

DIARY

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Fred Smith and Harry White
Read 11/17/43

November 17, 1943
10:20 a.m.

Robert
Patterson: Henry?

HMJr: In person. In the flesh.

P: Right. This is Bob Patterson.

HMJr: Yeah.

P: I spoke to Fred Osborne about that matter we discussed the other day.

HMJr: Yeah.

P: The Arab edition we have nothing whatever to do with.

HMJr: I see.

P: The English edition....

HMJr: Yeah.

P:in Cairo....

HMJr: Yeah.

P:your information is correct that we do transport the paper.

HMJr: Yeah.

P: The War Production Board allows the paper and we transport it.

HMJr: Yeah.

P: We don't foster the thing in any way....

HMJr: No.

P:except by the transportation of the necessary paper.

HMJr: Yeah.

P: How they get the plate there he doesn't know.

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P:except by the transportation of the necessary paper.

HMJr: Yeah.

P: How they get the plate there he doesn't know.

HMJr: No.

P: The -- I discussed with him the disposition of the matter.

HMJr: Yeah.

P: His feeling is this. He said he thinks the soldiers ought to be given facilities to read whatever is most popular in this nation.

HMJr: Yeah.

P: That this publication has the biggest circulation of any magazine and it is distributed over there, I think, free or for 10% maybe or some -- some reduced price at any rate, by the company.

HMJr: Just a minute -- well, they pay for it. I don't know how much but they pay for it.

P: Pay 10% or something.

HMJr: Well, I think it's -- but I don't remember but I do know they pay for it.

P: That's more or less irrelevant if you....

HMJr: Yeah.

P: He feels....

HMJr: Yeah.

P:two things....

HMJr: Yeah.

P:first, that it's been done and the termination of it would -- oh, raise a big hullabaloo....

HMJr: Yeah.

P:and, second, that he has the policy of facilitating the reading by soldiers of what is in widest circulation in the United States.

HMJr: Yeah.

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P: We do the same thing on the distribution of cigarettes and so on. We try to get overseas the quantity of them that the ordinary public here consumes....

HMJr: Yeah.

P:in the same ratios. And he said that he does that on magazines and newspapers and weeklies...

HMJr: Yeah.

P:the same way. I'm not disposed to differ with him.

HMJr: Yeah.

P: I am impressed by the fact that if a change were made now, there would be the charge that we were censoring or we were partial and trying to punish someone.

HMJr: Well, you don't mind my....

P: I don't particularly like it but....

HMJr: No.

P:it's an awkward business.

HMJr: Well, I'm going to drop it but in dropping it -- I mean, I found the situation. I've reported it to proper authorities so the responsibility is yours.

P: I know it.

HMJr: I'm not going to do anything more about it.

P: All right.

HMJr: I think you're wrong.

P: Yeah.

HMJr: I think entirely from the side -- other matter, that where cargo space is so scarce, that you can find space for this commodity -- uh -- I think that you might be subject to criticism.

P: This is rather -- this is not a high priority.

HMJr: Yeah.

P: The -- the transportation of the thing.

HMJr: But, I....

P: It's graded down....

HMJr: But, Bob....

P:but still it gets there all right.

HMJr:I've found it: I've told you about it.

P: Yep.

HMJr: It's your responsibility. It's not mine and I'm going to let it rest there. See?

P: Yep. I've tried to get in touch with Bob Sherwood....

HMJr: Yeah.

P:but he's up in New York....

HMJr: Yeah.

P:and sort of a hard fellow to get a hold of.

HMJr: Well, I'm not going -- it's -- it's a dead horse as far as I'm concerned.

P: All right, Henry.

HMJr: Now, may I bring up something new though?

P: Yep.

HMJr: While I was over there General Hughes, Deputy Commander to General Eisenhower, invited us to send a man to stimulate the sale of War Bonds with soldiers. You see?

P: Yep.

HMJr: From this country -- and since then he has written to me again reminding me. I don't want to send somebody from over here, but there seems to be, over there -- there's -- going back to Washington --

HMJr:
Cont'd: there's a mix-up as to whether the stimulation of war bond purchases by soldiers should be under the Finance Officer or the Special Services, and nobody in General Eisenhower's Theatre seems to know who's responsibility it is.

P: Yep, we can clear that up.

HMJr: Now, if that could be cleared up and then if you approve, whichever way you decide it should go, and then get out a directive saying that either Special Services or the Finance Officer should appoint somebody in each Theatre to stimulate the sales of war bonds, then we'll be glad to cooperate with that person.

P: What's the name of the General? General Hughes?

HMJr: Hughes.

P: What's his job?

HMJr: He is Deputy Commander to General Eisenhower.

P: All right. Yeah.

HMJr: It's Everett Hughes.

P: Yep.

HMJr: He's a S.O.S.

P: Yeah.

HMJr: But he's a Deputy Commander.

P: Right.

HMJr: And he has asked us when I was there, and since written me. But there is this mix-up which they say comes back to Washington; that there have been two directives, each contradicting the other.

P: Okay, I'll dig right into that.

HMJr: And you'll let me know?

P: Yes, sir.

HMJr: Thank you.

November 17, 1943
10:30 a.m.

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FINANCING

Present: Mr. Daniel Bell
Mr. George C. Haas
Mr. Henry C. Murphy
Mr. Jacob Viner
Mr. Robert Rouse
Mr. C.J. Devine
Col. Allen Pope
Mr. Herbert Repp
Mr. Benjamin Levy

H.M.JR: Gentlemen, in the first place, let me say this, that I feel that since we have established a pattern of rates on March 19, 1942, the Federal Reserve Open Market Committee has done a swell job keeping practically that same pattern, and I think that you people have played a very important part in assisting the Fed in making that possible.

Now, every so often we kind of check up on ourselves, and we have these different loans. We are doing it now, as we enter the Fourth War Loan, and the question has come up concerning a mechanism as to how to handle the bill market. We have had a number of discussions and the Federal Reserve has made some recommendations, and we have made some recommendations, and the way the matter stands at this moment -- I am just having a little discussion here to give you the benefit of this thing -- is this, and I am going to be very frank. After all, I don't expect to read about it in Drew Pearson's column or the Wall Street Journal. (Laughter) Who is the man who writes for the Journal American -- the financial writer?

MR. ROUSE: Leslie Gould.

H.M.JR: My pal!

MR. REPP: We will settle for Teddy Goldsmith.

H.M.JR: Anyway, this recommendation which was made by these people about midnight last night -- they finally found you (to Mr. Repp) -- is that we put the bill on the same status as all the other Treasury securities and give it rights, as I understand it; and then if a man has a hundred million dollars' worth of bills, or if a man with the Federal Reserve

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has, and they want to put these bills in, they would have the privilege of exchanging those for equal amount, as would any bank or any dealer or holder.

Now, the alternative to that, of course, is to let the Federal Reserve buy direct, and I made it perfectly clear yesterday that if we were going to do that I would insist that the Treasury and the Federal Reserve go up on the Hill and explain it in advance, because the testimony, as I remember it, was in passing this legislation, giving the Federal Reserve the right to buy up as high as a million dollars in case of an emergency. I haven't checked my testimony, but Mr. Rouse is sure of that, because certainly if you do it six times, it no longer becomes an emergency. Whatever success I have had here in explaining to Congress in advance - often I explain in advance and they don't like it. But they say, "You are Secretary of the Treasury; it is your responsibility. Go ahead." And they are satisfied to the extent of letting me run the job as long as I tell them in advance. But what they don't like is to read about it in the papers - if they read the papers! Rouse says you give out a release and they read about it. The answer is, they don't read - at least not our stuff. They read about a trial down in the Bahamas, but they don't read Treasury releases and Federal Reserve releases. And just sticking the notice in the papers doesn't mean anything. If somebody writes about it and they think we have tried to pull a fast one - some people think, and I think correctly so, if we start to explain it on the Hill it is going to be a tempest in a teapot. And it may be. You might have Eccles up there for weeks.

Now, I appreciate what Mr. Rouse says, that this method of giving them rights may be a little clumsy. I am just going to run through my impression. Now, in talking about this thing, though, he asks a very pertinent question, and that is, wouldn't the market gradually die out as, say, a new customer with new money can't get his bid filled. So I said that I would have no objection if a man who put in a bid for a hundred thousand dollars didn't take care of the situation, I'd be glad to consider increasing the amount to two or three hundred - as much as is necessary. That way you would keep a fairly live market to get subscriptions. And if the thing ran over seventy-five or a hundred million dollars, for a week - you

see? And we would in this picture expect you people to continue to take an interest in the bill market.

Now, what is wrong with what I have said so far? Will it work, won't it work? Do you have a better scheme? I'd like suggestions.

MR. REPP: My objection, Mr. Secretary--

H.M.JR: Objection?

MR. REPP: Yes. The things I heard last night included also the present plans on your desk. I think probably of those which were offered, it is the best compromise so far, but we have a bill market--true enough--that hasn't been a very active market and the bids have only been slightly over the amount offered; but you have had the thing working rather smoothly up until this point, anyway. It is something the market understands and knows.

Now, if you inject a new element you are going to take some very simple mechanism and a simple money market instrument and make it difficult. The Federal Reserve market would have to announce how much they had maturing every week and how many bills which you put to them on option they are going to retain, so that they could probably come in and exchange those, also. You would have a variable amount for cash each week, sometimes three hundred million, sometimes five, sometimes only one hundred million. And you give an element of uncertainty to the whole Treasury bill mechanism, which I don't think is necessary.

Now, this question of buying direct, I think probably some educational work could be carried on and it might be done by saying there is no new credit created and no new money to the Treasury, but you do raise this question of buying direct. There is a simpler way, I think, of handling it, and that is that we continue to take an interest in this Treasury bill market and our interest is accentuated.

H.M.JR: Let me make this plain. I have been more than happy in the way the Open Market Committee has operated. This question has not been raised by me, but very strenuously by the System. That is no secret, is it?

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MR. ROUSE: It is all right to say here, certainly.

H.M.JR: After all, it is all right to say it here. So if Rouse would answer you, it is really up to Rouse.

MR. ROUSE: I think the thing has gone well up to here. Our problem is in the future, and in the light of our present maturities over the next thirteen weeks we feel that the natural interest which the market is taking may not prove sufficient to take up at three-eighths or better the full amount of what our maturities will probably be, and we want to find some way of maintaining the credit we have already put into the market and be sure that the volume tendered at the three-eighths rate or better is maintained, and avoid direct purchasing in the sense, not of replacing maturities, which we have been doing right along, anyway, in other types of Treasury securities, but to avoid direct purchases in bills over and above our maturities.

In other words, if we have to induce additional tenders, the question comes up--it is a matter of conscience, really, as far as we are concerned--or the point at which we are soliciting, actually soliciting, tenders for which the inducement is that we will take them immediately off their hands, whether at the premium or not. And that is the point we have been wanting to avoid. If you come to that, that is a direct purchase, and I don't think it would be proper to do it without telling the public, including Congress, about it.

H.M.JR: I just want to inject this, and I think you men know this. Now, understand I didn't know before this that you people represent the Executive Committee of the 17 bond dealers.

MR. ROUSE: They happen to be identical, but they are not here representing that.

MR. REPP: We are here as individuals and not as representatives.

H.M.JR: But let me throw this in for a moment. My position has always been that I have been more than willing for you fellows to make some money out of the Government bond market, and I haven't changed. I am just throwing that in. I haven't changed. You have never heard any complaints from

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me about making an honest penny out of the thing.

MR. BELL: Bob, is this a fair statement of your position, that you like the present method of handling the Treasury bills but you are now getting to the point where something has to be done to induce bidding, and you don't want to have to ask the dealers in banks to put in bids for your account if they can go on and you can get bids over and above the bidding and make the market feel easy and acquire those bills in the normal course, replenishing your maturities? You would be satisfied with that method as long as you weren't put in the position of having to go out to these individual dealers and induce them to put in bids?

MR. ROUSE: That is correct. When the initiative is on my part, I think at some point the question would be properly raised as to whether it was direct bidding.

MR. LEVY: The initiative can come from you. I'll be willing to increase my bid.

MR. REPP: I am sure we would.

MR. LEVY: As long as we have a "put."

H.M.JR: Without having to write it out, if after you men had left you went away with the impression that we people here would like you to intensify your interest a little bit--do I have to say anything more than that?

MR. LEVY: No, sir. You didn't even have to say that much.

COL. POPE: I don't think there would be any question about having to go on bended knee. All we want to know is an indication if we could solve it that way.

MR. LEVY: As long as the Federal doesn't change its put.

H.M.JR: It is a nice, safe business, say.

MR. LEVY: I'll say it's very safe.

MR. REPP: Speaking only for myself, we'd be glad to intensify. The profit is not involved at all. It is just

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that we can help in maintaining the money market and aid Treasury financing.

COL. POPE: I wrote to Eccles and sent a copy to Rouse.

MR. REPP: I'd rather do it without profit.

MR. DEVINE: I'd rather do it without profit.

MR. REPP: We can intensify our effort.

H.M.JR: You'd rather not even make the two dollars?

MR. DEVINE: We'd rather not make anything.

MR. ROUSE: You can't avoid making the two dollars and eight cents.

MR. LEVY: You have a three-eighths put.

MR. REPP: We give half of it back to you, anyway.
(Laughter)

COL. POPE: I think one thing, Mr. Secretary, we should take into consideration, that if we are going to change anything that involves any great expression by you toward the Hill, somewhere, and the papers take it up, it is so much involved that the average person doesn't understand much about it, and I am a little afraid at this time that when we are talking about bill rates or what is going to be done about bills that a great many country bankers and some others may say, "Oh, well, this is a change." It will just intensify things. But it is quite serious today in my opinion--the talk about money rate changes.

H.M.JR: You are talking just the way I feel, and I'd like to say how I feel, and if any of you people disagree with me I wish you would say so. I feel this way, that since the 19th of March, 1942, it is to the good management of this Open Market Committee that we have been able to keep money absolutely stable. That is the only thing of any importance in our economic life which is stable.

Now, just as soon as you begin to monkey with it, the people are going to sit back and wait to see what the next

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thing is going to be.

COL. POPE: That is right. And they are just on the edge ready to accept something like that and it is an argument in their favor, money rate changing.

H.M.JR: And there are a number of people, directors of banks and others, who happen to believe that what we have done is right, or believe that we could continue, through management, to finance the war. And the slightest change they will say, "You see, Bill, I told you this wouldn't last." Then they begin to go back - "Oh well, I'm not going to buy - well, it's got to change."

Am I right?

MR. DEVINE: You are absolutely correct.

H.M.JR: Does anybody differ?

MR. REPP: I think, for this stage of the game, Mr. Secretary, that is right, because they go back to your speech and quote the words "framework of principal," which puts three-eighths here and two and a half there. There is your interest curve.

It may be necessary sometime to possibly allow some of these shorter rates to firm, but I doubt if this is the moment.

H.M.JR: Does anybody think this is the moment to change - between the Third and Fourth War Loan?

MR. REPP: No.

H.M.JR: Would any of you fellows recommend I change it?

MR. DEVINE: I certainly wouldn't.

H.M.JR: Don't gloss it over.

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MR. BELL: There certainly were a lot of people in March, 1942, who contended you couldn't do the thing we started out to do. As we have gone along, more people have gotten confidence in the ability to maintain that curve. They are disappearing fast. Within the last month they have been talking about changing these rates, as the Colonel said, more and more, and if you change it once, you are sunk.

H.M.JR: Have you changed your mind, Colonel?

COL. POPE: No, I haven't at all. I think it is dangerous enough now; but I think it is not so dangerous but what, for instance, if the last twos were par fifteen or sixteen bid, I think the whole attitude of the people would change it right over. It is as close as that to being one way or the other.

H. .JR: But they are not.

COL. POPE: No, but as long as they are not, I think these rates - there's quite a difference in that. There would have to be a good deal of explanation on that. I personally think that would be bad to do right now.

H.M.JR: I don't want to have the Federal Reserve buying direct from me unless we go up on the Hill and explain it.

MR. LEVY: I don't think there is any necessity for it.

H.M.JR: I can assure you that won't be good.

COL. POPE: I don't think it will.

MR. LEVY: No necessity for it. As long as the Federal Reserve System is ready to give anybody a put of three-eighths, I don't see what anybody has to worry about.

COL. POPE: As far as I am concerned, and from what everybody else has said here, if it would relieve the situation by intimating, making it through the sign

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language, or anything of the kind, what is wanted as far as putting in for bills is concerned, that is all that is necessary; it is irrespective of profit or not profit. That is not a matter of concern at all.

H.M.JR: Do you fellows want to go in a room and talk it over?

MR. REPP: I don't want to. I will tell you what we will do: We will intensify our interest in the bill market.

MR. LEVY: So will we.

COL. POPE: We will.

MR. DEVINE: We will.

H.M.JR: (To House) What more do you want?

MR. HOUSE: I don't want anything more.

H.M.JR: Leave it as it is now for a while. Will you recommend that to your bosses?

MR. HOUSE: Yes, sir.

MR. BELL: That we do nothing else so far as the exchanges are concerned.

MR. HOUSE: That is right.

MR. DEVINE: It certainly is the most simplified way to handle the whole thing.

H.M.JR: We have known each other - this is my anniversary, incidentally - I didn't know it until I read it in the paper. (Laughter) And, incidentally, I am getting to be an old man, so I like to go back, but approximately the day that Mr. Roosevelt put me in here, the Government bond market hit an all-time low. If you look it up, you will see that. Do you remember that refunding failure, and everything else? Right around November 17 or 18

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the Federal Reserve discontinued open-market operations, that week, the week I came in here. You look it up. The Government bond market struck an all-time low, and then I made my first loan, which was for nine months, and then after that I paid, I think, either two or two and a half percent...

MR. BELL: More than that, I think. Well, I may be wrong. I was thinking we borrowed for thirteen months.

H.M.JR: You are spoiling my story. ...then the boys said, "You can make a long-term loan; we will go thirteen months." The first was for nine months and then go out and make a long-term loan. (Laughter)

MR. REPP: Just on that, Mr. Morgenthau, this is your anniversary, can we say something complimentary? It has taken all these years to get things going the right direction, and certainly the credit of the Government has been maintained, and the market has been kept on an orderly basis. You have got this War Loan campaign going. There are probably some refinements to be made, but people are beginning to understand and know it. That certainly is one part of the war effort that is going smoother all the time. And anything you do now to inject new elements to educate or re-educate the people, why you really hamper your objective. Now, maybe post-war problems will change this thing.

H.M.JR: I will be up on my farm selling apples. (Laughter)

MR. DEVINE: We have even eliminated the black market.

H.M.JR: How is your pump down on your farm?

MR. DEVINE: Still working fine.

H.M.JR: The pump?

MR. DEVINE: Yes.

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H.M.JR: You heard that story? You tell about your pump.

MR. DEVINE: Well, the Secretary asked me one day if I had any problems. I said I had a very important problem; my pump up there was struck by lightning and I applied for a priority and it would probably take me two months to get another. By that time all my animals would be dead and my farmer would have left me.

He said he would see what he could do about it.
(Laughter)

It has been working very well ever since.

H.M.JR: That is the way we water the market.
(Laughter)

MR. VINER: Prime the pump. (Laughter)

H.M.JR: Can we go on to the next thing? Are you (House) all right?

MR. ROUSE: Yes, sir.

H.M.JR: Now, as to the basket, the only change which has been recommended is that we have a two and a quarter instead of a two. That is the only change.

MR. LEVY: Two and a quarter and--

H.M.JR: Two and a quarter and two and a half.

MR. LEVY: You have to eliminate the twos. It is a little bit congested.

COL. ROPE: Then the discussion on the note business.

MR. BULL: Discussion as between a seven-eighths certificate and a note. I mean, that has been discussed all around.

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MR. REPP: Is that a proper part of this discussion?

H.M.JR: Yes, so whatever you would like to throw in on that, I would be more than pleased to hear.

MR. DEVINE: Well, now, the two and a quarter bond that you might sell, I think it would be most important to price that right; that is, fit it in the right slot, because you have now about a billion, seven hundred million of potential sellers that fit into that '52-'58 class.

I say that I think the important part of this two and a quarter, if such an issue is sold, is to fit in in the right place, because you can break down the rest of your market. I think you should make it as long as you can, somewhere around '54 or '57 if you can, although it wouldn't make any difference - '55-'57.

Now, that may seem long, but I feel that regardless of what issue you sell, the price of the new bond will be worth no more than par four or par six unless your whole market changes.

Now, if you sell at two and a quarter, we will say '53-'56, you are going to affect the two and a quarters of '52-'55, which are alone with all the twos where the pressure is. You are going to break that market down.

MR. MURPHY: What are you assuming about the restriction?

MR. DEVINE: I am assuming until the obligation becomes a ten-year one the banks can't buy them. In other words, in two years' time, on a '55 option date, the banks could then buy them.

MR. REPP: Fifty-five option?

MR. LEVY: I think you can bring it out a little further - '57-'60.

COL. POPE: That is the way I feel.

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H.M.JR: Well, the boys had it down '56-'59 - the Haas boys.

MR. DEVINE: The reason I mentioned this, Mr. Secretary, was--

MR. LEVY: Fifty-seven is an open date; I don't think you have any call then.

MR. DEVINE: The reason I mentioned this was due to the fact that the last time you priced the two and a half you had '67 twos outstanding and you brought out a '62-'67 - you dropped five years.

H.M.JR: We had all kinds of arguments about that, didn't we? I can't remember which side I was on. I will have to look it up.

MR. REPP: I agree very much with Chris that this bond has to be properly placed. One question: What was the optional date, '53 - '54?

MR. DEVINE: No earlier than '54. Stretch it out as far as you want to; make it '60-'63; just no shorter.

MR. LEVY: Ten years is too short.

MR. BELL: You want to put it right on the line as close as you can.

MR. REPP: I think you have to give a certain amount of rate for the restriction of marketability for a period of years, and if you say '55-'57 as an optional date, sure, that will go; it is a thirteen-year bond. Maybe it might be well to shorten it to '56-'59. I think you have to make it look somewhat attractive. I think it will have an effect on the market, but following our discussion of last year, the two and a half percent market sold off, but no adverse effect on the over-all picture of the thing.

MR. DEVINE: I probably went to extremes when I said '80; I don't believe you can go about pricing this bond

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any old way. I am just fearful the bond will be too short.

MR. BELL: Too rich.

H.M.JR: There is no indication of that here.

L. REPP: I definitely agree with you there; but priced right would be something in the latter part of '56 or '57.

COL. POPE: There are a lot of tools available in this market, and if you have it too attractive, the savings banks can buy it and a lot more twos come in.

MR. ROUSE: Are there a lot of twos available?

COL. POPE: I think a good many.

MR. DEVINE: The point there, Colonel, is that you have a '52-'55 in the hands of savings banks now. You probably have gone over these figures. You have three hundred million '52-'55's in savings banks, and two hundred and forty-eight million in the insurance companies. In the case of the first '52-'54's, you have five hundred million. In the case of '52-'58's, you have seven hundred million. So you have potential selling there, or switching, of a billion, seven hundred and fifty million.

MR. LEVY: That is why '57-'60 sounds better. You don't care how much two and a quarters.

H.M.JR: we don't have to settle that today. All we have to settle today and tomorrow is whether it is to be a two and a quarter.

MR. REPP: I think that is it.

MR. BELL: We will have to settle the date whenever we start with the publicity on the Fourth War Loan, which ought to be not later than next week. We don't have to settle it today. (To Bell) Do they have to say the yearage?

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MR. BELL: Yes, because that goes in your literature.

MR. ROUSE: Would you figure your ten-year figure to the calendar date or maturity?

MR. BELL: To the calendar date, I think.

MR. REPP: You have done that on your two and a half's.

COL. POPE: Then they would be available to your commercial banks at ten years.

MR. BELL: We will have to treat this a little differently. It seems to me we have to say that when it got down to ten years as a calendar date, they could buy them.

Do you have any objection, George? It seems to me it ought to be the calendar date.

MR. MURPHY: It doesn't seem reasonable to me because the ten-year limitation is presumptively to prevent commercial banks from having long bonds in a falling market; and if the market were a falling market, it would be the maturity rather than ~~the~~ calendar date that was significant. As long as it is a good market, it doesn't matter.

MR. BELL: I wouldn't worry much about it.

MR. REPP: Open market is based on the optional date.

MR. BELL: We always think when we get down to these small coupons everybody ought to look at the maturity date and then the market puts it on the other, continually.

COL. POPE: Could I ask you - in regard to the basket I have been advised - there have been so many people talking about baskets, and so forth - that it has been generally thought to leave out the certificates; then when you come to corporations, industrial corporations, you probably have to supply something to them besides two and a quarters or two and a half's, if you are going to get volume there, and the note was suggested.

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One or two indicated to me that there seems to be a feeling you should restrict the note for purchase by banks for six months or a year. I would like to say that I think that any restriction there is really not of great help, because you are only restricting for six months or a year.

It might be the time, a year from now, when it might be just as well not to have a sudden change in the buying availability by the banks, and I should think it is just as well, for that reason, to have no restrictions at all, and if you do put restrictions, it is going to make a difference in the amount of corporate buying.

MR. BELL: That suggestion was made, that we restrict the note. We have had many suggestions. In some instances the certificate should be left in, and others, it ought to be eliminated entirely and substituted for a note; others suggest that the certificate ought to be put in only for the corporations.

I think it would be nice to have an expression of the views of the group.

MR. LEVY: Well, I don't see any reason, if you are going to offer a certificate - which I think you should, rather than a note - I can't see where you are going to sell any notes to individuals in any great quantity. The biggest buyers have been the corporations or insurance companies - even some business firms.

MR. BELL: You wouldn't sell the certificates to individuals, either?

MR. LEVY: I would sell them to anybody who wants them.

MR. BELL: But I say you wouldn't sell any more, or probably shouldn't.

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MR. BELL: You think we ought to have a certificate and not a note?

MR. LEVY: That is right. I think you could keep your notes and do your refunding in '44 for some of the other things there.

MR. REPP: I think the problem is one which should be explored from the basis of your over-all plans on handling the Fourth War Loan. I think it ties in very definitely, also, with the question of quotas and that effect on the money market.

If you are going to go and have your whole drive combined at one time in January and you include a C. of I. in there, and the Treasury takes a stand against it, you still have this tremendous transfer of funds to meet quotas out of New York, Chicago, and other districts for the purely statistical reason that the C. of I. is a vehicle through which they can do it. Now, C. of I. questions what type of money.

There is a certain demand for notes; I don't suppose you sell too many of them.

I would think there is a possibility that you could go along, and I would suggest that you definitely divide your drive. Put all of the emphasis on the individuals, and then come with your second part. I would do a two and a quarter percent bond, and I would open the last part of December. And I would seriously consider including a note if they want it, and along a little later, I would consider an offering of Treasury notes to corporations - I mean, C. of I.'s outside of the drive. It statistically looks good, but you raise different type of money than the eleven and a half.

