

DIARY

Book 684

December 14-16, 1943

- A -

	Book	Page
Africa, French West		
Cooperation of new Commissioner of Finance reviewed in White memorandum - 12/14/43.....	684	69
Appointments and Resignations		
Cann, Norman: Hannegan recommends that Cann be brought back as Assistant Commissioner of Internal Revenue; HMJr agrees - 12/15/43.....		150

- B -

Boy Scouts		
See Financing, Government: War Savings Bonds (4th War Loan Drive)		

- C -

Cann, Norman		
See Appointments and Resignations		
China		
Adler gives complete resumé of situation including reaction to Cairo conference, etc. - 12/15/43.....		203
Cincinnati, Ohio		
See Financing, Government: War Savings Bonds (4th War Loan Drive)		
Cohn, Walter (Bureau of Engraving and Printing)		
See Deferments, Military		

- D -

Deferments, Military		
General policy discussed by HMJr, General Hershey, Bell, Thompson, Gaston, and Wilson - 12/15/43.....		97
a) Army's future needs reviewed by Hershey.....		119
b) List of Treasury draft deferments.....		128
c) Resumé of conference contained in Gaston memorandum.....		135
Conference; present: HMJr, Gaston, Thompson, and Wilson - 12/15/43.....		137
a) Deferments granted to		
Cohn, Walter (Bureau of Engraving and Printing)		
Hospan, John		
Smith, Fred (Assistant to the Secretary)		
Welch, George, Jr. (Assistant Collector of Internal Revenue, Nashville)		

- F -

Financing, Government		
War Savings Bonds:		
4th War Loan Drive		
Boy Scouts asked to continue their support - 12/15/43..		189
Press release giving details of offering - 12/16/43....		321
Cincinnati, Ohio, invites HMJr to open drive there - 12/16/43.....		333

- F - (Continued)

Book Page

France
See Africa, French West
French West Africa
See Africa, French West

- H -

Hospan, John (Bureau of Engraving and Printing)
See Deferments, Military

- I -

India
See Lend-Lease

- L -

Lend-Lease

India: Silver purchases discussed by HMJr, Crowley, Cox,
Currie, and White - 12/15/43..... 684 151
a) HMJr's letter to Crowley stating Treasury
position..... 154
b) Situation reviewed in unsigned memorandum..... 155
United Kingdom
Discussed by HMJr, Crowley, Cox, Currie, and White -
12/15/43..... 151
Discussed by HMJr, White, Crowley, Acheson, Rostow,
Stettinius, Coe, Currie, and Cox - 12/16/43..... 267
a) Draft of memorandum for FDR..... 302
Crowley-HMJr conversation concerning postponement of
meeting until HMJr can be present - 12/22/43:
See Book 686, page 133
FDR-Churchill conversation reported by United Kingdom
Treasury Delegation in Washington - 12/22/43:
Book 686, page 155

- O -

Ohio, Cincinnati
See Financing, Government: War Savings Bonds
(4th War Loan Drive)

- P -

	Book	Page
Philippine Islands		
Treasury Department internees again called to the attention of State Department - 12/14/43.....	684	68
a) Hull reply - 12/28/43: See Book <u>687</u> , page 34		

- R -

Roosevelt (Franklin D.) Library		
Rosenman (Samuel) contributes royalties from "Public Papers and Addresses of FDR" - 12/15/43.....		192
Rosenman, Samuel		
See Roosevelt (Franklin D.) Library		

- S -

Smith, Fred (Assistant to the Secretary)		
See Deferments, Military		

- U -

United Kingdom		
See Lend-Lease		

- W -

Wall Street Journal		
Editorial policy discussed by Treasury group - 12/15/43...		88
War Savings Bonds		
See Financing, Government		
Welch, George, Jr. (Assistant Collector of Internal Revenue, Nashville)		
See Deferments, Military		
West Africa, French		
See Africa, French West		

December 14, 1943
1:45 p.m.

ALCOHOL TAX

- Present: Mr. Sullivan
- Mr. Graves
- Mr. Smith
- Mr. Thompson
- Mr. Irely
- Mr. O'Connell
- Mr. Hannegan
- Mr. Coffelt
- Mr. Berkshire

H.M.JR: (Over interphone to Fitzgerald) Now, where is Smith? I told Smith and this man from Public Relations to be here.

MR. THOMPSON: Coffelt.

MR. FITZGERALD: I will get them, sir.

H.M.JR: Coffelt was there during the whole day and I thought the easiest way of saving him reading this testimony would be to have him tell it to all of us. I haven't had a chance to read it, but he was there all day long on Alcohol Tax.

I might as well tell you, I was very much disappointed in what I read in the papers about your (Berkshire's) testimony, and I felt that the Bureau of Internal Revenue and the Treasury ought to have a positive program on how to meet this situation on selling legal liquor.

Do you remember, I had you in here months ago, didn't I?

MR. BERKSHIRE: Yes, sir.

- 2 -

H.M.JR: And put you on notice on this thing. And I can't find that we have any program. We are being pushed around and everybody seems to have a program but us; that is, as far as reading the newspapers is concerned.

The thing that bothers me is that I think we are headed right the way we were during World War I when we had prohibition because the people can't get a modest amount of liquor at a reasonable price.

(Mr. Smith entered the conference)

H.M.JR: Where is this man of yours?

MR. SMITH: He is standing by.

H.M.JR: I am frankly disappointed. What I started was with Sullivan and the Commissioner, and I looked to them, and I look to you (Berkshire), because we have just got to have a program; we can't let everybody push us around.

We ought to be in the forefront. There ought not to have to be any Senate Investigating Committee to find out what this is. I have been up against much tougher things than this.

(Mr. Coffelt entered the conference.)

H.M.JR: Harold Graves knows that. He was with me in the early days. I spent half my time on it. I am not going to do that again, but I am going to see this thing through.

I am starting with Mr. Sullivan, and from there down. I told them I read this book and the battle is the pay-off. The colonel is the fellow who is held responsible, not some captain down the line if he makes a mistake. I look, in the first instance, to Sullivan.

Now, Mr. Coffelt, would you give me and these other gentlemen a summary of what happened that day at that hearing?

- 3 -

MR. COFFELT: Yes, sir.

The hearing was opened by Chairman Van Nuys reading a prepared statement as to the scope of the investigation and the intentions of the Committee to make, as he put it, "a full and complete study regardless of where the chips might fall," and so forth. I have a copy of that here if anyone is interested.

Then Mr. Berkshire was called as the first witness and presented in the first instance a summary of the enforcement organization since liquor traffic was instituted, continuing on up to the present time through the various reorganizations and assignments of responsibility, to the Alcohol Tax Unit as it exists today.

Most of the session was devoted to a presentation of statistical exhibits which Mr. Berkshire had brought up. He was interrupted frequently by questions from the Senators on various phases of it. They ultimately determined upon some orderly procedure; the statistics covering such matters as a list of registered distillers, the amount of spirits in storage, withdrawals, and so forth.

Among the questions that were interjected was one regarding the purported buying up by big distillers of wineries, vineyards and stocks in California, and the purchase of stocks of various companies.

Mr. Berkshire then outlined, in connection with the list of bonded warehouses, the responsibility that the Alcohol Tax Unit maintains in policing, so to speak, the bonded warehouses; the fact that the storekeeper gaugers are the only officers having the keys to the property, not even the proprietor entering except in the presence of these officers. The fact was brought out that private guards are maintained. They do not have access to the building.

Mr. Berkshire, I believe, pointed out that there had been no loss of consequence recently through theft or

- 4 -

the entering of the warehouses, or diversion of that sort.

Discussion then turned to the shrinkage and the ways in which measurements were taken of spirits withdrawn from storage, and the degree of shrinkages of different ages; and the responsibility of the wholesalers for keeping records of receipts and sales - monthly reports - the number of retailers in the field; and then the matter turned to the proposal to tax liquor at the end of four years instead of permitting it to remain in bond for as much as eight years.

It was brought out by Mr. Berkshire that there were one hundred and seventeen million proof gallons of four-to-eight-year spirits in warehouses after allowing for an estimated twenty-five percent shrinkage since it was placed in bond, out of a total of four hundred million upon-entry gauge, or about three hundred and fifteen million actual gallons.

And at that point this four-page advertisement that the Distilled Spirits Institute is running in the papers came in for some discussion; it being the point of the Committee, apparently, that this was misleading, and that it did not take into account the usual practice of adding distilled water to bring proof liquor down to eighty-four, or whatever proof is marketed, that it failed to take into account imports, or the amount of neutral grain spirits that were available for blending purposes. So actually the Committee seemed desiring to point out the amount of available supply as very much greater than this advertisement would indicate.

There was some inference, but no detailed questioning, as to the responsibility of the Bureau in determining the truth or factuality of advertising. I believe that Mr. Berkshire said that this particular advertisement was being analyzed by the Bureau.

The question came up as to the amount of liquor in the hands of retail and wholesale establishments, in

- 5 -

which Mr. Berkshire was able to cite the floor tax records as of October 1, 1941, and November 1, 1942; the totals being approximately forty-six million in the first instance and forty-eight million gallons in the latter case. And Mr. Berkshire said that probably not as much is in the hands of dealers today, in his judgment; probably considerably less than forty million gallons. And he was asked if consumers were hoarding whisky as one explanation for that lower total.

Questioning then turned to the black market and the source of supply, and particularly the problem of the monopoly States, where it seemed the consensus that more difficulty in obtaining supplies had developed than in the case of States where private industry made the distribution; also as to possible connections between rectifiers, bottlers, and distributors. There was some reference to the T.N.E.C. report of, I believe, 1937, in which it was stated that a Seagrams official stated that his company had extended thirty million dollars in credit to wholesalers and retailers, some of the Committee members apparently trying to read into that an evidence of monopoly activities.

Mr. Berkshire stated that he interpreted that, so far as he knew, to mean it was an extension of credit rather than exercise of control.

Mr. Berkshire presented charts and exhibits showing the proportions of the trade conducted by the four largest distillers, and that particular phase was one the Committee was most interested in, apparently; the National Distillers Product Corporation with twenty-five subsidiaries, thirteen registered distillers, three fruit distillers, and so forth - Schenley, Seagram, Hiram Walker, and the number of subsidiaries and establishments that they were operating.

There was a discussion of the bottling situation. Mr. Berkshire pointed out that the so-called self-imposed rationing was instituted by the industry before the

- 6 -

War Production Board cut down on the number of bottles available, and it was also brought out that a shift to quart containers would be a substantial help in meeting this problem, as against the tendency of the industry to bottle in pints and half-pints, some of the Committee pointing out that they obtained more money for these packages.

It was stated that the four major companies produced about forty-four percent of the production of the industry; their withdrawals over a period were sixty million gallons against fifty-three million for all other factors in the industry; their stocks on September 30 were about two hundred and forty-seven million gallons against one hundred and fifty-eight million for all others, or sixty-one percent against thirty-nine percent.

Mr. Berkshire was asked whether there was any reason that the tax could not be collected when the liquor was placed in the bonded warehouse, rather than when it was withdrawn.

He pointed out that there is no other product taxed as highly as spirits, that it would mean a tremendous financing operation to pay this tax in advance. He said he doubted that the industry could borrow enough money to pay the tax on spirits that would not be marketed before five years. The investment would be enormous.

He pointed out also that the warehousing of whisky in barrels is part of the production process, and only by mellowing in charred-oak barrels do you get true whisky.

Mr. Berkshire was asked if there was a black market condition existing in both retail and wholesale of the departments of the industry, and he stated there was evidence to that effect.

He was asked if wholesalers were marketing through regular channels or was the liquor going in other directions.

Mr. Berkshire said the problem that had developed was that of by-passing of regular outlets.

The Senators mentioned the decision of several of the monopoly States to permit dealers to go outside the State and buy liquor from sources they might find, rather than depending upon the States to supply it; the States being unable to get it, apparently. And the practice of certain parties acting as agents or brokers was discussed. The procedure being, apparently, for one of these men to go to a dealer and say, "I know where you can get some liquor," and proceeding to do so. There was some questioning as to whether these men would be required to have a license or not. It seemed to be something of a moot point, hinging upon whether they were merely agents or brokers, or actually dealing in the spirits.

The impression was left that every gallon of liquor that was reaching the consumer in that fashion was at least suspected of being in the black market. The records that wholesalers are maintaining in all cases show sales of ceiling price or below, which leaves the problem that of finding out how much money changed hands on the side, and how it was transferred.

Mr. Berkshire stated that none of the products for war purposes was being diverted into the listed market; that practically all of it was denatured and not for consumers.

There was some point made as to whether Lend Lease supplies of alcohol were so rendered unfit. The point was not stressed. Apparently some of the Committee members were hinting at the idea that some of it might come back in.

The questioning then turned to the effect of this proposal to tax liquor at the end of four years. It was indicated that over a billion dollars of taxes would be made available to the Government much earlier if this were done.

- 8 -

The amount of liquor, I believe, is placed at one hundred and seventeen million proof gallons after allowing for shrinkage; that is, liquor of more than four years age. And if the nine dollars a gallon tax rate should be approved, that would give a figure somewhat in excess of a billion dollars.

Mr. Berkshire pointed out the Government would get this money eventually, anyway, except for the loss in shrinkage. He asked if liquor in bond was subject to the personal property tax, and he stated that it was so taxed in all States, so far as he knew.

Then there was questioning as to what had been done to combat monopoly practices; questioning turning particularly to requirements of Alcohol Tax Unit for listing of officers and directors of the firms. Apparently the Committee was dealing on the prohibition, as I gathered, in the regulation with regard to interlocking directorates. Senator Ferguson of Michigan, I believe it was, was particularly keen in pressing this point. He attempted to develop the reasoning that the ownership of subsidiary companies by a parent firm was a violation of the prohibition against interlocking directorates.

Mr. Berkshire indicated that the Alcohol Tax Unit did not see anything in the law that prevented a company from acquiring another, or from owning stock in another company.

Then there was some discussion of the work that the Alcohol Tax Unit is doing now, particularly in the line of enforcing fair trade practices, developing corollary violations of hour laws, such as the falsification of records, or the failure to keep records. And the hearing, I believe, ended on that note, with Mr. Berkshire reaffirming the discussion of the work that is contained in the press release that we issued in our office, based on the monthly report of the Bureau, on its activities.

The Committee asked Mr. Berkshire for some particular instances, names, cases, and so forth, that were being investigated. He felt that it would jeopardize our chances of making successful prosecution, since many of these cases were in the hands of the Justice Department, or were being

prepared, but he did agree to give that data to an Executive Session of the Committee. I believe that covers the session.

H.M.JR: Just one minute. Joe, you take that and point out the thing; just tell me what you thought.
(Hands record of Senate hearing to Mr. O'Connell)

MR. O'CONNELL: You mean going through the whole thing?

H.M.JR: Aren't there just a couple of things?

MR. O'CONNELL: One of the things I thought most interesting is either a misunderstanding of the law, or weakness in the existing law, with respect to the discussion on interlocking directorates.

Mr. Berkshire was asked whether they considered that the prohibition on interlocking directorates had any application to the subsidiaries of the major companies; that, of course, being possibly more than half of the entire industry. He indicated that they considered that the law was not applicable to an interlocking of directors between the parent and subsidiary companies, and a quick examination of the law would indicate that that is correct in part. It isn't correct, entirely. The law provides that there shall not be any interlocking directorates except with the approval of the Secretary of the Treasury, except in connection with those that were in existence at the time the law was passed in 1935, or with respect to corporations which were created because the State law required a subsidiary corporation to be created in that State. The sense that I got from reading this testimony is that the Alcohol Tax Unit conceives it to be their responsibility only to get information with respect to the existence of interlocking directorates. They get reports, as I understand it, showing who the directors and major stockholders and officers are of each company. And the testimony was that they had never done anything about that. Now, it may be that no interlocking exists except in connection with affiliates, but certainly the law imposes some obligation on the Tax Unit to police the situation; to see to it that for the purpose of preventing monopoly, and preventing too much concentration of control, that interlocking directorates between presumably competing companies do not exist. Now, maybe Mr. Berkshire could tell me what they, in fact, do.

- 10 -

H.M.JR: I don't want to take too much time on that now. I want you to go into it with him, but I would like to suggest this--you haven't any recommendations?

MR. SULLIVAN: Yes, sir. You asked for it, didn't you? (Hands memorandum from Mr. Sullivan and Mr. Hanegan dated December 14, 1943 to the Secretary, copy attached.)

H.M.JR: Yes, but I don't always get what I ask for. This is from Sullivan and Hanegan: "We recommend that the current conditions in the liquor business throughout the country can be improved by a three-fold program:

"Intensification of the present drive against people in the liquor business who are operating in black markets.

