughout the United States that he heard no peace talk from the fighting men facing the stubborn German foe in the mountains of Central Italy.

Mr. Morgenthau told the committeemen frankly that he returned from the battle front pessimistic in regard to the duration of the conflict, only to find in this country a wave of optimistic predictions of an early peace.

He said he recognized that this optimism might constitute a problem in the prosecution of the Fourth War Loan, tentatively scheduled for January, but that he was not sure whether the effect would be harmful or helpful. He said that the surrender of Italy during the Third War Loan in September had caused some temporary confusion in the selling effort.

"We have to get so much money. We can't be watching every peace move as long as the war is as bloody as it is. We must prepare for the Fourth War Loan by tending to our business of raising this money, and let others worry about peace moves," Mr. Morgenthau told the State representatives.

"I am not worried about the result."

The fifty-one chairmen of various State War Finance Committees are meeting here with Treasury officials to make plans for the Fourth War Loan. The sessions at the Statler Hotel will continue through Wednesday.

The Treasury Secretary told the meeting that on his recent tour of the Mediterranean front he found a keen interest on the part of the military forces, from the generals on down to the men, in the success of the home front financing program. He said that arrangements would be made to keep the fighting men informed currently on the progress of the next Loan. Mr. Morgenthau said the military authorities felt that these Loans brought the war home to the American people in a way constituting an important contribution to the War, in addition to meeting the financial needs of the Government.

The Secretary revealed that he had evidence that the Germans still are discounting the United States war effort. He said uncensored mail taken from German prisoners in Italy showed that the German people at home were worried about two things -- the Russian victories and the bombing of their cities from the west.

"They don't take us seriously, yet."

He said the enemy apparently recently had lifted censorship on mail from Germany to the fighting front, but he was unable to explain why.

Mr. Morgenthau praised the state committee representatives for what he termed the marvelous accomplishments of the Third War Loan. He said the organization of the selling effort along state lines had paid big dividends, and that the successful campaign had convinced most of the skeptics of the soundness of the voluntary plan of enlisting savings.

- 3 -

The Secretary indicated his belief that the next Loan should place even greater emphasis upon subscriptions from individuals. He pointed out that despite the heavy oversubscription of the Third Loan, that only half of the people were reached directly.

"Of course that fact also has its bright side", he added. "We have those potential customers to work on next time."

Daniel W. Bell, Undersecretary of the Treasury, followed Mr. Morgenthau with a discussion of the general fiscal situation. He indicated that the meetings under way with Loan Committee executives might permit an announcement late this month of the date, amount, and securities "basket" for the Fourth Loan.

Ted R. Gamble, National Director of the War Finance Division of the Treasury, is presiding at the discussions, and introduced Secretary Morgenthau.

277
November 9, 1943
12:57 p.m.

HMJr: Hello.

Operator: Go ahead.

George W.
Renchard: Hello.

HMJr: Mr. Renchard, this is Mr. Morgenthau..

R: Yes, sir, Mr. Secretary.

HMJr: I've just come back from that meeting with
the President on UNRA....

R: Yes.

HMJr:and I met the Russian Ambassador....

R: Yes, sir.

HMJr:and he said, "Did you get the invitation
that Mr. Molotov sent you through Mr. Harriman
to come to Russia?" So I said, "Well, I'm
sorry, I don't know what you're talking about."
And he said, "Well, we sent you an invitation
to come to Russia...."

R: Uh huh.

HMJr: "....through Mr. Harriman."

R: Uh huh.

HMJr: So I said, "Well, I'm sorry, it never reached
me." He said, "Well, that's unbelievable."

R: Huh. Well, I'll look into that and we'll get
some word right back to you.

HMJr: Would you? Because I think that when we get
it -- I mean, somebody can -- should draft a
message of thanks to Mr. Molotov.

R: Of course, uh huh. I'll look right into that,
Mr. Secretary and get some word to you.

HMJr: Thank you.

R: Not at all, sir. Bye.

November 9, 1943
1:49 p.m.

Operator: Here's Mr. Baruch.

HMJr: Thank you.