MR. BELL: Would you feel the same way about it if we licked that allocation so as to avoid the transfer of funds?

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MR. REPP: It would lessen my objection. But you just can't continually have funds pulled away just for the question of giving quotas - statistical operations.

H.M.JR: What they are proposing to do is a book-keeping operation - not move the funds. If Western Union, for instance, wants to spread a thousand dollars in every Western Union office, they will do it on the books, but they won't move the money.

MR. REPP: I think the Treasury should definitely take a firm stand on that.

H.M.JR: That is what we are proposing. Sears and Roebuck, and Woolworth - every store gets credit. All right, give it to the community on the books, but you don't actually move the money around.

MR. REPP: That would go a long way in answering my objections. You know, a study of these figures - of the issues of C. of I. - show that a large percentage of them do, for a time, anyway, stay outside the banking structure. But there probably is a certain demand for a note in this market. You will reach a different type of money, and if you give them the opportunity to buy a C. of I. later, you may have two cracks at two different types of money. I would seriously consider divorcing C. of I.

MR. BELL: You would?

MR. DEVINE: What was that last?

MR. REPP: I would seriously consider divorcing the C. of I. from the drive, for everybody; and then go and make a C. of I. offering whenever you need the money - February, March, April, May--

MR. RAAS: Confine the operation to corporations?

MR. REPP: A non-banking offering, unless you see reason to change your opinion at the time. But I would like to emphasize again that I would reopen the outstanding

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two and a half, and not create a new two and a half.

H.M.JR: You would eliminate the C. of I. entirely?

MR. REPP: From the drive. If it is quotas and large figures, then it should be included; if it is a type of money, and spreading your financing over a period of time and really put the emphasis in getting the type of money that is better in the long run, I would divorce it from the drive.

MR. DEVINE: I think I agree with herb. I think you should eliminate the C. of I.'s from the drive, because to have a drive where you are borrowing money for one year, seeing these huge subscriptions built up when they don't mean anything - they end right back up in the open market again - I think it is a waste of time. More pressure should be put on the three series of bonds you have, plus a two and a quarter and a two and a half to the public.

As far as the corporations are concerned, I think they should have a chance of buying C. of I.'s, and also the banks. How it is handled, I think, is immaterial.

MR. REPP: You don't need a drive.

MR. ROUSE: What do you think of a note for the drive?

MR. DEVINE: To individuals, I don't see any purpose of even going after five-year money. You are giving them three series of bonds, and you are giving them a two and a quarter and a two and a half, and that is the kind of money you really want.

MR. REPP: Was it a note that you would consider for individuals, too?

MR. DEVINE: I wouldn't offer the individuals a note, but I wouldn't care whether you offered the corporations a note, or not.

MR. REPP: I just didn't know.

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MR. DEVINE: The market could use something in there.

MR. BELL: Supposing you combined the corporate and individual drive. I don't mean in the sense that you don't emphasize the individual in the first part of the drive and then go into the corporate end, but supposing you combine it for the purpose of over-all national total. Would you still have the note in sometime during the drive, either when you emphasize the corporate end of it, or would you rather have a certificate for that purpose at that time?

MR. DEVINE: I wouldn't combine the drives.

MR. BELL: I am saying, supposing we did want to combine, say, an over-all total for the nation?

MR. DEVINE: I would rather put a note in there than a certificate.

MR. REPP: I agree with Chris on that, with the understanding the certificate will come along later.

MR. BELL: We can issue the certificate any time. In the drive you ought to have a note if you combine the corporate and individual as one.

COL. POPE: I feel very strongly that the drive should be two or three weeks, or whatever length of time, for individuals only from the standpoint of sales to individuals.

H.L.JR: What would you offer?

COL. POPE: I would like to suggest for the individuals giving them E, F, G, C's, and two and a quarters, and not the two and a half's, for the reason that I am a little afraid of this two and a half market. I feel that the two and a quarters are something new, and I think to individuals it would be just the two and a half's. But when it comes to the insurance companies, I know what they want; they want two and a half's. I think that if the drive of individuals ended, and then you took it up with insurance

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companies and banks, I think that drive could be then taken with a much less organization, such as you would have with individuals, and it could come right after it.

And I would eliminate the certificates and you could put the note in, but I don't think that group would be necessarily as anxious to have the note.

I suggest, then, a little later date the corporations coming in then, because I have felt that you know a little bit more about what kind of a drive you want, and you have the corporations separated. I would give them, then, a certificate at that time rather than a note, and the two and a quarters and, if necessary, two and a half's, although I think they would be less apt to buy two and a half's.

H.M.JR: Just to refresh my memory, George, I have heard so many people that I am confused - when you fellows started in this book, what did you people recommend as to the number of weeks, and so forth.

MR. HAAS: We have got several proposals.

H.M.JR: Give me the one you recommended.

MR. HAAS: I think the one that we had the most pro arguments for was what we called a three-prong drive, very similar to the proposal Mr. Kepp made, except his issue of certificates; we were going to include that open issue in the over-all figure.

H.M.JR: Let me put it differently where I am confused. I have about ten memoranda here. We were going to open the drive first for two or three weeks for individuals, and those individuals were going to be offered E, F, and G Treasury savings notes.

MR. HAAS: Two and a quarter and a half.

H.M.JR: And no certificate in this thing.

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MR. HAAS: Not for individuals, but certificate included for the corporate sector of the drive.

H.M.JR: That would be the first two or three weeks.

MR. HAAS: Individuals.

H.M.JR: Then E, F, and G Treasury savings notes, two and a quarter and two and a half; and then whatever the latter part of the drive - the last week - comes in - insurance companies and mutual savings banks. Is that right?

MR. HAAS: And other corporations.

H.M.JR: But in this you have got the seven-eighths, the two and a quarter, and the two and a half.

MR. HAAS: That is right. And then there was another proposal.

MR. BELL: Plus the Treasury notes, of course, which are continuous. Savings notes are on continuous sale.

H.M.JR: Aren't those the C's.

MR. BELL: Yes, sir.

H.M.JR: Now, to clarify my own thinking, the only difference is, I gather, that these gentlemen here are inclined - if not, they can say so - to have the first two or three weeks of the drive for the individuals, minus the seven-eighths; but when you open up to insurance companies and everybody else, they still would leave the seven-eighths out.

MR. REPP: That is my feeling.

MR. DEVINE: I don't think it makes an awful lot of difference. I would as soon put the seven-eighths in.

MR. BELL: But you would have a short security, either a seven-eighths or a note.

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MR. DEVINE: That is right. I think for corporations you would have to have either a note or a seven-eighths.

H.M.JR: We tested that last July with a couple of hundred telegrams. I don't know - two-thirds of them wanted the seven-eighths.

MR. LEVY: The corporations and business people would want them.

H.M.JR: They don't want the note.

COL. POPE: I don't think they would take it.

MR. LEVY: I think there are a lot of people in business, individuals, partnerships, and so forth, who have some money lying around. They don't want to buy any long-term stuff. Just because they don't happen to be incorporated, they shouldn't be left out. They would have money for a short investment, too.

H.M.JR: I thought you were going to eliminate the seven-eighths entirely.

MR. REPP: That was my impression. It was based primarily on this transfer of funds for statistical purposes. You say that will be overcome, but I still think it is not a bad idea to include a note in that corporate portion of the drive, eliminate the seven-eighths and go back to the market later with your seven-eighths security for a cash offering. You don't need a drive.

MR. BELL: He is just eliminating the certificate from the drive.

MR. REPP: Not from the money coming in the Treasury, but for the drive.

H.M.JR: Supposing we keep the seven-eighths in, say, for the last week of the drive, or the third or fourth week. Are you going to say to individuals, "You can't buy it the last week"?

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MR. LEVY: Not as far as I am concerned.

H.M.JR: How are you going to keep them?

MR. DEVINE: You can't keep them from buying it but you are driving after some figure before you have it in there.

MR. MURPHY: Included in the quota - but we would be glad to sell it to them and include it in the over-all quota.

H.M.JR: You mean you won't get credit?

MR. MURPHY: No credit for the individual.

MR. LEVY: That is all right.

H.M.JR: That is what I have been trying to find out.

MR. LEVY: Shouldn't be in a quota as far as individuals are concerned.

MR. HAAS: You have had so much to read.

H.M.JR: About ten memoranda. But the idea is, it would not be in the quota, but if a fellow wants to buy it, all right, but the State or county gets no credit.

MR. LEVY: Shouldn't be in the quota for the War Finance Committees.

H.M.JR: Mr. Gamble is perfectly willing to leave the certificate out entirely.

MR. LEVY: That is all right as far as working is concerned.

H.M.JR: but not to have it in the drive at all. but then he said he would like to have a note.

MR. LEVY: I can't see the note angle.

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H.M.JR: Here is Gamble's (Gamble's memorandum handed to Eell).

MR. HAAS: I summarized at the bottom, Dan.

MR. VINER: I wouldn't make a lot of fuss about selling the seven-eighths and boosting figures, because it is an easy thing to sell. Whether you have it on sale at that time - if I had any amateurs engaged in the drive, I would tell them nothing at all. That is a money-market operation and not a drive operation.

H.M.JR: If they want to buy it--

MR. LEVY: That is O.K., but it shouldn't be part of the quota of the War Finance Committee.

H.M.JR: There should be no pressure.

MR. MURPHY: Part of the corporation quota, but not the individual.

MR. LEVY: If they are going to give the corporation a quota.

H.M.JR: Has anybody told you what we are thinking of going after this time? Would you like to know?

MR. KEPP: I certainly would.

H.M.JR: It wouldn't bore you? We are talking of fourteen billion.

MR. ROUSE: Would you split that up for the public in any way, or just fourteen billion dollars? Have you announced a figure for individuals?

H.M.JR: Whatever we did last time.

MR. ROUSE: That was five billion last time.

H.M.JR: This time we are talking five and a half.

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MR. ROUSE: That sounds good - five and half.

H.M.JR: I think we ought to announce the individuals.

MR. LEVY: The idea would be to keep the individual open for two or three weeks, or two or three weeks plus the rest of the drive.

H.M.JR: It would be open the whole time. Let's say the drive was four weeks; in the first three weeks would be individuals.

MR. LEVY: Then they could still buy them.

H.M.JR: On, yes. But you get a good head-start and, say, the last week we would have it for the banks.

MR. REPP: I would still leave the seven-eighths out. That seven-eighths money is available to you at any time. Why pay interest on it for three or four months?

H.M.JR: The four or five-year money market is starving.

MR. REPP: In the banks, certainly; but also among certain corporations.

MR. LEVY: They are given something on the refund of the guarantees, and things like that; I would save it for them, for that. Of course, the banks have most of that stuff.

H.M.JR: As far as I am concerned, this has been very helpful. Do you (Bell) want to talk to these men some more? I would like to talk to my own people a few minutes.

MR. ROUSE: Mr. Secretary, could I raise one more question, because I think it is pertinent, and we have these men here? You have a maturity of three billion eight of certificates on December first, and four hundred and twenty-one million notes on December 15, which will have to be taken care of; and I see no reason, myself, why they shouldn't be completed, refunded. And I presume the operation, if you are going to do it, would be done next week.

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The question has come up, and I wondered whether these men would think it might be desirable to offer a double-barreled exchange of a certificate and a note for these two and get some experience with the corporate interest in the notes versus certificates, which might not be permanent in setting up the Fourth War Loan Drive, but certainly for the one following would give us some experience statistically over the intervening months.

H.M.JR: Give the people that choice?

MR. ROUSE: Yes.

H.M.JR: Of taking either what they have now, or a note?

MR. ROUSE: Yes. I don't see any reason for paying those off in cash. You have got to borrow the money to pay them off, anyway.

MR. DEVINE: I would turn them all in with the certificate again. I wouldn't sell a note in there, when you have a drive coming on ten days later, or three weeks later.

MR. HAAS: You would mop up some of the funds.

H.M.JR: Frankly, I don't like to experiment in that way. You get another black eye if it isn't good. I would much rather, sometime when we have to, sell a note.

MR. REPP: I think I definitely would; rather than pay off the December, I would sweep them in mechanically.

MR. MURPHY: They have a very peculiar distribution, Mr. Secretary, these exempt securities; and although the type of security, apart from its tax exemption, you would think would be mostly held by banks, they are not. Two-thirds are held outside of the Treasury survey and presumptively by people holding them because they are tax exempt and not interested in changing for a taxable security. We are recommending they be paid in cash.

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MR. LEVY: I think most of them would pay cash.

MR. ROUSE: Don't you think a considerable portion is held by corporations, now?

MR. BELL: About two-thirds outside of the banking system.

We have been rolling over the certificates. The question I raised with Bob the other day is whether we ought to start mixing certificates and notes. You could do better than any other on this one because the rates are low. I wondered whether we shouldn't keep them on a separate operation.

H.M.JR: I would, personally, just roll them over.

COL. POPE: At this time I would.

H.M.JR: Now we have got so many things to do. I can't have any more balls up in the air at this time. I will drop a couple.

MR. BELL: Well, we have gotten to the point where four hundred million dollars to pay off maturity isn't very much in our pocketbook any more.

H.M.JR: I don't want to start monkeying with this thing. I would make as little fuss as possible.

MR. MURPHY: The pressing thing is to pay off the note and roll over the security.

MR. LEVY: You have got the money in the bank, anyway.

MR. VINEY: If only a small proportion would be offered in exchange, I wouldn't offer in exchange. It doesn't look well.

MR. BELL: Well, what the individual would do, no doubt, would be sell a December '50 note for the rights.

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MR. LEVY: But some of these rich fellows won't even do that.

MR. REPP: Of this sixty-odd percent over a period of the last year, a fair amount of them come from the individuals and go back to corporations. I look at it as a practical thing. Here you have four hundred million dollars that you have to pay off. Why can't we sweep it all in one operation and make it all U. of I.'s and clean it up?

MR. BELL: You could. Whatever you could get out of four hundred million would save our cash balance to that extent. I don't see any great harm in it. In the first place, I didn't think we ought to mix certificates and notes; we ought to keep them on a separate basis.

MR. VINER: I don't think you ought to exchange different things. I think a tax exempt, now, is a wholly different security from a non-tax exempt. You are changing two things that are not the same area of merchandise - don't have the same buyers and don't serve the same purpose.

MR. BELL: The tax exempts are going out on December 15.

MR. VINER: This turn-over you speak of means that in the market there is a lot of swapping and exchanging.

MR. REPP: I don't care much, one way or the other.

H.M.JR: What do we propose?

MR. BELL: Just to roll it over the three billion eight maturing certificates and pay off the four hundred million dollars maturing December 15 in cash.

H.M.JR: That is what you spoke to me about.

MR. BELL: You said that sounded all right at the time I spoke to you about it. You could bring in the four hundred million dollars as a part of the refunding on December 1.

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It isn't a big sum. You could get certainly half of them, and you might get two-thirds that are refunded. We could do that.

H.M.JR: I wouldn't fuss with it.

MR. LEVY: You will make it very hard if you are going to roll them over on December first, because they are due December 15.

H.M.JR: I would pay off the four hundred million.

MR. BELL: I think Herb is right. It is really unimportant either way you jump.

H.M.JR: Isn't that what you want us to do?

MR. MURPHY: Yes, sir; and that is the first step. That is what we have been doing.

H.M.JR: I agreed with this once.

MR. BELL: That is right. Well, we haven't announced it yet, so it could be changed.

COL. POPE: It is a very minor matter, Mr. Secretary, but I am not sure that it might not grow a little bit, and I don't know the solution of it, quite. Insurance companies outside of the State of New York, and I think it is confined there largely, can borrow to buy. They have been permitted to go ahead and do the equivalent - get someone else to buy, and then they buy at a later time. The result of it is, it is a pretty attractive thing for insurance companies to do, doing it that way, because it really results in the use of their credit in getting, at a later date, a security at a point - whatever it might be - below the offered price.

I was not sure whether that might not be growing, and if it is growing, then it does upset your calculations from the standpoint of what the insurance companies are going to buy next time, and it also does take a certain amount of,

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buying power of two and a half out of the market during the interim period.

H.M.JR: That was brought to my attention and the A.B.A. is filing a memorandum on it.

November 17, 1943
11:30 a.m.

FINANCING

Present: Mr. Bell
Mr. Rouse
Mr. Murphy
Mr. Huas
Mr. Viner

H.M.JR: What I would like you to do, if you would, is go over now and try to sell this to your boss, see? I take it you (Rouse) are entirely satisfied?

MR. ROUSE: Yes, I am satisfied.

H.M.JR: All right, I am satisfied. All I want to do is raise my eyebrows.

MR. ROUSE: Well, I think the thing worked out, in the way it was done, perfectly satisfactorily.

H.M.JR: Well, they have got nothing to lose on the thing. They have got the feeling they are going away helping their Government finance the war.

MR. BELL: That is the important thing. They feel they are rendering a real service to the Treasury.

MR. VINER: I think they are perfectly right and wise in saying they don't want any profit out of it. The amount of profit in it is small potatoes for them, and this way they can get prestige, and they will get all of the commendation, I hope.

H.M.JR: After I am on the farm.

MR. VINER: And it may prevent rather a nasty discussion.

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H.M.JR: I think it is a nice solution.

MR. BELL: I like it much better.

H.M.JR: Now, one second: Please come in here at a quarter of three with a memorandum of what the program is, you see. I can say, "This is what we are proposing."

MR. BELL: You want that on the basket, and everything?

H.M.JR: Yes, at a quarter of three. And, please, I kept Gamble from going to New York so he could be consulted today. So if you people would come in at a quarter of three with a memorandum for me - I want the whole works - the whole business. And don't spring anything new on me like this refunding, again.

MR. ROUSE: I did that. I didn't know of your conversation, and because it related to this problem in notes in drives, I thought there was some experience that could be gained by it, and it might be worth considering and talking about.

H.M.JR: You can give him an office, can't you?

MR. BELL: Sure can. I think this is all to the good. We have had some nice conferences this week, I think.

MR. HAAS: Nice and long. (Laughter)

MR. ROUSE: I would like to say this, Mr. Secretary, with respect to this group down here this morning, that I think an intimate conference of this kind, when you give the effect of leisure and interest, is one of the most helpful things that can happen to the market, because these fellows will just spread the atmosphere all over the country.

H.M.JR: I have got nothing to do these days. I am at leisure. (Laughter)

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MR. ROUSE: I know, but you remember, you have had difficulties - when Mrs. Morgenthau was so ill, you were strained and time was short, and so forth. But the atmosphere that this creates is a most important part, psychologically, of the market.

H.M.JR: And they are aware that I am at ease; they say, "Morgenthau is not worried about anything."

I will let Rouse do my worrying. (Laughter)

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November 17, 1943
12:18 p.m.

HMJr: Hello.

Operator: Mr. Young.

HMJr: Hello.

Philip Young: Hello.

HMJr: Phil?

Y: Yes, sir.

HMJr: How are you?

Y: I'm very well, thanks. How are you?

HMJr: Very well.

Y: I'm delighted to hear it.

HMJr: Phil....

Y: I hear you had a good trip.

HMJr: Very good. I wondered if you could help me out a little bit?

Y: I'll do anything I can, sir.

HMJr: I'm making a talk tomorrow night in New York and I'm talking about these 500,000 Enfield rifles which we sold to the British right after Dunkirk....

Y: Yes.

HMJr:and which you remember.

Y: Right.

HMJr: Now, could you -- do you remember, or could you get for me within a reasonable time, what proportion of the total rifles was this that England had after they arrived over there? I remember they once told us but -- that this represented, I know, a very high percentage.

Y: All right. I'm sure I can get a line on that.

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HMJr: Could you?

Y: I'm sure of it.

HMJr: Do you think you could do it within -- by today?

Y: Oh, my, yes. If I can get it at all, I can get it very, very quickly.

HMJr: All right. Well, now, when you get it would you mind calling back Fred Smith in my office?

Y: Fred Smith?

HMJr: Yes. And then there was another little thing. All of the rifles that we sent, as I remember it, had a little -- they painted them with a little red circle around them or something. They told me that was to distinguish them.

Y: I don't recall that.

HMJr: Yeah. You might ask them that. They all had a little tag or red circle painted on them to show that they came from the United States.

Y: Right. All right.

HMJr: But as I remember it, this represented at least a half or two-thirds of all the rifles they had.

Y: Yes, or even higher.

HMJr: Or even higher?

Y: Yes.

HMJr: You see, if I could get that it would help me in my talk.

Y: I certainly will. Delighted to.

HMJr: Hope to see you soon.

Y: I'd like to call on you one of these days.

HMJr: Any time -- just give me a ring.

Y: Thank you.

HMJr: Good bye.

Lunch at the Secretary's invitation
November 17, 1943

Present: Secretary Morgenthau
Lord Halifax and Mr. Haley
of the British Treasury
Mr. White

The group was called by Secretary Morgenthau for the purpose of discussing what could be done about the British dollar position. Halifax began the serious part of the conversation by stating that he had informed Sir John Anderson at London of his conversation with Secretary Morgenthau. He said he had written to the effect that Secretary Morgenthau had stated that if the British could help Secretary Morgenthau in trying to work out the problem of British dollar balances during the war that he (Secretary Morgenthau) would do whatever he could to help England out with respect to the postwar financial difficulties that England was facing. He asked the Secretary whether his statement represented correctly the conversation and the Secretary replied yes. Halifax said that he had not yet received an answer from London nor did he expect one. He said that his Government would be in a better position to judge what they might do if they knew more specifically what Secretary Morgenthau had in mind to do for them during the postwar period. He appreciated the difficulties that any cabinet member of the present government would have in committing his Government to any postwar program but that his (Halifax) Government would have to have more information on which to base a judgment of the suggestion that Secretary Morgenthau had so kindly made.

The Secretary replied that quite obviously he could not make any specific promises inasmuch as he could not bind the Government, especially the government that might exist in the postwar period. He could say that so long as he was Secretary of the Treasury that he could try to help the British Treasury meet its difficult postwar problems.

Secretary Morgenthau reminded Halifax of the circumstances under which the first Lend-Lease Bill was passed and the statements that he had made before Congress in his efforts to obtain favorable reaction to the proposed Lend-Lease Bill. He had a copy of some of the excerpts before him which he said he would like to have Lord Halifax read. He said that in a sense he was on the spot in the light of these statements. He said that for a long time we had been trying to find ways of getting the British to reduce their balances in harmony with his commitments to Congress and in compliance with a directive of the President with respect to those balances. He said that the British had been of no help in that matter and were making it very difficult for us to reduce the balances. He said that what he would like to do now was to let the British suggest ways in which those balances could be reduced. He hoped that the British would appreciate the long-run advantage in

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cooperating with him in trying to keep his commitments before Congress. He thought that unless the balances were reduced there was danger that the Lend-Lease program might be jeopardized as he had explained to Halifax at their former meeting. He asked pointedly what suggestions the British had for reducing the balances. He said there must be many appropriate ways of which they were cognizant whereby they could bring the balances down.

Halifax asked Waley to answer that question. Waley said he thought he appreciated the situation in which the Secretary found himself. He reviewed the British international position and said that his Government could not very well leave themselves in a vulnerable financial situation on the promise that the American Government would make available to them through one means or another substantial sums after the war. He said in the first place he doubted that any such promise could be made and in the second place he doubted seriously whether his Government would wish to accept assistance designed to put Britain on its feet during the postwar period. He thought that Britain would wish to deal with its own problems and would not want the solution as a gift from the American Government. He added that the British Treasury could not be expected to take action and make recommendations to reduce their vitally necessary balances with no definite knowledge or prospect of being able to rebuild them in the near future.

Both Halifax and Waley raised the question whether the problem could not be laid before Congress with a knowledge that Congress would approve the policy now being pursued with respect to those balances. Waley said that when the Lend-Lease Bill was first introduced the United States was not at war. Now they were Allies in a common fight with Great Britain and that seemed to him to definitely alter the situation. He wondered whether Congress would not so recognize it. The Secretary and White both expressed the view that it was not unlikely that Congress might take the position but emphasized the point that it would have to be Congress who should determine that change in policy from the earlier commitment. He pointed out that the Lend-Lease Act had been renewed several times without any indication of a shift in policy from the original conditions being indicated or mentioned to Congress. He also referred to the Truman report as containing paragraphs which indicated that Congress was not aware of any change in policies with respect to dollar balances. He said that if the matter were brought before Congress that it seemed that there would be a better chance of getting Congress to approve the policy of permitting the British to build up gold and dollar reserves against their sterling liabilities if at the time the matter was brought to Congress the gold and dollar balances were at a level which indicated that the British Government was keeping faith with its commitment that Secretary Morgenthau had made in 1941 with the full approval of the British Treasury.

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Secretary Morgenthau asked Halifax whether the British Treasury had ever raised the question with the Lend-Lease authorities or of the United States Army of getting us to take over some of the responsibility of meeting the expenditures in India. Waley replied that they hadn't but that they would be very happy to raise that point and that they would be glad that the Secretary was thinking along those lines. White remarked that in the opinion of Congress there might be some question about treating India, where the bulk of the sterling expenditures was being made, as a third country. If it were to be treated as a third country then there were a number of questions that might be raised with respect to our relations with India.

Halifax asked the Secretary whether he had anything definite in mind with respect to making payments in India and the Secretary replied no he was just thinking aloud, that he hadn't given the matter any serious thought as yet. Halifax pressed him on the point and the Secretary said that he wanted to ruminate on the various possibilities and alternative courses and he wanted the British likewise to think about the problem and come forward with suggestions. He felt that something had to be done with respect to British dollar balances and that he hoped the British would have some practical suggestions as to how they might be reduced.

The Secretary referred to the unfortunate action of somebody in the British Government going behind the Treasury back and registering objections to the policy as laid down by the President. Halifax and Waley denied such intention and Waley said they would be very careful in the future to discuss Treasury matters directly with the Treasury.

After Halifax and Waley left the Secretary chatted a moment with White and they explored the possibilities of what we could ask from Great Britain in the way of obtaining bases or access to raw material resources in countries like India and Malaya etc., in return for a program of helping the British build up their balances. White said that he would think about it and have a memorandum making some definite suggestions.

H. D. White

HDW

November 17, 1943
2:45 p.m.

FINANCING

Present: Mr. Daniel Bell
Mr. Ted R. Gamble
Mr. George C. Haas
Mr. Marriner Eccles
Mr. Allan Sproul
Mr. W. W. Paddock
Dr. Jacob Viner
Mr. Henry C. Murphy
Mr. E. B. Hall
Mr. Robert Rouse
Mr. Woodlief Thomas
Mr. Ernest G. Draper
Mr. John McKee
Mr. LeRoy Piser

H.M.JR: Can somebody tell me what is in the memorandum?
You have sat in on this? (Memorandum entitled "Recommendations.")