"A reduction of the period for which liquor can be held tax free in bonded warehouses from eight years to five years. This would require the use of quart size bottles throughout the trade."

We have the authority to say the kind of bottles?

MR. SULLIVAN: Yes.

H.M.JR: "The review of the authority and supervision the Alcohol Tax Unit now has over wholesalers and retailers with a view to extending this authority wherever it is deemed advisable.

"It is possible that the three above recommendations will not be adequate to correct the present situation and we further recommend that a study be made to determine the feasibility of extending consumers' rationing to include alcoholic beverages other than beer and wine."

What I would like to suggest is this: If you go into this thing much further with the people--

MR. SULLIVAN: This is merely a beginning.

- 11 -

H.M.JR: And I would invite over somebody from Chester Bowles' office, see, and somebody from Donald Nelson's office with the idea that maybe you could limit them to a quart to a family or something, a quart a week, or a quart a month. I don't know how much there is to go around, but you would have to have a ticket to buy it. I mean, you get so much according to rationing.

MR. HANNEGAN: They do that now in various States.

MR. SULLIVAN: It would have to be uniform for the entire country.

H.M.JR: I mean, do it the way they do beef steak. There is no reason why you can't.

MR. O'CONNELL: It is only done now in States where they have a monopoly.

H.M.JR: But OPA could do it tomorrow if they want to.

MR. O'CONNELL: They haven't done it with anything like liquor. It would be similar to sugar, coffee, and other things.

H.M.JR: I am raising the point I think they ought to sit in on it. You ought also to have somebody from Nelson's office.

MR. SULLIVAN: On the bottle situation?

H.M.JR: I wasn't thinking of the bottle situation, but I was thinking of the situation as to the possibilities of distilling the potable alcohol.

MR. SULLIVAN: There is a further question.

H.M.JR: Just one second. Then when you people get to the point where you think you have a real program, then I would like to get in it in the not too distant future. Then I would like to do it a little differently or the way I did it originally on this whole thing.

- 12 -

Then I would like to have personally a representative of the Alcohol Institute and sit down and say to them, "Now, here is a program, and what is the matter with it?"

Well, I don't want any leaks on this thing, and I am going to invite them in. I will say, "Now, here is the program. I am going to suggest to you--there is a room across the way, and you go in there"--the representatives of the Treasury, OPA, and War Production--"and let's see if we can't sweat something out that you can agree on, always keeping it in mind that what we are trying to do is to preserve the industry in the sense that we want alcohol distributed so people can have it in moderation. If you have some kind of a program I would like to see it first." Then if I go along with it or make suggestions, we will call in the industry and consult with them.

MR. SULLIVAN: We had spoken about that.

H.M.JR: They may have some very good suggestions. When I sat down with the industry in the first instance, I got along with them excellently, and they did a lot of work for us. With their help and cooperation we finally put the bootlegger out of business. You were in on that, weren't you?

MR. GRAVES: Yes, sir.

MR. SULLIVAN: There is one other major possibility of affording relief in the present situation, Mr. Secretary, and that is the possibility that part of the production of the distillers which is now going exclusively to industrial alcohol could be diverted to manufactured spirits.

H.M.JR: That is what I want to find out.

MR. SULLIVAN: I understand they are now doing that to some extent in Canada, although I don't know how much.

H.M.JR: Let's go into it. I don't want Joe to sit in on all of this because he has too much to do; but when you can't, you have somebody represent you. On all these meetings I want Joe or his representative.

- 13 -

MR. O'CONNELL: In Canada, as I understand it, they permit the distillers to make potable alcohol four or five days a month and then make industrial alcohol the rest. That, I think, hasn't been thought through for this country. I know there is more production of industrial alcohol than we now need for war purposes.

H.M.JR: I am willing to make a bet that if Sullivan will get busy and get in on this thing I am confident there is a solution. If we pull everybody in on the Federal side and then let's get a program; and when we have it, let the industry shoot at it, say, "This is good," or, "This is bad, why don't you do this?" and so forth.

MR. HANNEGAN: Let's call the industry after, not before.

H.M.JR: After you have a program and after papa approves it or makes one or two suggestions.

MR. SULLIVAN: And the industry may be able to improve that.

H.M.JR: Then have the industry in. I don't want the industry to know we are doing this. They will, because they most likely have their men around.

MR. HANNEGAN: After the meeting we had here before, we went back to the Bureau and Mr. Berkshire did inaugurate a vigorous program of enforcement. Would you like to hear about that?

MR. SULLIVAN: I think if you can spare a few minutes, Mr. Secretary, it would be very helpful.

MR. BERKSHIRE: Immediately after the other meeting we went back to the office and our force got to work on planning a program; they got out a nine-page letter, giving the field more or less the details and directing them as to what cases and violations they should look for. We got that all out within two or three days, as soon as it was possible to get it into the field. We had, however, been

- 14 -

working in Baltimore and Washington prior to that on a program, a survey which would give us the information that leads to investigation and makes cases in the black market.

Soon after the mailing of this letter I personally went to three or four of the districts where we thought it was most likely we would find black market violations, and there I conferred with our enforcement men. We pulled men off of the other work and assigned them in Chicago, Detroit and those larger places to investigate this black market. They had leads already; they had received information in the course of their usual inspections that led to suspicion. And then the investigation that followed developed definitely that there were falsifications in our records, violations of the Internal Revenue laws tied up with black market violations, which would constitute cases of sufficient gravity. District attorneys will cooperate and take them to the grand juries.

Now, those things have taken place since we were here before, Mr. Secretary. I don't know of anything that could have been done that would have furthered the program, furthered the wish, Mr. Secretary, in getting at the bottom of the black market situation, and in doing our part toward making some criminal cases. That is all that we could do, make some criminal cases and endeavor to throw fear into these violators.

H.M.JR: Do you make a report for me?

MR. BERKSHIRE: I have made two or three reports.

MR. SULLIVAN: I have two reports of progress from Stewart.

H.M.JR: I didn't get them, did I?

MR. SULLIVAN: I have spoken to you about it.

H.M.JR: I didn't get the reports, did I?

MR. SULLIVAN: No. I will be glad to send them to you.

- 15 -

H.M.JR: I don't know, Stewart; I have my fingers crossed. I have to be sold on this thing, see, just how good a job is being done.

MR. HANNEGAN: (To Berkshire) You further instructed the men that even if they found a violation of the OPA regulations they were to go in, in those cases, also.

MR. BERKSHIRE: Yes, sir.

MR. HANNEGAN: Have you had any reports about that whether there was violation of OPA rules or regulations where your men went in in those cases?

MR. BERKSHIRE: We had a case in Chicago. It has already received some publicity, the case in Chicago where the OPA sued this wholesaler for sixty-seven thousand dollars, triple damages for the amount they received in the black market above the ceiling price.

MR. HANNEGAN: As a result of your work?

MR. BERKSHIRE: That was a result of our work.

H.M.JR: Well, let's go forward. Do you want to write a summary of what you have done and send it to me through channels? I would like to get it.

MR. SULLIVAN: I think the last was December 9, Stewart.

H.M.JR: Don't make it too long. Summarize what you have done since you were at that meeting here, I don't know how many months ago.

MR. BERKSHIRE: This memo of the 9th in general terms more or less summarizes what we have done unless we get down to specific cases. We could do that, because we will make, Mr. Secretary, some cases in practically all Eastern districts.

H.M.JR: Let's have it.

- 16 -

MR. BERKSHIRE: And many of those cases are now being presented to grand juries. Now, I could go ahead and give you a great many details as to what is going on.

H.M.JR: If Mr. Sullivan will give me that report, I will read it.

MR. SULLIVAN: Yes, sir, November 19 and December 1.

H.M.JR: Yes, sir, I want to stop now.

But, John, you take this on and push it just as hard as you can, you and the Commissioner and the rest of you, will you?

MR. SULLIVAN: Yes, sir.

H.M.JR: Then you ought to be able to make some headway this week.

Now, let me draw your attention--after all, what the people want is alcohol. Take a look at Puerto Rico, the Virgin Islands, Jamaica, and Cuba, see, and find out what they have. They may have a bottle shortage down there.

When we were in North Africa--that is wine, but it is still drinkable. I don't know how many thousands and thousands of gallons of wine there are, but no bottles. And the ships are coming back empty. In other words, I would take a look around the world and see whether there are alcoholic beverages and why they aren't coming into the country. It doesn't all have to be whisky. I mean, if people can get rum, it is good, and wine if it is good.

As I say, you may find that Puerto Rico may have some; I don't know how much, but maybe they have no bottles. You have to look at the bottle situation.

MR. SULLIVAN: One crowd has sewed up the alcohol production of Puerto Rico.

H.M.JR: I always was against four-fifths of a bottle. I would love to cut it out once and for all and go to quarts.

- 17 -

MR. SULLIVAN: And likewise have the British scotch that comes in here in quarts, too.

MR. O'CONNELL: Let's take care of the rye and bourbon. The scotch has been coming in fifths for a long time, but they certainly never put rye and bourbon in fifths until a year or a year and a half ago.

H.M.JR: I wouldn't just look at this production; I would look at Canada and the West Indies and see what there is and what the situation is. They may not have corks, for instance. I think personally even if you get the production you have to go to rationing. I think you have to go to rationing for a while even if we just release this extra hundred million gallons, or whatever it is; that isn't going to answer it.

MR. HANNEGAN: Then the OPA will say that it is necessary with their manpower and the personnel they have to devote their time to foodstuffs and not to alcohol.

H.M.JR: Well, we can get a good program; and if they won't go along, then it is time to bring it to the attention of the Senate and say, "If OPA will go along, this is the way to do it."

MR. O'CONNELL: We may find that OPA is coming around a little bit. I know sometime ago they were completely unwilling to do anything about liquor prices or rationing because they had too many important things to do. But we talked to them last week on the price side, and they are coming towards us in setting price ceilings; maybe they will swing in our direction.

H.M.JR: If you go to anybody like Chester Bowles and say, "Do you want prohibition, or do you want to keep it so you can have temperate drinking?"--

MR. SULLIVAN: I think I had better see both Chester and Donald Nelson and tell them I want their best men in these various lines, and men who will be given to understand that there is to be no leak in this thing. Because

- 18 -

if there is a leak, there will be a terrific run on the liquor stores, even worse than now.

H.M.JR: It can't be any worse than it is now.

MR. SULLIVAN: Oh, yes, there are still a few bottles of wine and rum left on the shelves now.

H.M.JR: Did you see the cartoon in the New Yorker of the one bottle? It was about half-past five. They said, "Let's drink it and go home."

All right, gentlemen.

MEMORANDUM

December 14, 1943.

TO: The Secretary
FROM: Commissioner Hannegan
Mr. Sullivan

CHH
JKS

We recommend that the current conditions in the liquor business throughout the country can be improved by a three-fold program:

1. Intensification of the present drive against people in the liquor business who are operating in black markets.
2. A reduction of the period for which liquor can be held tax free in bonded warehouses from eight years to five years. This would require the use of quart size bottles throughout the trade.
3. A review of the authority and supervision the Alcohol Tax Unit now has over wholesalers and retailers with a view to extending this authority wherever it is deemed advisable.

It is possible that the three above recommendations will not be adequate to correct the present situation and we further recommend that a study be made to determine the feasibility of extending consumers' rationing to include alcoholic beverages other than beer and wine.

December 14, 1943
2:34 p.m.

HMJr: Hello.

Operator: Judge Patterson.

HMJr: Hello.

Operator: Go ahead.

Robert
Patterson: Hello. Hello, Henry.

HMJr: How are you?

P: This is Bob.

HMJr: This is Henry.

P: Henry, Eddie Greenbaum told me about his talk with you on this price-adjustment business.

HMJr: Yeah.

P: Well, we're just shot full of holes in the Senate Finance Committee.

HMJr: That's right.

P: The - they're very hostile to the law

HMJr: Yeah.

P: the majority would like to repeal it

HMJr: Yeah.

P: they don't dare do that, so they're sticking as many knives into it as they can, and let it suffer. Ah - I

HMJr: I - go ahead.

P: I got a good reception when I went down before them last week.

HMJr: Yeah.

P: They didn't seem critical at all

HMJr: No.

- 2 -

P: but, of course, they just let me talk and then did as they pleased, and as they were minded to do before I talked.

HMJr: Yeah.

P: Ah - the - I understand that the vote there on these various measures was around 8 to 5 steadily.

HMJr: Yeah.

P: Not always the same people, but - ah - that's the way it goes. I - I had in mind speaking to Jimmie Byrnes about it, or - and let him call a meeting

HMJr: Yeah.

P: of all interested, if you like, and - ah - see what we should do. I - I, personally, would like to fight it on the Floor, or see - see someone fight it on the Floor.

HMJr: Yeah.

P: There are plenty of people who would just as soon do it. The most - the most telling thing to me - I've heard quite a number of these cases personally ...

HMJr: Yeah.

P: when the contractors refuse to make a voluntary agreement.

HMJr: # Yeah.

P: The most telling thing to me is the discussion of particular cases showing how large the profits are that these contractors are making.

HMJr: Yeah.

P: Even after taxes - ah - and the need of recovery of some of that money.

HMJr: Yeah.

P: Now as you know, we've recovered around \$5,300,000,000.

HMJr: Yeah. I read your statement.

- 3 -

P: And - and of that a billion and a half would not have come in on excess profits.

HMJr: Yeah.

P: Of course they take the attitude that they won't step up the taxes, and they don't want the recovery of money on price adjustment.

HMJr: No.

P: Some of these amendments that they've put in there now will cut severely into monies we've already recovered, and allow them to get it back.

HMJr: Yeah.

P: You take a machine-tool outfit like Warner & Swazey we've extracted \$6,000,000 from them - left them with plenty - we'd have to pay that back if we - the thing the Senate Finance Committee has stuck in sticks, because they make the new definition of sub-contracts, which would exclude a company like that, retroactive.

HMJr: Well, my point is

P: And it's just a general damn mess, now that's -

HMJr: Well, I agree with you, and - and one of two things is going to happen. Either they're going to emasculate the thing entirely, or they'll - they'll kill it. And - but the way it's going now, there's no team-play on this thing from this end of the Avenue.

P: No.

HMJr: And, I

P: I don't know whether it would do any good to have it or not. (Laughs)

HMJr: Well, I, personally, think it would.

P: It wouldn't do any harm. I'll admit that.

HMJr: Well, I mean - there are different Senators and Congressmen up there who are interested, but each must go up and do our bit, but I get the feeling we're more or less on our own.

- 4 -

P: That's true.

HMJr: And

P: Forrestal talks to some, and I talk to some

HMJr: Yeah, and

P: and you talk to some.

HMJr: Yeah, and I just thought that if we were going to lick it, we'd better get busy, and we haven't got much time left.

P: The report will probably be out Thursday, they think.

HMJr: I see.

P: No, we won't have much time left. It'll probably come on the Floor of the Senate next week -- early next week.

HMJr: Yeah. Well, it's something -- of course, we....

P: Is it the kind of thing we should bring up to Jimmie Byrnes?

HMJr: I don't think he's been in on it yet, as far as I know. I'll

P: He has not. No, he has not.

HMJr: I don't know whether it would or whether it wouldn't, but - ah

P: I think one of his jobs, tho', one of his functions when he was created, was to try to have relations with Congress, wasn't it? The Executive Department?

HMJr: I really don't know.

P: Well, I don't either.

HMJr: But - the point is - we want to be helpful over here, that's the thing.

P: Yeah.

HMJr: I mean, we're not - it isn't the revenue we're so much interested in as it is just the question of -

- 5 -

HMJr: cont'd of not letting these people make blood money during the war.

P: Of course, they have converted the statute.

HMJr: Yeah.

P: Really the theory and principle of it originally was a re-pricing where prices and profits were too high. And each department controlled its own prices by renegotiation.

HMJr: Yeah.

P: They have converted it now over to kind of a tax by - well, they - that seems to be the guiding thing, which was not the original purpose and never was my purpose, at all. We always - I always regarded it as a method of getting sound prices.

HMJr: Well, why don't you talk to Jimmie and see if he shows any interest?

P: I will.

HMJr: But, I think

P: If he doesn't, I think we ought to have a meeting of the five people affected - the five agencies.

HMJr: That's right, and if he doesn't, I'd be very glad to have the meeting in - in my room, because I'm very much interested.

P: I'll - I'll call Jimmie Byrnes.

HMJr: I wouldn't tell him that at all.

P: No, I won't. I'll sound him out, 'tho'.

HMJr: Yeah, and - I'm just telling you this personally, if he doesn't want to do it, and you want to meet over here or at the War Department, I don't care.

P: Well, I think - I think we ought to meet at your place, if he doesn't want it -- there in the White House.

HMJr: But don't put it to him on that basis.