Bernard Baruch: Hello, Henry.

HMJr: How are you?

B: Welcome home.

HMJr: Thank you very much. I wanted to ask you whether it would be agreeable to you if our mutual friend Bob McConnell would represent the Treasury on this new Committee with you?

B: Oh, sure, anybody you want but Bob would be very -- well, decidedly persona grata with me.

HMJr: He would be?

B: Oh, yeah. Are you going to -- he's going over there this afternoon, isn't he?

HMJr: Yes, but he -- he wanted to be sure that he was welcome. He didn't know -- a couple of little things that happened -- nothing to do with you -- kind of made him feel that maybe he wasn't wanted.

B: What the hell? I'm -- you and I are the bosses, ain't we?

HMJr: (Laughs) I'm not always sure about myself.

B: Oh, yeah. Then listen....

HMJr: Yeah.

B: Bob tell you what I did to Jesse this morning?

HMJr: What?

B: Did Bob tell you how I handled Jesse this morning?

HMJr: Yeah, wonderful.

- 2 -

B: What?

HMJr: You're the boss.

B: Did you tell him -- did he tell you?

HMJr: He told me with great glee.

B: You know, being 73 years of age and a little deaf I can do that, Henry.

HMJr: (Laughs)

B: But you know that we would have had -- everybody in the world would have been pounding in on us.

HMJr: That's right.

B: Well, that's -- that will be -- you tell Bob if anything that occurs that's unpleasant to report it to me.

HMJr: Yeah.

B: And he'll find that John Hancock is a very decent fellow.

HMJr: Yes.

B: And you can send anybody you want....

HMJr: Well....

B:but Bob would be particularly welcome to me.

HMJr: Well, it will be Bob.

B: All right. He's going over there this afternoon -- uh -- John is going to be over there to kind of keep the thing going.

HMJr: Good.

B: All right. Thank you, Henry.

HMJr: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

280

DATE

TO Secretary Morgenthau JMS November 9, 1943.
FROM R. E. McConnell and John L. Sullivan

At a meeting this afternoon attended by representatives of the War Department, the Navy Department, the Treasury Department, the Maritime Commission, the Reconstruction Finance Corporation, the Foreign Economic Administration, and Mr. John Hancock, of Mr. Baruch's office, the attached memorandum establishing a Joint Contract Termination Board was unanimously approved and will be circulated for signature within the next one or two days.

The Treasury Department was represented by Mr. Sullivan and Mr. McConnell.

Attachment.

R. E. M.

ESTABLISHMENT OF A JOINT CONTRACT TERMINATION BOARD

1. For the purpose of this memorandum:

(a) The term "Department" means the War Department, the Navy Department, the Treasury Department, the United States Maritime Commission, the War Shipping Administration, Defense Plant Corporation, Metals Reserve Company, Defense Supplies Corporation, Rubber Reserve Company, and the Foreign Economic Administration, respectively.

(b) The term "contract" includes any contract with a Department, and the term "subcontract" includes any contract, agreement, or purchase order, directly or indirectly related to or connected with the performance of any contract with a Department.

(c) The term "contract termination settlements" means all action and proceedings related to the settlement of obligations and rights under any contract terminated by a Department (except for default) whether pursuant to a contract provision therefor or otherwise, and the disposition of all property in connection with such termination.

2. There is hereby established a Joint Contract Termination Board, herein called "The Board". The Board shall be composed of seven members, of whom the War Department, the

-2-

Navy Department, the Treasury Department, the Maritime Commission, the Reconstruction Finance Corporation, and the Foreign Economic Administration shall each designate one. The Director of War Mobilization shall appoint a Chairman, and the Board shall appoint from its membership a Vice Chairman to act as Chairman in the absence of the Chairman.

3. The Board shall have the following authority and discretion, subject to whatever overall policies may be formulated by the Director of War Mobilization.

(a) To establish general principles and procedures governing contract terminations and settlements, which shall be binding on the Departments. Each Department may establish principles and procedures not inconsistent with those established by the Board.

(b) To require from each Department such reports relating to contract termination settlements as it deems necessary.