MR. GAMBLE: Yes.

MR. HAAS: I can start reading it.

Recommendation one is, "That there be no change in the pattern of rates ranging from $3/8\%$ to $2-1/2\%$.

"2. That we continue the present basis of market bidding for bills with the expectation that cooperation from the market will provide bids at $3/8\%$ or better in ample volume." That is their way of stating that thing.

"3. That we continue to expect the Federal Reserve System to provide sufficient reserves to meet the needs of the market and to maintain a good tone in the Government Securities market at the established pattern of rates.

"4. That the over-all national goal for the Fourth War Loan be fixed at \$14 billion, of which \$6 billion should be set as the individual goal ($\$3-1/2$ billion of this latter amount should be raised through the sale of Series E Savings Bonds); and that \$8 billion should be set as the goal for

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other non-bank investors. Sales to dealers and brokers are included in this last figure with the understanding that their subscriptions will be policed."

I think you have changed this from here on, Dan. I am down to five.

(Mr. Bell handed revised draft of "Recommendations to Mr. Haas, copy attached.)

H.M.JR: Am I rushing you?

MR. BELL: A little bit.

H.M.JR: I have been sitting around with nothing to do.

MR. HAAS: "5. That the date for the start of the drive be Tuesday, January 18, 1944.

"6. That the timing of the drive be arranged as follows:

"(a) Emphasis in the period from January 18 to February 1 be placed on the individual quota of \$6 billion.

"(b) Drive to continue until February 15, taking in other non-bank investor subscriptions beginning February 1st.

"(c) All subscriptions from individuals received at the Federal Reserve Banks or at the Treasury of the United States up to February 29, 1944, will be credited to the drive; and that corporations will be permitted to subscribe during the entire period of the drive but no public announcement of such subscriptions will be made by the Treasury until after February 1st.

"7. That the basket should consist of the following securities:

"(a) Individuals: E - F - G Savings Bonds, Treasury Savings Notes, 2-1/4% Treasury bond (Call and maturity date to be decided just before announcement), 2-1/2% Treasury bond (Call and maturity date to be decided just before announcement)."

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H.M.JR: I can read faster than you can. That ninth, do we want to kind of have it there in case we want to do that?

MR. BELL: Yes. We feel you should take care of the insurance companies and also the savings banks and any other person who wants to come along. I think it was recommended to you that we might do it at the beginning of each month.

H.M.JR: Now, this two-and-a-quarter maturity date, is that all right with Gamble?

MR. BELL: We left that for discussion. They have been '56-'59, Ted, some place in that area.

H.M.JR: Is that all right?

MR. GAMBLE: Yes.

MR. BELL: We will have to settle it before the 24th.

H.M.JR: That is all right. You fellows can settle it. You can read it among yourselves.

MR. BELL: There is one more page coming.

H.M.JR: Who is in agreement?

MR. BELL: Ted isn't in agreement with number four.

H.M.JR: Why not?

MR. BELL: He doesn't like the six-billion-dollar goal and half a billion dollars of Series E.

H.M.JR: I can't agree with that either.

MR. BELL: These are our recommendations.

H.M.JR: I thought we had five and a half.

MR. BELL: Ted had that in his memorandum, but we feel, Mr. Secretary, that you have two months here, January and

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February, which are the best months of the year for seasonal increase in savings bonds, and that we ought to go up at least a half billion dollars more than you did in the last drive. You got four, nine, or five billion dollars of good money from individuals in the last drive, and you ought to increase that at least to six, of which certainly half would come through just seasonal increase in savings bonds.

MR. GAMBLE: I think we are allowing for that increase, Mr. Bell, when we take out the billion, two hundred and twenty million that we sold in the two percent and replacing it with two and a quarter which you can estimate at about half a billion dollars in sales. Then you will find when you take out that, that you didn't have a five billion, three sale, comparing this basket to the other one, but you had closer to a four billion sale.

When you go up to a five and a half billion, I don't think it will affect your sales quotas; if I did, I would be in favor of it. I don't see any harm in going six, seven, or eight billion dollars over our individual goal. I think the States are going to have to organize to do the job. They know that they have to make an improvement of six hundred million dollars in sales to individuals in E bonds, and they have to make an improvement of four hundred, thirty-five million dollars in sales of F and G bonds, alone, on the basis of five and a half billion, and I think they are going to have to organize to do a thorough-going job. I think they will sell the same amount of securities, regardless of what we fix the quota at. Therefore, I would rather have that margin of safety, because there is some question, Mr. Bell, as to whether we can sell the issue if we don't appreciably change the dollar purchases of E bonds, whether we can sell and deliver three and a half billion dollars of E bonds.

MR. BELL: We have a longer period and more experience. You are going from January 1, and we are going to have a lot of securities issued by January 18.

MR. GAMBLE: I have no quarrel on the money; I just don't think it is wise for us.

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MR. BELL: It seems to me if you only go to five and a half billion most of your salesmen will say that ought to be simple; it is only two hundred million dollars above the last results.

MR. GAMBLE: This time we have agreed to emphasize the individuals and announce the quotas nationally and go out and put every community on record as having the E bond quota of X dollars.

H.M.JR: I am not going to argue.

MR. BELL: You asked us for our recommendations. (Laughter)

H.M.JR: All right; I have to watch myself every minute. I am putting down five and a half. What did we have originally on this E, three?

MR. BELL: Three. I will tell you why in a minute. Well, they can go to a picnic about six days out of the drive.

MR. GAMBLE: I don't believe it, Mr. Bell.

H.M.JR: That is eight and a half.

MR. BELL: On the other end, which is the one I would like to see emphasized.

H.M.JR: Now look, gentlemen, I have enough confidence in my sales organization that they will do the best they can. We didn't make it last time. I don't believe - and with all the damned peace talk around here it is awfully hard to get the people down. Now, if the war is going tough along the middle of January or February when the Fourth War Loan is on, Ted will go out and get it if it is there. We didn't make it the last time.

Senator Bankhead gets up and says, "In some States we didn't make our individual quotas, and in some States we didn't make our E quotas." I don't know where he got those figures.

MR. GAMBLE: They were all published.

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H.M.JR: He smeared them all over the Congressional Record. I don't like it.

MR. BELL: As long as you mentioned him, I think his report ought to be answered. His report was terrible. That ought to be answered before that bill gets into the House.

H.M.JR: I have given Ted the job; I gave it to him this morning.

MR. GAMBLE: Our man is away until Monday.

MR. BELL: I mean the Committee report, not Bankhead's statement, which indicates all the way through that there has been a failure in this war financing.

H.M.JR: Who is your man?

MR. GAMBLE: We will take that on, too, Mr. Secretary.

H.M.JR: Better let the Legislative Section.

MR. BELL: Better let Speck--

MR. GAMBLE: And Lynch and Fred and Magen can do it, the four of them.

H.M.JR: I don't know how much time you have, but you had better hit it. I am glad you brought it up.

Well, look, I have lived with this thing now long enough, and, hell, you had me all set at five and a half.

MR. BELL: Who did?

H.M.JR: You all did.

MR. BELL: Oh, no, we never heard of five and a half until yesterday's conference.

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H.M.JR: I got all these fellows last night, all kinds of memoranda.

MR. HAAS: Yes, they said five and a half, the bankers.

H.M.JR: And how about this group from New York, George?

MR. HAAS: Oh, they are high-figure boys.

H.M.JR: Well, O.K. It is one thing to put it down. We didn't get it last time. That is all right. It is that Tickton influence around here. (Laughter)

But I have enough confidence in Gamble and his crowd. If the money is there they are going to get it. Public sentiment is running against it, and we are going to have a tough job getting five and a half.

MR. BELL: I don't think so, but if we get six and a half it will be just as well.

H.M.JR: Never since I have been here, I am sorry to say, have we ever gotten the E bond quota we went after, not once!

MR. BELL: I don't think any harm was done last time because you didn't get it. You had a three billion dollar quota, and you got two and a half. I don't think you got bad publicity.

MR. GAMBLE: We did get some, some in the Bureau of the Budget and we got it in OWI, and many people have been given some ammunition that they shouldn't have had.

H.M.JR: OWI and the Budget used it, didn't they?

MR. GAMBLE: They both used it against us.

MR. BELL: In what way?

MR. GAMBLE: The two and a half million E bond figure.

MR. BELL: Did they use it publicly?

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H.M.JR: They cut down our appropriation by two million dollars, didn't they?

MR. GAMBLE: Well, they were very critical of our failure to reach our E bond quota.

DR. VINER: Do you think they won't examine your goals?

MR. GAMBLE: Well, I think we can defend them, Doctor Viner. It will take better than fifty million pieces of E bonds in order to get the two and a half billion.

H.M.JR: Mr. Hall, you are very quiet. Are you satisfied with this?

MR. HALL: Yes, sir, I think it is all right. Five and a half billion is all right, and, of course, I wish we had courage enough to say six, but I think it would be much better to have the more moderate quota and cover it substantially. I think it puts enough pressure on the local communities with respect to the E bond quota.

MR. GAMBLE: I don't want anyone to get the impression I don't think we are being moderate. I think if we have four billion dollars of savings bond money we have taken on a real chore, that is ninety-five percent of this tax we are talking about, and it is a real undertaking, because we have to go out and get it, Mr. Bell, not only on the premises that we are getting the benefit of the quota, but they have got to get it up to February 15.

MR. BELL: You have a much better organization this time; at least you should have. There should be more individual canvassing, and everything should be better.

MR. GAMBLE: You sit down and examine what we have done to this basket. We have taken out at least seven hundred fifty millions of dollars in sales of two percents versus the difference in our contemplated sales of two and a quarter. We have added nearly six hundred million that we want them to get in E bond sales and four hundred and thirty-five million that we want them to get in F and G bond sales. In F and G

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bonds it is more than we have sold in any month since this program started, with the exception of two months. That is increase alone, Mr. Bell.

MR. BELL: I thought Syd Tickton figured you only had between four and five hundred million dollars in bad money in the individual results.

MR. GAMBLE: You have taken out a billion two hundred and two million twos.

MR. BELL: That makes your four billion eight result in the last drive, so what you are doing is increasing it seven hundred million.

MR. GAMBLE: You are taking out the two percent bond. You are not going to compare the two and one quarter sales to a billion two hundred twenty million sales of two percent individuals in this drive.

MR. BELL: I am taking out the free-riding.

MR. GAMBLE: I am in favor of that. I am all for it..

MR. BELL: I have got to assume that you are going to sell as many individuals at two and a quarter from a permanent investment standpoint as the twos.

MR. HALL: I don't think you can quite assume that.

MR. GAMBLE: I am in favor of eliminating two percents. I am in favor of doing away with this billion two hundred and twenty million dollars that we had to our credit in our individual sales in the Third War Loan Drive, but from all of the people that I checked, on all of the information that I could get from George's boys, from our fellows in New York, from our chairmen, they think that a five hundred million dollar estimate on two and a quarters is the outside figure. Now, there is seven hundred twenty million dollars' difference in the sales. In fact, let me put it another way, Mr. Bell. I honestly believe that this drive we are talking about is all wrapped up in the E, F, and G sales. I think the other is stationary.

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MR. BELL: I think that is right, the two and a half to three and a half.

MR. GAMBLE: I think the fellows will have to go like the devil to find a billion and a half dollars in tax notes for individuals and two and a quarter and a half percent bonds. They will have to double anything in that field that has been done before. They are going to have to get it.

(Representatives of the Federal Reserve System are called into the meeting.)

H.M.JR: We all have put in an awfully lot of work on this thing. I don't know whether we have come out at the right end, but we have talked to a lot of people, and we have listened. I haven't tried to sell anybody anything.

I have jotted down some notes. It will take me a couple of minutes if I might read it to you, how we feel today.

(Reading from memorandum of recommendations) "That there be no change in the pattern of rates ranging from 3/8% to 2-1/2%." May I interpolate here to say in all sincerity that since March 1942 when we undertook this pattern of rates I think the Open Market Committee has done a perfectly grand job of management, and I would like to congratulate them at this time, after having taken a very careful look at just what you gentlemen did. You have done a beautiful job.

(Reading) "That we continue the present basis of market bidding for bills with the expectation that cooperation from the market will provide bids at 3/8% or better in ample volume.

"That we continue to expect the Federal Reserve System to provide sufficient reserves to meet the needs of the market and to maintain a good tone in the Government Securities market at the established pattern of rates.

"That the over-all national goal for the Fourth War Loan be fixed at \$14 billion, of which \$5-1/2 billion should be set as the individual goal (\$3 billion of this latter amount should be raised through the sale of Series E Savings Bonds); and that \$8-1/2 billion should be set as the goal for other non-bank

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investors. Sales to dealers and brokers are included in this last figure with the understanding that their subscriptions will be policed.

"That the date for the start of the drive be Tuesday, January 18, 1944.

"That the timing of the drive be arranged as follows: Emphasis in the period from January 18 to February 1 be placed on the individual quota of \$5-1/2 billion."

Do you have an extra copy of this?

MR. BELL: I have just one, I am sorry.

H.M.JR: Give one to each of them.

(Mr. Bell hands copy of "Recommendations" to Mr. Eccles)

H.M.JR: Did you change the figures in there?

MR. BELL: No, I didn't. The figures in number four should be five and a half instead of six, and eight and a half instead of eight, and three for the E bonds.

H.M.JR: The thought now is that they can subscribe, but we won't give them credit in the quota. If they want to buy them, all right, but they won't get credit in the quota.

MR. BELL: The question we have is whether they should have credit in the other classification, other non-bank investors.

(The Secretary completes reading of "Recommendations," copy attached)

H.M.JR: I would be very glad to have any comments, criticisms, or suggestions. It is still wide open. If it isn't clear - I just received this two minutes before you came in; that is why we didn't have enough copies. I am sorry.

We will start anywhere you gentlemen would like to.

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MR. ECCLES: Of course, this puts us, as a committee, at a little disadvantage. I can express my individual views with reference to various aspects of it; I suppose every other member could do likewise. It doesn't make it possible, I think, to take each of these suggestions, one at a time, and express the views of the Committee.

H.M.JR: The memorandum was just handed to me before three. We only got through this morning. Mr. Rouse was here and heard us discussing the thing up until the very last minute, and I asked him to let you know. I tried to let Mr. Ransom know as we went along. I will proceed any way that you want. I don't want you people to feel that you are on the spot or anything like that.

MR. BELL: This is something the Secretary asked us this morning after we closed our conferences, how we felt about the recommendations, and they were submitted to him just at a quarter to three.

MR. ECCLES: I think I or Mr. Sproul could report the views of the Committee, not necessarily with reference to this program, but the views with reference to the problem of the pattern of rates, the present method of buying bills, and the question of the basket. After all, this is merely, as I get it, an expression.

MR. BELL: That is about all that is.

MR. ECCLES: We have discussed all of those questions. I will take the bill matter first, because that is what we discussed the other morning, you will recall. We presented as best we could our arguments for the need of replacements and there is no need of repeating the arguments, because I think you are all familiar with them.

H.M.JR: May I say, I read all of the memoranda very carefully that I was given and that those then were copied and circulated among the people here.

MR. ECCLES: Now, the staff people - Dan called me yesterday, and they met last evening.

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H.M.JR: Until midnight.

MR. ECCLES: For the purpose of discussing it, and they arrived at a method which we didn't feel was as good as the one we suggested, that - definite open facing the thing, frankly - but as I understand it now, all we are expected to do is to just continue to buy whatever is offered at three-eighths, that the Treasury has arranged, or will arrange with the market and the dealers to see that bids are put in. All that we would be expected to do, of course, is to continue to take anything that was offered at three-eighths, which, of course, we would do. Our bills will run off each week, and the Treasury, and not us, will arrange for adequate bids to be put in to assure that the billion dollars--

H.M.JR: After all, Rouse was here. If he had been willing - I don't want to put any undue burden on him. But after all, he has to carry it out, as I take it. Is that right, Sproul?

MR. SPROUL: No, as I understand it, there is a change here. We have been carrying it out, but we say now the situation is such that we no longer think it is the way to carry it; and if it is going to be carried out in that same way in the future, then you should make the arrangements, not us. That was my understanding.

H.M.JR: No, say whatever is in your mind, will you?

MR. ROUSE: Yes. I would make an addition to what the chairman said, that I think you would probably expect us, and it would be proper for the System, to continue, broadly speaking, the encouraging of bids for bills and interest in bills and broadening of the market for bills to the extent that we are able to by circulars and general conversations, that as far as our having any responsibility for putting in or seeing that specific inducing the placing of specific bids on any tendering day, that we are freed of that responsibility, because, as I understand it, and we all know, we want to get away from any burden at all or liability in any sense of direct financing of the Treasury. And we employ indirectly agents to do that. We open ourselves to the accusation of direct purchases, and the Treasury should be

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willing to talk with the market and encourage the market to appreciate the problem of the Federal Reserve maturities and the need for increasing the volume of tenders at the weekly offerings to an extent to where there would be an ample coverage.

I think there is no doubt that the market would be willing to do that. In fact, the market has assured you it would do it.

H.M.JR: I am sorry you people weren't here. No one had to do that. All I had to say to them was, would they be willing to increase their interest in the market?

MR. ROUSE: That is right.

H.M.JR: And their answer was, "We would be very glad to increase our interest in the market, and we want to do it at no profit to ourselves."

MR. ROUSE: The only qualification was no profit to themselves.

H.M.JR: But that doesn't mean that I am going to move down to the Federal Reserve Building in New York, nor is anybody from the Treasury going to move down to the Federal Reserve Building in New York. We are still going to look to you people to do the operating. Let's have it perfectly clear.

MR. ECCLES: Yes. But there is quite a distinct difference, it seems to me, in the mechanics of the operation which we would expect to carry out and take all the bills that are offered, just as they are offered, either under the option account or openly. Now, that is very different from making a previous arrangement, which is the thing we are unwilling to continue to do for dealers; in other words, to get in touch with dealers and say, "We want you to put in for our account, in effect." That is what it amounts to, that you put in bids and we will take the securities off of your hands as we have been doing at three-eighths, plus thirty-seven dollars and fifty cents a million. Now, we feel that that is a direct violation of the law. We have felt that way for some

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time. I have felt pretty strongly on it. Congress says that you cannot buy directly from the Treasury. I see very little difference in our buying directly from the Treasury, which is different from the exchange. The law permits an exchange of a maturity for a maturity. What the law forbids is direct buying.

Now, we consider that --

H.M.JR: The arguing has all been done. All these fellows want to know is if they go out and buy for bids, is the put still there?

MR. ECCLES: The put is to everybody. We have a posted rate of three-eighths.

H.M.JR: That is all they want to know, all arrangements have been made. It is finished. You don't have to do a thing.

MR. SPROUL: That was the only point.

MR. ECCLES: That is our point.

MR. SPROUL: If any question arises concerning it they will get in touch with Mr. Bell, and not us.

MR. BELL: No, I don't think so. I think you are making a distinction here between the Federal Reserve Bank in New York operating and managing the System account and operating as fiscal agent of the United States.

Now, I think we have to look to Mr. Sproul and Mr. Rouse in the New York market to see that there are enough bids every Monday night to cover these bills as fiscal agent. I don't think you can expect Mr. Bell or anybody else in the Treasury to stand guard over the market, but I think it is only fair to say that the Secretary in discussing this market with the four principal dealers this morning told them of the various plans. And they didn't like any of them. They said we are going to be severely criticized. They said, "Why don't you leave well enough alone? We have enough effort in this market to see enough bids are put in."

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MR. SPROUL: If the Secretary of the Treasury requests us as fiscal agent for him, we do that as fiscal agent. That is still the Secretary of the Treasury doing it.

MR. BELL: If you are looking at it that way, O.K.

H.M.JR: Now look, gentlemen, don't let's make something extra difficult. We have two things that we can do. We can say, all right, the Federal Reserve has come to us and said that they are worried about these bids. They don't like what they have been doing. They don't think it is on the up-and-up and we are worried. "We don't think we can carry out your wishes," because you put me in that position on March 13 and I had to ask you up. I will refresh my memory on this. You asked me to do that point blank. You have done a damned good job since then, see?

Now, I say if you want to change and do the thing directly - in our testimony and I believe in your testimony you people said that the only use to do business direct is in case of emergencies. Well, the emergency is once a week, fifty-two weeks. I am not willing to do it at all unless we go to the Congress and explain the thing in detail. Eccles might be up there for weeks. Now, some people don't like that. It would attract a lot of attention. These people worked hard, your people, and our people, Rouse.

Last night they made a recommendation; and then after thinking it over decided you are putting the bills on the same basis as other securities.

Rouse said when he got shaving this morning he got the idea that if we would indicate the market - I said, "Is there anything you can put in writing or a report?" All I had to do was raise my eyebrow and compliment these people a little bit.

They said, "Do you want us to take a little more interest in the market as individuals? We will be glad to do it." We have nothing to worry about. All these other suggestions we don't like. If your conscience is bothering you at all, I am willing to say we took the initiative.

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On the other hand, I am going to insist that the Federal Reserve Bank of New York as our fiscal agent supply the machinery. It isn't any different. Mr. Sproul asked me point blank to order him to do this in March, 1942, which I did.

I am not ordering now, except if we do it this way; these dealers having told us they are glad to do it, don't want to make any money on it, they will do it just as long as they or anybody else can put this thing to you people. They assured us not to worry. They don't like any of the other suggestions, and they like this. They said not to monkey with it, see?

MR. BELL: I might add that they think if you change this everybody will be expecting another step. The next step will be a change in rates, and then another step--

H.M.JR: If you get up against it, I would rather not see it in a formal report of the Open Market Committee, but if any time you get up against it, you can say that I encouraged the dealers to take more active interest in the market, I am perfectly willing to have you say that.

MR. McKEE: There isn't anything for us to be embarrassed about. We have a fixed rate to take bills at, three-eighths of one percent. Period. Now, when the bills come, we take them.

The thing that you are interested in is to see that your weekly offering is underwritten. You have relieved us of all of this responsibility by this action, and I for one member of the Open Market Committee am very grateful, because we were worried about the proportion that we had to find each week to make out the full amount. I don't see any hardship in this for us, but from now on it is your direction and responsibility.

H.M.JR: It has been that, old man, from March, 1942 to this date.

MR. McKEE: I think we have divided the responsibility a bit by our action.

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H.M.JR: I don't know where the thing is, but I went through the conversation. You (Sproul) will remember it. You asked me to please instruct you to do that. Do you remember?

MR. SPROUL: Yes. Now, I think the difference that Mr. McKee is referring to here - you were working through the Open Market Committee then, and in this arrangement you will be working through the New York Bank as your fiscal agent.

MR. McKEE: And not as manager of the Open Market Committee.

MR. BELL: You are relieved of this embarrassment you have been talking about.

MR. ECCLES: We are prohibited as an Open Market Committee to make direct purchases, and we figure that, in effect, whenever we make previous arrangements that we are doing indirectly what we are prohibited from doing directly. Our counsel so advises us, and we have known for some time that we were getting on to dangerous ground on that score. We just don't like to feel that we have five hundred million of bills running off and we have to go right out to a dealer and say, "You put a bid in to the Treasury for this five hundred million and turn them right over to us immediately and we will give you thirty-seven dollars and a half a million for your action. Now, we just feel that that in effect is really what we are doing.

MR. ROUSE: May I say at that point, Mr. Chairman, that we have not made any commitments for specific tenders, that we have really acted in behalf of the Treasury to try to encourage - with specific instructions - to encourage bidding for Treasury bills, pointing out the Treasury bills.

MR. ECCLES: We have been paying thirty-seven and a half a million to get our own maturing bills back.

MR. ROUSE: For a small proportion of them, and a good sized proportion of those allotted to the dealers, roughly two-thirds.

MR. ECCLES: We went along because of that proportion.

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MR. ROUSE: I just had in mind the record.

MR. ECCLES: The situation that we are confronted with now is a maturity of from four to five hundred million a week out of a billion. We are confronted with the replacement of about half of them we have gotten, not only those bills every week, but of taking several hundred million of either bills or other securities to provide the necessary reserves that we would expect to buy in the market. And, of course, we figured under the proposal that we made, and our counsel so advised us, that we were not doing direct purchasing, but we were accomplishing an exchange which the law permits and which we have done in the case of certificates and other papers.

(To the Secretary) I was just saying that what our counsel advised us was that it was strictly in accordance with the law, that it was an exchange which we have already been doing in the case of certificates and notes and bonds and which the law permits. They permit an exchange. What we proposed was an exchange of our maturing bills just as we exchange every other maturity which was within the law, whereas what we were doing was doing indirectly what we are not permitted to do.

MR. BELL: I think that might be termed legal, but I think we could still be criticized for that very thing. I think the proposition that came out this morning where we put bills on an entirely different basis and on a straight exchange - we might get by with that.

MR. MCKEE: That is all right. That is calling the dog by another name. But as long as we are not furnishing the Treasury any new dollars, I don't feel that anything we have taken out of the market at any one time in continuous maturity by rolling it over isn't furnishing the Treasury new dollars. But I would be just against it as much as you people would be against the furnishing of one dime except through an overdraft of a new dollar. It is just a medium of meeting the situation which we have had marketwise weekly to meet, and now you have assumed a responsibility. I am just tickled to death with it.

H.M.JR: Have you any objection?

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H.M.JR: Have you any objection?

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MR. McKEE: No, not if you want to take that load on. All the future is yours, with our blessing.

H.M.JR: Well, we are at war. I have got to raise the money.

MR. McKEE: It could be done in different fashion, where the outside public wouldn't be called upon to do a concerted job.

H.M.JR: I know, but as between Eccles and whoever the Federal Reserve Board wants to send up on the Hill and somebody from the Treasury going up there and going all through this thing for a couple of weeks, which I don't think would help matters any, I'd rather do it this way.

MR. ECCLES: Of course, I feel it would be inadvisable to go up on the Hill. What we proposed, of course, we felt that it shouldn't necessitate our going up on the Hill, because it was in accordance with the authority given us in the Statute of exchanging what we had maturing, whether bills, certificates, notes, bonds, or what.

I was on the Hill, as you know, in connection with getting that legislation through. I was up there for both the House and Senate for two or three different days.

H.M.JR: For days, weren't you?

MR. ECCLES: No, I was only a few hours in the House; I think a day in the Senate.

H.M.JR: Somebody asked me the question up there, was this an emergency or for a usual matter. I said it was an emergency.