- 6 -

P: I will not. I'll just see if he wants - if he's interested, or he thinks we ought to

HMJr: There are people like Truman and other people that I think we might get interested, you know.

P: Yeah.

HMJr: And

P: Well, I know quite a few who are interested now, too.

HMJr: Yeah.

P: Of course, old McKellar will - he regards himself as the father of this Act

HMJr: Yeah, well, if he

P: and the champion of it, and he'll

HMJr: Well, let's just

P: take up the cudgels.

HMJr: If we said, "Now..." - each person said, "Well, I know this person and that person" and then sort of allocate to each one of us to get after so-and-so you see?

P: Yeah.

HMJr: This week, I think we could do a job. Now, last week they told me that I had a unanimous vote against me on this money to subsidize the newspapers.

P: Yeah.

HMJr: I didn't have a vote in the Ways and Means. Well, we went to work and we licked it.

P: Yeah.

HMJr: And each person here took somebody and we went after them.

P: Well, I agree. That's the way to do it.

HMJr: What?

- 7 -

P: That's the way to do it.

HMJr: Well, if - if you give me a call back, I'm available.

P: Right, Henry.

HMJr: Thank you.

P: Good-bye.

MEMORANDUM

December 14, 1943.

TO: The Secretary
FROM: Mr. Sullivan

JHS

Immediately after the meeting in your office this afternoon, Commissioner Hannegan, Messrs. O'Connell, Thompson, Smith, Graves, Irey, Berkshire, and I met in my office to map out the development of a program to combat the black market in the liquor business. For purposes of expediting a formulation of the program the work has been divided up as follows:

1. Intensification of the present drive.
 - (a) Number of indictments already secured and number awaiting grand jury action. (Berkshire)
 - (b) Number of wholesalers to be cited for suspension and time schedule. (Berkshire)
 - (c) Examination of wholesalers who have been defendants in OPA suits and determination as to which ones should be cited. (Berkshire)
 - (d) A meeting of District supervisors to be held in Washington immediately. (Berkshire)
 - (e) Attempt to procure from OPA immediately all records of violation of OPA laws and regulations by people engaged in the liquor business. (Sullivan and Graves)
2. Reduction in the period for which liquor can be held tax free in bonded warehouses and the use of quart size bottles throughout the trade. (Berkshire)
 - (a) Legal opinion as to what legislation may be needed to enforce adoption of quarts and preparation of the necessary legislation. (Berkshire)
3. A review of the authority and supervision the Alcohol Tax Unit now has over wholesalers and retailers with a view of extending our present control. (O'Connell)

- 2 -

4. WPB (Sullivan and Graves)

- (a) Bottles
- (b) Possible utilization of industrial alcohol not yet denatured.
- (c) Possibility of permitting some manufacturers of industrial alcohol to make some potable alcohol.

5. OPA (Sullivan and Graves)

- (a) Consumers' rationing.
- (b) Establishment of liaison procedure with OPA so that the Alcohol Tax Unit will be immediately notified whenever OPA gets evidence of anyone in the liquor business violating the law.

- 6. Possibility of stimulating foreign production and increased importation. (Berkshire)

Mr. Graves and Mr. Sullivan saw Donald Nelson this afternoon. A memorandum is being prepared for you on the results of this conference.

MEMORANDUM

December 14, 1943.

TO: The Secretary
FROM: Mr. Sullivan

CLS

This afternoon, in company with Harold Graves, I visited Donald Nelson. I told him that we were disturbed about the liquor situation but that we were anxious to keep strictly confidential for the time being our concern and our efforts to alleviate the problem.

I asked him if he would make someone in WPB available to discuss with us three phases of our problem in which he could be helpful and if he would instruct the WPB people who were to work with us the entire project was to be kept in complete secrecy.

I discussed with Mr. Nelson the possibility of making available for the liquor industry a sufficient number of bottles to take care of the liquor that would be forced from the warehouses if the tax free period were reduced from eight to five years. Mr. Nelson stated that he believed there would be a sufficient quantity of bottles to take care of this if the distillers all went on a quart basis rather than pints and half pints. I then asked him if the WPB had the authority to force them to make this conversion and he replied in the affirmative. He has appointed his assistant, Mr. Locke, to work on this problem with us.

I then stated that the Treasury Department was very anxious that no industrial alcohol or industrial alcohol facility that was needed for the war effort should be diverted. Nevertheless, we were naturally interested in learning whether there was any present surplus of industrial alcohol that could be made available for beverage purposes before denaturing. He replied that there was no surplus.

I then asked whether there was any present prospect of permitting the industrial alcohol manufacturers to make potable alcohol for a limited period without jeopardizing military requirements. He replied there was no such present prospect but that he was having a reexamination made of future requirements and he thought that by the end of March he would be in a position to tell whether it would be possible later in the year to permit the distillers to manufacture some potable alcohol.

December 14, 1943
3:00 p.m.

CANADIAN U.S. DOLLAR EXCHANGE

Present: Mr. Bell
Mr. White
Mr. Friedman
Miss Kistler

H.M.JR: All right. Go ahead.

MR. WHITE: Now, I think that this memo is only three pages (referring to memorandum to the Secretary entitled "The Canadian U.S. Dollar Exchange Problem" from Mr. White, copy attached). I can give it to you orally, if you like, but I think--

H.M.JR: What makes you think I haven't read it?

MR. WHITE: You didn't get this memo yet.

H.M.JR: I thought you meant the one to Oscar Cox. You don't need to insult me! (Laughter) I can read it faster than you can talk it.

Have you seen this one? (referring to letter from Mr. Crowley, dated December 6, copy attached)

MR. WHITE: I haven't seen it.

H.M.JR: Yes, you have seen it. I sent that in to you. Haven't you seen that?

MR. WHITE: I don't think so. (To Friedman) Did we see this?

MR. FRIEDMAN: No, not from Crowley. Have you seen it, Miss Kistler?

- 2 -

MISS KISTLER: No.

H.M.JR: She says no before she even gets it!
Team play. (Laughter)

You all three better read it, and talk to me before we have that luncheon tomorrow.

(The Secretary reads Mr. White's memorandum.)

H.M.JR: What did we used to say Canada had in the way of dollar balances?

MISS KISTLER: Three hundred to three-fifty.

MR. WHITE: They were satisfied with that. It was their own suggestion.

H.M.JR: This says that our Army wants to retain control for reasons of prestige. That is damn nonsense.

MR. WHITE: That is what we thought.

H.M.JR: What is Canex?

MR. WHITE: That is the material which was sent to Canada on Lend Lease to make good for the material which was incorporated in the goods which Canada lend-leased Great Britain. The assumption was that she had to use more imported stuff of this kind.

H.M.JR: I have got a suggestion, see? If they are willing to take over this thing from marginal mines, see - and they want to - let them buy the aluminum contract of us - let them assume that.

MR. WHITE: The aluminum that we get from them?

H.M.JR: No, the contract that we have with the aluminum company of Canada, and the obligation, and everything.

- 3 -

MR. WHITE: Don't we get a good deal of that aluminum?

H.M.JR: But that isn't the point. We are in the process of helping to build this water power, around sixty million dollars, and then all kinds of tricks and wheels within wheels about their paying us off.

As I remember they say, "Well, the price of aluminum is fifteen cents; you pay us fifteen cents and we will pay you back five cents," and so forth. It is a most complicated thing.

But supposing they say, "This is a Canadian company and we want to control the Canadian company; we will take this thing off your hands and assume this obligation," and so forth, and so forth. "We will buy this contract of you."

Let's get out from under that one.

MISS KISTLER: I wonder if the Canadian Government would be any more desirous of taking over the contract than we would.

H.M.JR: They might, because this whole new Labor party up there--

MISS KISTLER: But the whole contract has been subject to as much criticism by the Canadian Parliament as it was to the Truman Committee here.

H.M.JR: I know.

MR. BELL: How about the oil project?

MR. WHITE: Well, there are possibilities.

H.M.JR: Think that aluminum thing over.

MR. BELL: Still got forty million dollars to be spent.

- 4 -

H.M.JR: On that one?

MR. BELL: Yes.

H.M.JR: But I mean, if they would somehow or other take that off our hands and take the one up on the river - what is the name of that river? It runs north in Alaska.

MR. FRIEDMAN: Saskatchewan?

H.M.JR: No, the only river in the world that runs north. Mackenzie.

MR. BELL: That is the oil project.

H.M.JR: It is on the Mackenzie. A fine lot of geographers I have got! It is the only river in the world that runs north.

MISS KISTLER: The St. Lawrence runs north part of the way.

H.M.JR: Not due north.

MR. BELL: So does the Missouri run north, when it comes down to Yellowstone Park.

MISS KISTLER: It doesn't run north for its entire course.

H.M.JR: Well, anyway, some of these contracts which are very messy and are wholly within Canada - you say there are forty million? All right.

MR. BELL: If they take off the sixty million dollars we spent - off our hands - it will help some.

H.M.JR: That messy stuff is going to be very hard. Here is the Canadian Minister, or Ambassador from Canada to the United States - General Counsel for the aluminum company. Do you know that? Am I right?

- 5 -

MISS KISTLER: That is correct, yes.

H.M.JR: And it is a very messy piece of business. If you could pick up a hundred to a hundred and fifty million dollars that way--

MR. WHITE: Before we do that we have to exhaust the straight-line contracts which have been placed in order to build up the dollar balances, because those were placed at our request.

H.M.JR: It is all right. I don't think you would get anywhere. But supposing the plants we bought and are in the process of financing in Canada today, suppose they take those off our hands.

MR. WHITE: I think it is a good suggestion to explore that.

MISS KISTLER: Yes.

H.M.JR: Several hundred million dollars.

MISS KISTLER: Yes. Well, that would fall into what we had in mind, Mr. White, of asking all the Agencies for information on their projects.

MR. WHITE: This is the letter we sent to each.
(Letters addressed to Secretaries of War and Navy attached)

H.M.JR: Haven't we built a lot of plants up there?

MISS KISTLER: We have made capital advances.

H.M.JR: I think you will find a boating plant at Vancouver.

MISS KISTLER: There were capital advances on a lot of plants.

H.M.JR: Why shouldn't Canada now, with all this money, own the plants in their own country?

- 6 -

MR. WHITE: I think that they probably would like to. The question would be a separate question as to whether they want to pay what we paid for them.

MR. BELL: They might not want to pay ten million dollars for a ten-million-dollar investment. Maybe we paid too much.

MR. WHITE: Isn't worth much after the war, or it may be. You might be able to get your money back on the oil, if they can get what they want out of it. They might be glad to pay certainly something for the aluminum.

H.M.JR: The thing that shocked me, I met Mr. Delano the other night at dinner - Frederic Delano. He has made two trips to Canada at the request of the President of Alaska. He said again, "I just want to remind you, Mr. President, that the Canadian Government has served notice on us that they will not maintain the road from the United States to Alaska when the war is over." And he said that one spring freeze and the road is gone. He said it costs them ten to fifteen million dollars to maintain that highway. One spring, and the road is gone. "They have served notice on us they will not maintain it."

I mean so there are things like that. They are being very tough. One spring freeze - or rather, thaw - and the road is gone.

God, I don't know how much that thing cost. What did it cost, a couple of hundred million dollars?

MR. WHITE: I don't think as much as that. Of course, a good deal of it is Army expenditure.

MR. BELL: You never can tell. It is hidden in the Army appropriation.

H.M.JR: Some of the air fields I have seen cost twenty-five million; this road could very easily cost two hundred million.

- 7 -

MISS KISTLER: The expenditures were running much higher than they had anticipated. One hundred and twenty million; may not be three hundred million.

MR. WHITE: I thought it was one hundred and twenty million. It must be two thousand miles. But as you know, it is extremely difficult.

H.M.JR: How much would that be a mile, in money?

MISS KISTLER: A hundred thousand dollars a mile.

MR. BELL: Thirty thousand dollars a mile is a great cost for a road, even over the toughest terrain. Normally they can build a road on a straight-away I think, for about ten or twelve thousand dollars.

H.M.JR: Some of these parkways cost forty thousand dollars ten years ago - a couple of big bridges in there. A hundred thousand dollars would be high.

MR. BELL: I think a hundred thousand dollars would be very high. I should think it a waste of money if it cost that much.

H.M.JR: Incidentally, the other thing he said interested me, that this first relief project they put in there up at--

MR. BELL: Alaska, in the valley.

H.M.JR: Where they moved these people - that half of the people are still there and doing all right.

MR. WHITE: I read two diverse stories a couple of years ago.

H.M.JR: He said they were doing all right and half were still there.

MR. WHITE: The mosquitoes were supposed to be as big as elephants.

- 8 -

H.M.JR: He was quite excited. He was there in July and August and said there were no mosquitoes. I have been there and been bitten to death.

Who does this go to? (Referring to letters prepared by Mr. White for the Secretary's signature, copies attached)

MR. WHITE: One is going to Stimson, one to Secretary Knox, one to Jesse Jones, and one to Admiral Land. They are slightly different.

MISS KISTLER: And one to Crowley.

MR. BELL: How much do you want to reduce these balances, two hundred million?

MR. WHITE: Well, you see, they are increasing, too, so it is a question of not only getting them down, but partly depends on--

H.M.JR: My feeling, lady and gentlemen, is that we have got to be much more aggressive on all of these balances - Canada and U.K. I think we have to get much more aggressive.

MR. WHITE: I was going to come to the U.K. thing.

H.M.JR: I have to stop in five minutes.

MR. WHITE: Well, they have got to come back at us and say that these projects are something, but they have got to take the next step. Then if there is nothing we can go ahead.

(The Secretary signs letters prepared by Mr. White)

MR. WHITE: One thing with reference to the matter tomorrow on the U.K. They are getting no word at all for a variety of reasons which they doubtless will tell you about, and I don't think we are going to get anywhere.

- 9 -

I am strongly in favor of going back to our original position; namely, of raising this question purely on a point of view of balances, and say to cut down the Lend Lease, and not attack it from the point of view of items which are politically feasible.

In other words, I would like this or some modification of this.

H.M.JR: I will give you a chance to prepare for this one o'clock meeting at eleven-thirty tomorrow.

MR. WHITE: All right.

H.M.JR: Make it eleven o'clock, Harry. And at that time you all can have ready this thing.

Do you have anything, Dan, on that thing?

MR. BELL: No.

H.M.JR: Do you agree with me or don't you that we have to get a little tougher with U.K. and England and Canada?

MR. BELL: I don't know what Great Britain balances are.

MR. WHITE: It is a billion, seven, from which they would deduct two hundred and fifty million, or something like that.

MR. BELL: For what?

MR. WHITE: They say that there are dollars set aside against definite claims.

MR. BELL: Dollar claims? Six hundred million to a billion was the figure we fixed, and they are three times the minimum.

- 10 -

MR. WHITE: I think the story - the reason why I don't think Crowley's outfit is getting anywhere is that they, the British, know that the State Department is in sympathy with them, and therefore they can dally and stall. They are even now having difficulty with working out the principle of the Reverse Lend Lease on which they got out this beautiful White Paper. Now that they have the Paper out they are no longer interested in working out the details.

H.M.JR: Who?

MR. WHITE: The British. They know that they have, very definitely, sympathetic support in the State Department. Knowing that, they can take a position which is somewhat different than would be the case if we were all together on it. I think it is with them that we have got to be tough.

The Canadians, I must say, show quite a different attitude. For example, pursuing the same tactics that you did with Halifax, to this extent, I asked him down here and said, "Now, this is the situation." Then I said, "What do you suggest?" And he had suggestions. He is troubled, he says, and he is trying. That is very different from Halifax.

MR. BELL: They have been frank and always tried to help, haven't they?

MR. WHITE: That is right. Of course, they have always underestimated their future, but they have to be conservative.

H.M.JR: We may have to, but if I am going to have to write a letter to the President about the English, I would like to tell Crowley about it first.

MR. WHITE: I think it has to be joint.

H.M.JR: Have you a better letter than I saw last time?

- 11 -

MR. WHITE: Well, I will work it over and see. I will try again. I thought it was good.

H.M.JR: I thought it was weak.

MR. WHITE: We come out pretty strong saying, "It is therefore proposed to have the British pay for a larger percentage of civilian goods obtained in this country."

H.M.JR: Well, I will take a look at it.

The thing that surprised me, I was talking to somebody yesterday, the British, they were telling me that all supplies, wherever they are, that have to do with the construction of oil wells, oil-well transportation, oil refineries, they are buying and paying cash for them, now.

MR. WHITE: They are buying and paying cash! They did get in on Lend Lease.

H.M.JR: They are paying cash for it now.

MR. WHITE: I didn't know that.

MISS KISTLER: That has been very recent, I think, as a result of the Truman Committee, or Naval Affairs - anyway, the interest on the Hill - they reversed their policy.

H.M.JR: Well, scare them a little bit.