(c) To develop to the extent practicable uniform contract provisions relating to the termination of contracts and subcontracts, and to make interpretations of such provisions which shall be binding on the Departments.

4. The Board may exercise any of the authority or discretion herein conferred only by affirmative vote of four members. Whenever any Department disagrees with any action of the Board on any matter, the head of that Department may request the Board

-3-

to refer the matter to the Director of War Mobilization for his approval or disapproval. Thereupon, the Chairman, or such other member as the Board may designate, shall so submit the matter to the Director of War Mobilization. Each member shall have an equal vote. Any member may act by alternate, and the term "member" for the purposes hereof shall include the alternate of a member.

5. The Board may appoint a Secretary and such other officers or agents as may be necessary to permit it to carry out the authority and discretion herein conferred upon it.

Secretary of War

Secretary of the Navy

Chm., U. S. Maritime Commission

Secretary of the Treasury

Administrator, War Shipping
Administration

Chairman, Board of Directors
Metals Reserve Company

Chairman, Board of Directors,
Defense Plant Corporation

Chairman, Board of Directors,
Rubber Reserve Company

Chairman, Board of Directors,
Defense Supplies Corporation

Administrator, Foreign
Economic Administration.

APPROVED:

Director of War Mobilization

November , 1943.

284
November 9, 1943
2:49 p.m.

HMJr: Hello.

Operator: Judge Rosenman.

HMJr: Hello.

Operator: Go ahead.

HMJr: The name is Morgenthau.

Sam
Rosenman: Rosenman calling.

HMJr: Good morning.

R: Good morning. Listen, Morgenthau, are you going tomorrow to that movie "The Battle of Russia."

HMJr: Where?

R: At the Interior.

HMJr: No.

R: Okay.

HMJr: (Laughs) Why, F.B.I.?

R: Well, I want to know because we're going and I wanted to ask you and Elinor to come over to dinner. You can still come over for dinner.

HMJr: Well, why didn't you say, "Don't you want to come for dinner?"

R: (Laughs)

HMJr: Uh....

R: Don't you want to go?

HMJr: No.

R: We can get you tickets.

HMJr: No.

R: (Laughs)

HMJr: We'll pay for the tickets and you give us the dinner.

R: There's no pay. That's why we're getting it for you.

HMJr: I know.

R: You and -- you and Elinor coming to dinner?

HMJr: No. we're going to have dinner with Spyros Skouras. Did you ever hear of him?

R: That Greek moving picture fellow?

HMJr: That's right.

R: Skouras?

HMJr: That's right.

R: Oh, yeah. He -- he sold a lot of bonds for you.

HMJr: Yeah. And he's made a picture about women that he wants to show us.

R: Oh.

HMJr: So, I'll tell you, thanks very much but some -- you ask us again.

R: All right.

HMJr: And the next time we'll pay for the tickets.

R: No -- the tickets are for free.

HMJr: I know they are. God, what's the matter? You've been in the White House so long you've lost all your sense of humor.

R: Why, I thought maybe if I really -- if you really weren't convinced I could sell you mine.

HMJr: (Laughs) I see. That sounds better.

R: Okay.

HMJr: That sounds more like my Sammy.
R: Okay, boy.
HMJr: Thank you.
R: Listen, that doesn't mean you don't have
to give me lunch Thursday, you know.
HMJr: No, that's all right.
R: Okay.
HMJr: Thank you very much.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE
Nov. 9, 1943

TO Secretary Morgenthau
FROM Randolph Paul

Please note that Secretary Wickard is pressing on this matter. Roy and I should have a conference with you at your earliest convenience. If I am absent, Roy can discuss the matter with you.

Secretary Wickard would like, if possible, our views today (Tuesday) or tomorrow.

November 8, 1943

MEMORANDUM FOR THE SECRETARY

The Secretary of Agriculture is very much concerned about a growing boom in farm land prices in various parts of the country. It is feared that this boom may reach dangerous proportions unless steps are taken to check it.