MR. ECCLES: It is. What we are proposing wouldn't be part of the five billion. That is the distinction. The five billion is where you give the Treasury new money. In other words, if you want five billion - - Whereas, what we are doing is not proposing to give the Treasury one dollar of new money. Now, if you wanted

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five billion of new money and issued five billion of bonds, you could do that once and we then couldn't make any further direct loan to you. That would be new money until that was paid. That is a revolving fund of direct purchase to meet an emergency; and the real distinction between that and what we proposed is merely turning over what we have, which doesn't give the Treasury one dollar of new money. The Treasury, in the first instance, got this money for bills in the market. In the first instance, they got the money for certificates in the market. All they do now is roll over our certificates. They roll over our notes for us when they come due. All we are carrying out is roll over the bills, which is all in accordance with the law, no part of the authority for the five billion.

H.M.JR: We went into all of that.

MR. McKEE: Can't we tell the Secretary that we are in accordance with the arrangements he has made with the market?

MR. SPROUL: What I would tell him--I think you would be better advised to do it the way we suggest. Other advisers tell you differently. You have decided to do it this way. I think that is up to you.

H.M.JR: I have been sitting here waiting for people to come to me, so it isn't as though I was rushing anybody as far as these people are concerned, and I am not rushing you, as President of the Federal Reserve of New York and our fiscal agent. Would you be willing to undertake this--I having satisfied myself that there will be plenty of bids?

MR. SPROUL: I say that I, as fiscal agent, am going to undertake it when you, the Secretary, request it.

H.M.JR: I am asking you now.

MR. SPROUL: I say we are willing to undertake it.

H.M.JR: All I ask for is as good management in the future as we have had since March 19. I am assured of

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that, am I not?

MR. SPROUL: I think so.

H.M.JR: All right. Well, I'm satisfied, so can we consider that matter settled?

MR. SPROUL: Yes.

MR. ECCLES: The only interest I have, as Chairman of the Open Market Committee, is the responsibility for what I feel the Open Market has been doing. If we have no further responsibility--and, as I understand it, we don't--then of course we have nothing further to say. I feel like John: We just have nothing further to say about it. It isn't our responsibility.

MR. McKEE: We have our own problem as far as accounting is concerned, but it can be handled.

MR. ECCLES: Well, we don't buy more or less this way; we wouldn't buy any more or less bills. We will end up with the same bills or the same rate. It is merely a question of method.

MR. SPROUL: Optional account rather than System account.

H.M.JR: I look to the Open Market Committee very definitely to carry the responsibility of supplying sufficient excess reserves.

MR. SPROUL: That is a separate matter.

H.M.JR: Yes, but I want to be sure. I look to the Open Market Committee to see that they supply sufficient reserves so that we can float the Fourth War Loan.

MR. ECCLES: Well, the market supplies its own reserves. We establish a rate of three-eighths. Now, the only further thing we can do is drop the rate to a half, maybe. We could drop the rates lower.

H.M.JR: Supposing you want to increase your bill portfolio?

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MR. ECCLES: I mean, drop the rate to a quarter.

H.M.JR: It is a question of increasing your bill portfolio, if it is necessary. That is the point.

MR. ECCLES: We have no way of doing it, unless we bid the rates down. We bid the bills up to a premium and bid the rates down, maybe to a quarter, because we stand today to take all bills that are offered and the banks are not supposed to be in on the drive, as I understand it.

H.M.JR: This matter is a mechanical matter which I settled.

Now, somewhere, some point mentioned reserves. Point 3: "That we continue to expect the Federal Reserve System to provide sufficient reserves to meet the needs of the market and to maintain a good tone in the Government Securities market at the established pattern of rates."

MR. BELL: That is what they have done in the past.

MR. ECCLES: That is right. We will continue to do what we have done. All we do is buy what is offered to us.

MR. ROUSE: It is an inter-relation of what is going on currently; no change.

MR. ECCLES: Yes, but what I meant to say to the Secretary is that we can't go out and buy securities without bidding up the market of securities. We can stand there and take the securities that are offered, which we have been doing and which we expect to continue to do at this pattern; to try to force an expansion of reserves would mean that we would go out and bid for securities so as to get them, induce people, to sell them to us--induce the banks and individuals to sell them to us.

H.M.JR: All I am asking is that you people continue to do the same kind of job in the future as you have in the past.

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MR. ECCLES: We intended to do that.

MR. BELL: I think that is all that says. We are not asking you to put more reserves in or fix the reserves at any place. They are asking you to continue what you have done in the past.

MR. McKEE: It is a continuing problem.

H.M.JR: I am just asking you to continue.

MR. McKEE: Sure. There is nothing else for us to do, whether you ask it or not!

MR. ECCLES: All we are saying there is we continue to maintain a pattern of rates. Period.

MR. BELL: Keep a good tone in the market. That is what you have done, and you have done a swell job and we want a continuation of it.

MR. SPROUL: Well, I think we all understand each other. There is no question of how you interpret this word or that--what keeping a good tone in the market means or doesn't mean. We have the problem of providing the reserve funds the banks need to meet an increased currency in circulation and in their deposits. That we must do and will do. And you don't want us, and we don't want, to force funds into the banks which will make the banks bid against other investors for Government securities. Your policy is to keep the banks out of financing as much as possible, and we certainly agree with that policy.

So that our problem remains, as I see it, to provide the funds necessary to meet the increased currency circulation, to meet the increased requirement against deposits, and the pattern of rates will then largely take care of itself. But we'll be there to see that it doesn't move too far in one direction or the other.

MR. ECCLES: It is the bank's option. If the bank needs reserves, it has to sell us something, and we want

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to be sure that we are there to take what they want to sell us in line with the pattern. And they want to be sure we will do it. If they are sure we will do that--and certainly that in itself gives the confidence to the market and it is all based entirely upon our, in effect, pegging, because it is practically a peg of the market at certain different maturities.

MR. McKEE: We have got those two settled. Let's go on to the next one.

H.M.JR: Do you want to read this memorandum?

MR. McKEE: I don't know the next point.

MR. BEIL: There are about four points.

MR. ECCLES: Yes, I'd like to say this further, though. You say no change in the pattern. I'd like to make this point, thinking of the future. As I understand that, however, the pattern is three-eighths to two and a half. Now, we can't maintain a two and a half or a two percent rate if the long-term rate begins to go down. I mean, if there is a shift from the short intermediate bonds into the longer bonds, then as we have said, the holding of the short rate where it is may well tend to pull down the long-term rate.

Now, if that happens, there is nothing we can do about it, because we have practically nothing to sell to the market to keep it up, so we can keep the short rate. That is no problem. The problem comes in maintaining the long-term rate.

H.M.JR: Going up or down?

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MR. ECCLES: Going down; there will be no problem to keep it from going up, because we buy. We can always buy, see? If your two percent or two and a half percent bond showed weakness and began to get down to par, we can support the market. There is no problem there of maintaining that rate from going up.

H.M.JR: There is no indication right now that the long-term Government bond is going to go up.

MR. ECCLES: At the moment, that is correct, but all I wanted to say here is, if we bring up this question again - which we would feel it was possibly our duty to do - if that is what happens - if, in other words, to maintain this spread which we have said is a difficult thing to do, looking to the future, I take it that you are just as anxious as we are not to have this long-term rate go down.

H.M.JR: I will put it differently to you. We have got a curve which was established on March 13, 1942. I would like to keep it just as near that as possible.

MR. ECCLES: So would we.

MR. SPAUL: We have been keeping it as near that as possible. We have now said to you that that is getting more and more difficult. It may be that sometime in the future, or the more distant future, it may become impossible to do it. We will have to get together, then, and decide what we are going to do about it. We foresee that possibility arising unless we create so much fund that we run counter to your other policy of keeping the banks out of the financing.

H.M.JR: The door is wide open, twenty-four hours a day. In this war nobody can tell what is going to happen. At any time the thing gets to where you people think it is impossible, we will meet immediately.

MR. SPAUL: Well, we thought we were just about there. We have a temporary situation, as we see it, where the pressure isn't on, but will recur soon, I think. We will then be back.

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H.M.JR: If it does, come back.

MR. ECCLES: As I recall, the other day--

H.M.JR: I will get a reservation on the plane - not at the hotel--

MR. ECCLES: As I recall, when we met the other day I got this impression: I know, from Dan, that the Treasury is just as anxious to see these long-term twos and twos and a half stay stable - stay where they are - as they are in the short rate; in fact, more so, if anything, because of the problem of refunding.

In other words, if the long-term rate goes down, and it did a little last June because we put out, instead of a seven nine two, we extended it to eight ten, which was an evidence of a slight dropping in the rate. Now, that establishes a new floor for refunding operations, and we feel that it may become increasingly difficult to do refunding on any lower long-term rate.

MR. BELL: Wouldn't you hate to be asked to maintain an eight and a half, ten and a half, percent bond?

MR. ECCLES: I would sooner that than a ten-twelve two-year bond.

MR. McKEE: Are we maintaining a pattern of rates when we make it possible to get your maturities out farther and farther?

MR. BELL: I think we are making it more difficult when we extend it each time, particularly in the immediate area.

MR. ECCLES: That is the basis of this thing, is the thought of the refunding job that is ahead, and not getting a rate structure here that makes refunding increasingly difficult.

H.M.JR: Allan Sproul says we have a momentary lull. I don't know how long that is. For the moment, it looks all right. Any time it doesn't look all right, please

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run up a red flag as danger signal.

MR. McKEE: I think what Allan meant, Mr. Secretary, is the fact that the momentary lull is between now and when you spend all this money you have to deposit in these banks, which will create a problem between now and the end of the year for us.

H.M.JR: We have talked to a lot of people, and most of them don't agree with you, but that is what makes horse trades.

MR. McKEE: I am used to that.

H.M.JR: Time will tell. I hope neither of us is too wrong.

MR. McKEE: Just in that regard - when the proposals are made to you, and you say you have read all the memoranda - I don't know where you got all the time, but nevertheless, there are plenty.

H.M.JR: I have read all of them carefully.

MR. McKEE: The reason that I was persuaded to favor the three-quarters of one percent, nine-months bill, with the refinancing of your certificate, was to get an adequate supply of paper in the hands, flowing in and out, of bank ownership to act as the medium of the expansion of deposits without bills payable.

Now, I have seen the bankers run away from your bill because it was yield and speculate with your certificate for the same purpose because of the pattern of rates. Now, sometime on the line we may get into trouble with that, and it is going to react against all of us, but there isn't enough interest in the bill to serve the purpose, to blow up these deposits as might be necessary to finance this war, without showing bills payable. All the puts that we have had in our system, which was four billion seven hundred million dollars today - something like that - represents bills payable in this country; bills payable by banks.

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Now, I don't know whether we are going to have enough of that, if they don't keep on buying bills.

MR. BELL: Put out more bills.

MR. McKEE: They won't buy them, Dan. It is a question of rate. They are playing the pattern of rates with their certificates, which can't be used for that same purpose.

H.M.JR: It is perfectly possible that we may be wrong. If this thing makes any breaks anywhere along the lines, why let's get together again. We will be getting together, anyway, now.

Is there anything else?

MR. ECKLES: Well, there is only one other thing.

MR. McKEE: I just wonder - talking about your basket and speculation - I wonder if you mean everything you say there about writing a letter. I have followed not only yours, but our approach to these various issues; after a drive we get all excited about the free-riders and the speculation in these various issues, and then when we come up against a new issue we get terribly worried whether it is going to be a success or not, and then we weaken as to our approach. Now, we mean what we say and will stick with it.

H.M.JR: No question about it. I understand the A.B.A. is going to get out a letter, too.

MR. BELL: No, not on this.

H.M.JR: I can assure you we will get out a stiff letter.

MR. BELL: And they ought to take a look at it, too.

H.M.JR: We will be glad to show it to you.

MR. McKEE: You fellows can only go so far in suggesting, because you have no authority.

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H.M.JR: As a matter of fact, these Sources of Fund people say we should go after sixteen and we are only going after fourteen; so the pressure all along the line will be easier except on individuals.

MR. ECCLES: On the basket - the whole approach - I am in complete disagreement with this memorandum. It won't be the first time, but I think that Allan and I have some slight difference on the thing, but we didn't have a chance after we met a little while this morning to give this as a statement of unanimous presentation of committee. But I might point out where the differences here are, if you are interested in having them.

H.M.JR: Yes, sir.

MR. ECCLES: We said there should be a separate drive for individuals on the one hand, and for corporations, insurance companies and mutual savings on the other. The drive for individuals, logically, should be first. The corporation drive should be only after the maximum possible amount has been raised from individuals. That is the most anti-inflationary action.

H.M.JR: We are having three weeks of individual drive.

MR. ECCLES: Yes, well now, I have this point of difference - a little bit. The Treasury will have a balance of about eight billion dollars in the middle of January, and the drive, at that time, does not appear to be necessary. The drive could be postponed at least until the middle of February. It does not seem necessary for the Treasury to maintain such large balances for meeting unforeseen contingencies - for large redemptions in savings bonds. That was, as I understood it, the need.

H.M.JR: We are carrying a little over one-month supply of money.

May I interrupt you? I have had a lot of talk with Nelson, Stacy May, and all those people, and this thought that if Germany should collapse the sudden expenditure is

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going to stop; well, there is nothing over there yet which shows anything like that. As a matter of fact, they think that they are being increased, because we may have to pay off a lot of these companies on the seventy-five percent settlement. So they think the out-of-pocket may increase to the extent of four billion dollars.

MR. ECCLES: You mean, if the bill goes through.

H.M.JR: Yes, but I have been with Nelson - I have had Stacy May over here. I have been all over this thing. This idea that some people have, that if Germany should collapse, the expenditure would certainly drop off, there is nothing in the Army or Navy, or Nelson's organization which bears that out.

MR. ECCLES: We haven't thought of that. I agree with you that there is not any likelihood of the expenditure dropping off.

MR. MCKEE: I hope you are both wrong.

H.M.JR: We think that the country might be in the frame of mind that at the first shock it might be difficult to raise some money. So I feel very strongly that we should carry a month's supply of money on hand right now as the minimum.

MR. ECCLES: I feel, of course, if the Treasury had to rely on what the market did for it, that may be true; but with the setup that you have got today, for now and for a long time in the future, the Fed has simply got to - the central bank in this country, and every other country, for that matter - has got to meet any situation; and our feeling is that any amount that the Treasury may need in bills they could raise in bills, in certificates, or, of course, with the over-drafts, as quickly as it was necessary. If it was five billion, ten billion, fifteen or twenty billion - whatever it is - I think you are in that position. I can't imagine your being confronted with any situation where you haven't got, in effect, large cash balances available through Fed, any time. It must, of necessity, be that way.

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I just wanted to say that so that you wouldn't feel that you were going to have to rely, to meet a situation, on your cash balances. Because even eight billion, in that circumstance, may not be enough to meet it.

But after all, you have got to figure on the sort of mechanism that we have got created to meet any kind of a condition up to tens of billions; because that is where you have got to be, isn't it?

MR. BALL: Yes, we have got a lot of obligations hanging over us. We may have to meet and meet pretty quickly.

MR. ECCLES: In a short time. And, after all, it is the responsibility of the central bank to do it. That is all. We are just interested in seeing this market doesn't collapse. When you think of what it means to the banks, our own portfolio, the insurance companies, the whole picture - well, we just don't feel that those large balances are necessary; that you have the equivalent any time you want it.

MR. BALL: We have that much more, then.

MR. ECCLES: It has been mentioned above that the individuals could be postponed until at least the middle of February. In that event, the corporate drive, we feel, should be postponed - Allan had a little disagreement on this - until March or April.

An alternative drive program would put the corporate drive first, the individual drive farther over, inasmuch as the last individual drive wasn't so long ago; that in the spring it would be easier making a drive, and it would be farther removed from the time the last drive was made. In that case, you could get the corporate drive first.

Our reasons for the separation of the drives would be to concentrate emphasis upon individuals. Most of the effort of a selling organization could be concentrated in the individual drive. A corporation drive would require little sales effort.

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Now, something has been said about the need of the impetus of having the two all come together so the advertising and the selling organization, and everything, is done at the same time. It seemed to me that what happens under those conditions - at least happened the last time - is that you get corporations coming in and selling securities they bought at the last drive in order to subscribe for this time; that you get a lot of borrowing in order to carry quotas; that the impetus of the drive is fine for individuals.

You want to do everything you can, but so far as giving the impetus to corporations, it only induces them to sell securities they bought before, or to go in and borrow money to take securities, and that ends up in the bank's getting the securities indirectly.

For instance, in the September drive the banks got four billion dollars of securities, indirectly.

H.M.JR: We are familiar with all that.

MR. ECCLES: So if you separate them, that is not as likely to happen. That was the argument.

MR. BELL: You wouldn't prevent all of it, Marriner, if you separated it, particularly if you put any emphasis on the corporate drive. But Ted Gamble can tell you; he had fifty-one chairmen in here last week. Outside of one, New York, they couldn't agree in separating it.

MR. ECCLES: I know of a few instances where the corporations had one committee, and the individuals an entirely different group. The corporations had a group of bankers and business people who made a list. That was no job at all.

MR. BELL: True in some places, I suppose, yes.

MR. GAMBLE: As an example, the State of Texas has two hundred and fifty-four counties, and they didn't want to do the job twice, but once. It was difficult for them

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even to hold one meeting in all of those places before they got away from the drive. I think you will be interested to know that not one of these people shied away from taking on a more serious responsibility so far as individuals were concerned and in changing the basket in some way so there wasn't this danger of free-riding at all. We have modified it, as you notice there, and spread out the individual period from the 18th day of the month until the first of the month. They will have no report of any sales until the first of February. I think that is a definite step forward.

I think we all agree with you it would be ideal if it were three or four weeks.

MR. BELL: What we would propose here is a sort of in-between; we have had many suggestions that we not change it from the last - leave it alone. You have these people all trained and they know what it is; let it go that way. And somebody else will come along and say, "Let's separate it and put one section way out here"-- weeks away.

Now, this is the thing: To bring it together in the first case, but at the same time, to have enough separation so the different States can work it separately.

MR. ECCLES: I think that is a big advantage over the September. If you want to keep the very large balances of War Loan Deposit Account, of course, it does make this reserve thing like that (gesticulates); if you run along with the balances of three billion to twelve billion, it makes it much less. But it can be handled. The reserve thing can be handled by the shift of bills back and forth in the portfolio, that will meet the reserve requirements through the change.

MR. JEN: Have you got a memorandum you are reading there?

MR. ECCLES: Yes, I have got one which we used as a basis of our discussion over there. I underlined part of it because it wasn't a committee memorandum.

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H.M.JR: Do you want to leave something with me?

MR. ECCLES: I can leave it. It is a memorandum we used as a basis of discussion just before we came over here. We didn't have time--

H.M.JR: I would like to have that, then I would know what your position is.

MR. McKEE: Before we get away from the subject, I would like to register a desire for a change in your program, and that is to present the same old story for the little bank with the savings deposits. You are just driving the saving deposits of the country into the Federal Savings and Loan, and the Building and Loan associations in competition, because they can't get a two and a half percent bond.

You have got to do something about that or just recognize that they are going to go out of the savings business. It is serious.

H. .JR: We are interested. Now, have you something?

MR. McKEE: I think your next issue, two and a half, ought to be included whenever you include mutuals and others on some percentage basis.

H.M.JR: I am sympathetic with that.

MR. ECCLES: We have a paragraph on that here, and I found in talking to the bankers the other day, Dan, that Lee Higgins, and B.A. Edwards, and the savings section of the A.B.A. are very much concerned about the smaller banks losing to the Building and Loan and other concerns. And I know that to be true.

MR. BELL: They are going to give us a memorandum of that.

H.M.JR: Are you taking the four-thirty train?

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MR. SPROUL: No.

H.M.JR: Can you stay a minute?

MR. SPROUL: Yes; I am taking the five o'clock.

H.M.JR: All I need is a minute.

(To Mr. Eccles) If I could have this thing here (indicating Memorandum for Discussion at Meeting of Members of Executive Committee on November 17, dated November 16, 1943, copy attached), I would like to study it.

MR. ECCLES: There is one other thing on your basket that disappoints me more than anything else and that is the offering of the certificate to the non-banking investor again.

MR. BELL: Again, we had a lot of discussion of it, Harriner, from dozens of people, including the State chairmen and the bankers, and everybody else, and they felt that if you put in a note there would be more free-riding than on the two percent bond. That is what outside advisers tell us. And yet they tell us we have to keep something in that basket for the corporations. They won't go into the five-year note or the bonds, and many of them don't want the Treasury savings note.

So we think we are knocking a lot of people out by leaving out the certificate; and we hate to do it, making our task that much harder, and we don't feel we can take that chance, much as we would like to leave it out.

MR. ECCLES: There is the place where they are playing this pattern of rates to a rare-ye-well, right now.

MR. BELL: You are getting a few of them, and that doesn't worry me one bit. If that is the only thing we had in, the certificate, I would vote for it a hundred percent.

MR. ECCLES: well, of course, what we are getting is a lot of certificates, and we are going to get an increasing amount.

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MR. BELL: Fine.

MR. ECCLES: That is right, but if they couldn't play that pattern as they do, we would get more bills.

MR. BELL: You are going to run out of bills pretty soon, anyhow. You are getting down to half of them.

MR. ECCLES: We have got close to six billion. There are seven billion of them we haven't got.

MR. BELL: You have to stop some place if the market keeps any for cushion.

MR. MCKEE: Have you disregarded the idea of more bills at this time?

MR. BELL: We are leaving it to you to preserve the market and keep a good tone. We have passed it up for the time being.

H.M.JR: They seem to be a drag on the market; why put more on?

MR. ECCLES: That is right; the market won't take them. It is just another way of putting more into use through the market.

H.M.JR: Is there anything else?

RECOMMENDATIONS

1. That there be no change in the pattern of rates ranging from 3/8% to 2-1/2%.
2. That we continue the present basis of market bidding for bills with the expectation that cooperation from the market will provide bids at 3/8% or better in ample volume.
3. That we continue to expect the Federal Reserve System to provide sufficient reserves to meet the needs of the market and to maintain a good tone in the Government Securities market at the established pattern of rates.
4. That the over-all national goal for the Fourth War Loan be fixed at \$14 billion, of which ^{5 1/2} \$6 billion should be set as the individual goal (³ \$2-1/2 billion of this latter amount should be raised through the sale of Series E Savings Bonds); and that ⁵ \$8 1/2 billion should be set as the goal for other non-bank investors. Sales to dealers and brokers are included in this last figure with the understanding that their subscriptions will be policed.
5. That the date for the start of the drive be Tuesday, January 18, 1944.
6. That the timing of the drive be arranged as follows:
 - (a) Emphasis in the period from January 18 to February 1 be placed on the individual quota of ^{5 1/2} \$6 billion.
 - (b) Drive to continue until February 15, taking in other non-bank investor subscriptions beginning February 1st.
 - (c) All subscriptions from individuals received at the Federal Reserve Banks or at the Treasury of the United States up to February 29, 1944, will be credited to the drive; and that corporations will be permitted

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to subscribe during the entire period of the drive but no public announcement of such subscriptions will be made by the Treasury until after February 1st.

7. That the basket should consist of the following securities:

(a) Individuals:

E - F - G Savings Bonds

Treasury Savings Notes

2-1/4% Treasury bond (Call and maturity date to be decided just before announcement)

2-1/2% Treasury bond (Call and maturity date to be decided just before announcement)

(b) Other Non-bank investors:

F & G Savings Bonds

Treasury Savings Notes

7/8% Certificate of Indebtedness (Will be available for subscription by individuals but decision with respect to credit against individual quota will be made later.)

2-1/4% Treasury bond (Same as above)

2-1/2% Treasury bond (Same as above)

8. That the date of the marketable securities be February 1, 1944.

9. That the 2-1/2% long bond be reopened at least once between the Fourth and Fifth War Loan Drives.

10. That any decisions with respect to the drive be announced on November 24th.

11. That the Secretary of the Treasury send a letter to all banking institutions of the country pointing out the Treasury's objective to borrow as much of our required funds as possible from non-bank sources,

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and ask them for their cooperation in eliminating speculative subscriptions and free-riding. Advise them that there is no objection to loans by banking institutions to facilitate permanent investment in Government securities if such loans are paid off within the period specified by bank examination authorities (6 months).

12. That Certificate of Indebtedness maturing December 1, 1943, in amount of \$3,800,000,000 be refunded and Treasury note maturing December 15, 1943 in amount of \$421,000,000 be paid off in cash.

Original Draft

RECOMMENDATIONS

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1. That there be no change in the pattern of rates ranging from 3/8% to 2-1/2%.
2. That we continue the present basis of market bidding for bills with the expectation that cooperation from the market will provide bids at 3/8% or better in ample volume.
3. That we continue to expect the Federal Reserve System to provide sufficient reserves to meet the needs of the market and to maintain a good tone in the Government Securities market at the established pattern of rates.
4. That the over-all national goal for the Fourth War Loan be fixed at \$14 billion, of which \$6 billion should be set as the individual goal (\$3-1/2 billion of this latter amount should be raised through the sale of Series E Savings Bonds); and that \$8 billion should be set as the goal for other non-bank investors. Sales to dealers and brokers are included in this last figure with the understanding that their subscriptions will be pooled.
5. That the date for the start of the drive be Tuesday, January 18, 1944.
6. That the timing of the drive be arranged as follows:
 - (a) ⁷⁻¹² Bimonths in the period from January 18 to February 1 be placed on the individual quota of \$6 billion.
 - (b) Drive to continue until February 15, taking in other non-bank investor subscriptions beginning February 1st.
 - (c) All subscriptions from individuals received at the Federal Reserve Banks or at the Treasury of the United States up to February 29, 1944, will be credited to the drive; and that corporations will be permitted

to subscribe during the entire period of the drive but no public announcement of such subscriptions will be made by the Treasury until after February 1st.

7. That the basket should consist of the following securities:

(a) Individuals:

E - F - G Savings Bonds

Treasury Savings Notes

2-1/4% Treasury bond (Call and maturity date to be decided just before announcement)

2-1/2% Treasury bond (Call and maturity date to be decided just before announcement)

(b) Other Non-bank investors:

F & G Savings Bonds

Treasury Savings Notes

7/8% Certificate of Indebtedness (Will be available for subscription by individuals but decision with respect to credit against individual quota will be made later.)