MR. BELL: They don't have to be so free with their oil, either, if they pay for their equipment.

MR. WHITE: They still don't have any inventories.

H.M.JR: They didn't bring that man over from England that I suggested. You might bring that up. The General Motors man over there on Lend Lease in a uniform, that they say is tops, who would go into the military necessity of some of these things.

- 12 -

I feel this way, I am disappointed. I thought I could come back and tell this stuff to Crowley and Cox and Currie, and something had happened.

Crowley says, "I am with you; I will back you up."

MR. HALL: "I am with you" until somebody else meets him.

MR. WHITE: You can't wholly blame him because they are going through the same ropes.

H.M.JR: Let's make our own records, then.

MR. WHITE: I think we ought to do it jointly; make our own if he doesn't want to do it jointly. They must be satisfied now. If they are not, we are, that they can't get anywhere on those tactics.

H.M.JR: I thought the record we were going to make is what we have been doing up until the time Crowley came into the picture.

MR. WHITE: I don't know.

H.M.JR: The record I read was what we had been trying to do for the last six or eight months.

MR. WHITE: I don't think, after your discussions with Crowley, that you want to not move with him unless he doesn't want to move, because he can say he justly tried the other ways with the British for three months and has gotten nowhere.

H.M.JR: We will go into it.

MR. WHITE: Do you want to just look at this letter? Does this last paragraph on South Africa - let me get this embarrassing letter out. (Laughter) (Mr. White hands the Secretary letter to Mr. Crowley, dated December 14, 1943.)

- 13 -

H.M.JR: (reading) "Dear Mr. Crowley: This will acknowledge receipt of a copy of your letter to Secretary Hull dated December 6, 1943 in which you state that the Foreign Economic Administration feels strongly that the Union of South Africa should be placed on a cash basis to the fullest extent possible and that the Union Government should be requested to reimburse this Government for lend-lease assistance already received.

"On November 15, 1943, I wrote to Mr. Dean Acheson advising him that the proposal to place all transactions between the Union of South Africa and the United States on a cash basis was not only acceptable to the Treasury but was in line with the position we had taken all along.

"So far as concerns reimbursement for lend-lease assistance already extended, it seems to us that such a request might have unfavorable repercussions and might be interpreted as establishing a precedent for future lend-lease settlements with other countries. Moreover, it might lay this Government open to criticism of an unpleasant sort."

Now, I don't like that last sentence. I don't want to go with you that far.

MR. WHITE: There really isn't any danger of their suggesting that.

H.M.JR: No, no, no.

MR. WHITE: Of course, Canada is doing something like that.

H.M.JR: No, I can't go along.

MR. WHITE: Of their own accord?

- 14 -

H.M.JR: I don't want to even go that far. I am sorry, I want to be forthright about it. I can't agree with you.

The point is this, Crowley wants me to join him in recommending that South Africa not only go on a cash basis, but that they pay us back in cash for what we have lend-leased them. I say that is kind of welshing on our part.

MR. BELL: Do they have too high balances?

MR. WHITE: They have very high balances.

MR. BELL: That is another way of reducing balances - Reverse Lend Lease operations.

H.M.JR: I don't like the idea of the United States saying, "Now, South Africa, we will send you the troops and tanks and guns" - then we say, "How about paying us back?"

MR. WHITE: We helped them in order to help out the political situation.

H.M.JR: Harry has been trying to put it over on me. I can't go along. You just have to say no.

~~_____~~

C O P Y

The Honorable,

The Secretary of State

My dear Mr. Secretary

In his Twelfth Report to Congress on Lend-Lease Operations, the President reported that during the past summer the United Kingdom had agreed to extend reverse lend-lease aid to include raw materials, commodities, and foodstuffs hitherto purchased for export in the United Kingdom and British Colonies by United States Government agencies. At the same time, he announced that discussions are under way with other governments of the British Commonwealth looking toward similar arrangements.

The total program amounts to between \$200 million and \$300 million per year; but although the negotiations referred to by the President have been in process for some time, arrangements for a program of this scope are far from fruition. The principal reason for this is that little progress has been made in our negotiations with India. As will appear from the list which is attached to this letter, the total Indian program amounts to over \$141 million. We will fall far short of accomplishing our objective unless this program can soon be placed upon a reciprocal aid basis, and especially if this cannot be done with retroactive effect in a manner similar to the manner contemplated for the United Kingdom program. This is clearly apparent from the following figures:

While a definite arrangement is in process of being reached with the United Kingdom Government with respect to commodities originating in the United Kingdom, Southern Rhodesia and the Colonial Empire, the aggregate amount involved in these areas is not expected to exceed \$70 to \$80 million annually.

The New Zealand Government, in its memorandum of October 19, accepted our request, but our programs there are small and are not likely to exceed \$2 millions per year.

The Australian Government, in its aide-memoire of November 5, indicated that it was unable to make a general commitment to supply us raw materials as reverse lend-lease. We have already requested you to ask the Australians to reconsider this position. At the present time our public purchase programs in Australia aggregate about \$23 million per year.

- 2 -

Even assuming that full agreement is reached with respect to all of the above areas, the total involved will be less than \$100 million per annum. The importance of the Indian program is therefore apparent.

It should be noted that included in the total program are commodities in an estimated amount of \$42,500,000 which we purchased from British Government agencies.

We understand that the Indian Government has, from the very beginning, been kept advised of our discussions with the British Government on this subject and this was noted by the State Department in its memorandum of October 6 to the Indian Government where the question of raw material reciprocal aid was formally raised. A reply received from the Indian Government on November 15 indicated that our request of October 6 was receiving sympathetic consideration but that it might not be met in full.

In view of amounts involved, I think we should promptly ascertain whether or not we can expect to receive the aid from India which we have requested. With respect to dollar balance considerations, only the British Government would seem to be concerned, since all dollars previously paid under these programs have been acquired from India by the British Treasury in exchange for sterling. Thus, the only question is whether the British or the Indian Government will provide the rupees for future purchases of these materials for reverse lend-lease.

If, as we are led to believe, the delay in acknowledging our request is due to pending discussions between Indian and British authorities as to which Government is to bear the sterling cost of the reciprocal aid program, we think that it should be suggested to the British Government that in order to resolve the question vis-a-vis the United States, the British Government should underwrite the program, leaving to the future the final settlement of its financial arrangements with the Indian Government.

I should be very glad to have an opportunity to discuss this matter with you or those whom you may designate in your Department as soon as conveniently possible.

Sincerely yours,

(Signed)

Leo T. Crowley
Administrator

CDenby:rsp
12/6/43

INDIA - U. S. PUBLIC PURCHASE PROGRAMS

		<u>Est. Value of Expected Deliveries During Fiscal Year July 1, 1943 - June 30, 1944</u>		
<u>Commodity</u>	<u>Procured from</u>	<u>From Government Agencies</u>	<u>From Private Sellers</u>	<u>Total</u>
Beryl	Under private contract	\$ -	\$ 95,000	\$ 95,000
Burlap		-	67,500,000	67,500,000
Bristles	Br. Min. Supply	1,300,000	-	1,300,000
Cashew Shell Oil	Spot purchases	-	550,000	550,000
Ferromanganese	Sec. of State for India	900,000	-	900,000
Goatskins	Spot purchases	-	8,800,000	8,800,000
Jute	Under private contract	-	14,300,000	14,300,000
Manganese (ore and conc.)	"	-	1,065,000	1,065,000
Mica	Br. Min. Supply	11,300,000	-	11,300,000
Monozite Sand	Spot purchases	-	55,000	55,000
Scrap Metal	" "	-	265,000	265,000
Shellac	Br. Min. Supply	8,000,000	-	8,000,000
Sugar Bags	Under private contract	-	5,903,000	5,903,000
Sunn Hemp	"	-	270,000	270,000
Talc	"	-	25,000	25,000
Tea	Br. Min. of Food	21,000,000	-	21,000,000
	TOTALS	<u>\$42,500,000</u>	<u>\$98,828,000</u>	<u>\$141,328,000</u>

December 1, 1943

DEC 14 1943

My dear Mr. Secretary:

You will recall last March the President approved a recommendation made by the Cabinet Committee on the Dollar Position of lend-lease countries, that in the light of present circumstances appropriate action be taken to maintain Canada's gold and U.S. dollar balances at not less than about \$300 million and not more than about \$350 million. Since then, despite the cancellation of over \$100 million of U.S. contracts and contrary to the Canadian Government's expectations, Canada's gold and U.S. dollar reserve has risen markedly and is now roughly twice as high as the amount decided upon last Spring.

The improvement in Canada's U.S. dollar exchange position is such as to eliminate, at least for the time being, the necessity for transactions entered into by this Government, in pursuance of the Hyde Park Arrangement, for the purpose of increasing Canada's U.S. dollar receipts. In view of this fact, it is our opinion that henceforth no U.S. Government contract should be placed in Canada which cannot be readily justified on the basis of non-financial considerations. Furthermore, we feel that all existing and contemplated U.S. Government contracts as well as all contemplated and incompletd U.S. Government projects in Canada should now be reviewed in order to determine which of them could be cancelled by us and taken over by the Canadian Government without detriment to the war effort of the United Nations.

In this latter connection, the Canadian Government has proposed the immediate cancellation of two War Supplies Limited contracts. The first of these is for Algerine mine sweepers which, although representing a common-type store, appear to be going wholly to the United Kingdom while the second involves .303 ammunition, a British-type store. The amount still to be delivered on these two contracts is estimated by the Canadian Government to be \$9.5 million and

- 2 -

\$10 million, respectively.

For your information, the Canadian Treasury has also told us informally that the Canadian Government proposes not to submit bills to the United States Government in respect of expenditures incurred by Canada on our behalf for airfield development in North West Canada and to recoup the U.S. Government for expenditures incurred directly by us on these projects. The Canadian Treasury estimates that a total of \$30-\$50 million may be involved. This last proposal, however, may be subject to post-war considerations not applicable to the two munitions contracts.

I should appreciate being informed of the attitude of the War Department concerning these proposals. In addition, it would be helpful if you would let me know what contracts the War Department has outstanding in Canada and what projects it has under way in that country as well as which of these could be cancelled and taken over by the Canadian Government without hindrance to the war effort. In the determination of the latter, no consideration should be given to the Canadian Government's ability to finance the transaction, as that matter is to be the subject of further exploration between the treasuries of the two countries.

Finally, I should appreciate it if you would take the necessary steps to see that future contracts placed in Canada by the War Department are limited to those which are dictated by other than financial considerations.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of War.

TMK:rl 12/14/43

DEC 14 1943

My dear Mr. Secretary:

Last March the President approved a recommendation made by the Cabinet Committee on the Dollar Position of lend-lease countries, that in the light of present circumstances appropriate action be taken to maintain Canada's gold and U.S. dollar balances at not less than about \$300 million and not more than about \$350 million. Since then, despite the cancellation of over \$100 million of U.S. contracts and contrary to the Canadian Government's expectations, Canada's gold and U.S. dollar reserve has risen markedly and is now roughly twice as high as the amount decided upon last Spring.

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I should appreciate being informed of the attitude of the Navy Department concerning these proposals. In addition, it would be helpful if you would let me know what contracts the Navy Department has outstanding in Canada and what projects it has under way in that country as well as which of these could be cancelled and taken over by the Canadian Government without hindrance to the war effort. In the determination of the latter, no consideration should be given

- 2 -

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Finally, I should appreciate it if you would take the necessary steps to see that future contracts placed in Canada by the Navy Department are limited to those which are dictated by other than financial considerations.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of Navy.

TMK:rl 12/14/43

Dec. 11, 1943

Secretary Morgenthau

Mr. H. D. White

Subject: The Canadian U.S. Dollar Exchange Problem

Canada's gold and U.S. dollar balances have reached a level where something must be done to reduce them. You will recall it was agreed last Spring that steps should be taken to maintain Canadian balances at between \$300-\$350 million.

At the close of November, the Canadian Government held \$718 million of gold and U.S. dollars. This includes about \$100 million of net proceeds from security sales which under the terms of the agreement are not considered as part of Canada's reserves but are set aside for the repatriation of Canadian securities held by Americans. At the time we agreed to this request, we were given to understand that during the remainder of the year these proceeds would approximate \$100 million, the amount outstanding of two Dominion bond issues which the Canadian Government was desirous of repatriating. As these two issues were repatriated in September, the total of Canada's U.S. dollar receipts set aside for this purpose since January 1 amounts to roughly \$200 million.

Excluding the \$100 million of security proceeds currently held by the Canadian Government, Canada's official gold and U.S. dollar reserve is now about \$620 million, or \$270 million more than the maximum amount agreed upon last Spring as appropriate for this Government to assist the Canadian Government to maintain. This represents an increase of \$170 million since the close of June. This increase occurred despite the cancellation of over \$100 million of contracts in September. The current outlook is for continued improvement in Canada's position.

Dr. Clark of Canada was here Tuesday, December 7, at my request, to review the situation and to explore the possible measures for correcting it. The following developed from the discussion:

- A. Canadian supply people estimate that by the end of this year Canada will owe the U.S. Government \$115 million for goods delivered under Canpay requisitions; that is, for reimbursable lend-lease. F.E.A. people, on the other hand, recently informed us this backlog amounted to \$30 million or \$85 million less than the Canadian estimate. We have sent a letter to F.E.A.

Division of Monetary
Research

- 2 -

asking them to submit bills for these goods as soon as possible hoping thereby to have some light thrown on the discrepancy. Dr. Clark also promised to have his people check the estimate they gave him.

It was agreed that Canada should make a lump payment on account for these goods as soon as more is learned concerning the actual amount involved. If the Canadian estimate is correct, such a payment would reduce Canada's dollar balances to about \$525 million by the end of this year; if the F.E.A. estimate is correct, however, such a payment would leave the balances at about \$600 million.

- B. There are only two contracts with about \$20 million of goods still to be delivered which, in the opinion of Canadian officials, should be cancelled immediately. Of the remainder there are some which may be of dubious character but the Canadian supply people assert our procurement people, for one reason or another, are reluctant to terminate them. Among these contracts are:
1. A contract for Bren-Guns for China which Canada states it is willing to take over under its Mutual Aid Bill. However, the Canadians assert our Army wants to retain control for reasons of prestige. It is possible there may be good reasons why the Army should retain control of these goods, but it seems to us that in the absence of overwhelming considerations there are better ways of spending \$10 million.
 2. Contracts for common-type munitions, the destination of which is unknown until after they come off the production line and are assigned by the Joint Assignment Board. The Canadians assert that our service people are also reluctant to have these contracts transferred to Canada on the ground that they prefer to retain control. This is difficult for us to understand in view of Dr. Clark's admission last Spring that any assignments made by the Canadian Mutual Assignment Board would be governed by the general pattern laid down by the British-U.S. Joint Assignment Board.

Division of Monetary
Research

- 3 -

3. Contracts for planes to be lend-leased to Britain to meet the latter's obligation under the Empire Air Training Plan. Dr. Clark offered no reasons as to why they could not be taken over by Canada.
- C. The Commodity Credit Corporation is purchasing grain in Canada. We have no information as to what kind of grain is being purchased or to what use it is being put. Dr. Clark thought as much as \$115 million may have been purchased to date.
- D. In addition to the proposal to pay for reimbursable lend-lease and to cancel two contracts aggregating \$20 million, Dr. Clark suggested the following steps to reduce Canada's balances:
 1. Assumption by the Canadian Government of the obligation of the Metal Reserves Corporation to make capital advances up to a maximum of \$10 million to develop certain marginal base metal mines in Canada.
 2. The assumption by the Canadian Government of the cost to the U.S. Government for airfield development in North West Canada. This is estimated by the Canadian Government to be \$30-\$50 million.
 3. Payment by Canada for goods received under Canex requisitions--that is, for goods received by Canada and charged to U.K. in exchange for other goods purchased here by Canada and used in that country for production for British account. Goods so delivered are estimated by the Canadians to amount to \$40-\$50 million.

In view of the Canadian Government's assertion that there are only two contracts, on which only a relatively negligible amount of goods remain to be delivered, that our procurement people would wish to cancel, and in view further that the other suggestions made by the Canadian Government to reduce their

TMK:rl 12/14/43

Division of Monetary
Research

- 4 -

balances are totally insufficient for the purpose at hand, it is suggested that we make a thorough canvass of U.S. Government agencies for information on the type of transaction being conducted in Canada and for comments as to the desirability of the continuance of these transactions. Drafts of proposed letters to be sent to the agencies concerned asking for such information are attached for your signature.

TMK:rl 12/14/43

UNITED KINGDOM TREASURY DELEGATION

BOX 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

December 14, 1943

TELEPHONE EXECUTIVE 2620

My dear Bernstein:

In continuation of Dennis Robertson's letter of November 2d, here are the figures of our gold and dollar holdings, in million dollars, as at October 30th.