In this connection during the last few months we have been considering a suggestion of the Department of Agriculture to impose a very high special tax on profits from the resale of farm real estate purchased hereafter during an emergency period terminating three years after the close of the war. The tax ranges from 90 percent of the gain for property held two years or less from date of purchase down to 30 percent for property held from five to six years. The special tax or the regular income tax on such gains would be imposed, whichever was the higher. There would be no special tax for real estate held more than six years.

It is understood that the Department of Agriculture would sponsor the legislation. The Secretary of Agriculture desires to know what attitude the Treasury will take toward the legislation when its opinion is requested by the Bureau of the Budget upon inquiry of the Secretary of Agriculture.

The Bureau of Internal Revenue opposes the legislation on the ground that the administrative difficulties would be substantial. Secretary of Agriculture Wickard has promised the full cooperation of the field personnel of the Department of Agriculture and of the land appraisers, provided statutory authority is secured.

We are of the opinion that despite the opposition of the Bureau of Internal Revenue and despite also some real misgivings as to the probable effectiveness and equity of the special tax in operation, the dangers of

- 2 -

the threatened farm land boom and the absence of other effective measures make it undesirable for the Treasury to oppose the legislation. It is suggested, however, that any active support of the tax be conditioned on the hearings not disclosing more serious problems than have appeared in conversation with representatives of the Department of Agriculture.

Secretary Wickard would like an answer as quickly as possible as he is preparing speeches on the subject for clearance before he leaves town Saturday, November 13.

BSP
RB

November 9, 1943
2:55 p.m.

HMJr: Hello.

Randolph

Paul: Yeah. Hello.

HMJr: Randolph.

P: Yeah.

HMJr: The best I can do for you this afternoon is to tell you I am sympathetic to any movement to keeping down speculation in land. Hello?

P: Yeah.

HMJr: And you can....

P: Well, we have -- you see, the Bureau is kind of against it as it's against everything new. I don't like to -- I think the situation is sufficiently serious though that we shouldn't go against Wickard. Wickard's talked to me about it and he's kind of interested in it and he wants to make a speech the end of the week.

HMJr: Well, I'll tell you what you do. Have you spoken to Sullivan?

P: John Sullivan?

HMJr: Yeah.

P: I don't know -- I haven't -- I don't know whether Roy has or not.

HMJr: Well, supposing you do, see? And tell John I am sympathetic towards any move to stop the speculation in land.

P: All right. Then suppose....

HMJr: Well, suppose what? You don't get together?

P: Yeah.

HMJr: Let -- let Gaston Arbitrate it.

P: All right.

HMJr: Let Gaston arbitrate it.
P: Okay.
HMJr: But I'm sympathetic to it.
P: Okay.
HMJr: Right.

282
November 9, 1943
5:21 p.m.

HMJr: Hello.

Operator: Mr. Renchard.

HMJr: Hello.

Operator: Go ahead.

George W.
Renchard: Hello.

HMJr: Mr. Renchard.

R: Yes, Mr. Secretary.

HMJr: I got your message.

R: Yes, sir.

HMJr: Now, what I'd like you to do is to cable
Ambassador Harriman and ask him about it.

R: All right, sir.

HMJr: The message was given to him.

R: Uh huh.

HMJr: Hello.

R: Yes, sir.

HMJr: Evidently he did nothing about it.

R: Or he might have sent it to Cairo or to
Algiers.

HMJr: And I never got it.

R: Yes. Uh huh.

HMJr: That could be.

R: Uh huh.

HMJr: But would you mind cabling him?

R: Yes, we'll certainly ask him to look into it
and give us some explanation.

HMJr: If you please.

R: Yes, sir. All right.

HMJr: Thank you.

R: Not at all. Good bye.

Nov. 9, 1943

Mr. McConnell

Secretary Morgenthau

PERSONAL AND CONFIDENTIAL

Dr. Lubin came in to see me today and informed me that General Browning, the head of Procurement for the Army, is in the process of making up his mind how to recommend disposal of the Government-owned equipment in the factories. Dr. Lubin tells me that General Browning discussed this with Clif Mack but that Mack did not seem to be interested.