2-1/4% Treasury bond (Same as above)

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11. That the Secretary of the Treasury send a letter to all banking institutions of the country pointing out the Treasury's objective to borrow as much of our required funds as possible from non-bank sources,

November 16, 1943

STRICTLY CONFIDENTIAL

MEMORANDUM FOR DISCUSSION AT MEETING OF MEMBERS OF
EXECUTIVE COMMITTEE ON NOVEMBER 17

1. There should be a separate drive for individuals, on the one hand, and for corporations, insurance companies, and mutual savings banks on the other. The drive for individuals logically should be first. The corporation drive should be only after the maximum possible amount has been raised from individuals.
2. Since the Treasury will have a balance of about 8 billion dollars in the middle of January, a drive at that time does not appear to be necessary. The drive could be postponed at least until the middle of February. It does not seem necessary for the Treasury to maintain a large balance for meeting unforeseen contingencies such as large redemptions of savings bonds. Since the Federal Reserve System is maintaining stability in the Government security market, the Treasury could meet any conceivable emergency need for funds through offerings of bills or certificates. In addition, the Treasury could borrow 5 billion dollars directly from the System, none of which authority is now being used. In effect, therefore, the Treasury would have a large cash balance, even though its actual deposits were reduced to a low level.
3. It has been mentioned above that the individual drive could be postponed at least until the middle of February. In that event, the corporate drive could be postponed until March or April. An alternative program would be to have the corporate drive in February, in which event the individual drive could be postponed until April.
4. The principal reason for the separation of the drives is to concentrate emphasis on sales of securities to individuals. Most of the efforts of the selling organization could be concentrated on the individual drive; the corporation drive would require a relatively small amount of sales effort. With the separation of the drives, reliance could no longer be placed on corporation subscriptions in order to reach the goals. The Treasury would receive a more even flow of funds and consequently would

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November 16, 1943

avoid the payment of interest on the excessive cash balances that result from the present drives. The number of kinds of issues included in the individual drives could be reduced. Smaller transfers of deposits to war loan accounts than during the past drives would result in smaller declines in required reserves and consequently in less encouragement to the expansion of bank credit..

5. It seems desirable to have a period of a month or two between the individual and the corporation drives. The advantages of the separation would have real force only with some interval of time between the drives. Moreover, since the total of the individual drives would not be known for a week or two after the close of the drive, better planning of the corporation drive could be made if it were postponed until some time after the conclusion of the individual drive. Quotas would be established on a State basis for the individual drive.

6. In the corporation drive, provision should be made for the investment of savings deposits of commercial banks on the basis of some formula. The formula for each commercial bank might be 25 per cent of the amount of the bank's savings deposits but not more than \$1,000,000. Commercial banks have a large amount of savings deposits. Since they are unable to invest them in new issues at rates of more than 2 per cent, however, they have reduced their rates on savings deposits to 1 1/2 percent and less. Building and loan associations and other savings institutions are taking this business, since they are able to invest in 2 1/2 per cent bonds and consequently can pay higher rates than can commercial banks. By this process, the Treasury in effect is encouraging the growth of a duplicate banking system. If commercial banks were permitted to purchase 2 1/2 per cent bonds, however, they could pay 2 per cent on their savings deposits, which would place them in a better position to meet the competition of other savings institutions.

7. The basket in the individual drive should consist of Series E, F, and G savings bonds and 2 1/2 per cent marketable bonds not available for purchase by commercial banks for 10 years. The basket, thereby, would be considerably simplified. There is no need of including certificates, notes, or 2 per cent bonds in the basket. The first two kinds of issues are not generally attractive to individuals; although the 2 per cent bonds were purchased in large amount by individuals in the last drive, a considerable part of these purchases were speculative in

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character. The corporation drives should include savings notes and 1 1/2 per cent marketable notes of March or June 1948, which would be purchased largely by corporations, and 2 1/2 per cent bonds, which would be purchased largely by mutual savings banks, insurance companies, and commercial banks under the above formula. It does not appear to be desirable to include 2 1/4 per cent bonds in either basket. There would be few if any subscriptions for 2 1/4 per cent bonds that would not be placed in 2 1/2 per cent bonds, and the addition of another kind of security would add to the complications of Treasury financing.

8. In order to reduce speculation and commercial bank purchases in the next drive, dealers and brokers should be prohibited from subscribing for the new issues other than the 2 1/2 per cent bonds. In addition, the Treasury should issue a statement discouraging the extension of bank credit for purchasing or carrying new issues of Government securities except where the loans are to be repaid out of anticipated income. The rate of interest should be not less than the coupon rate on the securities pledged as collateral for the loans, and it might also be desirable to have a 10 per cent margin. Finally, trading in the new issue of notes should be prohibited for between 15 and 30 days after the close of the drive.

9. Holders of the December 1 certificates and of the December 15 notes should be permitted to exchange their holdings for an issue of 1 1/2 per cent notes of March or June 1948. Notes are suggested instead of certificates in order to eliminate the large refunding problem that would arise after only a year if the refunding were into certificates.

11-17-43

1. Brokers + Dealers out of 4th War Loan

2. Why not bid and ask on bills.

3. Banks public relations
~~would~~ should be to help
Treasury. Keep cost of money
stable as long as their earnings
continue to rise.

4. Letter to all Banks explaining
effect of 4th Loans.

5. Once change $\frac{3}{8}$ public will
say line is broken and
will expect other rates will
change.

November 18, 1943

Fred Smith

The Secretary

Lord Halifax called and said that they don't have the figures as to the number of rifles they had in England at the time of Dunkirk but that I could say that they did not have enough rifles for the soldiers who were in England. In other words, they did not have a rifle for every soldier who was in England at the time of Dunkirk. I don't know whether it's worth saying, but anyway that's what he told me. Thank you very much. *Furnished*

Fred Smith
The Secretary

November 17, 1943

At this meeting which took place in my office with Marshall, why not state how many rifles we got for the English. I think that that would be much more impressive than anything else. The way it reads it isn't at all impressive. *Finished*

November 17, 1943

Fred Smith

The Secretary

Where we talk about the meeting taking place in my office, to get rifles to England, I'd like to say something like this, "When I look back over the last three or four years, one of the things that I did which I am most proud of or happy over was that I was able to have a part in arranging for the rifles, etc., to go to England in her darkest moment." Something along that line, please. *Finished.*

Draft from which reading copy
was typed.

Gentlemen:

I am glad to have this opportunity tonight to talk to the Nation's leading advertising people, because I have confidence in the ability of advertising men to bring the facts of the war to the American public. And today, perhaps more than at any time since the war began, there is a vital job to be done on that front.

The dangerous dream of a quick end to this war grows more serious every day. It is particularly pressing right now. On every hand we see a surge of activity to prepare for post-war, sometimes at the expense of the vital job at hand. The stock market has been in a steady plunge ever since word first got around that the Nazis are about to crack. The newspapers regularly report new signs of the coming collapse of Germany. In Washington the exodus to after-the-war jobs has started in earnest.

No one in Washington can give me any concrete evidence that Germany is tottering on the brink of capitulation -- and I have sought out practically everyone who would have any reason to know. And I can tell you that on the Italian front the Nazi troops are not near cracking.

It is always possible, of course, that the people on the Nazi Home Front will be unable to take the bad news from Russia or the terrible destruction our bombs are raining upon them;

But if the Nazi Home Front should crack, that would be a wind-fall. In the meantime, we are only playing Hitler's game when we see peace just around the corner.

I am convinced, by the way, that the Nazis have a proprietary interest in this wave of optimism. The early signs of German collapse came from stories printed in Nazi controlled newspapers; then from travelers out of Germany, who reported their observations to neutral newspapers, chiefly those with pro-Nazi tendencies. Finally, Hitler himself managed to convey the impression in his most recent speech that life in Germany is hell. I cannot think that he and Mr. Goebbels would be so tender about keeping us posted of a coming crisis unless there is a rabbit in the hat somewhere.

Those who hail an early crack-up of the German nation have not talked to German prisoners, I can assure you of that. I had some first hand reports on the state of mind of prisoners when I was in Italy. They are mighty arrogant. They believe in Adolf Hitler, and say the Russian campaign is the fault of the German generals. They don't understand when you talk to them about Democracy. They say: "What? A nation without a Fuehrer? That is chaos!" Then if you pursue the subject of their present leader, they may admit he is not perfection -- *but* he will ~~do~~ ^{very well} until they ~~can~~ find another. And -- get

this, gentlemen -- they say their next Fuehrer will win the next great war. So here they are -- these defeated prisoners -- already planning another assault on civilization.

This is one reason why we must concentrate on fighting the war right up to the last bitter day. There is a good chance that letting down now can needlessly prolong the war for weeks and months.

I was in Italy three weeks ago. I went with General Mark Clark up to the front lines. I drove in a jeep through the mountains to a spot within a mile of the Nazi troops. I went through a small village -- or what had, a few days before, been a village -- called Dragoni. It was still smouldering. American bulldozers were busy clearing debris out of the streets so that our supply trucks could get through; and at one spot our jeep had to climb high over a pile of masonry and stones that the day before had been a public building. That was about all there was left of Dragoni -- that huge pile of wreckage. It was the same in a half dozen other small towns that we passed through. That happens because the Nazis don't like fighting in the open. They run from building to building, and Mark Clark's Fifth Army or Jimmy Doolittle's planes simply have to take the buildings down around them. It is, I can tell you, a mighty

slow and difficult process. When I broadcast from Algiers, I pointed out some of the difficulties of fighting over there. "I had no idea," I said, "of the terrible terrain in this area over which we must fight the Nazis. The area between Naples and Rome is mountainous and thick with trees and foliage. It is ideal for defensive action, because the Nazi forces can hide high in the mountains, and fire on our forces without being seen. And when they are driven from one mountain, they need only to retreat a few hundred yards to another and it is the same thing all over again."

Since I left Dragoni, the Allied Armies have managed to get fifteen miles closer to Rome. Five bloody, hard-earned miles a week, that's all. But it isn't the fault of our fighting men. They are tough and in the pink of condition. The fact is that no army in the world could move any faster. It will be almost a miracle if we are in Rome before Christmas.

And that's the picture on the Italian front while we, back here, are congratulating ourselves on polishing off the war in a hurry.

But even that's not the whole story.

The weather is closing in over there. Our troops may be without air protection more of the time than they will have it, and they tell me that air protection is just about the most important single factor in modern invasion.

I talked to General Doolittle about that in Tunis. In his war room, lined with huge maps of the entire Allied battle front, he showed me how aircraft are dispatched almost on a moment's notice to any fighting sector to take care of difficult enemy implacements or stubborn resistance. Just two days before I arrived in Tunis, Doolittle said, some of the forces in Italy were caught in what might have been a serious trap had it not been for the medium bombers called to the scene.

In an hour or two the bombers had done a job that would have been next to impossible without them -- and certainly would have meant heavy, bloody losses! This was only one case that Doolittle pointed out where a temporary setback had been turned, through immediate air support, into a victory.

But now the winter is here, and the weather is closing in. Jimmie Doolittle and Air-Marshal Tedder cannot send airplanes anywhere, at any time, on a moment's notice, as they did this summer. Is there any promise of early peace about that?

Or, can you find hope of quick victory in the fact that the Allies have still not crossed that narrow ditch called the English Channel, for the simple reason that the other side is lined solidly with sudden death? Can anyone really think it is going to be easy to bring Germany to her knees in uncon-

ditional surrender while her troops are planted within gunshot of Great Britain?

But because the Nazis promise, through their propaganda bureau, to fold up; and because we'd like to get on with the peace, too many of us are getting eager to sidetrack the main job.

Personally, I think it is serious enough to call for somebody to do something; and I came here tonight because I think you advertisers and advertising people who are already using your talents and facilities and genius to make the American people understand many of the facts of war, can do still more.

I asked your help once before. Representatives of your group came to Washington a year ago and I told them, if I recall correctly, that we were faced with the biggest selling job in history with practically no precedent to go on.

Through your ^{WAR} Advertising Council, you secured the volunteer help of the ablest advertising people in the United States and the cooperation of advertisers and media, and went to work. I think everyone knows what a splendid job has been done.

During the Third War Loan, advertisers sponsored 89,000 advertisements in the daily newspapers - a total of 61,573,586 lines, at a cost to themselves of more than six and one-half million dollars. Two-thirds of the advertisements were prepared by the advertisers themselves, and one-third were prepared for

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us by the War Advertising Council.

Throughout the Drive, I am told, practically all of the 10,000 weeklies carried advertisements which were paid for by one or more local businesses.

In daily and weekly newspapers, business supported the campaign with more than eight and one-half million dollars worth of space.

On the radio you did a magnificent job. The National Association of Broadcasters tells me 3,382 hours of radio time and 200,000 announcements (valued at \$12,000,000) carried Third War Loan messages to the public, throughout the days and nights of the Drive. Through the Allocation Plan and additionally contributed time, advertisers played a most important part. You gave us the use of your best radio audiences.

At least \$3,000,000 in magazine space was provided by advertisers and the magazines themselves. 250 general magazines, 56 farm journals and 450 business and trade magazines each contributed a full page.

Advertisers and the Outdoor Industry provided by all odds the most expansive outdoor showing of all time. I am told this had a value of \$1,700,000.

This 3 week campaign, provided by advertisers, would have cost a commercial advertiser \$30,000,000 -- 10 million dollars a week!

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A National survey made afterward revealed that 90% of the people in the country knew about the Bond Drive, and understood that extra Bond purchases were the measurement of participation. This was an important contribution, for in previous Drives, too much of the public took the position that "They don't mean me."

You see, therefore, something of the job advertising has done.

You may be interested to know that my experience with advertising in connection with this war started even before the War Loans.

It started back in the days when those of us who felt that an attack on the United States was inevitable, were trying to get the country ready to defend our shores against any aggressor. Our biggest job was trying to make the people see that, as the President said, we couldn't simply climb into bed and pull the covers over our heads.

In those days -- about four years ago -- Gallup polls pointed out that 92% of all Democrats and 94% of all Republicans were saying that we simply should not fight.

Yet steps had to be taken to protect ourselves -- steps that worried some Americans because they thought we were

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inviting war; inviting war simply because we admitted its approach. But even then we had a good idea of Hitler's program. We felt sure he intended to take Britain in the spring of 1941, and then join forces with Japan and go to work on us in the fall. And we could not be sure that this program would not succeed.

Today everyone everywhere agrees that we were scheduled on the aggressors' program as much as Poland, Czechoslovakia, or Britain. But things were different then.

Even Dunkirk, and the Fall of France, did not arouse the American people to a sense of the reality of the danger ahead.

Here was the very moment when the light of civilization in Europe came nearest to dying, perhaps forever. The British were desperate. Their entire future, their whole defense depended upon getting materiel, and getting it quickly.

Winston Churchill had made it clear that equipment losses at Dunkirk had been staggering. Britain needed everything -- artillery, ammunition, aircraft, and most of all rifles. Every able-bodied man in England had to be prepared to fight off invasion, but in all Britain there were no rifles for them, and not much of anything else, and you can't stop Nazis with sticks and stones.

- 10 -

The British needed help. Somehow, by some means, we had to get them some rifles, and enough other equipment to prepare them for the invasion which seemed imminent -- and which, if it had been imminent, almost certainly would have been successful.

General Marshall, and a group from the War and Navy Departments, came several times to my office to discuss what might be done. After twenty years of peace, we had very little equipment of any sort to use in fighting a war. But we felt that if we dug deeply enough we could find some obsolete materiel, and perhaps some equipment in private hands, that would help out. Before long we found quite a collection of usable materiel. For example, we found five hundred old 75 millimeter guns, and four hundred Thompson sub-machine guns left over from the last war. The Navy turned up five thousand obsolete 30 pound bombs and the Army found 560 hundred pounders. Some place, we found 80 out-of-date torpedoes, and someone came up with five hundred 38 caliber revolvers which antedated even the first World War.

To arm the foot soldiers and the Home Guard, we managed to dig up nearly a half million rifles. We might have added to this several thousand more old Springfield 30-30's, but there was no ammunition to be found anywhere in the world, and the guns were no good without bullets.

NUTS (McHugh - Leave space for 6 more lines) - Day 1/2/2.

What was more important, we found that this equipment could be sold legally to the British without involving the American Government in an act of war.

When I look back over the last three or four years, I think this meeting stands out above all else in my mind, because the stakes were so great. I am proud and happy to have had a hand in arranging for this materiel to go to England in her darkest moment. I shudder a little to think of our cast-off equipment being thrown into battle against the Nazi's modern machinery of war, but it was certainly better than nothing. Britain was again armed, inefficient and meager though the armament may have been, and civilization passed a crisis. But it was a mighty narrow squeak.

It was back in these days when we were struggling to make the public see what stark dangers lay ahead that American advertising men first came to the aid of their Government. It seemed obvious, at least to me, that the American people were not getting the true significance of the news reports. They did not see the approaching danger. Something more positive had to be done. That something, it seemed to me, was some good, factual, hard hitting advertising to help the people see and feel what we were up against.

- 12 -

Not long after that, advertising began to appear. It was bought and paid for by patriotic Americans who took upon themselves the responsibility of making their friends and neighbors aware of the situation. They were written by some of you advertising men, I think, who are here tonight. You were pioneers then. You were pioneering the biggest job of public information in history. And you were pioneering too in giving advertising the dignity of social responsibility.

Obviously we could not continue indefinitely to find antiquated guns and odd bits of equipment in private hands for the British to buy and use. The time had come to take drastic steps. We knew for example that a few months later there would be a crisis in the British Navy; that with the rising power of the German Navy, Britain would have too few ships to defend herself, let alone keep the invading Nazis in any kind of check.

The public had to be made aware of this situation. The majority of newspapers went to work on the problem editorially and you prepared an advertising campaign that helped achieve amazing results. That was only three months after Dunkirk, but the Gallup box score began to look much different than it had before. Sixty percent of the American people stood solidly back of the President in transferring over-aged destroyers to the British to help bolster their navy. The people were beginning to see.

- 13 -

A few months later there was another educational job to be done. Nazi U boats were preventing our shipping from reaching its destination. It became necessary either to convoy our freighters or simply to consign a good part of our materiel to Navy Jones. An advertising campaign was planned ~~by you and me~~ to tell the public about the problem, and again you were helped by many influential editorial columns. I remember one of the advertisements. It was headed "Okay, Mr. President, go ahead and clear the Atlantic."

What the President was able to do in a fireside chat, plus what you were able to do, gained the support of a majority of American voters behind the idea of arming and convoying our ships. Fifty-five percent of the people backed the decision, and only thirty-eight percent definitely opposed it. A few weeks before, fifty percent of the people had been definitely against it and only forty-one percent were willing to see it done. Here again was a victory for the policy of letting the people know the facts.

Public sentiment is much improved now. Today the Nation is not only solidly behind the war, but has gone on record as wishing to take on a big share of the responsibility in helping keep the world peace through world organization.

Much of this change was due to the Jap attack at Pearl Harbor. But even while the Japs were pulling their sneak attack, three out of every ten Americans still felt that it was most important to stay out of the European war.

The striking reversal of public sentiment from narrow isolationism to a complete acceptance of International responsibility is a monument to public education. And some of you who are here in this room, by writing and financing advertising campaigns, have as much to do with that education over a period of time as any other group of people.

Since the early days, when most of the work was done in spare time by patriotic volunteers you have taken the war as your professional assignment. It is no longer a spare time operation. You are ^{applying} ~~putting~~ your best brains, ~~and~~ and converting sizeable portions of your appropriations to this war information job. — This job which I want to repeat must be stepped up, not tapered off, as we march toward Victory.

Some of this increased war information effort can and should be channeled through bond advertising. Promoting bonds, I feel, is a double-headed job. Half the job is raising money, but the other half is maintenance of interest in this war, and what it means to every American.

We hit a high spot in this job, I believe, the day the Third War Loan opened, which also was the day Italy surrendered.

I wondered what the effect would be on the drive. I was not long finding out. One of our State Chairmen called up and said: "Well, I guess the Third War Loan is off -- the war's over and there's no need to raise money."

So we called in Ted Replier of the Advertising Council. "Write us an advertisement that will stop this in its tracks," I told Replier, and he went to work on a great advertisement. You may remember it. It said: "Will the Surrender of Italy mean a Home Front Defeat?" Then, because of the smooth working arrangement between your people and ours, the ad started running, the next day, in 970 newspapers throughout the Nation. We followed this up by telling the people the bitter truth about our equipment losses in Sicily. We must have had a sobering effect on a lot of people, because we didn't get any more phone calls, and that particular surge of optimism soon faded away.

I want to make one more observation.

A year ago, I went to England. What I saw there gave me a lot of inspiration, and a lot of confidence about the outcome of this war. I came back knowing in my heart that we were going to win. The British had survived the Blitz; the Russians had stopped the German advance; we had halted the Jap drive in the far East. Slowly and painfully the Allies were overtaking the enemy's lead. Obviously, it would take a long time, but in the end we would win.

When I returned from the front early this month, I still felt sure we would win, but I felt far more grim about the war than I did a year ago. I had an opportunity to discuss the actual fighting and the nature of our enemy with many American and British officers and men. I was given a pretty clear idea of the heroism required of our men when they face the tough, fanatic Nazis, and as a result I achieved a healthy respect for the blood and sweat that goes into every foot of enemy ground we take. And I found no evidence anywhere along the line that we are near the end, unless the end should come through some freak of circumstance.

I do not want to underestimate however, the effects that the terrible defeats in Russia, or the destruction of Germany, must have on the Nazi Home Front. That destruction must be fantastic. In Italy I saw what bombs can do. I saw the Port of Naples, lying in a mass of ruins. I saw the Port of Palermo in Sicily battered so badly that one sizeable ship lay high and dry on a wharf, blown completely out of the water. But General Patton assured me that Palermo was only three or four percent destroyed. Hamburg has been seventy percent destroyed, the Germans themselves admit, and several other Nazi cities have received even more destruction.

Yes, it is conceivable that the Germans can't take it. It is possible that the same thing will happen that happened the last time. We may be awakened some morning by whistles and

bells and newspaper boys selling extras.

But it is also possible that we can waste a great deal of precious time thinking about that morning, and we can divert a great deal of our energy into making ready for it, and then find that it shows no signs of coming. And in the meantime, good American young men are losing their lives trying to end the war the hard way, because they have no choice except to do it that way, or not at all.

I am glad that you and I have been partners so often in the use of advertising in connection with this war. I have gone over the whole story because I thought you would be interested in it. I have liked working with you. I think you have established a remarkable record. I think you have by concentrating on the job to be done, and casting aside all thought of political differences, immeasurably improved the stature of advertising.

But this is no funeral oration. Your job is barely begun. And the job is going to get more difficult every week, and every month, that the war wears on. Because we are going to get tired. Everybody is going to get tired. We are going to want peace and relief from the restrictions that war puts on what we do, and what we eat, and what we have.

Unconditional surrender is a large order, and there may be a temptation to settle for less as the possibility of peace approaches. I hope you will remember that. I hope you will put your minds to doing something about it, and thus continue the patriotic record that some of you started back in those early days of Defense.

11/17/43

Last minute changes in final reading
copy.

GENTLEMEN:

I am glad to have this opportunity tonight to talk to the Nation's leading advertising people, because I have confidence in the ability of advertising men to bring the facts of the war to the American public. And today, perhaps more than at any time since the war began, there is a vital job to be done on that front.

The dangerous dream of a quick end to this war grows more serious every day. It is particularly pressing right now. On every hand we see a surge of activity to prepare for post-war, sometimes at the expense of the vital job at hand. The stock market has been in a steady ^{decline} ~~plunge~~ ever since word first got around that the Nazis are about to crack.

- 7 -

It is ideal for defensive action, because the Nazi forces can hide high in the mountains, and fire on our forces without being seen. And when they are driven from one mountain, they need only to retreat a few hundred yards to another and it is the same thing all over again."

Since I left Dragon1, the Allied Armies have managed to get fifteen miles closer to Rome. Five bloody, hard-earned miles a week, that's all. But it isn't the fault of our fighting men. They are tough
They've got what it takes to lick the Nazis, man for man.
and in the pink of condition. The fact is that no

Army in the world could move any faster. It will be almost a miracle if we are in Rome before Christmas.

- 18 -

Here was the very moment when the light of civilization in Europe came nearest to dying, perhaps forever. The British were desperate. Their entire future, their whole defense depended upon getting materiel, and getting it quickly.

Winston Churchill had made it clear that equipment losses at Dunkirk had been staggering. Britain needed everything -- artillery, ammunition, aircraft, and most of all rifles. Every able-bodied man in England had to be prepared to fight off invasion, but in all Britain there ^{was only a handful of} ~~were no~~ rifles for them, and not much of anything else, and you can't stop Nazis with sticks and stones.

- 20 -

For example, we found 500 old 75 millimeter guns, and 400 Thompson sub-machine guns left over from the last war. The Navy turned up 5000 obsolete 30-pound bombs and the Army found 560 hundred pounders. Some place, we found 80 out-of-date torpedoes, and someone came up with 500 38 caliber revolvers which antedated even the First World War.

To arm the ^{British} foot soldiers and the Home Guard, we managed to dig up nearly a half million rifles. We might have added to this several thousand more old Springfield 30-30's, but there was no ammunition to be found anywhere in the world, and the guns were no good without bullets.

- 25 -

Sixty per cent of the American people stood solidly back of the President in transferring over-aged destroyers to the British to help bolster their Navy. The people were beginning to see.

A few months later there was another educational job to be done. Nazi U boats were preventing our shipping from reaching its destination. It became necessary either to convoy our freighters or simply to consign a good part of our materiel to Davy Jones.

To tell the public about this you now developed
An advertising campaign ~~was planned to tell the public~~

And
~~about the problem, and~~ again you were helped by many

influential editorial columns. I remember one of the advertisements. It was headed, "Okay, Mr. President, go ahead and clear the Atlantic." ↙

- 30 -

So we called in ~~Ted Reppier~~ of the Advertising

I asked them to

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in its tracks," ~~I told Reppier, and he~~ ^{they} went to work

and in a few hours produced what I think was
~~on~~ a great advertisement. You may remember it. It said:

"Will the Surrender of Italy mean a Home Front Defeat?"

Then, because of the smooth working arrangement between

your people and ours, the ad started running, the next day,

in 970 newspapers throughout the Nation. We followed

this up by telling the people the bitter truth about

our equipment losses in Sicily. We must have had a

sobering effect on a lot of people, because we didn't

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I want to make one more observation.

- 32 -

I had an opportunity to discuss the actual fighting and the nature of our enemy with many American and British officers and men. I was given a pretty clear idea of the heroism required of our men when they face the tough, fanatic Nazis, and as a result I achieved a healthy respect for the blood and sweat that goes into every foot of enemy ground we take. And I found no evidence anywhere along the line that we are near the end, unless the end should come through some freak of circumstance.

I do not want to underestimate, however, the effects that the terrible defeats in Russia, or the destruction of Germany, ^{from the air} must have on the Nazi Home Front.

- 34 -

But it is also possible that we can waste a great deal of precious time thinking about that morning, and we can divert a great deal of our energy into making ready for it, and then find that it shows no signs of coming. And in the meantime, good American young men are losing their lives trying to end the war the hard way, because they have no choice except to do it that way, or not at all.

I am glad that you and I have been partners so often in the use of advertising in connection with this war. I have ~~told you~~ ^{told you} ~~gone over~~ the whole story, ~~because I thought~~ ^{enjoyed} ~~you would be interested in it.~~ I have ~~liked~~ ^{enjoyed} working with you.