Gold	984
<u>Less gold liabilities</u>	262
Net gold	722
Official dollar balances	620
<u>Less dollar liabilities</u>	114
Net dollars	<u>506</u>
Net gold and dollars	<u>1228</u>

Yours sincerely,

A.T.K. Grant

A.T.K. Grant

Mr. E. M. Bernstein
United States Treasury
Washington, D.C.

RECEIVED
12 DEC 1943
TREASURY DEPARTMENT
WASHINGTON, D.C.

December 14, 1943
3:07 p.m.

HMJr: Hello.

Operator: David Niles.

HMJr: Hello.

David Niles: Hello, Mr. Secretary.

HMJr: How are you?

N: Fine, sir. How are you?

HMJr: I'm fine. The reason I'm calling you - that I was told that you most likely would ask to see me, and I take it, it's in connection with a man from Chicago who wants to be Assistant Commissioner.

N: No, sir.

HMJr: It isn't?

N: No, sir.

HMJr: Oh, I thought that's what it was.

N: It's in connection with a situation up in Massachusetts.

HMJr: What - what situation would that be?

N: The collector of the port.

HMJr: Well, why don't you see Herbert Gaston about those?

N: Well, I - he - Herbert Gaston has done this thing. There's a certain situation there that has to do with - he - John McCormack asked me to see this man yesterday, and it has to do with delegates for next February. They've got to be filed pretty soon, and

HMJr: Couldn't Herbert handle this? I don't know much about it.

N: Yeah, well, Herbert - they checked this man. He's the State Chairman

- 2 -

HMJr: Yeah. Have you exhausted working with Herbert?

N: Well, I haven't really exhausted Herbert at all on this thing.

HMJr: Well, why don't you have a go at him first?

N: Okay.

HMJr: And then if you're not successful, I'll see you, or - any time I'm glad to see you, but

N: I know you are.

HMJr: but I just didn't - I just

N: I know.

HMJr: But

N: Well, I'll talk with him, and see what - what can happen. I know this thing's been pending now for eight months, and what I - you see, I wanted to talk with you because I knew that I could talk with you freely about certain implications up there in Massachusetts that

HMJr: Well, you can talk just as freely with Herbert.

N: Okay, fine.

HMJr: And if - if you don't get along, give me a ring, and I'll see you within the half a day.

N: Okay, fine.

HMJr: How's that?

N: Thanks very much.

HMJr: All right.

December 14, 1943
4:35 p.m.

Eugene
Duffield: Good afternoon.

HMJr: Hello, Gene.

D: How are you?

HMJr: Fine.

D: You've been many places since I last saw you.

HMJr: That's right. Gene, I've been told that the Navy has an excellent film on Tarawa - if that's the way you pronounce it.

D: Yeah.

HMJr: And, you know the Army's giving us their new film to distribute for War Bonds during January.

D: I see.

HMJr: This one that has created so much interest.

D: Yeah.

HMJr: I wondered if the Navy wanted to give us this Tarawa film.

D: Well, Mr. Secretary, the Marines took this film and they're very proud of it, and I think they had planned to get a general distribution. I'm not sure, but

HMJr: Yes.

D: suppose I get the Marine officer who's been in charge of it to get in touch with you, or anybody you suggest.

HMJr: Well, if you'd contact Ted Gamble, direct.

D: Sure.

HMJr: Will you do that?

D: Yeah. I

- 2 -

HMJr: And

D: The film is a pretty gory one.

HMJr: That's all right. The gorier the better from our standpoint.

D: Yeah.

HMJr: But the Army is delighted, and they're letting us handle the whole distribution of that other film.

D: Good. Well, I don't know - the Marines - this is the first Marines' combat film, really, and they are really quite set up about it. And it's a good film. It really is.

HMJr: Well, do two things. One: find out about it, and contact Ted, and when it's ready, I'd like to see it.

D: All right. Fine. It's in a form now completely uncut, and certainly not for mixed audiences.

HMJr: It isn't?

D: No.

HMJr: I see.

D: If you'd like to see it in that form, I'll

HMJr: How long does it take?

D: It takes about thirty minutes in its uncut form.

HMJr: I'd like to see it.

D: All right. Fine.

HMJr: Yeah.

D: Okay.

HMJr: I'd like to see it as is.

D: Okay, sir. Fine.

HMJr: Yeah.

- 3 -

D: I'll arrange it.

HMJr: Will you?

D: You bet.

HMJr: We can show it in my own theater, you know.

D: Surely.

HMJr: Thank you.

D: Fine.

HMJr: Good-bye.

D: Good-bye.

cc: Mr. Paul
Mr. O'Connell

61

December 14, 1943
4:53 p.m.

HMJr: Yes.

Robert
Patterson: Hello, Henry.

HMJr: Talking.

P: This is Bob.

HMJr: Yes.

P: I spoke to Jimmie Byrnes.

HMJr: Yes.

P: He thinks that's well worth the battle.

HMJr: Yes.

P: He'd like to have the meeting of all concerned
in his office tomorrow at 4:00 p.m.

HMJr: I see.

P: Okay?

HMJr: Yeah.

P: 4:00 p.m.

HMJr: Well, now

P: He - he thinks it's - and - he thinks it's well
worth a battle; we ought to outline what we're
going to do, and what material we're going to
furnish individual Senators on the floor.

HMJr: I see.

P: And kind of allocate the job out to the different
ones attending it. That will be Treasury, Army,
Navy, Maritime Commission, and the Jones company.
Those are the five interested.

HMJr: Well, is he going to call the meeting?

P: He asked me to.

HMJr: He asked

- 2 -

P: He'll preside at it.

HMJr: I see. I see.

P: Fine.

HMJr: All right.

P: Thank you, Henry.

HMJr: Thank you.

P: Are you all - are - you're - you're our strong man here.

HMJr: Well

P: (Laughs)

HMJr: we'll see.

P: Right.

HMJr: Thank you.

P: Good-bye.

December 14, 1943
5:15 p.m.

Clifton
Mack: Hello.

HMJr: Cliff?

M: Yes, sir.

HMJr: Has anyone told you that I want to see you tomorrow?

M: Yes. I just had a call from FitzGerald a few minutes ago asking me to be there at three o'clock.

HMJr: Yeah. Now, who handles this surplus property for you?

M: Mr. Mapes.

HMJr: Who?

M: Mr. Mapes. M-a-p-e-s.

HMJr: Well, supposing you bring him along.

M: Very good.

HMJr: And I want to know - I want a report on how you are handling this thing.

M: All right.

HMJr: Now, I was talking to Joe O'Connell, and he tells me, for instance, that the Army's given you - or the Navy - some uniforms to sell.

M: That's right. And I'll have the story on that.

HMJr: And some harness.

M: Yes.

HMJr: And what - what you've been doing. I mean some of the more typical things.

M: Well....

HMJr: And how you are disposing of them.

- 2 -

M: Well, for the most part, we've had N.Y.A. property. That would be machine shops and wood-working shops, and that type of equipment.

HMJr: Yeah.

M: We've had W.P.A. That's construction equipment.

HMJr: Yeah.

M: We've had, recently, from the - from the military services - oh, types of things, such as clothing items and - just recently we had quite a quantity of shearings.

HMJr: Of what?

M: Of shearings - that's the first crop of - of wool.

HMJr: Oh, yes.

M: That they use for these wool-lined vests for aviators.

HMJr: Yes.

M: Well, the Army has declared to us about - about three million square feet of shearings.

HMJr: Yes.

M: And, there's a market for them and they can be disposed of very readily.

HMJr: Well, I want to know what you're doing, and - and you might bring over with you, and give it to me, a piece of paper telling me who Mapes is and what his background is.

M: Very good. And you want Mr. Mapes to come with me?

HMJr: Yes.

M: Very good, sir.

HMJr: Thank you.

M: All right.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

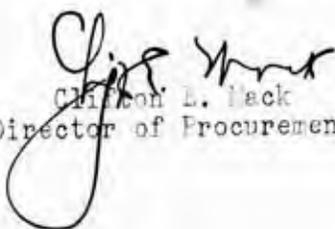
SECRET

December 14, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the weekly report of Lend-Lease purchases.

We have received a requisition for a rail and structural mill, also a blooming mill for U.S.S.R. with capacity of 700,000 metric tons annually of finished steel such as rails, shell steel, structural shapes and billets. The delivery schedule calls for completion of manufacture of the blooming mill by ~~June~~ June 30, 1944, and 80% completion of the rail and structural mill by that date.


Clinton L. Mack
Director of Procurement

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF DECEMBER 8, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$3976.6 (3976.6)	\$1978.1 (1978.1)	\$1558.8 (1558.8)	\$109.8 (109.8)	\$11.0 (11.0)	\$318.9 (318.9)
Purchase Authorizations (Requisitions)	\$3306.6 (3277.7)	\$1724.2 (1726.5)	\$1323.1 (1302.4)	\$44.1 (44.1)	- -	\$215.2 (204.7)
Requisitions Cleared for Purchase	\$3242.1 (3192.5)	\$1691.1 (1673.6)	\$1298.5 (1284.8)	\$43.8 (43.7)	- -	\$208.7 (190.4)
Obligations (Purchases)	\$3074.8 (3061.2)	\$1645.1 (1640.3)	\$1242.6 (1238.4)	\$43.7 (43.6)	\$8.9 (8.5)	\$134.5 (130.4)
Deliveries to Foreign Governments at U. S. Ports*	\$1527.6 (1500.6)	\$1046.7 (1032.2)	\$439.2 (427.2)	\$20.1 (19.9)	- -	\$21.6 (21.3)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of December 1, 1943.

EXPLANATION OF DIFFERENCE.

The reduction in Purchase Authorizations for United Kingdom is a result of adjustments of requisitions to actual contracts.

DEC 14 1943

Dear Cordell:

As your records will indicate, there are five Treasury Department employees still interned in the Philippines, and while it had been our hope to have these Treasury employees repatriated on the first or second exchange vessel, we appreciate fully the difficulties expressed in your letter of September 1, 1943, in this respect.

I trust that you will not think this letter too premature, but may I earnestly urge every consideration in behalf of these employees when the next exchange is made. The families of these men are looking to the Treasury Department to assist in accomplishing their return, and since all of our employees were engaged on purely temporary, non-military assignments, it would seem that their exchange might be acted upon favorably by the Japanese Government.

Your personal consideration with respect to this matter will be deeply appreciated.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Cordell Hull,
Secretary of State,
Washington, D. C.

CSB:em:ic
12-13-43

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

December 14, 1943

TO Secretary Morgenthau

FROM Mr. White

Subject: M. Mendez-France, Commissioner of Finance of French
Comite*Information*

The comments of the Treasury group in Algiers on their first meeting with M. Mendez-France, the new Finance Minister of the French Comite, indicate that he may prove to be considerably more sympathetic to effective economic warfare and financial measures along the lines urged by Treasury than was his predecessor, M. Couve de Murville. While it is too early to state definitely what the position of Mendez-France on the principal issues of interest to the Treasury will be, he appears to be totally unwilling to justify or condone the Vichy policy of collaboration with the Germans--a view so noticeably possessed by Couve de Murville. Mendez-France has a personal score in this regard as he evidently was almost completely impoverished as a result of the anti-Jewish measures taken by Vichy.

The conversation between the Treasury group and Mendez-France also made clear that he has strong feelings on the position of the French Comite and will not accept what he may regard as "interference" on our part with decisions that are to be made by the Comite.

WIFFLEN
Chairman
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.

December 14, 1943

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

My dear Mr. Secretary:

Thank you for your letter of December 13 in response to my communication of November 8, 1943 suggesting that the Argentine gold in this country be frozen.

I am aware of the Argentine situation. I dislike the policy of appeasement that is being followed in dealing with Argentina but I am also aware of the political implications and hope that the State Department treats this situation in a most firm and determined manner. I also am cognizant of the fact that Great Britain, one of our allies, is one of the principal purchasers of the agricultural products of the Argentines and undoubtedly that plays an important part in the present policy. However, our own self interest requires that we discontinue purchases there and otherwise exercise stringent sanctions.

I am hopeful that the State Department will fully cooperate with the Treasury Department in connection with the freezing of gold as well as toughen up a little in dealing with Argentina.

Respectfully yours,

W. Schiffers

cc Secretary of State

DEC 18 1943

My dear Mr. Schiffler:

Reference is made to your letter of November 8, 1943 suggesting that the Argentine gold in this country be frozen.

For your information the question of the freezing of Argentine assets in this country, including the gold held by the Argentine Central Bank and the other dollar assets held in this country by Argentina and her nationals, has been and still is the subject of careful consideration by the State and Treasury Departments.

Although there are cogent reasons for the freezing of Argentina on economic warfare grounds since Argentina is recognized as the base from which the Axis conducts its financial operations throughout the Western Hemisphere, you will appreciate that there are important political considerations involved in any such action by this Government. Since the evaluation of these political considerations is the responsibility of the State Department, I have referred your letter to the Secretary of State for his consideration.

In connection with this matter, reference is made to H.R. 3696, a bill which you recently introduced in Congress "To authorize the seizure of certain property which is being used, or which is about to be used, to aid any nation at war with the United States, and for other purposes". Your attention is called to the fact that all of the powers contained in this bill have already been conferred upon the Executive by

- 2 -

section 5(b) of the Trading with the enemy Act, as amended by Title III of the First War Powers Act, 1941 (Public Law 354, 77th Congress).

I appreciate your interest in this matter and will keep you informed of developments in connection therewith.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. A. C. Schiffler

House of Representatives.

JEDuBois:ecr
12/8/43



THE SECRETARY OF STATE
WASHINGTON

December 6, 1943

My dear Henry:

Reference is made to your memorandum of November 12 enclosing a copy of a letter from Congressman A. C. Schiffler suggesting that the Argentine gold in this country be frozen, together with a proposed reply to be made by your Department, and to your letter of November 24, 1943 referring to a bill, H. R. 3696, introduced by the Congressman.

I believe that the draft reply to Congressman Schiffler which you enclosed with your memorandum of November 12 is, in general, in satisfactory form. In view of the introduction of H. R. 3696, may I suggest that in your reply to the Congressman you make reference to this bill pointing out that the Executive already has the powers which the bill would authorize.

Sincerely yours,



Enclosure:

To Mr. Schiffler.

The Honorable
Henry A. Morgenthau, Jr.,
Secretary of the Treasury.

My dear Mr. Schiffler:

Reference is made to your letter of November 8, 1943 suggesting that the Argentine gold in this country be frozen.

For your information the question of the freezing of Argentine assets in this country, including the gold held by the Argentine Central Bank and the other dollar assets held in this country by Argentina and her nationals, has been and still is the subject of careful consideration by the State and Treasury Departments.

Although there are cogent reasons for the freezing of Argentina on economic warfare grounds since Argentina is recognized as the base from which the Axis conducts its financial operations throughout the Western Hemisphere, you will appreciate that there are important political considerations involved in any such action by this Government. Since the evaluation of these political considerations is the responsibility of the State Department, I have referred your letter to the Secretary of State for his consideration.

I appreciate your interest in this matter and will keep you informed of any developments in connection therewith.

Very truly yours,

Secretary of the Treasury.

Hon. A. C. Schiffler

House of Representatives.

J&DuBois:scr
11/12/43

Secretary Morgenthau
Randolph Paul

NOV 12 1943

There is attached a letter from Congressman A. C. Schiffler suggesting that the Argentine gold in this country be frozen.

There is also attached a proposed reply to Congressman Schiffler, together with a memorandum to the Secretary of State transmitting the letter and proposed reply for his consideration.

(Initials) S.S.C.

Attachments.

JEDuBois:ecr
11/12/43

55954 76

COMMITTEE ON SELECTING AMBASSADORS
TO: Mail @ 8110
ENC.
NO ANSW. REQ.
INITIAL
DATE

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.

November 8, 1943

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

My dear Mr. Morgenthau:-

I am intensely interested in winning the war, and also equally interested that nothing in this country that would be helpful to the Axis Powers reaches them.

In view of the attitude of Argentine towards the United Nations and its present efforts to remove its gold from this country, which will undoubtedly be used to aid the Axis Powers, I urge that such gold be frozen in the possession of its present custodians, in that it shall not in any manner be of aid to the Axis Powers and their war against the United Nations.

Most Respectfully Yours,



A. C. Schiffler, M.C.

S:L

FROM: AMERICAN EMBASSY, CHUNGKING
 TO: Secretary of State, Washington
 DATED: December 14, 1943
 NO: 2404

CONFIDENTIAL

This message concerns Reverse Lend-Lease.