I suggest that you talk to Clif Mack and find out what he knows, and then ask to see General Browning and get the story from him. However, before seeing either Mack or General Browning, Dr. Lubin says he would like to have you talk to him about the matter.

After you have the complete story, you might talk to me about it and then we can decide whether this is something we think we can do. *File*

NOV 9 1943

Dear Mr. Giagengack:

Mr. Bartelt told me of his telephone conversation with Mr. Hipeley of your office regarding the installation of the Pay-roll Savings Plan in the Government Printing Office for the purchase of War Savings Bonds.

In line with this conversation, which I understand meets with your approval, I am today addressing a letter to Mr. Edward J. Murray of the Government Printing Office, a copy of which is enclosed.

May I take this opportunity to express my appreciation for the swell job done in the Government Printing Office during the Third War Loan Drive.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable A. E. Giagengack
The Public Printer
Washington, D. C.

Enclosure

RYB:hbw 11/5/43

NOV 9 1943

Dear Mr. Murray:

First, I want to thank you and the employees of the Government Printing Office for their help in putting over the Third War Loan Drive. You did a fine job and I offer you my most sincere congratulations. In view of the fine spirit shown in backing the Third War Loan Drive, I am wondering if this enthusiasm could not be put to further use, for the benefit of both the Country and the employees themselves, by the installation of the systematic plan of Pay-roll Savings.

The war is going on night and day at tremendous cost, both in lives and money. We must continue our concerted effort to raise the large amount of money necessary to pay for the munitions of war. Those of us who are in a position to do so should bend every effort to acquaint those with whom we are associated of the benefits of the Pay-roll Savings Plan both from the standpoint of the Government in the financing of the war and from the standpoint of the individuals in creating a nest egg for post-war use and enjoyment.

As you know, the Pay-roll Savings Plan for the Purchase of War Savings Bonds is not only the most convenient and systematic way for Federal employees to save money, but it provides the Government with a regular amount upon which it can count from month to month in its financing operations. Through this plan, a larger and more regular amount of money will accrue to the Government, while at the same time it affords the employee a splendid opportunity for investment in making provision for his own future welfare.

I wonder if you would be good enough to discuss with Mr. E. F. Bartelt, Chairman of the President's Interdepartmental War Savings Bond Committee, the feasibility of installing the systematic pay-roll plan in the Government Printing Office.

Very truly yours,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury

Mr. Edward J. Murray
Government Printing Office
Washington, D. C.
EJBartelt:jhw 11/5/43



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON November 9, 1943

TO THE SECRETARY:FINANCING PROGRAM

Estimates of the cash position for the period ending June 30, 1944, contemplate a Fourth War Loan in the month of January, 1944 for \$14 billion and a Fifth War Loan in the month of May for a like amount. We have assumed that we will have no direct bank financing during this period; that we will refund or roll over the maturing certificates of \$12,917 million; and that we will refund at least \$4 billion of the \$5,265 million of Treasury and guaranteed securities either maturing or callable within this period.

On this basis our estimated balances at the end of each month will be as follows:

October, 1943 ..	\$17,693M	March	\$13,500M
November	13,169	April	7,400
December	10,422	May	15,000
January, 1944 ..	17,710	June	11,300
February	13,524		

The balances immediately preceding the Fourth and Fifth War Loans to take place in January and May, which will amount to a little over \$10 billion and \$7 billion, respectively, will afford you flexibility to choose any date in the month you desire to start these loan drives. I would expect the balances beginning with April to be from \$2 to \$3 billion higher as a result of going over the quotas in the Fourth and Fifth War Loans.