- 34 -

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November 17, 1943

Dear Grace:

I thought you would be interested in seeing a copy of my letter to Anna, which I sent her yesterday.

Yours sincerely,

H. M. Jr.

Miss Grace Tully,

The White House.

*Enclosure: copy of letter to
Mrs. Anna Roosevelt Boettiger dated 11/16/43*

November 16, 1943.

Dear Anna:

I received your very interesting letter and was delighted to know that you are still taking such a "keen" interest in our war bond program.

During one of John's visits here he told me about the Victory Square replica of Mount Vernon and the Washington Monument and all of the good work that had gone into this very patriotic endeavor.

As you might well imagine, I have very carefully avoided performing such tasks as you suggest, but so long as they seem to have you "on the spot" I will be more than pleased to sign these citations for you. I do think, however, it is a bad precedent for your Father to sign them as it would in all probability bring a regular deluge of such requests and he cannot, of course, hope to do this sort of thing under his very trying schedule.

With all good wishes to you and the children,
I am

Sincerely,

(Signed) Henry

Mrs. Anna Roosevelt Boettiger,
Associate Editor,
Seattle Post Intelligencer,
Seattle, Washington.

airmail

THE WHITE HOUSE
WASHINGTON

November 16, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

I am enclosing herewith copy of a reply which I have sent to Anna, together with her letter to me. Perhaps the Treasury could do something to help her out. Will you be good enough to let her know?

Grace G. Tully
Grace G. Tully
Private Secretary

Enclosures.

November 16, 1943.

Dear Anna:

I have asked Steve about your letter to me of November twelfth. He tells me that we are getting many similar requests from many cities and communities throughout each of the forty-eight states and that it would be physically an impossible job for the President to comply with these requests. Some of them would require a hundred or more signatures and in the end the total upon the President would make it impossible for him to do.

At Steve's suggestion, we are passing your idea on to the Treasury people, hoping they will be able to do something satisfactory and which will not include or involve the President.

This takes to you and the children
my love.

Affectionately,

Grace G. Tully
Private Secretary

Mrs. John Boettiger,
Seattle Post Intelligencer,
Seattle, Washington.

Seattle Post-Intelligencer

ESTABLISHED 1863

ANNA ROOSEVELT BOETTIGER
ASSOCIATE EDITOR

November 12, 1943

Dear Grace:

For two years now the city of Seattle has held daily open air meetings in a block in the main section of town which has become designated as Victory Square. John started this going right after Pearl Harbor and the primary goal of the meetings is to sell war bonds and stamps to the public who attend. But, of course, in order to sustain interest we have held programs entering into practically every phase of the war effort.

In 1942 we had 180 programs and \$6,500,000. in stamps and bonds was raised. In 1943 we had 130 programs and \$51,500,000. was raised. Quite a difference!

Now the committee, which donates its time and keeps the Square running during the good weather months, has decided that in order to sustain the interest of the voluntary personnel they wish to present each one of them with a "recognition citation" which would read somewhat as follows:

Recognition Citation for Loyal Service at Victory Square-Seattle

To _____

Because of the devotion of time, thought and energy to a sincere purpose is the most precious of gifts;
Because you have given this "stuff of self" so generously, so ably, so inspiringly;
Because Victory Square has made brilliant contributions to the welfare and defense of our City, County, State and Nation under war through your efforts.
Believe, that you forever possess our esteem and the happiest wishes that can be born of loyal service.

Under this they want the signatures of Henry Morgenthau, Jr. and our State, County, City and Victory Square chairmen. But above all they want to know if father would also take the time to sign them. There will be approximately forty to sign.

I have told them that I doubted very much and was practically sure that father could not do this but as my say-so did not seem to satisfy them, I promised to write you for an "official" answer.

See you soon!

Affectionately,

Anna

Miss Grace Tully,
Secretary to the President,
White House,
Washington, D. C.

P.S. - I/ you definitely know the answer is "no" just say so now - then we won't have to wait!

November 17, 1943.

My dear General:

I was delighted to receive your letter today informing me of the shipment of the captured disabled German tanks.

I know of no single activity that will generate more enthusiasm amongst our good people here at home than the exhibition of these accomplishments of your glorious Fifth Army. You can be sure that the use we put it to will be well worth your splendid efforts in arranging this for us.

Thanking you again for the excellent treatment I received at your hands, I am

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Lieutenant General Mark W. Clark,
Headquarters Fifth Army,
A. P. O. #464, U. S. Army.

TAB:dft

227

U. S. SECRET
EQUALS BRITISH **SECRET**
HEADQUARTERS FIFTH ARMY
Office of the Commanding General

November 4, 1943.

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

Dear Mr. Secretary:

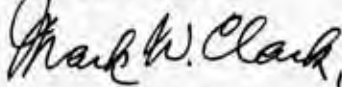
During the time when you visited us recently you said that captured disabled German tanks would be useful in the War Bond Campaign, as they could be sold to the highest bidder.

We have succeeded in collecting six German tanks which were knocked out of action by the Fifth Army units during the present campaign in Italy. Arrangements have been made for them to be shipped this week on the "Poinsette". They will arrive at some North Atlantic port in the United States about December first, and will be marked for Secretary of the Treasury, U. S. War Bond Drive. You can undoubtedly follow up their arrival through the Transportation Service, Army Service Forces, in the War Department.

It was a great privilege to have you here at my headquarters, and I hope your entire trip was satisfactory.

With kindest regards and best wishes, I am

Yours sincerely,



MARK W. CLARK,
Lieutenant General, USA,
Commanding

U. S. SECRET
EQUALS BRITISH **SECRET**

Stoff

MEMORANDUM

November 17, 1943.

To: The Secretary

JNS

From: Mr. Sullivan

I am attaching a memorandum Commissioner Hannegan sent me on the American Distilling Company situation. I have asked the Bureau to prepare a recommendation to close this loophole and to submit that recommendation to Mr. Paul.

Chairman Canson Purcell of the SEC tells me that his preliminary investigation indicates that the people who have been buying this stock were people in the liquor business who were interested in obtaining the whiskey rather than the stock. I believe that the entire liquor black market could be smashed with one change in the Internal Revenue Code. Under present law distillers are allowed to leave the liquor in a bonded warehouse eight years before they are obliged to pay the tax. No liquor improves after more than four years in wood. If the law were changed to require the distiller to pay the tax when the liquor had been in the bonded warehouse four years this would force out of the bonded warehouses about one hundred million gallons. The release of such a large amount of liquor would wipe out the black market situation over night.

Incidentally, if one hundred million gallons was withdrawn at the new tax rate this would mean an additional alcohol tax collection of one billion dollars. Further, it would materially increase the income taxes of those engaged in the liquor business and inasmuch as they are now enjoying their greatest prosperity and are in the high brackets, the additional yield through income taxes would be substantial. I am convinced that the move would be exceedingly popular throughout the country.



TREASURY DEPARTMENT

WASHINGTON 25

November 16, 1943.

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TO: MR. SULLIVAN

FROM: MR. HAINEGAN

Ref.

In re: Sale of whisky to stock-
holders at one-half mar-
ket price.

According to an article in The Wall Street Journal, November 15, 1943, the Directors of American Distilling Co. have authorized the sale of substantially all the company's bulk whisky to common stockholders on a pro rata basis. The whisky, comprising about 245,000 barrels, will be offered to stockholders at the book value and cost to the corporation. It is stated that the book value is equivalent to approximately half of the O.P.A. ceiling price. The whisky is of various types.

With regard to the alcohol tax features, the spirits which the American Distilling Co. proposes to distribute to its stockholders are all in bond, that is, they are in internal revenue bonded warehouses and in the custody of internal revenue officers. The spirits are not taxpaid. Distributees will not be permitted to obtain physical possession of these spirits until they advance to the bonded warehouseman the money required to pay the tax. Evasion of the distilled spirits tax cannot result from this distribution, and there are no internal revenue laws or regulations relating to liquor which prevent such distribution.

With regard to the income tax features, if property is transferred by a corporation to a shareholder, or by an employer to an employee, for an amount substantially less than its fair market value, regardless of whether the transfer is in the guise of a sale or exchange, such shareholder or employee shall include in gross income the difference between the amount paid for the property and the amount of its fair market value to the extent that such difference is in the nature of (1) compensation for services rendered or to be rendered or (2) a distribution of earnings or profits taxable as a dividend, as the case may be. In computing the gain or loss from the subsequent sale of such property its basis shall be the amount paid for the property, increased by the amount of such difference included in gross income. (Section 29.21-1, Regulations 111.)

- 2 -

In re: Sale of whisky to stockholders at one-half market price.

The quantity of the whisky involved (245,000 barrels) indicates the possibility of a prearranged sale thereof to a third party. It is the Bureau's position that where a corporation has sold or agreed to sell property to outsiders the distribution thereof to stockholders who complete the sale is no more than a distribution to them of the proceeds of the sale contract; the corporation realizes gain or sustains a loss on a sale, and the stockholders are in effect the recipients of a cash dividend. (Merten's, Volume I, paragraph 9.87.)

If the corporation, in the absence of a prearranged sale to others, were to distribute the whisky as a dividend in kind to its stockholders, rather than in the manner proposed by the American Distilling Co., there would be no tax to the corporation but the stockholders would pay a tax based upon the market value of the whisky, or warehouse receipts received.

If the stockholders later have the corporation bottle the whisky for them, the cost of the bottling if borne by the corporation would not constitute an ordinary and necessary business expense. However, reimbursement of the cost of bottling by the stockholders would not constitute income to the corporation.

NOV 17 1943

Dear Mr. Shere:

In accordance with the request of Assistant Secretary Adolf A. Berle, Jr., of the State Department, dated November 5, 1943, you are hereby appointed to represent the Treasury Department as an expert on taxation on an official mission to Haiti.

You will be a member of a Commission of three representing the United States Government which will conduct a survey for the purpose of ascertaining possible ways in which both private capital and governmental agencies might cooperate for the purpose of developing certain small industries in Haiti, particularly after the war.

It is expected that the commission will depart for Haiti on or about the first of December, 1943.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Louis Shere
Division of Tax Research
Treasury Department
Washington, D. C.

11/12/43

NOV 17 1943

My dear Mr. Berle:

With further reference to your letter of November 6, 1943, I am pleased to inform you that the Treasury Department has assigned Mr. Louis Shere, Assistant Director of the Division of Tax Research, to be its representative on the commission which is to make an industrial survey in Haiti.

Sincerely,

(Signed) H. Morgenthau, Jr

Honorable Adolf A. Berle, Jr.
Assistant Secretary
State Department
Washington, D. C.

mw 11/12/43

52650

NOV 17 1943

Dear Eleanor:

In accordance with your request, I have replied to Mr. Carlton G. Bruce, who sent you a plan for the promotion of post-war reemployment of service men and women, and I am enclosing a copy of my letter.

Affectionately,

(Signed) Henry

Mrs. Eleanor Roosevelt

The White House

Enclosure

APLT:umb 11/15/43

52690

25

NOV 17 1943

Dear Mr. Brewster:

Mrs. Roosevelt has asked me to consider the plan presented in your letters to her dated July 28, 1943, and November 2, 1943, and write to you about it.

Your interest in the reemployment of service men after the war is indeed praiseworthy. This Department is currently studying ways in which, in its field of operations, it can further this objective, and we are glad to get suggestions from interested citizens.

Your plan, although outlined in terms of the issuance of a new type of security, is in essence a tax plan. It calls for treating as expenses, for excess profits tax purposes, the sums set aside by corporations, for the reemployment of returning service men and women. Such a plan would in reality be a subsidy to corporations for reemploying service men and women. While subsidies for this purpose might not be objectionable in principle, it should be noted that they would, in practice under current corporation income and excess profits tax laws, affect corporations unequally; those subject to the excess profits tax would receive the greatest benefit in tax reduction while those which made no profits during the war years would receive no subsidy at all because they would have nothing against which to offset the expense of setting up reemployment reserves. This differential impact of the subsidies which the plan would provide presents the added difficulty that it would tend to hamper an orderly return to peacetime production and employment. It would be likely to result in reemployment of returning service men and women in industries which were abnormally expanded for war purposes and which must sooner or later curtail their operations. Thus the solution of the reemployment problem would be temporary at best. Meanwhile, concerns which have undergone no wartime expansion and which have enjoyed little or no wartime profit, but which may have good post-war prospects, would have little incentive or opportunity to set aside reserves for post-war reemployment.

- 2 -

Your interest in the problems which will confront service men and women after the war is very much appreciated.

Very truly yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury

Mr. Carlton C. Drees
Vice President
F. Schumacher & Co.
60 West 40th Street
New York, New York

APLT:mmb 11/15/43

THE WHITE HOUSE
WASHINGTON

November 11, 1943.

MEMORANDUM FOR SECRETARY MORGENTHAU:

Mrs. Roosevelt will appreciate it if you will be good enough to answer the attached letter from Mr. Brose.

Malvina C. Thompson

Secretary to
Mrs. Roosevelt.

Waverly Fabrics

Division of F. Schumacher & Co.
CONVERTERS - IMPORTERS - MANUFACTURERS
OF DECORATIVE FABRICS
60 West 40th Street New York City

52650

139

November
Second
1943

Send care to Secretary for answer

Mrs. Franklin D. Roosevelt
The White House
Washington, D. C.

Dear Mrs. Roosevelt:

Many months ago I wrote you a letter and I received a reply from one of your secretaries to the effect that you would answer it when you returned.

In my letter I submitted a plan which has had wide approval with all the people with whom I have discussed it.

It is briefly this.

1. The Government to issue non interest bearing bonds.
2. These bonds to be bought by corporations and considered as an expense.
3. Corporations would be permitted to buy these bonds on a basis of a thousand dollar bond per employee in the service per year.
4. These bonds could be cashed and the money used to hire and pay returning service men and women.

I know you have piles and piles of mail, but I would like it very much if you would read my letter and let me know what you think of it.

Very truly yours

Carlton C. Grose
Carlton C. Grose
Vice President
F. SCHUMACHER & CO.

CCB/MB

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July
 Twenty-eighth
 1943

Mrs. Franklin D. Roosevelt
 The White House
 Washington, D. C.

Please read!

Dear Mrs. Roosevelt:

Have given considerable thought to the problem that will be created by returning men and women now in the Service of Our Country and believe I have an idea which will solve 75% of this very serious problem.

I am presenting this idea to you because I admire and respect your judgment and I know you will use it to advantage in your newspaper articles if you consider it worth while.

We have been reading in the papers daily of large sums of money being set aside by corporations for reconversion of plants to peace time operation - yet we have been reading nothing of these same corporations setting aside large sums of money for reconversion of men ----- and it is about time we started thinking of people as being more important than things.

The plan is this. It is proposed that the Government issue non interest bearing bonds. These bonds could be bought by corporations to the extent of an arbitrary amount per year per former employee in the Service of Our Country -- say \$1,000. These bonds could be cashed by the corporations owning them after the war is over in exact relation to the amounts paid out to service employees who have returned and are again working.

The money with which the corporations purchase these bonds would be considered as expense and for this reason would be deducted from net profit before calculating taxes.

While it is true that this would cut down - to some extent - the taxes that the Government received, it would actually increase the amount of cash passed on to the Government and taken out of circulation because most corporations would buy more bonds for this purpose than the percentage of tax that would apply on the monies involved.

A careful check of corporation statements will disclose the rising tide of cash in the bank, cash that would flow in great volume to the Federal Treasury for these bonds - the purchase of which would be deflationary.

The provision now made in the tax laws granting a post war credit for this purpose is obviously ridiculously inadequate.

Am sure the morale of our men in the Service would be immeasurably improved if they knew they would be assured of good jobs that will pay them at least the amounts they were earning before the war started for a period of several years after their return.

Would like very much to know of any objections to the plan or if you think it worth while.

Very truly yours

Thank you!

Carlton C. Brose
Carlton C. Brose
Vice President
F. SCHUMACHER & CO.

CCB/MB

+

AMERICAN RED CROSS
NATIONAL HEADQUARTERS
WASHINGTON 13, D. C.

November 17, 1943

The Honorable
A. M. Bell
Under Secretary of the Treasury
Washington, D. C.

Dear Mr. Bell:

Permit me to refer to the letter of October 22, 1943, written by the Chairman to you regarding a suggestion of the Secretary of the Treasury to have Red Cross workers stationed at Goosebay Base in Labrador.

I hope both the Secretary and you will be interested to know that two Red Cross workers,

Miss Josephene Lambert, Recreation Worker
and
Miss Mary Harper Tewksbury, Staff Assistant

have been assigned to that station. They arrived there on November 15, 1943, and are at the moment occupied in setting up a suitable program.

With renewed appreciation and thanks to the Secretary for calling this need to our attention, I am

Sincerely yours,



Richard F. Allen
Vice Chairman
Insular and Foreign Operations

ENROLLMENT FOR SERVICE
AMERICAN JUNIOR RED CROSS ENROLLMENT CAMPAIGN, NOVEMBER 1-15, 1943

Treasury Department
Office of the Under Secretary

143

Date: 11/3

To: Mrs. Klotz

From:

The Secy. might like to see this as he
raised question of Red Cross girls at Goosebay
Base.

(initialled) DWB

AMERICAN RED CROSS
National Headquarters
Washington, D. C. 13
October 22, 1943

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

Dear Dan:

Thank you for your letter of October 20 in which you pass on to us the suggestion which the Secretary made that it would be well for the American Red Cross to have a couple of Red Cross girls stationed at the Goosebay Base in Labrador.

You will be interested to know that Mr. Arthur Sulzberger, who returned a short time ago from a trip abroad, made the same suggestion and following his suggestion, we sent a special representative to Goosebay to talk the matter over with the commanding officer. As a result, the commanding officer expressed his desire that the Red Cross send two Red Cross girls to Goosebay to operate a club facility.

Because of agreements which we reached some eighteen months ago with the Army which provide that special permission must be gotten from the War Department for the establishment of facilities in the Western Hemisphere, this matter is now going through official channels and will be handled promptly by the American Red Cross if a favorable decision is given.

Thank you for calling this to my attention. Perhaps by the time the Secretary returns from his present trip, the decision will be reached and action will have been taken by the Red Cross.

Sincerely yours,

(Signed) Norman H. Davis

Chairman

October 20, 1943

Dear Mr. Davis:

As you know, the Secretary is now in North Africa and on his way passed through Goosebay, Labrador. He wanted me to say to you that it would be an excellent thing if you would place a couple of Red Cross girls at this station. He seems to think there is a great need because of the many planes going over this route.

It is something you might want to discuss with the Army people.

Sincerely yours,

(Signed) D. W. Bell

Honorable Norman H. Davis,
Chairman,
American Red Cross,
Washington, D. C.

SECRET

SECRET
WAR DEPARTMENT
PARAPHRASE OF INCOMING MESSAGE

From: Goosebay Labrador
To: War
No.: 788, 13 October 1943

From Morgenthau for Dan Bell, Treasury Department.

In about a week from now, please inform Norman Davis that in my opinion they could use to a good advantage a couple of Red Cross girls at Goosebay Labrador.

Action: Gen. Strong (for Treas. Dept.)
Information: OPD, SGS
Cm-In-7549, 13 Oct. 1943

Copy 9

SECRET

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Information: OFD, SGS
Cm-In-7549, 13 Oct. 1943

Copy 9

SECRET

November 17, 1943

Dear Elmer:

I wish to acknowledge receipt
of your letter of November 15, which
I have read with interest.

Yours sincerely,

(Signed) Henry

Mr. Elmer Davis, Director
Office of War Information,
Washington, D. C.

*P.S. I have not yet received any
information from the Budget.*

OFFICE OF WAR INFORMATION
WASHINGTON

OFFICE OF THE DIRECTOR

November 15, 1943

The Honorable
The Secretary of the Treasury
The Treasury Department

Dear Mr. Secretary:

I have asked the Director of the Budget to send you a copy of our budget for your information, as you requested, since we have only working copies here.

In connection with our North African operation may I repeat for the record what I told you Saturday morning — that we have in the entire Mediterranean theater and on the way to it about 160 men, though these are part of a combined American and British, military and civilian organization of some 800, whose executive officer is the local director of OWI. As to the quality of their work I can cite the following cablegram received from General Eisenhower through the Chiefs of Staff on October 7: "The capture of Naples seems a suitable occasion for sending you a message of appreciation for the work of the Psychological Warfare Branch, which consists of OWI, OSS, PWE and MOI. In the campaign in Tunis, then in Pantelleria and Sicily, and now in the invasion of Italy PWB has made its contribution as an integral part of the fighting forces, and I look forward to a continuance of valuable work by this organization. No less important has been the propaganda in the North African base area and the occupation propaganda in Sicily and certain regions of Italy, where PWB, working in the closest cooperation with the Civil Administration (in Africa) and the Military Government Section (in Sicily and Italy) has made a great contribution to the friendly and cooperative attitude of the local populations."

To this testimony by the Commander-in-Chief may be added that of General McClure, which is to be found on pp. 1251 ff. of the hearings on the supplemental appropriation bill, enclosed herewith. I venture to suggest that the opinions of the general officer most immediately associated with our work, and of the commander who has the most vital interest in its success, are worthy of some consideration.

Very truly,

Elmer Davis

Elmer Davis
Director

Attachments



November 13, 1943

Mr. Harold Smith
Director
Bureau of the Budget

Dear Harold:

Secretary Morgenthau has asked me for a copy of the OWI budget so that he can see how the money raised by his bond programs is being spent. Will you be good enough to send him a copy of the 1944 budget as approved by Congress last summer and a copy of the supplemental request for an additional \$5,000,000 contingency fund which is now pending? We have only working copies in this office. Many thanks.

Cordially,

Elmer Davis
Director

GBarnes:ctw

cc: *Morgenthau*

appropriations, therefore, for both of these services should be considered not only with reference to the immediate needs of these services but also the essentiality of these services to the successful working of a volunteer system under which the resources of the country are mobilized for replacing our veterans successfully in civil life.

FRIDAY, OCTOBER 15, 1943.

PSYCHOLOGICAL WARFARE, CENSORSHIP, AND PUBLIC
RELATIONS, ALLIED FORCE, NORTH AFRICA

STATEMENT OF BRIG. GEN. ROBERT A. McCURE, UNITED STATES
ARMY, ALLIED FORCES HEADQUARTERS, NORTH AFRICA

The CHAIRMAN. The subcommittee has before it a budget estimate of \$5,000,000 for the Office of War Information for its contingency fund to be used for carrying on activities in conjunction with actual or projected military operations in the various theaters of the war.

We are very fortunate in having with us this morning Brig. Gen. Robert A. McCure, from Allied Force Headquarters, who has just returned from north Africa and who returns to north Africa tomorrow.

It has been suggested that General McCure might be in a position, by way of preliminary consideration of this item, to give us some information as to the relation of military operations to the Office of War Information operations and procedure over there.

General McCure, we are very glad to have you with us. You may proceed, on or off the record.

(Discussion off the record.)

The CHAIRMAN. How long were you in north Africa?

General McCURE. I joined General Eisenhower's staff in north Africa in the middle of December and was given the assignment to organize a staff section to handle psychological warfare, public relations, and censorship. I have all three of those activities under me now.

The CHAIRMAN. I believe you are, like our colleague, Mr. Ludlow, a citizen of the Hoosier State of Indiana?

General McCURE. Yes, sir.

(Discussion off the record.)

Mr. SNYDER. General, you might give us your service record by way of introduction.

General McCURE. I am a professional soldier. Prior to getting into this war I was assistant military attaché and later military attaché in London. When General Eisenhower organized his headquarters I became G-2, chief of intelligence, and left there in the middle of December and joined his staff in north Africa, where I organized the section known as the information and censorship section, of which psychological warfare is one of the branches. In the north African theater psychological warfare operates directly under the commander in chief; that is, under military control and supervision. It is an integrated unit, and our personnel, funds, and equipment

come from both British and American sources. Within the psychological warfare branch we have the British Political Warfare, the Ministry of Information, and their military and naval personnel.

On the American side we have the O. W. I., a number of military personnel, and a few Office of Strategic Service personnel that are a part of this organization. It loses its identity largely as O. W. I., P. E. W., or either as British or American; and that is a point I have insisted on, that it be Allied, and that neither British nor American interests be predominant. Our efforts there under General Eisenhower are essentially an Allied effort.

The activities of the P. W. B. (psychological warfare branch) have the O. W. I. as the dominant part so far as personnel, equipment, and so on are concerned. P. W. B. activities consist of three spheres.

(Discussion of the record.)

The CHAIRMAN. What have you to say about the effectiveness of O. W. I. activities at the front, General McClure?

General McClure. I am convinced that they are particularly effective and have made an important contribution to our military effort.

The CHAIRMAN. What criticism have you to make, or what suggestions have you to make, regarding the operations of O. W. I. at the front at the present time?

General McClure. I have no criticism of them. I am particularly satisfied with their cooperation and the help they are furnishing us.

The CHAIRMAN. You have no suggestions which might be offered for any improvement of O. W. I. operations at the front?

General McClure. I have not, sir.

Mr. SNYDER. Mr. Chairman, it was my privilege and opportunity to have General McClure escort me in London when I was there in November; and he also presented me to Prime Minister Churchill. I know the high esteem in which they hold him over there, and I am glad to know he was placed in this position in north Africa, at Casa Blanca.

I would like to ask General McClure two or three questions.

When did you go to North Africa, General?

General McClure. In the middle of December.

Mr. SNYDER. December 1942?

General McClure. Yes, sir.

Mr. SNYDER. What was the set-up of O. W. I. when you went there? What was the general set-up?

General McClure. Initially the activities were spread in three places where we made our landings. It was not too well coordinated at that time and it took a little time to get those widely scattered activities, each somewhat independent, together into a smooth working team. It was a new experience for all of us and we simply had to learn the hard way.

Mr. SNYDER. Do you think that O. W. I., as it has been operated in North Africa, Sicily and Italy since its inception, has saved the lives of American boys to any extent? If you did not have O. W. I., would there have been more lives lost, without the steps we have taken thus far?

General McClure. I can only state my opinion, and I would say definitely, "Yes." Illustrative of that is the fact that a number of Axis soldiers, Italians and Germans, have come in and sur-

rendered, and used as their passes through the lines the leaflets we dropped, calling for their surrender. Using that instance only as an answer to your question, I should say the propaganda we have used there has kept a number of soldiers from shooting at us, and thereby saved the lives of our own troops.

Mr. SNYDER. As we go through Italy, do you think this type of work will become more useful?

General McClure. Yes, I do, sir.

Mr. SNYDER. Is General Eisenhower in complete accord and sympathy with the activities you are carrying on through O. W. I.?

General McClure. Yes, I think I can speak for him in that, because I am a member of his staff, and he has told me he was satisfied.

The CHAIRMAN. The activities and operations of O. W. I. are entirely under the direction and control of the commanders in charge of the military areas and of the chiefs of staff at the front, are they not?