We are advised by the Foreign Office that if the American Government is agreeable, Dr. Soong would like to sign a Reverse Lend-Lease agreement in Chungking in the terms of the draft note which was enclosed with Department's mail instruction number 250, dated March 17, 1943. A copy of this instruction (Department's number 637 dated May 19, 1943) was informally (*) on May 15 to Dr. Soong by Mr. Acheson in Washington. My acknowledgment of such note should, I assume, be along the lines of enclosure number 2 to the Department's mail instruction under reference with the following changes in phraseology: beginning of paragraph two: "In reply I am instructed by my Government to inform you"; also final substantive paragraph: "This further integration *** gives great satisfaction to the Government of the U. S."

Although this gesture does not necessarily mean that the Government of China intends to implement the financial provision of the note in a manner satisfactory to us, at least it lays the ground work for future discussions which must follow on that subject and for possible appropriate supplemental agreements looking to the providing of desired financial services to our Governmental establishments and to our armed forces. Kindly cable instructions.

GAUSS

(*) Apparent omission

ofs:copy
 12-16-43

Distributed to: Secretary (Mr. Friedman); Mr. E. W. Bell (Mr. Dietrich); Mr. Paul; Mr. White (Mr. Friedman-Orig.); Mr. Luxford; Mr. Friedman; Mr. Dietrich; Mr. E. M. Bernstein; Mr. Taylor; Mr. Ness.

From Miss E. Hynes - Rm. 225

PARAPHRASE OF TELEGRAM RECEIVED

TO: Secretary of State, Washington.
FROM: American Embassy, Chungking.
DATED: December 14, 8 p.m.
NUMBER: 2417

FROM ADLER FOR SECRETARY OF TREASURY.

Yesterday evening when I called on Kung and informed him in accordance with Department's 1784, December 11, he said that a price of 100 to 1 was out of the question. He said that he would rather give the 400,000,000 dollars Chinese national currency without any return rather than to take United States 4,000,000 for it. Personally, he said, he had no objection to our importing United States currency to cover our needs, as he believed that sales of United States currency in any quantity would push the price down below 50. However, his colleagues in the Cabinet were opposed to such sale on the ground that United States dollars would tend to displace fapi.

He made no offer except:

A. He repeated his previous statement that in the near future he was to go over USAAF requirements with Generalissimo and with General Stillwell and determine how much China could undertake to cover under reverse lend-lease.

B. Subject to his Government's confirmation, agreed to our buying a portion of our fapi requirements at the official rate and to the Chinese Government advancing the rest, these advances being credited at the official rate to reverse lend-lease. Apparently the portion he had in mind was one-third, but he would make no commitment until he had consulted his colleagues. He did say, however, that "if necessary", the portion might be less than half.

END OF SECTION ONE.

GAUSS

TO: Secretary of State, Washington.
FROM: American Embassy, Chungking.
DATED: December 14, 1943, 8 p.m.
NUMBER: 2417

SECOND SECTION.

2. When I mentioned that all United States Government agencies in China find the price of United States dollars has become an outstanding issue for them and that from the point of view of Sino-American relations the working out of a satisfactory arrangement was advisable, Kung replied "the Generalissimo had said no". I again inquired into the possibility of gold sales. Kung told me that sales by the Chinese Government had been quite small as it has been the Government's policy to keep up price by buying back a substantial part of what it has sold. Gold is now selling in Chungking at around CN 13,000 per Chinese ounce.

3. Kung indicated that there had been discussion of the exchange rate between Generalissimo and the President in Cairo. He gave me no information as to what was said.

4. I mentioned the 30 to 1 rate the Chinese Government is giving for diplomatic expenditures, et cetera. Kung replied that the amount granted over and above the official rate, which he said would be raised from 50 to 100 percent in the near future, represented a Chinese Government subsidy.

6. The foregoing and previous conversations with Kung make it evident that to obtain even a moderately satisfactory arrangement from the Chinese will require considerable pressure.

END OF MESSAGE.

GAUSS

NOT TO BE RETRANSMITTEDCOPY NO. 12BRITISH MOST SECRET
U.S. SECRETOPTTEL 408

Information received up to 10 A.M. 14th Dec. '43.

1.

NAVAL

One of H.M. Destroyers and one U.S. Destroyer sank a U-boat off Bougie yesterday where two of H.M. Destroyers had previously been torpedoed and sunk: 45 prisoners taken. On 12th aircraft from a U.S. Escort Carrier supporting an outward U.S. convoy in Mid-Atlantic sank a U-boat and took 46 prisoners. Yesterday a Liberator made a promising attack on a U-boat in the Bay of Biscay.

2.

MILITARY

Italy to noon 13th. Bad weather continues on 8th Army front where enemy counter-attacks against the Moro bridgehead were repulsed with further losses and a number of German tanks destroyed. On 5th Army front patrolling only.

3

AIR OPERATIONS

Western Front, 13th. 706 U.S. bombers were sent out escorted by 24 squadrons of U.S. fighters. Of 186 escorted Fortresses sent to Bremen 174 attacked the objective dropping 419 tons. Of 520 escorted Fortresses and Liberators sent to Kiel 352 attacked dropping 833 tons, while 114 dropped 278 tons at Hamburg. In all cases results were unobserved owing to extensive cloud. 5 bombers and 2 fighters missing. 192 escorted Marauders (2 missing) out of 218 sent out attacked Schipol airfield dropping 337 tons with fair to good results. A FW 200 operating from Bordeaux crashed at Limerick (Southern Ireland) crew believed to have baled out.

OPTTEL No. 407 not sent to Washington.

December 15, 1948
9:30 a.m.

GROUP

Present: Mr. Bell
Mr. White
Mr. Sullivan
Mr. O'Connell
Mr. Thompson
Mr. Gaston
Mr. Paul
Mr. Smith
Mrs. Klotz

H.M.JR: Paul has to appear this morning?

MR. O'CONNELL: He is appearing this morning. You see, yesterday the Joint Staff made a statement before the Committee which was reported in the papers last night, and as I understand it, Mr. Paul is going to appear, at the invitation of the Committee, to make a reply.

H.M.JR: Is he going to get it into the papers?

MR. O'CONNELL: I am sure he will. I think that everything that goes on in these Executive Sessions gets into the papers.

H.M.JR: I wonder if he has made any preparation?

MR. O'CONNELL: Yes, they worked late last night.

MR. SMITH: They are running it upstairs, and four hundred extra, but I don't think anything has been done about seeing it is distributed.

MR. O'CONNELL: I think he was planning to take fifty copies with him to the Hill, and at the end of each Executive Session the newspapermen are given the report more or less verbatim.

- 2 -

H.M.JR: Did they arrange with you upstairs?

MR. SMITH: Yes. They are running it upstairs.

H.M.JR: About giving it out?

MR. SMITH: No, it hasn't been arranged to give it out upstairs.

MR. BELL: He can't give it out, can he? It is Executive Session, therefore he can't give a statement.

MR. O'CONNELL: The one given yesterday in Executive Session was certainly given out.

MR. BELL: Some Senator gave it out.

MR. O'CONNELL: Then we can do it that way.

MR. GASTON: The purpose of the Executive Session is that the Senators and Representatives can tell their story without contradiction.

MR. O'CONNELL: And without its being reported.

H.M.JR: Were you present yesterday when Walter Lipmann came down?

MR. GASTON: Monday.

H.M.JR: How did that go?

MR. GASTON: Pretty well. Mr. Paul was in there a little while and he had to leave, and I had quite a long talk with Walter.

(Mr. Paul entered the conference.)

H.M.JR: Paul, have you gotten word about this four o'clock meeting?

MR. PAUL: I thought it was four-thirty.

- 3 -

MR. O'CONNELL: Four o'clock.

H.M.JR: I want you and Joe to go with me, see?

MR. PAUL: All right.

H.M.JR: Joe will have to get something ready for us.

MR. PAUL: Then you and Joe will take care of it?

H.M.JR: Yes. Have you got any ideas?

MR. PAUL: Well, I think it is a question of organizing as much material for the newspapers as possible, and - more important - organizing specific material for the Senators, because it is going to be a big Floor fight; and third, it is a question of lobbying with the Senators. The issues - we are all right on those.

H.M.JR: This statement that you are giving this morning, are you going to see it gets to the papers?

MR. PAUL: Yes, sure. It is being mimeographed now. It won't be done until about ten-thirty. We were here last night until about twelve.

H.M.JR: I see. You worked it out upstairs?

MR. PAUL: Oh, yes; Mrs. Mannon is working it out.

H.M.JR: O.K. I wish you luck.

MR. PAUL: I need it this morning.

(Mr. Paul left the conference.)

MR. GASTON: You say it went all right with Walter?

MR. GASTON: Yes; I asked Randolph to send for Walter because I didn't have very much excuse to pull him back myself. I thought that it might help a little bit. So we saw him together, and then Randolph had to leave and I had quite a talk with him.

- 4 -

He doesn't think there is very much chance of our getting anything further, but he thinks we ought to keep plugging along at it. He is going to suggest a return to the spendings tax.

H.M.JR: Well, is anybody responsible for this wonderful editorial in today's Washington Post, called "Today's Profiteers"?

MR. O'CONNELL: I read it but I am not responsible for it. That is the sort of thing we need a lot more of.

H.M.JR: (Over phone) If Mr. Eugene Meyer is up and around, I would like to talk to him.

MR. SULLIVAN: Did you read David Lawrence last night?

H.M.JR: No.

MR. SULLIVAN: It is just as good, on the same subject; in fact, a little better.

H.M.JR: I wonder who is doing the work, because we are not.

MR. O'CONNELL: I don't know. We have never had a better case. It may be that these things are cases of people who honestly realize, on the record and on its merits--

MR. BELL: I think the Post has been very good lately picking up current discussions of this kind. They picked up this McKellar thing rapping the Bureau of the Budget. I have an idea it is Alan Barth. He is over there, and he understands this sort of thing.

H.M.JR: Well, it takes a lot of courage for Meyer to do a thing like that.

MR. O'CONNELL: One small point, and that is the editorial gives the Ways and Means credit for something it isn't entitled to, because Ways and Means also opens all these cases.

- 5 -

H.M.JR: Have we any examples in Procurement at all, an approach, for instance, to the thing - this Axle Company?

MR. BELL: Timken Bearings?

H.M.JR: Yes; for instance, we haven't been able to place any contracts because they are asking too high a price.

MR. SULLIVAN: I know of nothing.

MR. O'CONNELL: We are not in this field, Mr. Secretary. We buy ordinary stuff.

(The Secretary held a telephone conversation with Mr. Eugene Meyer.)

MR. SULLIVAN: He isn't as strong for this as the fellow who wrote it.

MR. GASTON: He didn't know very much about it. They have got a pretty good man there - that man Elliston. He is a smart fellow.

H.M.JR: Knowing his background, it is an amazing editorial.

MR. GASTON: Yes. He has gone along with a lot of good stuff in the last few months.

H.M.JR: I mean, if the New York Times would do what Eugene Meyer is doing - Eugene Meyer is growing in stature every day, in my opinion. The New York Times is shrinking every day.

MR. GASTON: Speaking about New York, the Herald Tribune is making the Times look pretty small. The Tribune has a far broader gauge and more liberal editorial policy than the New York Times, now.

- 6 -

H.M.JR: Well, there is nothing I can use out of Procurement. I'm going to have to rely on the War Department for their stuff?

MR. SULLIVAN: That is right.

MR. O'CONNELL: They have got plenty of lurid stories and we don't have. It is not the fault of Procurement.

MR. SULLIVAN: We are not in the field where that sort of thing happens.

H.M.JR: All right. You might, just for me, call up General F.E.Lowe and ask him - I would like to know whether they had been able to let the contract with Timken at Timken's price, or did they go elsewhere. And when Mr. Patterson comes over this afternoon, will he have that and other cases as bad as that, you see?

They just took Timken because Timken complained, but there must be others like it.

MR. SULLIVAN: This is on bearings.

H.M.JR: Axles. Two different companies.

MR. O'CONNELL: The same company.

H.M.JR: This is the four-ton and six-ton truck.

MR. GASTON: Isn't it Timken-Detroit? It is a separate corporation.

MR. SMITH: Timken bearing is in Ohio.

H.M.JR: I thought they were separate companies.

MR. GASTON: I think they are interlocked, but separate corporations.

H.M.JR: The one we are talking about is the Axle Company.

- 7 -

MR. O'CONNELL: It is the major axle producer in the United States, much bigger than any other company. It may even produce the majority of them all.

MR. GASTON: The Timken Bearing Company of Canton, Ohio is the parent company.

H.M.JR: If anybody doesn't know it, they were asking for a profit of around seventy-four million dollars, and under renegotiation they would have let it for thirty-four million, roughly, and Timken practically told the War Department to go jump in the Potomac. They would either pay them seventy-four million dollars or they wouldn't play. Incidentally, in this Timken thing they don't do anything but supply the know-how to another company called the Standard Steel, who are going to make them. They absolutely do nothing.

MR. O'CONNELL: They made the contract and sublet it.

H.M.JR: It is the darndest thing you ever saw. Do I have it about right?

MR. O'CONNELL: Yes. The one thing I don't know is who owns the sub-contract. I think it is a subsidiary of Timken, because the Chairman of the Board of Timken, Rockwell, is also Chairman of the Board of the sub-contractor.

H.M.JR: You might ask about it. Anyway, what happened yesterday is, Patterson called me up after I had spoken to Greenbaum and said he wanted me in on it. He said, "What do you think of getting Byrnes in on it?"

I said, "That is up to you."

So he called Byrnes, and Byrnes said he did want to get in on it, and would Patterson please call all of us to meet at Byrnes' office at four this afternoon. So the thing was like a subsidy newspaper; it was going by the board because nobody was doing anything about it.

I don't know whether they can do anything on this, but at least they will try.

- 8 -

MR. O'CONNELL: They will never have a better case to do anything on.

H.M.JR: I will see you later after lunch.

MR. SULLIVAN: Incidentally, Mr. Secretary, we had a meeting at three o'clock--a two-thirty meeting on contract termination that Bob McConnell, Joe, and I all should attend.

H.M.JR: That is all right. Let Cliff Mack and his men come just the same.

MR. SULLIVAN: Then if they are still going when we come back, we can get in on it.

H.M.JR: It won't be going long.

MR. O'CONNELL: May I make a suggestion? I don't think it is necessary for three or four of us to go to Hancock's meeting. Had I had my way and not even had any other appointment, I would have suggested that you and maybe Lynch, who has been working closely with McConnell, or McConnell, should go to the Hancock meeting, because I have been trying to avoid continually going to those meetings. So I can come to your meeting at three o'clock if you want me to.

H.M.JR: All right, but I am going to keep the three o'clock meeting.

MR. THOMPSON: I am all ready for the ten o'clock meeting. I have a statement; that is all.

MR. BELL: I have some papers to be signed if I may, any time right after this meeting or after the ten o'clock.

H.M.JR: All right.

MR. WHITE: I have nothing. Is there any bank that owns Dow-Jones or strongly influences it? The reason I am asking is, the Wall Street Journal is becoming very

- 9 -

very vigorous in its attacks on our monetary programs. Did you see the last editorial in which it ended up by saying that if there is an international monetary conference here there will be nobody there who knows anything about the subject? It will be used only to disguise our ignorance.

I know Dow-Jones owns it, and I think there is some tie-up between one of the banks Leon Fraser is connected with and Dow-Jones. I was wondering whether anybody knew.

MR. GASTON: I can find out for you, Harry. Maybe you and I had better see Casey Hogate and Henry Grimes.

H.M.JR: Mr. White, are you suggesting that we bring pressure to bear on the Wall Street Journal through one of the banks?

MR. WHITE: No, no, I don't think they would descend to anything of that character.

H.M.JR: Who would descend?

MR. WHITE: I don't think that the bankers would descend or the Wall Street Journal would descend.

H.M.JR: But I mean if Mr. White would descend to our bringing pressure on the bank to take off the pressure on the Wall Street Journal!

MR. WHITE: I didn't think ours would be in the nature of pressure; it would be more in the nature of a kick in the pants if we could administer it.

H.M.JR: Henry the Morgue didn't complain about his publicity in Time Magazine.

MR. WHITE: I don't know what you are referring to.

H.M.JR: Did you see it last week--all about yourself in Time Magazine.

- 10 -

MR. WHITE: I saw one a couple weeks ago with my picture in it. Oh, yes, I brought it home and showed it to my family and said, "See what a big boy I am." (Laughter)

H.M.JR: I don't know whether Casey Hogate will do you any good; but if Mr. Gaston will assist you--

MR. WHITE: It is not personal; it is against the monetary proposals.

H.M.JR: But all you are suggesting, Mr. White, is that we find out if they have any outstanding bank loans or something of that kind. Then we go to Preston Delano and have them examine the bank.