I hope we can have the Fourth War Loan campaign out of the way before February 20th. Shortly thereafter I would like to see a large refunding operation which would take care of several maturities and callable issues between March 15th and June 1, as follows:



- 2 -

(In millions)				
	Due or callable: March 15	Due or callable: April 15	Due or callable: May 1	Due or callable: May 15
1% Treasury note .	\$515			
3½% Federal Farm Mortgage bonds 1944-64	95			
1% RFC notes		\$571		
3½% Treasury bonds 1944-46		1,519		
3% HOLC 1944-52 ..			\$779	
3% Federal Farm Mortgage bonds 1944-49				\$835
	\$610	2,090	779	835
Grand total				\$4,314

There are \$12,917 million of 7/8% Treasury certificates maturing within this period as follows:

December 1, 1943	\$3,800
February 1, 1944	2,211
April 1, 1944	5,251
May 1, 1944	1,655

all of which, in my opinion, should be rolled over or exchanged as they mature. We should not deplete our cash balance by paying off any of these certificates.

- 3 -

In addition to the above-mentioned securities which should be refunded, there are the following which could very well be paid off in cash as representing the simplest way to handle the maturities:

December 15, 1943 - 1-1/8% Treasury notes
in the amount of \$421
million

February 1, 1944 - 1-3/8% Federal Public
Housing Authority notes
in the amount of \$114
million

June 15, 1944 - 3/4% Treasury notes in
the amount of \$416 million

We could save \$400 million in cash by including the June 15 maturity in the general refunding operation recommended for late February.

The foregoing estimates are based on expenditures for war activities of \$92-1/2 billion, which makes a total expenditure program for the current fiscal year of approximately \$98-1/2 billion, a reduction of approximately \$7-1/2 billion under the Budget estimates.

AWB

THE ASSISTANT SOLICITOR GENERAL
WASHINGTON

November 9, 1943

Secretary Morgenthau:

There are not enough words that I know to express my appreciation to you for your thinking of me.

I had always thought you were more than "tops". Now you have gone up several notches for me.

Perhaps we can get to gether informally from time to time for the good of the nation.

Oscar Cox



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON 25



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OFFICE OF THE DIRECTOR

November 9, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the weekly report of Land-Lease purchases.

When the foreign missions submitted their estimates to Land-Lease for requirements upon which to base the budgetary needs, it was indicated that the purchasing would average about 170 millions of dollars per month.

The actual volume is substantially less than their estimates and has averaged approximately 28 millions of dollars for the first four months of this fiscal year. The number of transactions, which is the basis for the workload, has not fallen off materially, although the dollar volume of the orders is substantially less.

Clifton E. Mack
Clifton E. Mack
Director of Procurement

LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF NOVEMBER 3, 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	\$3969.6 (3967.3)	\$1977.1 (1977.1)	\$1557.9 (1557.7)	\$109.8 (109.7)	\$11.0 (11.0)	\$313.8 (311.8)
Purchase Authoriza- tions (Requisitions)	\$3253.1 (3213.4)	\$1711.9 (1698.0)	\$1307.9 (1310.2)	\$43.6 (43.5)	- -	\$189.7 (161.7)
Requisitions Cleared for Purchase	\$3151.9 (3122.9)	\$1654.1 (1649.3)	\$1281.9 (1280.4)	\$43.3 (43.2)	- -	\$172.6 (150.0)
Obligations (Purchases)	\$3033.2 (3007.9)	\$1627.1 (1619.5)	\$1226.7 (1214.7)	\$43.3 (43.1)	\$8.3 (8.1)	\$127.8 (122.5)
Deliveries to Foreign Governments at U. S. Ports*	\$1410.7 (1392.5)	\$976.2 (965.5)	\$396.4 (389.5)	\$19.5 (19.5)	- -	\$18.6 (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 27, 1943

SECRET

EXPLANATION OF DIFFERENCE.

The reduction in Purchase Authorizations for Russia is a result of amendments to contracts.

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Copy sent to Major Gen. Burns

(by messenger, Sturgis - 5:45 p.m.)

NOV 9 1943

My dear Mr. President:

There is attached a report of Lend-Lease purchases made by the Treasury Procurement Division for the Soviet government indicating the availability of cargo for November.