General McClure. They are directly under the control of General Eisenhower's headquarters. We decentralized the Army commanders by attaching these people to them, but they are not permanently assigned to these organizations.

The CHAIRMAN. Insofar as they relate to military operations at the front at this time, they are quite an effective part of the military force, under the direction and control of the military authorities?

General McClure. That is correct.

Mr. LUDLOW. At the expense, probably, of being repetitious, I should like to ask you this question, because I think it is important and is information we would like to have. I would like to ask General McClure what he thinks of what O. W. I. is doing in reference to its foreign activities, as to its value to the essentialities of the service.

General McClure. I can only speak for the north African theater. Their foreign activities there have been very helpful to us, and at the same time we are quite satisfied with them, and we certainly wish them to continue.

Mr. LUDLOW. Would you suffer a great loss if you were deprived of those services?

General McClure. I think we would, sir.

Mr. LUDLOW. This is probably a pretty broad question, and that is with reference to the propaganda service generally. It seems to me you have a very powerful instrumentality to use against the enemy in a theater of operations through propaganda, but it seems to me we are not using that as much as we should in order to get the best results. I wonder what you think about that.

The Atlantic Charter, of course, is a very idealistic instrument, couched in very general terms.

What would you think if it were possible for the United Nations to get together on a more definite statement of peace aims, as to just what we might expect in the way of benefit to people of occupied countries, as a basis for further propaganda efforts?

General McClure. I do not know that I am qualified to answer that, sir.

Mr. LUDLOW. Is there not a great deal of splitting off of these Axis peoples from their tyrannical governments? If they could get a more complete and better understanding of the better world that we are

trying to bring about after this conflict is over, the more we could get that impression upon them, is not that an important contribution to the war effort?

General McCLEURE. I should think it was, definitely; yes, sir. In a small way we are trying to do that in the occupied territory.

Mr. TARKER. It seems to me, as in my own opinion, that you could very well utilize a more definite statement of peace aims than the very idealistic and fine principles of the Atlantic Charter.

(Discussion off the record.)

Mr. TARKER. General McCleure, we have been seeing reports in the papers every day of broadcasts on the German radio indicating German withdrawals and losses in Russia. I was rather surprised, in view of that fact, to hear you say that you did not believe the German people were getting information as to the events on the Russian front.

For a considerable time we have been getting reports in the daily press and over the radio of the announcements by the German radio with reference to the Russian campaign that have provided the Russian announcements, and many times they have told a story that was worse, from the German point of view, than the Russian announcement later. Have you noticed that?

General McCLEURE. I have noticed that occasional tendency lately; yes, sir.

Mr. TARKER. Is it possible that those broadcasts do not get to the German people?

General McCLEURE. Some of the German broadcasts that are sent out in Morse code are for external consumption and are not necessarily broadcast to the German people for sets on which they can be received.

Mr. TARKER. Do you know whether those broadcasts are in German or in English, or how they are put out?

General McCLEURE. They broadcast in several different languages and you would have to take any particular item you might read and find its source. That might give you some definite information as to the audience the Germans expected to reach.

Mr. WOODRUM. In any event, most of those broadcasts speaking of German withdrawals speak of them as planned strategic withdrawals. They do not speak of them in the light of military defeats. In most of those German broadcasts that I have noted they value them in their own advantage. Is not that true?

General McCLEURE. Yes; I should think that that is true.

Mr. TARKER. The German people are intelligent enough to know that a withdrawal generally represents a defeat, are they not? Our drawal out of Italy right now that we would regard it as a defeat, are they not?

General McCLEURE. Yes; our people would.

Mr. TARKER. I think so.

Mr. TARKER. Now I would like to have you give us a little bit of a picture for the record, insofar as you are able, with reference to the number of O. W. I. employees in Italy at the moment.

(The question was answered off the record.)

Mr. TARKER. Of the number altogether assigned to General Eisenhower's headquarters, what percentage of them have you personally come in contact with?

General McCLEURE. I have personally come in contact, certainly at intervals, with about 75 percent of them. I am in intimate contact with probably 15 percent of them, and in daily contact with several.

Mr. TARKER. And what were the types that you came in contact with—that is, what was their activity?

General McCLEURE. Of the large number I stated there, some 75 percent, they ranged through all of the activities of O. W. I., because I attempted to keep at least slightly familiar with the details of their operation, but necessarily devote most of my time to matters of policy.

Now, of those on the policy level and creative level, with whom I deal, there is Mr. Jackson, who is a senior O. W. I. man there, the radio program directors, leaflet writers and producers, the script writers, news bureau chief, propaganda intelligence personnel, and, of course, the team chiefs who are actively with troops in the field and in all occupied areas.

Mr. TARKER. What do you call a team?

General McCLEURE. The group we will send up with the Army we call a team. They furnish these five services that I mentioned to you.

Mr. TARKER. How many are there in your own set-up?

General McCLEURE. In P. W. E., Psychological Warfare—

Mr. TARKER. I mean the set-up you have representing General Eisenhower.

General McCLEURE. Well, that includes Public Relations, Censorship, civilian and military, and Psychological Warfare. Each of those three is an integrated British-American allied team.

(After discussion off the record.)

Mr. TARKER. Now, suppose you give us this picture: As to Censorship, is that or is that not covered by O. W. I. in their Foreign Branch?

General McCLEURE. No.

Mr. TARKER. That is up to the Army?

General McCLEURE. O. W. I. has nothing to do with censorship, except self-censorship, which we expect of all agencies. I mean they censor their own programs and then submit them to our censors.

Mr. TARKER. Now, the Foreign Language Group that you use are made up about how? Are they made up out of your force, or out of the O. W. I. force, or both?

General McCLEURE. Both, sir. When you speak of "my" force, O. W. I. is one part of it, and the British counterparts are in it, also.

Mr. TARKER. As to these foreign-language people, that is, the ones who broadcast in a foreign language or get together script in foreign language, are they mostly your own people?

General McCLEURE. Yes, largely our own people, either furnished by the British or by the United States, or hired by us from local sources. We hire French, or Italians, or whatever may be necessary or desirable for part of that work.

Mr. TARKER. Of course you cannot hire Germans with a great deal of safety; I appreciate that. That is correct, is it not?

General McCLEURE. Yes, sir.

Mr. TARKER. How do you handle those German-language broadcasts? General McCLEURE. We requisition our personnel from O. W. I. or the British P. W. E. and they furnish them. From what source they get them, how carefully they are checked, and all that, we do not know.

Mr. TARKER. You do not handle that yourself?

General McCLEURE. We cannot do it in the field.

Mr. TARKER. You have not the facilities?

General McCLEURE. No, sir. We let them do that and furnish us with qualified personnel.

Mr. TARKER. Now, did you come back from the front for the purpose of this conference here?

General McCLEURE. Oh, by no means, sir.

Mr. TARKER. Now, as we go on through Italy to the north, how do I get it that the activities of O. W. I. might be of more value than they have been in the past? You told that to somebody. I wondered how that could be.

(The question was answered off the record.)

Mr. TARKER. Now, these operations that you are heading up over there are presently financed out of Regular Army appropriations, are they not?

General McCLEURE. A part of them are.

Mr. TARKER. How else?

General McCLEURE. Through O. W. I. appropriations and by the British.

Mr. TARKER. Well, O. W. I. is simply financing the personnel that it contributes?

General McCLEURE. That is right, sir, plus equipment.

Mr. TARKER. And the British finance the personnel that they contribute?

General McCLEURE. Correct, plus equipment.

Mr. TARKER. The facilities are largely being financed, or restoration of facilities is being financed by the Army?

General McCLEURE. Some of them. We requisition supplies from O. W. I. and the British P. W. E., just the same as we requisition them from the Army. It has been necessary, due to the ramifications of this job and the uncertainties, to get supplies from any source where you find they exist.

Mr. TARKER. I think that is all I have.

Mr. WOODSWORTH. General, I was interested in your comment on how much you felt had been contributed to the success in Italy, and so on, in the light of a statement made by William L. Shirer, a month or so back, with which you may or may not be familiar, where Mr. Shirer says in part that—

Neither Mideasta nor ourselves, during the 40 crucial days between July 25 and September 3, used the radio—almost the only means of communication with the entire Italian people—to win them over to active support, to instruct them on a very useful role they might have played. And yet, as Mr. Churchill disclosed last week, the Fascist government offered to come over to our side as early as August 15. That the vast majority of the Italian people wanted to come over there can be no doubt. They were to have been hungry for instructions and encouragement. They got neither until it was too late, until the Germans had consolidated their hold on the country.

Would you disagree violently with that statement?

(The question was answered off the record.)

Mr. WOODSWORTH. I do not think I have any further questions.

Mr. LAMBERTSON. I was interested in the questions Mr. Ludlow asked, General, and the fact they were not very well answered, about the illumination of the Atlantic Charter and O. W. I., which makes

ask the question: Does your propaganda deal with important military operations?

General McCLEURE. That is our major concern; yes, sir, in the field.

Mr. LAMBERTSON. I got the impression from earlier hearings there was a broader field of propaganda that preceded the Army quite in advance.

(The question was answered off the record.)

Mr. LAMBERTSON. I have no question it has been effective in France—German propaganda and our propaganda—and maybe in Italy; but propaganda has never affected the English from the Germans, and propaganda has never affected the Germans from the English, so far as we can tell, has it? Is there any evidence that propaganda has affected the English from Germany, or that English propaganda into Germany has affected the Germans, that we know of, to date?

General McCLEURE. I am afraid I cannot answer that.

Mr. LAMBERTSON. Well, my own answer to Mr. Ludlow's question, about the illumination of the "four freedoms" is that there is not any illumination of them. The Allied Nations won't agree on it, so that we might know what they have in mind.

Mr. DITTER. General, does the authority of your command permit of a determination of the type and the method to be resorted to in propaganda as it operates on the foreign front? Are you a policy-making officer, in other words?

General McCLEURE. Yes, sir.

Mr. DITTER. Or are you a vehicle through which policy formulated at some other source is carried out?

General McCLEURE. We are the policy-making group. Although, of course, policies communicated to us through the Combined Chiefs of Staff are carried out as a part of our program. These policies are the broad over-all ones.

Mr. DITTER. As to propaganda?

General McCLEURE. As to propaganda.

Mr. DITTER. In other words, you determine the type of propaganda that is to be used and then, in turn, convey that command to others to be formulated and put into being; is that it?

General McCLEURE. That is correct, sir, insofar as it affects our local theater.

Mr. DITTER. Does that command permit you to determine yourself who will be identified with the agency that is projecting the propaganda? In other words, in the military field, the men under your immediate command are subject to your decision and determination?

General McCLEURE. That is right.

Mr. DITTER. And in the dignified position you presently hold, you can determine the staff officers you are to have and then what will be their responsibility for carrying out the command you may make. Is that some privilege accorded to you for personnel identified with the propaganda agency?

General McCLEURE. That is correct; yes. Any personnel—

Mr. DITTER. Civilian and military?

General McCLEURE. Right. Any O. W. I. civilian over there now that I no longer wanted, all I would need to do is to communicate that to Mr. Davis, and I am quite sure the individual would come home very quickly.

Mr. DITTER. Now, is your command restricted to north Africa? Does it extend into the Sicilian and Italian campaign?

General McCLEURE. It extends into Italy.

Mr. DITTER. Do you have a similar command or, rather, does your authority extend to the whole of the European theater?

General McCLEURE. Not the European theater, but the north African theater.

Mr. DITTER. Is there any other military man responsible for the situation there and having the same degree of authority which you exercise in the African theater?

General McCLEURE. I cannot answer for the London set-up, sir.

Mr. DITTER. Would your activities put you in close contact with the foreign press in the areas under your command?

General McCLEURE. Yes, sir; very definitely.

Mr. DITTER. In other words, would you be privileged to examine from time to time the press of the sections through which your command extends—the foreign press?

General McCLEURE. You mean the Italian or French press?

Mr. DITTER. Well, whatever press might be there.

General McCLEURE. Yes, we do so. We furnish them information and we censor the press.

Mr. DITTER. And does time permit of your personal examination of the type of propaganda that is carried in that foreign press? I assume you have a rather heavy demand upon your time and your ability.

General McCLEURE. I do not personally examine the foreign press, except the French.

Mr. DITTER. For instance, do you have the opportunity and time to scan the foreign press as it may circulate in the areas through which your command extends?

General McCLEURE. Not I do not, sir, although I have an analysis of it presented to me.

Mr. DITTER. Are you familiar with the type of information distributed from the New York office of O. W. I. to the foreign press correspondents of the country for insertion in the press abroad?

General McCLEURE. I see that which comes in to us for distribution to the French or the Italian press; yes, sir.

Mr. DITTER. Are you prepared to make an appraisal of its military value, as it has come to your attention? Of those that you have seen, do you think they have military value?

General McCLEURE. I cannot answer whether they have military value, but news in the field, particularly in an active theater, is very essential. There has been a crying need for it on the part of our soldiers and certainly by the foreign press, the French press.

Mr. DITTER. Now, let us differentiate between the two, General. I am not thinking of the projection of propaganda for our own men; I am thinking of the projection of propaganda in the foreign press, in the areas coming under your command. They are two distinct fields, are they not?

General McCLEURE. Yes, sir.

Mr. DITTER. In other words, there is certain informational work being done, and very properly so, for the maintenance of morale and informational purposes, of our own men. Now, that is a distinct field, is it not—entirely distinct from that which is being projected into

the foreign press of the countries in which we are operating? There are two distinct fields, are there not?

General McCLEURE. They are overlapping fields, sir.

Mr. DITTER. Well, to what extent would our men be reading the foreign press?

General McCLEURE. They not only read it, but also information that comes in from the United States, from any source, information that comes in daily from O. W. I. news bulletins, and so forth, is furnished the Stars and Stripes as well as the foreign press, and they use it.

Mr. DITTER. I have just one simple subject before me, and I am wondering what its military value would be. It was called A New World Arises in the United States. Did you happen to have a chance to see that?

General McCLEURE. I have not seen the article.

Mr. DITTER. Then you cannot pass an opinion on the military value of that particular piece, can you?

General McCLEURE. No, sir.

Mr. TABER. Would you know who made the announcement of the Italian surrender on the 8th of September, I think?

General McCLEURE. Who made the announcement, sir? The announcement was started by General Eisenhower's statement.

Mr. TABER. That was an authoritative statement from General Eisenhower?

General McCLEURE. Yes; a transcription.

Mr. TABER. That passed through your hands?

General McCLEURE. Right. Our personnel made the transcription, carried it and put it on the air.

Mr. TABER. Now, who was it in O. W. I., if I am correct, that made the statement about Italy's "moronic little king"?

General McCLEURE. I have no idea. It did not come from our theater.

Mr. TABER. It did not come from your theater?

General McCLEURE. Definitely not.

Mr. LUTLOW. Off the record.

(Discussion off the record.)

Mr. RABAUT. Off the record.

(Discussion off the record.)

The CHAIDMAN. Did I understand you to say that you did not have sufficient service of this character in your area and that you could use additional personnel and additional O. W. I. service?

General McCLEURE. That is correct, sir; and we have made requisition on Mr. Davis for that.

Mr. DITTER. May I ask just another question? General, a distinguished group of United States Senators visited some of the fronts last summer. Did they have an opportunity of visiting with your command?

General McCLEURE. They did, sir.

Mr. DITTER. To what extent did they have an opportunity of making an appraisal of conditions that existed in and about your command?

General McCLEURE. They had conferences with, not only myself, but my staff, and they did look into O. W. I. activities there during their stay, sir.

Mr. DITTER. So that the privilege was accorded to them of making an appraisal?

General McClure. Yes.

Mr. RABAUT. Do you not think that we ought to have what sort of comment they made with regard to that?

Mr. DITTER. It would be out of order for me to quote a Senator.

Mr. RABAUT. What was said on the occasion of their visit?

General McClure. None of the Senators indicated to me their attitude toward O. W. I. as a result of what they learned in north Africa.

Mr. TABER. How many have you requisitioned from O. W. I. in addition to those you already have, and what types?

General McClure. This had better be off the record.

(Discussion off the record.)

Mr. TABER. The set-up that is under the control of General Eisenhower?

General McClure. That is correct. That is anticipating our future needs.

FRIDAY, OCTOBER 15, 1943.

OFFICE OF WAR INFORMATION

STATEMENTS OF ELMER DAVIS, DIRECTOR; ROBERT E. SHERWOOD, DIRECTOR OF OVERSEAS OPERATIONS BRANCH; JOSEPH BARNES, DEPUTY DIRECTOR, ATLANTIC OPERATIONS; FERDINAND KUHN, DEPUTY DIRECTOR FOR INFORMATION POLICY; THURMAN BARNARD, CHIEF OF OUTPOST BUREAU; PHILIP C. HAMBLET, ASSISTANT DIRECTOR, OVERSEAS BRANCH; FRANK MARCH, ASSISTANT DIRECTOR FOR MANAGEMENT; AND GEORGE BACKER, CONSULTANT TO THE DIRECTOR, OVERSEAS BRANCH.

AMOUNT OF FUNDS AVAILABLE FOR FISCAL YEAR 1944 AND REQUEST FOR ADDITIONAL CONTINGENCY FUND

The CHAIRMAN. We have under consideration this morning an estimate from the President submitted in House Document No. 328, for a deficiency appropriation of \$5,000,000, as follows:

For an additional amount for salaries and expenses, Office of War Information, fiscal year 1944, including the objects specified under this head and under General Provisions pertaining to the Office for Emergency Management in the National War Agencies Appropriation Act, 1944, \$5,000,000; *Provided*, That this supplemental appropriation shall not be available for expenditure unless the Director of the Office of War Information, with the approval of the President, shall determine that such funds are necessary for carrying on activities in conjunction with actual or projected military operations; *Provided further*, That receipts, in an amount not exceeding in the aggregate \$50,000, from the sale or rental, outside the continental limits of the United States, of publications, phonograph records, radio transcriptions, motion-picture films, photographs and pictures, educational materials, and such other items as the Director may deem necessary to carry out the program of the Office of War Information, may be used to supplement this appropriation; *Provided further*, That the last paragraph under the head "Office of War Information" in the National War Agencies Appropriation Act, 1944, is hereby repealed; *Provided further*, That the limitations in said appropriation are hereby increased as follows: To meet emergencies of a

TREASURY DEPARTMENT *W*

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

November 17, 1943

FROM Mr. McConnell

Mr. Sullivan, Mr. O'Connell and I attended a meeting this afternoon called by Judge Byrnes for the purpose of discussing recent criticisms the Attorney General has made of certain interpretations the procurement agencies had made of the renegotiation statute. The Attorney General has felt that the departments have construed the so-called "raw materials" exemption contained in the statute too broadly, and as a result have exempted from renegotiation business which should not have been so exempted.

The issue was essentially the same one as was made by the Attorney General in a memorandum sent to the President last July. At that time, as you may recall, you joined with the Under Secretaries of the War and Navy Departments and the Chairman of the Maritime Commission in a report to the President defending the interpretation given the statute by the agencies concerned.

The situation was recanvassed today, and it was decided to hold further discussion in abeyance until the Congress has completed its consideration of proposed amendments to the renegotiation statute, since the Congress, by reenacting the disputed provision without change will have resolved the question in favor of the position heretofore taken by the departments.

The Attorney General was entirely agreeable to this method of proceeding, and it would seem that as a practical matter this issue will not be raised again.

Mr. Justice Byrnes presided over the meeting. Also in attendance were Mr. Jesse Jones, Mr. Goodloe and Mr. Patterson from the RFC; Judge Patterson and Mr. MacIntosh from the War Department, Mr. Kenny from the Navy, Mr. Leo Crowley of FEA and Mr. Benjamin Cohen.

R. E. M.
By J. E. C.

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35001-
F.E.A.
November 17, 1943

MEMORANDUM FOR THE PRESIDENT

Policy on Lend-Lease and British Dollar Balances

On January 1, 1943, Messrs. Wallace, Hull, Stimson, Stettinius and Felt (acting for Mr. Morgenthau), who formed the senior inter-agency Committee on the Dollar Position of lend-lease countries, submitted the following recommendation to you which you approved:

"It is recommended, in the light of present circumstances, that the United Kingdom's gold and dollar balances should not be permitted to be less than about \$600 million nor above about \$1 billion."

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The reasons supporting this decision were:

1. Lend-lease countries should be allowed to maintain their gold and dollar balances at a level consistent with their needs for the vigorous prosecution of the war.
2. In the early discussions with the British they suggested that they should have a "minimum working balance of \$600 million required to meet contingencies everywhere." This figure was made the "floor."
3. The \$1 billion "ceiling" was a freezing of the status quo since on January 1 British balances were actually at about that level.
4. In your March 11, 1942 Report to Congress on Lend-Lease Operations you said:

"No items (i.e., for lend-lease aid) are approved unless the following conditions are met..... (e) the lend-lease aid requested must not be obtainable, as a practical matter, by payment therefor in American dollars or other currency available to the requisitioning country."

5. In testifying on the Lend-Lease Bill in January 1941 the Secretary of the Treasury assured Congress that the British had only sufficient dollar exchange resources to pay for the goods already ordered in this country. In this connection (with the full approval of the British authorities) he told the Senate Committee:

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"every dollar of property, real property or securities that any English citizen owns in the United States, they have agreed to sell during the next 12 months, in order to raise the money to pay for the orders they have already placed, they are going to sell -- every dollar of it."

6. The liquid dollar assets of the British had risen from some \$350 thousand at the start of lend-lease to \$1 billion on January 1, 1943 - exclusive of very large holdings by South Africa. Early in 1941 the Treasury Department, in cooperation with the other agencies, had initiated and pressed for an increase in the scope of lend-lease in order to relieve the pressure on Britain's gold and dollar holdings, and later to restore those balances to a level considered by the British as necessary for working purposes. In accordance with that policy a number of transactions were placed under lend-lease, which otherwise would have had to be handled by the British on a cash basis. Since the scope of lend-lease had been increased in order to maintain and boost British balances, it became necessary, when those balances continued to rise, to consider whether a limit should be placed upon them.

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Since January 1943 British balances have continued to rise, until they are now at approximately \$1.6 billion, or \$600 million more than the top figure set at the beginning of the year. In May the Treasury initiated discussions with the British for raw materials as reciprocal aid. It was originally expected that between \$200-\$300 million would be received in this way. However, the negotiations have taken a long time, major parts of the Empire have still not agreed, and even twelve months from now it is not believed that the Foreign Economic Administration will have received raw materials from the British Empire much in excess of \$100 million.

British Investments in the United States

Of the estimated \$1.5 billion of American investments owned by residents of the United Kingdom approximately \$400 million have been sold outright. \$500 million were pledged against an RFC loan of \$390 million, which was later reduced by payment to \$350 million. Accordingly, the British still retain about \$650 million of these investments, with no strings on them, and another \$450 million are on deposit as collateral.

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Summary of Dollar Position

In summary the British foreign exchange position vis-a-vis the United States -- excluding the holdings of other parts of the Empire vis-a-vis the United States, which have improved over the period -- has changed as follows:

	Dec. 30, 1940	Oct. 31, 1943
	(In millions)	
Gold.....	\$ 202	\$ 975
Official dollar balances.....	54	615
Private dollar balances.....	<u>305</u>	<u>320</u>
Total liquid balances.....	561	1,910
U. S. securities.....	616	360
Direct and miscellaneous		
investments in U.S.	900	785
<u>Deduct</u> collateral pledged to RFC	<u>-</u>	<u>- 500</u>
Total U.S. investments (net)	\$1,516	\$ 645

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The British Argument

The British oppose any effort by the United States to narrow the scope of lend-lease aid, in order to prevent the increase in British gold and dollar holdings. They point out that foreign countries hold approximately \$7 billion of short-term claims on sterling, that these sterling balances owned outside England are increasing three or four times faster than the British balance of gold and dollars, that accordingly their international financial position is worsening, and that they need all the gold and dollars they are accumulating. Furthermore, they assert that of the \$1.6 billion holdings, \$365 million must be deducted because of specific gold and dollar payment obligations to foreign countries.

There is no doubt that these mounting sterling obligations of the British constitute a serious financial problem especially for the post-war. The policy problem is whether the scope of lend-lease to the British should be kept as wide as it now is for the purpose of enabling the British to keep a growing reserve against obligations to foreign countries, which the British do not intend to meet until the post-war. A further consideration is that most of the short-term obligations owed by the British fall under two heads:

1. Many were accumulated before the U. S. extended lend-lease aid; and
2. Most of those contracted since lend-lease are owed to British Empire countries.

It is recognized that in all probability Britain can make no better deals with the Dominions and with India than to pay in sterling or sell their securities back to them. But it must also be recognized that the essence of the British position is that the scope of U. S. lend-lease should be kept wide in order to compensate for monetary payments made to the Empire.

Recommendations

The considerations which prompted the President's directive of January 1, 1943, are still sound, and require action to curtail the scope of lend-lease aid to the British, unless Congress is informed of the situation and agrees to a more generous policy.

1. It is therefore proposed to have the British pay for a larger proportion of civilian goods obtained in this country.
2. In particular, it is proposed to discontinue certain transactions which would never have been undertaken except for Britain's acute shortage of dollars, and which experience has shown are opposed

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by considerable sections of opinion in this country. Among the transactions which it is proposed to cut are: (a) long-term capital installations; (b) off-shore purchases such as Iceland fish, Caribbean sugar, and oil from outside the U. S.; (c) civilian goods to the Middle East; (d) all goods to South Africa (which is well off financially); (e) small requisitions (which are a nuisance); (f) certain other controversial civilian items.

If you approve will you please indicate below:

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION G-2
WASHINGTON

November 17, 1943.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

In accordance with your request for a weekly report on the Argentine reaction to the freezing of funds, the following is submitted:

The Argentine public remains in ignorance of the background of the freezing of the two banks, no accurate information having yet been given out to counteract the plethora of anti-American propaganda. In consequence, stories have reached at least one American business man to the effect that one reason for the lack of publicity on the blocking is that by taking such action Argentina is being robbed by this country; in contrast to Great Britain which early froze all Argentine assets as a necessary war measure (presumably for the conservation of the British foreign exchange position) we are said to have frozen the two banks as a punitive measure.

As an indication of the concern felt by the Argentine Government over the freezing of the two banks, the Minister of Foreign Affairs has assured the American Ambassador that, once the accounts of the two banks are unfrozen, the Government will immediately take effective measures to prevent the recurrence of activities complained of, and gave general assurances in behalf of the Finance Minister and himself that we can count on the guarantees mentioned, and full implementation thereof, as well as the furnishing of what is vaguely referred to as "things we need."

Very sincerely yours,

G. V. Strong
GEO. V. STRONG,
Major General,
A. G. of S., G-2.



CONFIDENTIAL

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For security reasons the
contents of this message must
be kept confidential.