MR. WHITE: Or their income taxes. (Laughter)

H.M.JR: Now, this is your Standard and Poor's, page three hundred twenty-five, "Air Forces' Supplies Taken: A checkup reveals that the surplus goods and materials cataloged for sale by the Army Air Force Depot at Memphis, Tennessee, noted in the Outlook of November 29, has been promptly claimed by another procurement agency. In addition, the Treasury Department contends that it alone has the right to dispose of Army surpluses, and that the Army posts offering such military property for sale are violating the law."

MR. SULLIVAN: No, we never maintained that.

H.M.JR: Tell Cliff Mack when he comes at three I want a good answer to that.

MR. SULLIVAN: The Army comes in with a lot of stuff and Cliff tells them what other part of the Army he has been looking for.

H.M.JR: Anyway, I want an answer.

This came through the mail, a bond to Mrs. Morgenthau; it is very peculiar. Handle it. (Hands letter containing bond to Mrs. Klotz.)

MR. BELL: We have one that was mailed to you and we asked the gentleman what it is intended to represent, and he won't answer the letter.

- 11 -

MRS. KLOTZ: I turned them over to Mr. Bell, as a matter of fact. We will enter it.

MR. BELL: It may be the same man, Mrs. Klotz.

H.M.JR: He is a she.

Well, I never thought I would see the day when Harry White wanted to bring pressure on a bank to bring pressure, but he is learning.

MR. WHITE: Merely to make them see the light.

MR. BELL: Merely educational with you?

MR. O'CONNELL: I don't think he has been reading the Wall Street Journal editorials consistently, because I have thought for years they were in sad contrast to the news articles. He always insisted that the office boy wrote the editorial page.

MR. WHITE: It is still true. The news articles are still good, but the editorial policy is--

MR. GASTON: What is the name of our man who used to do publicity for Johnny Hanes when he was on the Wall Street Journal, you know, the one that edited Barron's for a while after the war? I think he writes editorials for the Journal.

MR. BELL: He used to write signed articles.

H.M.JR: I love the way you put it. Is it not Grimes?

MR. GASTON: No, no.

MR. O'CONNELL: Kilgore?

MR. GASTON: Yes, Barney Kilgore.

H.M.JR: Well, if you want to help Harry and help the plan, I will appreciate it.

Are you all right?

- 12 -

MR. O'CONNELL: There is one thing I wanted to mention. Mr. Paul told me this morning that Senator Barkley spoke to him at the end of the session yesterday about the proposal to reduce the years in which liquor can be held in bond. I thought maybe he had spoken to you earlier than that.

He expressed a great deal of interest and more than slight opposition to the suggestion that we change the rule so as to force the stuff out of bond more quickly, making the more or less orthodox argument that it would make a difficult financial problem for the small distillers and would be highly unfair, and so forth. I thought that you ought to know.

H.M.JR: The distillers will have their day in court.

MR. O'CONNELL: That is all.

MR. SULLIVAN: We couldn't get hold of Bowles for today; he was tied up on subsidies. I have an appointment with him at eleven tomorrow morning.

MR. SMITH: I have nothing.

H.M.JR: Herbert?

MR. GASTON: I have nothing special. Time was planning on sort of a special edition next week. ~~They are~~ going into taxes, among other things. I had quite a long talk with Mike Griffin.

H.M.JR: Well, I want the ten o'clock meeting, everybody. I want you two (Thompson and Bell) and Gaston.

Dec. 15, 1948

Mr. Paul
Mr. O'Connell

Secretary Morgenthau

After I left the meeting I talked to Jim Forrestal about the publicity, and he said that he was handling the publicity, and he was responsible not only for the Washington Post editorial this morning, but also for the article last night by Dave Lawrence. He said that he would see the various columnists.

Forrestal then asked me, "What about the cut-off date?" I said, "Well, if we could get a settlement on the basis of letting the present law stand until January 1, 1945, and have nothing retroactive, I would consider that a pretty good settlement." He thought that was a very good idea.

I didn't commit myself, but I would like to discuss it with you two gentlemen tomorrow. *Finished*

December 15, 1943
9:40 a.m.

HMJr: Hello.

Operator: Mr. Meyer.

HMJr: Hello.

Eugene Meyer: Hello.

HMJr: Eugene?

M: Yes, Henry.

HMJr: How are you?

M: Well, I've been having the flu the last two or three days, Henry.

HMJr: I'm sorry.

M: I'm not terribly sick with it, but I'm keeping away from my friends as a friendly gesture.

HMJr: I see. Well

M: But I can talk on the telephone without fear of contamination, I think.

HMJr: Which way?

M: Ah - flu-wise.

HMJr: (Laughs) I see.

M: I'm sure I couldn't pretend to speak otherwise.

HMJr: I called up to congratulate you on that editorial called "War Profiteers" today.

M: Oh, I see.

HMJr: I think it's swell.

M: Well, (laughs) I - I hope it's right.

HMJr: Well, I think it's right, and we're going to fight awful hard to - on - along the very lines - the three points that are pointed out in the editorial.

W: Well, the - it's a complicated situation.

EMJr: Yeah.

W: You've got to have some definiteness at - at some point.

EMJr: Right. Well, the way they're going up there now - I mean - that - they're going - they're swinging so far to the right that the result will be - the pendulum will swing equally far to the left.

W: The - I don't think that that was what Wilson was talking about so much.

EMJr: No - no - no - this is something else again.

W: Yes. (Laughs) I thought our application of this particular situation to - to Wilson's remarks wasn't quite accurate.

EMJr: No. I don't think so.

W: Ah - they - he - those people are thinking politically.

EMJr: Well, anyway, I just called up to congratulate you, and if--in the next couple of days we may ask for some more help.

W: All right. Well, you can call our boys up any time. I'll - I think I'll be away Thursday and Friday morning.

EMJr: Call up your editor?

W: Well, yes - call - you can always call up Elliston in my absence.

EMJr: Right.

W: And submit your ideas. We can't promise, you know.

EMJr: No - no - no. Well, this is

W: You know that.

EMJr: No, I'm - I'm not - my only purpose today was to call up to say "Congratulations".

- 3 -

W: Well, that's - that's - I appreciate it, Henry.

HMJr: I'm not asking

W: I - I know I always get the calls when we're wrong, I know, and therefore I appreciate it when it - when we're - when you like it.

HMJr: Well, we like this.

W: Okay.

HMJr: Thank you.

W: Now - hello?

HMJr: Yes.

W: How is Mrs. Morgenthau?

HMJr: She's coming along fine.

W: Well, I'm mighty glad to hear that.

HMJr: Well, get well soon.

W: Oh, I'm - I'll be all right in a day or so.

HMJr: Right.

W: Good-bye.

HMJr: Good-bye.

W: Merry Christmas.

HMJr: Same to you.

December 15, 1948
10:00 a.m.

DEFERMENTS (General Hershey)

Present: Mr. Bell
General Hershey
Mr. Gaston
Mr. Thompson
Mr. Wilson

H.M.JR: General, we wanted a little education, now that we have the responsibility of this business - eighty-five thousand employees, I think. We try to go along, but the thing that has been bothering me is the confusion, particularly on the pre-Pearl Harbor fathers, a man who had a child before Pearl Harbor. And it seemed to us here that the Boards were going right ahead and drafting these fellows as though there were a particular drive on them - I don't know. It seemed like a sort of double-crossing on the part of some of these boys.

I wondered if, just for our own information and education, you wouldn't tell us what happened before you were on your own, so to speak, and what you want to do now.

GEN. HERSHEY: All right, sir.

I think one thing I ought to differentiate very early, and that is the United States as an employer, and the United States in the Draft Board. Now the United States as an employer is bound by Public 23, which is known as the Lodge Maybank Act. The Lodge Maybank Act is a peculiar act because it enacts into law an Executive Order. The Bellamy Committee which was appointed a year ago, now, perhaps, made certain recommendations to the President. He issued an Executive Order which, among other things, denied the right of a Federal employee to ask for his own occupational deferment.

- 2 -

Now, that is the basic fact that I think we have to remember.

H.M.JR: You fellows know this?

MR. THOMPSON: Yes.

H.M.JR: I don't.

GEN. HERSHEY: That prohibited the local Board from giving a man a deferment, occupationally, if he worked for the Government unless it was asked for by the Government. Now, however, we haven't been quite that good.

I have twenty-six thousand cases where we have given deferment illegally because the Boards chose to defer people who were fathers. That is one of the things I have to fight on the other hand.

H.M.JR: You have twenty-six thousand where the board acted on its own, illegally?

GEN. HERSHEY: They felt it was a misunderstanding.

MR. THOMPSON: There are a hundred of those in the Treasury.

H.M.JR: Now?

MR. WILSON: We had two hundred at one time. We told the boys to cancel them. We have that down to one hundred and nineteen.

GEN. HERSHEY: You are likely to see it go up because we are getting in the fathers, and some of the Boards will choose to defer some of these fathers rather than take them, even though they were not asked for, because they think they ought to stay.

H.M.JR: Do you mind going ahead with the law business?

- 3 -

GEN. HERSHEY: Then the President issued an order which said, first, that any man who works for the Government who is on a replacement schedule is exempt from the provisions of the Executive Order.

H.M.JR: Say that again, please.

GEN. HERSHEY: Any man who works for the Government who is on a replacement schedule; that is, if a Governmental agency makes a replacement schedule, they evade - I don't want to use the word "evade" - they comply with the Presidential order without the necessity of negotiating with the Central Deferment Committee.

H.M.JR: I don't understand that.

GEN. HERSHEY: For instance, let's take the Treasury Department; supposing you, with your thousands and thousands of employees should set up a replacement schedule, a schedule which listed these people, we would have to designate a State director to negotiate with.

Now, in our present operation, if you had pre-Pearl Harbor fathers who were doing a reasonable job - now we would have to decide where, because there would be certain jobs we couldn't permit - but any job that is a reasonable job assisting the war effort, you would be allowed to put those over six months. That is where the Government is dragged across the barrel.

MR. WILSON: We don't have replacement schedules in the Treasury. That would mean you would lose a certain number every six months, that you are sure to lose them.

GEN. HERSHEY: It was a means of getting an orderly replacement. But at the present time you are much better off with a replacement schedule because that is one way we can give you the men over six months who are fathers, whereas, if you had to defend them as key jobs - here is the thing you are up against without the replacement schedule.

- 4 -

You have to get the Central Deferment Board which, mind you, now operates under the Manpower Commission, not to give deferments, but to give you permission to ask for deferments.

H.M.JR: I still don't get it, and I will have to keep saying so. The best cases we will ever have are engravers over at the Bureau of Engraving.

GEN. HERSHEY: They wouldn't put those on as key jobs?

MR. WILSON: They will, I am sure.

GEN. HERSHEY: Have they?

MR. WILSON: It is pending.

GEN. HERSHEY: You see, while it is pending you can't ask for them until the Central Review Committee--

MR. WILSON: We get them through the Review Committee very quickly and go right to the Draft Boards, every day.

GEN. HERSHEY: Will the Draft Boards turn them down?

MR. WILSON: They go along with them.

GEN. HERSHEY: Where the pinch here is, is trying to get your right to ask for them cleared.

H.M.JR: I don't think you fellows understand it.

MR. WILSON: Oh, yes.

MR. BELL: If they are on this Replacement Committee are they automatically deferred?

GEN. HERSHEY: No, it has to be negotiated, but we do not have to comply with the key position law on replacement schedule.

- 5 -

MR. BELL: You have to negotiate each schedule but not each case?

GEN. HERSHEY: No, because normally, if you negotiate the schedule, if it is a reasonable schedule, the local Boards go along.

Now, of course, with industry we find they get stinger cases in and the local Board won't go along. but that is rather unusual.

H.M.JR: Supposing we have, for six months, three engravers who have been deferred at our request. Now that six months expires; then what happens?

GEN. HERSHEY: If you have permission from the Central Board to ask in the first place, you go back and ask again.

H.M.JR: Have we permission? I have never heard of it.

MR. THOMPSON: Oh, yes.

GEN. HERSHEY: It is Mr. Barnett. It is known as the Presidential Board, but serves under the Chairman of the War Manpower Commission and occupies the same position to the Government as the Standard Oil Company's Review Board occupies to the Standard Oil Company in deciding what the Standard Oil Company will ask for.

H.M.JR: Is this the Board that Ickes kicked so about?

GEN. HERSHEY: Exactly.

H.M.JR: Now I am getting it! (Laughter)

GEN. HERSHEY: I have got quite a little reflection of that, but I have nothing to do with it.

H.M.JR: It is supposed to be done in the name of the President.

- 6 -

GEN. HERSHEY: Yes, decide what the Government will ask for, not what it will get.

MR. GASTON: The Government as an employer.

H.M.JR: Let's start anew. If I want to get six engravers deferred and the local Draft boards say no, and I want to appeal it, then it goes before this?

MR. GASTON: No, we go to that Board first to ask their permission to ask the local Draft board to defer these people.

GEN. HERSHEY: There are three ways of getting those engravers deferred: First, if they are put on the key position list in your establishment by that Board, then you can ask for them; then if you go and say that although they are not key positions, they are such unusual types of people that we can't get them any other way, they can specifically give you permission to ask for them; third, if you set up a replacement schedule for your money printing place, then you would negotiate with Leahy in town here, the local Director, on whom you would let go over six months and whom you would let go on the fifth and fourth month.

H.M.JR: Is that what you call a replacement? We don't have one?

MR. WILSON: No, sir. You lose half about every six months, that way. We can't replace engravers.

GEN. HERSHEY: If your engravers are key position - you have those on the critical list - those fellows you won't have much trouble with on a replacement schedule.

The only thing you save by replacement schedule - and mind you, I don't like them - but I am here to say this, that until Judge Rosenman does something with the present situation, they are one way that you can save pre-Pearl Harbor fathers without very much trouble. That is all.

- 7 -

H.M.JR: I ought to explain this. I didn't ask you to come because we have any complaints. Now, I want to make myself plain. As the matter stands, I have had granted every single request that I have asked for.

GEN. HERSHEY: I understand that, Mr. Secretary. I am over the barrel.

H.M.JR: You understand that every request that we have made has been granted.

MR. THOMPSON: Two or three - ninety-nine percent.

H.M.JR: The point that I am trying to get is, where do we go from here, and I am asking to be educated, and it isn't that I asked you to come here to complain.

GEN. HERSHEY: Your position has always been quite the other. The point is, I have a very serious problem on pre-Pearl Harbor fathers because the local Boards do not like to take them, and the result is they don't take them, sometimes, when they have no reason not to take them.

H.M.JR: No, I have got to go back to this replacement thing. We are going too fast. I personally pass on every Treasury case. I was interested when I went before the Appropriations Committee. They asked who passed on this thing. When they ~~were~~ told that Morgenthau did, they were amazed.

Now I have got to go back to this replacement schedule because it is the first time I have ever heard that word. I want it explained to me. Evidently we are not using it. Now, what is it?

GEN. HERSHEY: About a year ago, now, the replacement schedules were started. Their avowed purpose was to try to take and handle an individual establishment on an over-all basis. The assumption was that if I were running a plant or a business and dealing with twenty or fifty or a hundred local Boards, if each local Board got tough with

- 8 -

me simultaneously, I might lose all of the people that I can spare over a period of time, but they might take them all at one time.

So we tried to set up a schedule which would be negotiated by the State Director of Selective Service in the place where the plant existed, by which he would make a contract or a deal or an understanding with the management, to hold certain people for over six months, they would let other people go. In other words, they would let the people go that they thought they could permit.

H.M.JR: You mean into the war?

GEN. HERSHEY: Yes, let them go in order to keep the ones that they thought they should have longer than that, and the State Director then would take the responsibility of fighting the local Boards to try to prove to them that the decision he had made was a fair and orderly one, and a just one.

H.M.JR: In other words, if a man had ten thousand employees, and the State Director said, "I will try to make a deal with you. We will let a thousand of these go on the condition that over a period of two years you only take so many"--

GEN. HERSHEY: Yes, replace and retain them. We have about fourteen thousand of these schedules that have about ten million workers on them.

MR. THOMPSON: We never felt we needed that in the Treasury because of our strict deferment policy. We just had a few cases to get deferments on.

H.M.JR: Let's take the Bureau of Engraving. We are down to six hundred plate printers. That is one of our tough situations, and we went to the Army. The Army said, "If you can find any plate printer that is anywhere close to Washington, we will furlough him and send him back to you." And by God, we couldn't find any. I mean, the Army offered to furlough them back to us. Is that correct?

- 9 -

MR. THOMPSON: Yes, sir.

H.M. JR: Now, let's use this, this is as good an example as any. Now, what is the situation over there with the plate printers, and where are we?

MR. THOMPSON: Well, we can't lose any of them because we can't replace any of them.

GEN. HERSHEY: How many of them are single?