The inventory of materials in storage as of November 1, 1943 was 428,423 tons or 32,789 tons less than the October 1st inventory. Production scheduled for November shows an increase of 16,694 tons as compared with October.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President

The White House

Del. by S. S. Agent 5:35

MATERIALS AVAILABLE FROM STORAGE AND PRODUCTION DURING NOVEMBER, 1943

<u>COMMODITY</u>	<u>STORAGE</u> <u>NOVEMBER 1, 1943</u>	<u>PRODUCTION</u> <u>DURING NOVEMBER</u>	<u>TOTAL AVAILABLE</u>	<u>PRIORITY CARGONS</u> <u>TO PORT AREAS</u> <u>SPECIFIED TO DATE</u> <u>FOR NOVEMBER</u>
AGRICULTURAL MACHINERY AND IMPLEMENTS		53	53	
ALUMINUM	601	668	1,269	1,269
AUTOMOTIVE EQUIPMENT AND PARTS		27	27	
BEARINGS	457	611	1,068	324
BRASS AND BRONZE	8,338	4,211	12,549	11,200
CHEMICALS	6,866	935	7,801	4,922
CLOTHING AND TEXTILES		2	2	
CONSTRUCTION MACHINERY		2,156	2,156	
COPPER IN VARIOUS FORMS	61,838	4,849	66,687	18,580
FERRO-ALLOYS	2,754		2,754	560
GRAPHITE PRODUCTS	1,015	788	1,803	
HARD AND CUTTING TOOLS		767	767	
INDUSTRIAL MACHINERY	122,903	27,863	150,766	57,417*
LEAD AND LEAD ALLOYS		25	25	
LEATHER AND LEATHER PRODUCTS		42	42	
MEDICAL SUPPLIES		18	18	
NICKEL AND NICKEL PRODUCTS	261	53	314	
NON-FERROUS METALS, OTHER	744	49	793	
PAPER AND PAPER PRODUCTS	2,910	126	3,036	1,388
PLASTICS	4,488		4,488	
RUBBER	4,033	3,694	7,717	7,717
STEEL, ALLOY AND SPECIAL	65,045	13,137	78,182	13,838
STEEL, CARBON	74,910	5,842	80,752	22,736
STEEL, PIPE AND TUBING	58,134	5,380	63,514	12,023
STEEL, RAILS	4,996		4,996	4,996
TIN PLATE	8,140	1,396	9,436	3,650
ZINC		1,120	1,120	1,120
TOTAL	428,423	73,711	502,134	161,540

*In addition, all available tonnage applicable to the Oil Refinery Program is classed as priority cargo for prompt shipment to ports.

November 9, 1943

MEMORANDUM FOR THE FILES

Telephone Conversation
Mr. Ballantine and Mr. Friedman
November 9, 1943

Re: Gold shipments to China

In telephone conversations on November 8 and November 9, discussed with Mr. Ballantine suggestion made by the Generalissimo that we publicize in our country the transfer of \$200 million gold to China for sale in that country.

Mr. Ballantine was given an explanation as to why it was the feeling here that no publicity should be given to this matter at this time despite the Chinese suggestion. Mr. Ballantine said that he understood the Treasury's position and expressed no disagreement with it.

I. S. Friedman

COPY

DEPARTMENT OF STATE
Washington

My dear Mr. Friedman:

The following is a paraphrase of a portion of a confidential telegram received November 1 from our Embassy at Chungking:

"Speaking of the economic situation in China, Generalissimo Chiang said to the Ambassador that the gold made available by the United States has done much to strengthen public confidence; that this is reflected in the greater stability of the prices of necessities; and that he believed there would be a further beneficial effect if we gave some publicity in our country to the fact that the United States had so made gold available to China."

If the Treasury should decide to give publicity to this matter as suggested by Generalissimo Chiang Kai-shek, will you be so kind as to let us know in order that arrangements might be made with OWI to give publicity to this matter over its shortwave broadcasts.

Sincerely yours,

(s) Joseph W. Ballantine

Joseph W. Ballantine
Chief
Division of Far Eastern AffairsMr. Irving Friedman,
Treasury Department,
Washington, D. C.

NOV 9 1943

My dear Mr. Burle:

With reference to your letter of November 5, 1943, I am pleased to inform you that the Treasury Department will be glad to make available to Haiti the services of an expert on taxation to accompany the other experts when the industrial survey is undertaken by the proposed commission.