IJJ

This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (SC-00)

Chungking

Dated November 17, 1943

Rec'd 5:25 p. m.

Secretary of State,

Washington.

2104, November 17, 4 p. m.

STRICTLY CONFIDENTIAL FOR SECRETARY TREASURY
FROM ADLER.

One. Returned Chungking November 15.

Two. Saw Do. Kung same day and reported on
Treasury's attitude on future of Board in accordance
with Cairo instructions. He indicated it was
perfectly agreeable to him that Board should be
wound up in near future. I suggested it might be
desirable for Treasury and Ministry to issue a joint
statement at suitable moment couched in appropriate
language in order to avoid Axis propaganda exploiting
termination of agreement to which he readily
agreed.

Three. Reference your LGBB, November 15.

Board should be able to meet its obligations and
settle outstanding business by December 31. In this
connection it is liquidation of sterling obligations
which require most time as our stabilization loan is
still in tact while sterling obligations under Sino-

British

-2- #2184, November 17, 4 p. m.

British agreements of 1939 and 41 will have to be handled. In informal discussion Thomas told me it was his impression Board could be wound up by year's end though it might require a month longer.

Four. Reference your 1617, November 11 and 1298, September 17. I delivered message to appropriate quarter for transmission immediately on returning from my previous trip to India and shall forward reply as soon as received. Am informed message was sent out it is not yet certain whether it reached destination. At my request it is being sent again.

NK

GAUSS

NOT TO BE RE-TRANSMITTED

SECRETCOPY NO. 14ALLIED M. ST. SECRETOP. NO. 377

Information received up to 10 A.M. 17th November, 1943

1. Naval

Two of H.M. Destroyers and light craft operated off Leros on 15th/16th and last night. One Destroyer was slightly damaged by enemy gun fire.

2. Air/Land Leros

The enemy again succeeded in landing re-inforcements during 15th/16th and has maintained an intense air effort. It was reported at 11:30 P.M. 16th that radio communication with Leros ceased at 17:47 that evening the enemy having captured Leros including Fortress headquarters. The position of our garrison is critical.

Burma Genl. HILL. We have evacuated FORT HILL after inflicting severe casualties on the enemy and have withdrawn to Kachin Plain.

3. Air Operations Western Front 16th. 327 Fortresses and 102 Liberators were sent to Germany: 303 aircraft attacked their objectives dropping 303 tons on Kassel (50 miles North West of Kassel) 362 tons on RUHR ELECTROLYTIC HYDROGEN PLANT and 32 tons on Kassel AIRCRAFT FACTORY with fair to good results. 6 enemy aircraft shot down, 1 Fortress missing. Typhoon bombers attacked an airfield at Bielefeld and shipping off HAVRE where a 1,000 ton ship was sunk and another damaged.

15th/17th. 21 Mosquitoes bombed objectives in North West Germany and 8 Wellingtons dropped incendiaries in North West FRANCE.

Dodecanese 15th. 3 Mitchells and 15 Bombers carried out sweeps in the Leros Area and damaged an enemy Destroyer. Enemy aircraft maintained continuous attacks on Leros and supplies brought to the North East part of the island.

15th/16th. 14 Dakota transport aircraft and 7 Hurricanes successfully dropped supplies on Leros: 16 heavy, medium and light bombers attacked Kassel and Leros airfields.

November 18, 1943¹⁶¹
10:05 a.m.

HMJr: Hello.

Robert
Rouse: Good morning.

HMJr: Bob, I wanted to call you up to tell you two things. Number One, I thought you'd been swell and I appreciated what you told me on how you felt about my attitude, but I hope you didn't feel that I was trying to put you on the spot.

R: Oh, Lord, no.

HMJr: Well, Bell or somebody, I don't know who, stayed behind and thought so. I had simply called on you because I felt that you could give them the flavor better than anybody else could.

R: Yeah. Well, I thought I had when I was over at the Board....

HMJr: Yeah.

R:between two and three.

HMJr: But you didn't feel that I had tried to put you on the spot?

R: No, I didn't. I -- remember? -- I told you before -- just before the meeting....

HMJr: Yeah.

R:when you asked how I had gotten along....

HMJr: Yeah.

R:that they were prepared to accept it but they wanted to put the responsibility on you because they feel this consciousness of direct purchasing.

HMJr: Well....

R: And the way the thing worked out, I think, while it made a little strain for two or three minutes....

HMJr: Yeah.

R:was much better than -- to have had it and had the air cleared.

HMJr: Well, as long as you didn't feel it, because, after all, you rendered the Treasury a swell service and I didn't want you to feel that in any way that -- embarrassed about it.

R: Oh, no, I didn't. I don't know how the Board people felt about it -- whether they thought that I was having difficulty exchanging my Treasury hat for my....

HMJr: Yeah.

R:System hat, but I wasn't concerned about it.

HMJr: Well....

R: I hope they weren't.

HMJr: Well, they -- it wasn't they. I think it was Bell said something to me.

R: Yeah.

HMJr: Because I didn't see any of them afterwards.

R: Well, you may have to protect me against the Chairman someday, but outside of that....

HMJr: Well, you may -- I'll be glad to do that and that's easy.

R: Uh....

HMJr: But....

R: No, I had no feeling about it....

HMJr: Yeah.

R:and it was awfully nice of you to have it in mind and call me.

HMJr: Good. All right. Well, we're all set, aren't we?

R: We're all set, except the price of securities and I don't know when you want to do that.

HMJr: Well, I'm seeing Bell at lunch and I'm going to tell him to be ready.

R: Yeah.

HMJr: Okay.

R: Okay, thank you.

HMJr: Bye.

November 18, 1943¹⁶⁴
10:55 a.m.

HMJr: Hello.

Operator: Senator George.

HMJr: Hello.

Walter F.
George: Hello.

HMJr: Henry talking.

G: Yes, Henry, this is Walter George.

HMJr: How are you?

G: Pretty good.

HMJr: Walter, I thought that idea of yours which you gave out yesterday, of saying that they couldn't hold the liquor in private warehouses more than four years was a swell idea, and I had a press conference this morning and they asked me about it, and I said I thought Senator George had an excellent idea and I concurred.

G: Well, thank you very much. I think it is, Henry. Of course, I haven't fully explored it, you know. There might be -- I don't see any bugs in it though. Those fellows just want to escape this high tax.

HMJr: Well, I thought that I'd send you up what I said in my press conference, plus what the Alcohol Tax Bureau will send us as to some of the details, you see?

G: Yeah. Well, I thank you very, very much.

HMJr: Because they asked me some questions which -- like, "How could we get a billion dollars worth of tax out of a hundred million gallons if it was only \$9 a gallon?" You see?

G: Yes.

HMJr: But I'm asking Alcohol, now, to put it all together in a package and send it up to you.

- 2 -

G: Fine.

HMJr: But I think it's -- with your help, they could get that through fairly promptly. It would just blow this whole black market up in the air.

G: I believe it will.

HMJr: I think it's a swell idea.

G: I think it will blow it up. That's what I think.

HMJr: Yeah. Well, I hope to see you soon.

G: All right, Henry.

HMJr: Thank you.

G: All right.

November 18, 1943
2:00 p.m.

GROUP

Present: Mr. Bell
Mr. Sullivan
Mr. Gaston
Mr. Gamble
Mr. White
Mr. Haas
Mr. O'Connell
Mr. Smith
Mr. Thompson
Mrs. Klotz

H.M.JR: Look, (to Mr. Sullivan) there are two things which you can pass on to the Bureau. I think that Senator George should be congratulated for being on his toes, and I wish I could say as much for my own organization on the hundred million gallons. I think we were asleep at the switch. I wish you would pass it down the line. With all the people that we have, I think somebody could have thought of that.

MR. SULLIVAN: I agree.

H.M.JR: (Gestures)

MR. SULLIVAN: Oh, you are right oftener than that!
(Laughter)

H.M.JR: I have been travelling with two men, and I have gotten a little timid after travelling with Smith and Waite.

Another thing - John, I don't want to be picking on you after you were so gracious, but I did make this statement today, that I would be looking into this American Distilling proposition; and if I had been on my toes I should have told them, "won't the whisky crowd ever learn anything?" In the middle of the war, to pull a fast one like this! Pure conservation, even though legal, doesn't do the whisky people any good.

- 2 -

MR. SULLIVAN: It depends on what they are pulling. It hasn't gone far enough for us to know that.

H.M.JR: Can I just tell you I would like you to watch it? It should be watched.

Let's take anybody who is a big enough stockholder. He gets a thousand gallons of whisky as his dividend. What is he going to do with it? How would he dispose of it?

MR. SULLIVAN: The people who are buying them - on the preliminary report I have from the SEC - are people in the retail liquor business.

H.M.JR: But take Mr. Brown and his wife, who both own twenty thousand shares. What are they going to do?

MR. SULLIVAN: I think they are going to do the thing I am complaining about. I think that they will sell. They never get the whisky; they get the warehouse receipts. I think they will sell that whisky.

H.M.JR: well, Dan Bell's friend, Sylvia Porter, has quite an article on it. I refer you to Sylvia.

MRS. KLOTZ: "Who is Sylvia?"

(Clipping from the Washington Post, dated November 11, 1948, handed to Mr. Sullivan by the Secretary.)

MR. BELL: She is my friend since a certain time.

MR. SULLIVAN: This is the thing that should be watched very carefully, because this can be done in a lot of other things besides whisky. That is why I think when you go before the Senate Finance you ought to have a recommendation that will stop it in this business and all lines of business. For instance, General Foods, instead of declaring dividends could give warehouse receipts on cases of canned peas and butter, and all that sort of stuff.

H.M.JR: That would be wonderful. .

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MR. SULLIVAN: It certainly would, but it would take it right out of the revenue.

MR. GASTON: How?

MR. SULLIVAN: Because the profit made by the individual is not subject to corporate income tax.

H.M.JR: well, I am looking at this thing from the standpoint of just plain morals. I think at this time it is damned bad morals for any company to be doing something like that.

MR. SULLIVAN: When they closed the market, Emil Schram told me there was one bid in for a hundred shares at one hundred and seventy-five dollars, another bid for a hundred shares at one hundred and fifty, and six hundred shares at one hundred and twenty.

H.M.JR: Most disgusting! Makes wonderful reading for the fellows on Volturno!

You (Sullivan) watch it, will you?

MR. SULLIVAN: Yes, sir.

H.M.JR: You were here when I saw this Texas lawyer?

MR. SULLIVAN: Yes, sir, I was.

H.M.JR: I read that report that I got. If my memory is right, I told Wirtz if Brown and Hoop would notify me that he was their accredited attorney, we would tell them where he could help, but we had no notice that he is their accredited attorney.

MR. SULLIVAN: He told you he was.

H.M.JR: Yes, but I would have to be notified, formally.

MR. SULLIVAN: I don't recall that.

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H.M.JR: You could look at the minutes if you want to. I don't want him to say, "I told you I would help you and you never asked me."

I said, "It is up to the company, I take it, to notify me that you are their accredited representative, and when I am so notified, I will be glad to take it up with you."

I read the thing; I don't think they have a leg to stand on. But I don't want him to be able to say, "I offered to help Morgenthau and he never requested my help."

I think the next move is from the company to notify me this man is their representative. I don't think he is; I think he is representing somebody else who is not in the company.

MR. SULLIVAN: Well, I haven't any reason to know.

H.M.JR: Will you clear that up for me?

MR. SULLIVAN: Certainly.

H.M.JR: Gaston?

MR. GASTON: I haven't anything.

MR. SMITH: I haven't anything.

H.M.JR: Is your stuff ready (Smith) so we can get out of here at two twenty-nine?

MR. SMITH: At two twenty-seven!

H.M.JR: Just so you people won't think some of us are playing tiddly-winks this week, we have settled, in the last three days, the Fourth War Loan - the terms, and so forth, and so forth. And I think the high spot of the whole thing - for those who are interested - is again the Federal Reserve Board, who were about as dumb as they could be.

They again put up this whole fight to raise the interest rates on the three-months notes in order to save the situation on the long-term bonds. And then when we refused

- 5 -

to do that, the whole question of how the bill market should be handled, and they said they couldn't handle it that way any more, that it was too near buying direct without buying direct. So we ended up - to make a long story short - by their insisting that I instruct the Federal Reserve Bank of New York as my fiscal agent. From now on they can handle the bill market for the Treasury - completely eliminated themselves from the picture.

I reminded them that in March, 1942, they made me order them to hold the present rate structure where it was. I said, "I congratulate you on the swell job you have done."

They said, "Well, yes, yes; but you will admit that we have taken initiative since."

I said, "You have done a beautiful, wonderful job of management, but you did make me order you to do it. And you insisted, and I ordered Allan Sproul to do it."

I said, "All right, now you are saying you can't handle the bill market unless I direct this thing. I said, "I have done so this morning."

Now, the interesting thing was, I didn't have to do a thing. We had these bond dealers around. I said, "Could you boys take a little more interest in this thing?"

"We get you."

I said, "Well, take care of it."

"You forget about it."

And that is about all that was said. They said, "We don't want to make a dollar on it; we want to render this service, and won't make a dollar on it."

MR. GASTON: What is the bills?

MR. JN: Yes. But I mean, again here was a chance that Eccles was riding his hobbies - might have put us

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on the spot - wanted to change the rate structure. The bankers are smart enough; they realize they are making big interest on their invested capital. They are happy. They want them left alone, and they are willing to let the Treasury continue, and support the Treasury publicly, actively, in their present rate structure. And the Federal Reserve Advisory Committee, and the A.B.A. are with us, too.

Den and I were talking about it at lunch. The board has practically nothing left. Anything they do now, they do because the Secretary of the Treasury has ordered them to do it. And to be so dumb!

So it kind of took the juice out of me, yes, sir; but it was a good meeting. George Haas' boys gave me some wonderful statistics and facts to base my arguments on. They were very helpful.

So all around - I hate to use this word, but that is, due to the selfish attitude of the Federal Reserve Board, we are again going to be able to keep the rate structure where it is. It is the only thing in the whole Government that is stable - money - and I am not exaggerating, am I?

MR. BELL: No, I think not.

R.M.JR: Even Bell got ruffled with eccles!

But it was a nice battle; it was quick and fast.

The other thing that Bell told me on eccles, which I didn't know - we are kind of gossiping a little - I mean, I had my crop full of eccles yesterday - was that eccles and the Board went off half-cocked on Tri-Continental.

MR. BELL: That is subconscious.

MR. WHITE: Selling and buying. (Laughter)

R.M.JR: That is my exclusive privilege. Thanks to Earl Bailie, God rest his soul.

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They went off half-cocked. They have gone out in sort of a "show cause" order against Trans-America to take their license away from them. Now, it is pretty hot stuff, and Eccles finds himself out on the end of the leash. So now he is trying to rush through a law between now and the first of January which will freeze all holding companies, and then he can drop this thing with Giannini, because Giannini is going to fight. Now, get this again; he needs a public relations man, or something - whether it could do him any good - he is willing to recommend to the Congress of the United States, not only to freeze Mr. Giannini, but to freeze the Eccles bank, too, and give them a permanent charter to do business.

MR. BEAL: Permanent monopoly over an area to do business.

MR. O'CONNELL: He was willing to do that some years ago when we suggested a bank holding-company bill that had that sentence in it.

MR. BEAL: Not as strong as this.

MR. O'CONNELL: He has gone further?

MR. BEAL: He is willing to carry the full responsibility before Congress, defend the measure, and everything.

MR. JR.: So it is just little tidbits - all of these things - Eccles being Chairman of the Utah Construction Company, and the Utah Construction Company having a part in four, five, six Federal contracts. I think all of those things - the Republicans are going to be smart and awake about the first of September next year, and then dump them, one after another - or maybe about the first of October. They know it. I think they will wait until about thirty days before election and then dump the whole thing. To be chairman of the construction company doing direct business with the Government on Government contracts, and also Chairman of the Federal Reserve Board is beyond me! It makes my apple deal look pretty small, doesn't it, Joe?

MR. O'CONNELL: They never looked anything alike.

MR. JR.: Thank you, Joe.

MR. THOMPSON: Congressman Ludlow is ready to start the Appropriation hearing Monday, December 6, if that will be convenient for you. If not, he will set one that will be.

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H.M.JR: The 6th, that doesn't sound right.

MR. THOMPSON: Monday, the 6th.

MR. GASTON: We will have to go back and look up the usual questions that Ludlow asks.

H.M.JR: Am I in favor of subsidies? No.

Am I in favor of holding companies? Yes.

MR. GASTON: How high can the debt go, safely?

MR. WHITE: Judging from the answer to the first two questions you are in favor of more silver.

MR. BELL: Did you tell your press conference this morning anything about the refunding?

H.M.JR: No. You didn't tell me to.

MR. BELL: I didn't assume you would, but I got word from some place around - I believe Shaeffer called me and wanted to know if there was anything today or tomorrow on the refunding. I think you might have Schwarz say something about it tomorrow.

H.M.JR: Will you take care of it?

MR. BELL: Yes, and then we will give it to the boys, say, Saturday morning or Monday in a release.

H.M.JR: Now, the big thing, Ted, Bell and I had a knock-down drag-out fight. See my black eye? He wants to give out your Fourth War Loan on Wednesday morning, and I am for doing it Thursday morning. I think most of the people stay home Thanksgiving. Where do you stand?

MR. GAMBLE: I would be in favor of Wednesday morning. I haven't talked to Mr. Bell, but--

H.M.JR: Smith?

MR. SMITH: I don't think it makes a bit of difference.

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MR. HAAS: It is a point worth fighting for. (Laughter)

MR. SMITH: It isn't worth getting out on the end of a limb.

MR. BELL: You are between two groups?

H.M.JR: All right, I will appoint a committee of Bell and Gamble.

MR. SMITH: To come to a conclusion?

MR. BELL: It doesn't make a bit of difference; I don't know whether a whole day would be better from the point of view of reading habits, or not.

MR. THOMPSON: It is not a holiday.

MR. BELL: Why didn't we issue an executive order, then?

MRS. KLOTZ: Is that the truth, that we will work on Thanksgiving?

H.M.JR: Sure.

MR. WHITE: Just to give thanks!

MR. BELL: That is all.

H.M.JR: Not too serious, now, Harry. And, incidentally, I have signed your forty letters this morning.

MR. WHITE: Fine. Here is all I have. I don't know whether you saw this before, but Lauch Currie gave me a copy. It might interest you.

(Mr. White handed copy of letter from the President to Secretary Stimson to the Secretary.)

MR. WHITE: They are quite upset at being left out of the picture.

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H.M.JR: Just one minute. That is the amazing thing, boiling it down: The President directed the Secretary of War to plan all feeding, etc, leaving everybody out, "except," he said, "you will consult the State Department and political advisers in the Treasury for such economic and fiscal advice as you may need."

MR. BELL: I got the same thing the other day. The fellow said they had gotten this letter and wanted to know if I had written it. I told him I had never heard of it.

H.M.JR: Can I keep this?

MR. WHITE: Yes, which brings to the fore this question I spoke to you about as to who should pay for this grain to be exchanged in Argentina.

The British have objected strenuously. They wanted it on a fifty-fifty basis.

Before I saw the letter - I don't know - I would have changed my mind, but before I called Dean Acheson's office to find out what their opinion was - Hiss is going to talk to Dean Acheson tonight. It may be that we will have to compromise temporarily on the basis of fifty-fifty. Five million dollars are involved.

H.M.JR: No, it is not all right, but I will go along with it.

MR. WHITE: We will insist that it merely be on that basis, and leave the question of continuing payments to be discussed, leave it open. Or the alternative is that we will have the Army pay for it all and say we are not going to settle the question at all. It isn't settled to our satisfaction.

H.M.JR: You had better get fifty-percent out of the English while you can. The point was, we have paid for all the food going into these countries up to now, and we said "Now, England, you pay up to how much we have and from then on we go fifty-fifty."

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To which they said, "We will go fifty-fifty now."

MR. WHITE: They will go fifty-fifty on payments to third countries. They are sending a little coal, but less than a half million dollars a month.

H.M.JR: I didn't expect much; neither did you.

MR. WHITE: Now, here is something: 'This is the Combined Chiefs-of-Staff letter.

(Mr. White handed copy of letter of November 18, 1943 from the Secretary to Admiral Leahy to the Secretary.)

MR. WHITE: Here is a draft of the proposed memorandum to the President that you were going to take up with Hull along with--

H.M.JR: (Interposing) On what subject?

MR. WHITE: Crowley on the British dollar position. I thought you might like to read that over before I finally agree with him. (Memorandum handed to the Secretary, copy attached)

H.M.JR: Yes. If you saw what was in my suitcase you would get-- (Laughter) How much more do you have?

MR. WHITE: Just two points, quick. One is that Lauch Crowley called me.

H.M.JR: Wait a minute - Oscar Lauch Crowley!

MR. WHITE: This one is particularly Lauch Crowley, because he called me up a little bit perturbed at Joe's memorandum to the President on the French. He said, "Am I correct in assuming that when they appeared here at

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that meeting that you were going to take that matter up with Crowley?"

I said that your letter to Hull specifically indicated that you had discussed it with Crowley with the definite intention that when Hull spoke that you wanted Crowley in on the discussion.

He said, "Can't he tell Crowley that?"

I said, "Yes, certainly," because I do remember you did say you were going to take it up with Currie.

H.M.JR: Did I? I thought the other matter - but I didn't know that.

MR. WHITE: They both were discussed at the same time.

John has made an appointment with the House Committee tomorrow. I want to tell you what we propose to tell them. We want to tell them about the bank statements that you are sending out and give them copies. We also propose to tell them approximately the status of the discussion we had with the British, and about some discussion of the principles that we agreed upon, and indicate what we had not agreed upon.

H.M.JR: That would take care of the press. Smith won't be here, but Shaeffer will be. Get Shaeffer to tell you what the press asked me about your problems today, will you please?

MR. WHITE: Well, we thought of giving the bank statements to the press next week.

H.M.JR: Be sure and talk to Shaeffer, will you?

MR. WHITE: Yes.

H.M.JR: All right?

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MR. WHITE: That is all.

H.M.JR: Joe?

MR. O'CONNELL: I haven't a thing, Mr. Secretary.

H.M.JR: You might tell Paul that Smith will be back here surely by Monday.

MR. SMITH: I will be back Friday.

H.M.JR: When he is back I want him to see Paul on the other view about my statement on the Hill. I want Paul to put some thought to it himself, please.

MR. O'CONNELL: I will tell him.

H.M.JR: My statement.

MR. O'CONNELL: Yes.

H.M.JR: George?

MR. HAAS: I have nothing.

MR. GAMBLE: I have only one thing. The best slogan we have received up to date is, "Let's get it over," for the Fourth War Loan. I thought I might try it out on this august body.

MR. HAAS: The next time you will say "We are still at it."

MR. GAMBLE: It could apply to the drive from the survey we made. It seems that the thing in most peoples' minds is to move a little faster.

H.M.JR: It sounds a little soapy.

MR. WHITE: The next one could be "One More Push."

H.M.JR: No, I personally would stick by "Back the Attack." I don't see why you have to change it.

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MR. BELL: "Continue to Back the Attack."

MR. GAMBLE: We have been using "Keep Backing the Attack."

H.M.JR: I just think "Back the Attack."

MR. WHITE: Keep "Back the Attack." That's what we've been doing - keeping it back.

MR. GAMBLE: You must remember that the place where we make the widest use of it is in the newspapers.

H.M.JR: Now listen, does Pillsbury Flour change their slogan every spring and fall?

MR. GAMBLE: Yes.

H.M.JR: "Eventually! Why not now?"

MR. GAMBLE: They change the appeal.

H.M.JR: Oh, they have a trademark. Packard: "Ask the Man Who Owns One," and all the rest.

MR. GASTON: On the other hand, Buick changes every year. They always have a slogan. "Better Buy Buick." They change it every year.

MR. WHITE: How about Smith Brothers?

H.M.JR: You will admit that that trademark has whiskers. (Laughter)

MR. SULLIVAN: We had better break this up right now.

H.M.JR: This is not an august body, at least we are not sitting in an august body. Come again. O.K. Do you have anything else (Gamble)?

MRS. KLOTZ: He has enough now.

MR. GAMBLE: I think I had better keep the rest of it to myself.

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H.M.JR: At least admit we did a job for you.

MR. GASTON: You will do as you please, anyway.

MRS. KLOTZ: He says you have to admit you have an open-minded reception.

H.M.JR: John?

MR. SULLIVAN: Nothing, sir.

H.M.JR: Smith? You had better get your overcoat and your tin hat and meet me.

MR. SULLIVAN: I had that Fish letter you sent in for a reply. I want to get out the correspondence. I am not at all sure it calls for a reply.

H.M.JR: Did you notice the "best" or "kind regards" he threw in?

MR. SULLIVAN: He is quitting on this charge, you see, immediately.

H.M.JR: I think when a man makes a charge of perjury - that some Treasury official got some of his friends to commit perjury, I think we ought to press him.

MR. SULLIVAN: If we answer it, it will be on that ground; but as an American citizen, if he knows anything is wrong it is his duty to do it, especially a Congressman, not to condone that, just to get a settlement of his private affairs.

H.M.JR: That perjury charge, I don't think we can just overlook it.

MR. SULLIVAN: I don't, either.

MR. GASTON: Did he say they tried to make his friends commit perjury?

H.M.JR: He said that a Treasury official tried to get one of his friends to commit perjury against him. And,

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of course, I wrote, "We hate to do it, but if you insist--". He will tell us, maybe. I would study it.

MR. SULLIVAN: Yes.

H.M.JR: Herbert?

MR. GASTON: I haven't anything.

H.M.JR: Did you speak to--

MR. GASTON: Yes.

H.M.JR: Nothing else?

MR. GASTON: No. I have two or three appointments I would like to talk to you about.

H.M.JR: When you see Mason - I have a request that when that helicopter passes its test I want to ride in it. Who was the pilot before this one?

MR. GASTON: Sinton.

H.M.JR: I don't know whether he ever got one or not. Once they have accepted it, I would like to go over and ride.

MR. WHITE: What is the hurry? Those things are still in the experimental stage.

MR. SULLIVAN: In the air.

H.M.JR: I want to see if I can run one. They say you can learn to run one in fifteen minutes.

MR. GASTON: They say you do better when you haven't learned!

H.M.JR: The Administrative Assistant to Preston Delano - you can put in his application for deferment. It will most likely be granted.

MR. THOMPSON: Robertson.

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MR. BELL: He hasn't been called yet.

MR. O'CONNELL: Is that the Robertson in the Legal Section?

MR. BELL: No, he isn't, he is Administrative Assistant to Delano.

MR. WHITE: By the way, the Army notified us they wouldn't be able to use the Treasury people in Italy.