I shall transmit to you the name of the person assigned for this work as soon as a selection is made.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Adolf A. Burle, Jr.
Assistant Secretary
State Department
Washington, D. C.

HB:dsd
11/8/43



DEPARTMENT OF STATE
WASHINGTON

In Reply Refer to
RA

November 5, 1943

My dear Mr. Secretary:

As you may be aware, His Excellency President Elie Lescot of Haiti recently paid an official visit to this country, accompanied by the Haitian Ministers of Finance and of Agriculture. During his stay at Washington President Lescot discussed at the White House the possibility of developing certain small industries in Haiti, particularly after the war. Following the White House conversations and other conferences that were held with representatives of different governmental agencies in Washington it was agreed in principle that under the auspices of the Inter-American Development Commission a survey would be conducted for the purpose of ascertaining possible ways in which both private capital and governmental agencies might cooperate for this purpose.

In addition to the discussions relating to a survey of the possibilities of developing small industries, the present tax structure in Haiti was briefly discussed, and President Lescot indicated that he would be pleased if the services of an expert on taxation could be made available to Haiti and could accompany the other experts when the industrial survey is undertaken.

These discussions led to an agreement between the two governments subject to the approval of and the availability of personnel of the respective agencies of the United States Government, that a commission consisting of three persons: one chosen by the Office of the Coordinator of Inter-American Affairs, one by the Treasury Department and one by the President of the United States Chamber of Commerce proceed to Haiti to make the indicated surveys. The details of the work to be undertaken by each

member

FOR DEFENSE

The Honorable

Henry A. Morgenthau, Jr.,
Secretary of the Treasury.

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS




-2-

member of the proposed commission were left for further discussion to be held in Washington with the Haitian Ambassador, M. André Liautaud, before making the trip to Haiti.

I hope that, in accordance with the request of the Haitian Government, the Treasury Department will find itself in a position to make the services of a taxation expert available in order that he may accompany the other members of the Commission to Haiti, with the expectation of departing from Washington by the first of December.

Sincerely yours,

For the Secretary of State:


Adolf A. Berle, Jr.
Assistant Secretary

NOT TO BE RE-TRANSMITTED

U.S. SECRET

COPY NO.

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BRITISH ~~NOT~~ SECRET

REF ID: A66888

Information received up to 10 a.m. 9th November 1943.

1. Naval

One of H.M. Submarines in Japanese on 7th sank 2 Calques and a Seaplane.

2. Military Italy To noon 8th. In Central Sector 7th Division again made ground and captured TORINO. Their forward troops are overlooking SANGRO River and further inland now. Within 2 miles of ARSIZ. 8th Indian Division are in contact with enemy 7 miles west of ARSIZ and further left Canadians made good progress in spite of demolitions.

Fifth Army Heavy rains held up operations but 45th U.S. Division attacked and made progress on high ground North of VENAFRO. In 10th Corps Sector summit of MONTA SUGGIONE held in strength by enemy and our attack abandoned night 7th/8th.

Burma Japanese are showing renewed activity in the GALLA HILLS. Following an enemy attack on FALAM supported by artillery, our Levies in this area evacuated the village and withdrew silently on 7th.

3. AIR OPERATIONS Western Front 8th. 43 Mitchells (1 missing) and 21 Bostons dropped 183 tons on military constructions near Calais.

8th/9th 12 Mosquitoes sent out DOLLSBRO 6, CULWANE 3, Intruders 3. 10 Fastway aircraft operated over South East England 4 of them penetrating to London. Mosquitoes destroyed 3 a.m. 4th. Fatal casualties PUTNEY 7th/8th a.m. 7th.

Italy 7th. Total of 175 Allied medium light and fighter Bombers attacked objectives in the battle area. 30 Mitchells bombed ARSIZ at ARSIZ.

Yugoslavia 7th. Mitchell dropped 20 tons on DUBROVNIK 75 miles South East of DUBROVNIK and Kittyhawks attacked shipping at (Split ?) scoring many hits.

TREASURY DEPARTMENT

Regraded Unclassified