MR. WILSON: Most of them are married men. I would say possibly seventy percent of them are married men with children.

MR. BELL: They have to serve a four-year apprenticeship.

GEN. HERSHEY: Over thirty?

MR. WILSON: Oh, yes - very few youngsters.

GEN. HERSHEY: That is an ideal situation for us to protect if we could get past this Executive Order and Public 23, because no local Board is anxious to take men in their thirties who have children, but where you are blocked off is unless you can get them as key jobs--

MR. WILSON: We can.

GEN. HERSHEY: If that is the case, I don't think you need to worry about a replacement schedule.

MR. THOMPSON: Vipond is a member of the new committee General Hershey is speaking of.

GEN. HERSHEY: If you will ask for them, we can give them to you. But where you are up against it with some of your people, you haven't permission yet to ask for them. When we give them to you before asked, we have to report that we have given away so many, illegally, and obviously they are on our necks.

- 10 -

H.M.JR: Where does Rosenman come in this picture?

GEN. HERSHEY: He is representing the President in trying to straighten out who the Government will ask for as an employer. In other words, after Mr. Ickes and the Chairman of the Manpower Commission got to a place where there wasn't perfect agreement, Judge Rosenman came in to try to find out what they do from there.

H.M.JR: But this Board - what is the relationship between the President and this Board and Rosenman?

GEN. HERSHEY: The President appointed the Board and told it to serve under the Chairman of the War Manpower Commission, and up until the Secretary of the Interior entered, they sort of did. Then it became necessary for either the President or somebody else above - apparently those two - to intercede. That is where Judge Rosenman came in as the representative of the President; that is, exercising the Presidential function with the Presidential Board.

H.M.JR: Is that working?

GEN. HERSHEY: That is where we are. Judge Rosenman expected on Monday to try to do something about these fathers. They have been negotiating this for months. But in the first place they didn't think they wanted to go for legislation. There is some question about how you can change an Executive Order that has already been legislated, into law. Those are some of the difficulties they are up against.

H.M.JR: What is your attitude about pre-Pearl harbor fathers?

GEN. HERSHEY: If they are above thirty years of age, I would rather not take them if they are doing something that is reasonably--

H.M.JR: Above thirty?

- 11 -

GEN. HERSHEY: Well, yes. At the present time we aren't pressing too hard above twenty-five. But if you are looking to next year, I say above thirty.

H.M.JR: But right now, if we draw the line at thirty, we would be in tune with you?

GEN. HERSHEY: Very much. But see, these local Boards are people you can't order much. They work for nothing and if they don't want to take pre-Pearl Harbor ratners, they aren't going to.

H.M.JR: They are.

GEN. HERSHEY: They are doing that because there is nobody left much, any more. We are trying to take the ones that aren't essential and leave the ones that are. But unless somebody can get a 42-A filed on the fellow, the local Board has nothing to stand on and I am on his neck saying, "Why are you deferring people for whom you have no request? It is illegal."

H.M.JR: Didn't I pass someone the other day who is twenty-eight?

MR. WILSON: A plate printer.

GEN. HERSHEY: Well, if it is a key job I wouldn't worry about that.

MR. THOMPSON: Yes, he is a plate printer - no, an engraver, twenty-nine.

GEN. HERSHEY: I shouldn't worry. That is a skill.

MR. BELL: We can't replace them at all.

H.M.JR: Only two other places to go, one is the Army and the other is Atlanta, to the prison - counterfeiters.

Now, you have two or three cases - what are those?

- 12 -

MR. THOMPSON: Pending cases?

H.M.JR: I thought you had some--

MR. GASTON: The Board turned them down, Norman; they were over thirty.

MR. THOMPSON: The Board turned down a personnel officer in the Public Debt Office in Chicago.

MR. WILSON: They said they wouldn't approve any personnel job.

GEN. HERSHEY: I would rather defend the fellow who is in his second or third year of apprenticeship as an engraver, who happens to be twenty-five years old, than the best lawyer, editor, public relations man, personnel man there is in the country, because the man who is out on the street, if you take him in and show him a complicated thing, he says, "I never could do that." But you take him in and show him a telephone - he says, "Let me sit down; I can take over." The public has that idea.

I am not defending it, but it is exactly what you are up against on your personnel directors. I would rather defend a dozen of your engravers because they don't know how an engraver works.

H.M.JR: They don't know how a personnel director works, either.

GEN. HERSHEY: Now, that is the unfortunate truth.

H.M.JR: That is one. Now the General tells us we can't expect any help on that. What is another?

MR. BELL: Did we get the case where the Army took the man and put him in - what do you call the classification where they don't do combat duty - limited service?

Now, that fellow won't be doing near as important a job.

- 13 -

GEN. HERSHEY: This is the personnel job?

MR. BELL: The man in charge of the Treasurer's Office in Chicago. He was drafted and went up for examination and he didn't pass the 1-A classification but they put him in limited service. We asked if they wouldn't call him back and put him in the job where he could do the best work.

GEN. HERSHEY: Did the Army say they wouldn't?

MR. BELL: They won't do it.

GEN. HERSHEY: What you are up against there, it is an administrative executive job. Mind you, as a man who is making his living trying to administer, I have to stick with my class, but on the other hand, I know that trying to sell, if I were ever up for deferment, they wouldn't defer me.

MR. THOMPSON: That was the case when the Review Committee had approved it, when it got to the local board after the man was inducted. So we wrote you and asked you to cancel the induction. Word came back from your office that it couldn't be done. Then we asked to have him released by the Army and they wouldn't do it. It was partially the man's fault. He had transferred his status from the Arlington Board to the Chicago Board and he was inducted before we even went to the Arlington Board. He didn't notify us that he had been transferred or called, so that when we got in on it we were asking for his deferment. It was approved all the way through, but before the Chicago Board got it they had inducted him.

MR. GASTON: Was that the notice that he had been inducted the day before, or so, that we were asking for deferment?

MR. THOMPSON: No.

MR. WILSON: This was some time ago.

- 14 -

H.M.JR: Any others?

MR. WILSON: well, we had a question on lawyers.

MR. THOMPSON: We have a memorandum from Mr. Paul asking whether we will defer one of his lawyers. We are told they will not defer lawyers. This fellow, I think, is thirty-six.

GEN. HERSHEY: Your Review Board wouldn't come through on that.

MR. THOMPSON: He is thirty-six, married, and has one pre-Pearl Harbor child.

GEN. HERSHEY: That is an example that we might have a chance to sell to the State Director. I don't believe with your Central Review Board you will ever sell them he is a key man.

MR. WILSON: Lawyers below General Counsel, no.

MR. THOMPSON: Assistant General Counsel, Lawrence Lesser - assistant to Luxford. He is the third man.

H.M.JR: What can they do on that?

GEN. HERSHEY: I am not trying to sell our replacement schedule. Probably they will put him over six months. In the first place, he is something besides just a lawyer. I don't mean to belittle lawyers, but he has something in the structure besides just one of the working members, as I gathered from Mr. Bell - administrative, too.

MR. BELL: Yes, administrative.

GEN. HERSHEY: And secondly, he is second vice president, or something, in a small corporation; they would defer him, but your Central Review Committee, unless they get on a different basis than they are on now, they won't let you ask for him, and I can only give him to you illegally if they won't ask.

- 15 -

H.M.JR: Of course, I can't get awfully excited about lawyers, either, but the General suggested the Central Review Committee.

MR. THOMPSON: He is suggesting replacement.

GEN. HERSHEY: If you had a replacement schedule - but I don't know--

MR. WILSON: We only have, probably, a handful - three or four lawyers - who might have to go, in the whole Legal Division.

GEN. HERSHEY: Maybe you couldn't make a replacement schedule. But if you have a lot of fathers working in your engraving plant, who are not up to key jobs but are doing something that has to be done down there but you have to find somebody to take their places, those are the fellows.

MR. THOMPSON: we will have no trouble in the bureau.

H.M.JR: Do you have a little more time?

GEN. HERSHEY: Yes.

H.M.JR: How much time do you have?

GEN. HERSHEY: Whatever you want.

H.M.JR: Just take a look at this and see if there is anything you would want to question. (Treasury Department Draft Deferment list handed to Gen.Hershey, copy attached.)

MR. GASTON: We have asked deferment for a hundred out of some eighty thousand employees.

GEN. HERSHEY: Now, you take this engraver here. Apparently somebody disapproved. I don't know which board.

- 16 -

Mr. THOMPSON: The Review Board.

GEN. HERSHEY: You didn't get a chance to ask; they didn't give you a right to file 42-A. The average local Board - I am, of course, giving you a curbstone opinion - normally, a man called a letter engraver, if you could have gotten to our local Board, the man would have been deferred.

This pantograph operator I am not so sure about.

Mr. GASTON: A pantograph is a machine for drawing designs on steel plates.

GEN. HERSHEY: Well, he is thirty-six years old. If that fellow had a considerable skill - I don't mean a critical skill, but considerable - if you could have asked for him from the usual board, they would have let you have him.

Mr. WILSON: The trouble is we got it out too late. It was disapproved because it got to the Board after the ten-day period for appeal had expired. They wouldn't consider it. They disapproved it.

GEN. HERSHEY: These three that you have up here, that you have had authority to ask for, presumably they will allow you to continue to have authority to ask for them.

I think the chances are you will be able to maintain them. The thirty-one is in better shape than the twenty-eight.

- 17 -

This fellow down here was disapproved - it might be somewhat doubtful. If he was four years older and had two children, I think--

MR. GASTON: The fourth from the top, John Richards.

GEN. HERSHEY: Now, this assistant - Thomas Davis, Procurement - I think the problem--

MR. BELL: He has been deferred to February, hasn't he?

GEN. HERSHEY: His age is in his favor; having no children is against him. You have got the right to ask for him, and I think you have an even, or better, chance probably, of getting him. If he lives somewhere different from where he is registered, two Boards will have to fight over the new law. This senior attorney, down here, I am afraid of that one.

MR. BELL: He is 4-F.

GEN. HERSHEY: Oh, I didn't see that.

Well, the fellow in Alaska, I would think you would have a better chance to get that sort of man than if they were serving in the same job here, because I think most people will believe that it is harder to fill jobs like that, and it requires a special training.

The next page is all over-aged.

MR. THOMPSON: Yes, those are all old.

- 18 -

MR. GASTON: Here is a forty-three year old agent of Internal Revenue that is in the military service.

GEN. HERSHEY: He didn't come out. Tomlinson you have down there, Chief Field Deputy; that is an administrative job. If he is thirty-five years old and has two children I think you would have a pretty good chance. You have six months before he will be up again.

MR. WILSON: We have sixty-four jobs like that. Of course, some of the men are overage and some within draft age.

GEN. HERSHEY: But the Central Board has given you permission to ask for those? That is a key job?

MR. WILSON: It is on the key list that is now under consideration.

GEN. HERSHEY: How did this fellow get deferred?

MR. WILSON: I think because of his age probably.

GEN. HERSHEY: Yes, I know, but did you ask? Then the Board did give you permission to ask for him?

MR. WILSON: Yes.

GEN. HERSHEY: Here is ^{is} Neisser, Assistant Supervisor of Melting and Refining. I think that kind of a job, as long as he has a child--on those jobs they have a pretty good chance to stay.

H.M.JR: What is the latest on Lindow, Principal Economic Analyst? Those aren't easy ones.

MR. GASTON: He is one of our key economists.

H.M.JR: Mostly on war bond stuff.

GEN. HERSHEY: I realize that. If you could have called him an engineer instead of an economist--

- 19 -

MR. THOMPSON: We had two deferments on him without any difficulty.

GEN. HERSHEY: You take over on the Hill, just as an economist--

H.M.JR: As a matter of fact, I wonder if Lindow isn't an economist?

MR. THOMPSON: We have had no trouble.

GEN. HERSHEY: The agent that you have, for instance, Barrett--

MR. GASTON: Secret Service--

MR. THOMPSON: They are all out, forty-two, you see. We have a complete list. Secret Service is all mopped up.

MR. BELL: Most of them are in military service.

H.M.JR: Take Barrett--was he attached to the President? I didn't ask for him.

MR. THOMPSON: That is a peculiar case that we have written the Board several times on. All of the Secret Service men washed out at the end of the six months, out the Board in that case--

GEN. HERSHEY: They didn't wash them out. What I mean is, that is probably one of those fellows that I am reporting to Congress.

H.M.JR: May I say--the one thing, though, that gripes me is, we haven't asked for any of these on Secret Service, and there are four thousand lawyers and accountants who call themselves FBI men and all have blanket exemptions, haven't they?

GEN. HERSHEY: Oh no, but they have been pretty--

H.M.JR: I know, but in this row when it came up Paul McNutt said--well, one time the Attorney General

- 20 -

went after him awfully hard and I came to McNutt's rescue in a sense. I was the only person in the Cabinet who said we had been treated fairly. Everybody else was down on him. The Attorney General went after him unmercifully. He said, "You have forty-six hundred people in FBI who are all exempted."

GEN. HERSHEY: I don't know whether they have that many. Of course, they were liberal with the FBI people. There is no doubt about that. I know we were. Since the Central Review Board came along, I am not as well informed on what they have allowed them to get by with.

H.M.JR: But what about this Barrett?

MR. THOMPSON: He is still waiting to hear from his board.

GEN. HERSHEY: He is in Secret Service. Now, that is all there is of it?

MR. GASTON: We asked in February, 1942, for a six-months deferment.

H.M.JR: But he is above that six months. How did they get it?

GEN. HERSHEY: Some local board decided they wanted to give it to him, whether or not--it happens. What is that, construction expert?

MR. GASTON: Consulting expert.

MR. THOMPSON: He is the sales tax man.

GEN. HERSHEY: That expires in April?

MR. GASTON: Yes. He was a man that we employed on a sales tax research job. That is all out.

H.M.JR: We thought that the sales tax thing was finished as far as we are concerned.

- 21 -

MR. BELL: We just asked for him for this session of Congress.

GEN. HERSHEY: I see.

The next one expires in May.

MR. BELL: That is our main legislative counsel on taxes, Surrey.

H.M.JR: He wants to go into the service.

GEN. HERSHEY: You got him passed?

MR. BELL: Yes, and the Secretary says that he wants to go.

H.M.JR: He hasn't told me that directly, but I hear he is insisting on going as soon as the tax bill is finished.

GEN. HERSHEY: The last man, the technical assistant, has apparently been set up for induction in February.

H.M.JR: He is on the war bonds, and I only asked to get him back for part of the Fourth War Loan.

GEN. HERSHEY: If you could get him by, you probably would have a reasonable chance with that type of man.

MR. THOMPSON: They approved it for seventy days to ninety days.

GEN. HERSHEY: The Central Review Committee?

MR. THOMPSON: The local board. The Review Committee approved it for three months.

H.M.JR: Did you get by the Fourth War Loan? Did they take it into account?

MR. THOMPSON: Yes.

- 22 -

MR. BELL: It will be about February 15.

MR. THOMPSON: Yes.

H.M.JR: We put it on the grounds that we wanted to get by the Fourth War Loan.

MR. THOMPSON: They said he would be in the February induction.

H.M.JR: Now, take a fellow like that, thirty-five years old with one child. What is apt to happen to a fellow like that?

GEN. HERSHEY: You mean after he gets in the Army?

MR. BELL: In induction, you mean.

H.M.JR: Yes. Will he be inducted?

MR. GASTON: We don't know if he will pass the physical exam.

GEN. HERSHEY: You can send him up for pre-induction physical; we have a new law on that which is better. I think Leahy has been able to do better here than other places. But the Army has been pretty slow. Now they want to know whether they are pre-induction or whether they aren't. So we will have a chance with people you want to have examined to see whether they will pass it; we can put them in and run them through. They will want to know whether they are pre-induction or coming up for actual induction.

MR. GASTON: That is pretty good.

H.M.JR: You take Fred Smith, for instance.

MR. GASTON: Smith, DuBois, and Harold Mager--I doubt--well, maybe one out of the three may pass.

MR. THOMPSON: Has that procedure been established here?

- 23 -

GEN. HERSHEY: No, but we are fighting it, yesterday, the day before, and today.

MR. THOMPSON: We had sent men over to Fort Myer.

GEN. HERSHEY: Leahy has been able to do pretty well.

H.M.JR: Could you keep in touch with the General's office? That would be wonderful.

Now, I want to ask the General about something entirely different. Before I ask it, does either of you men have anything? What I want the General to do, if he could, is to give me a sketch of what the Army's needs are far forward--I mean, that is what I want.

GEN. HERSHEY: On December 1 there were seven million four hundred thousand, approximately, men in the Army. There were two million seven hundred thousand in the Navy, Marine Corps, and Coast Guard. The total was ten million one.

Next July 1, which should be the time we reach the plateau, granting that we make our calls, there should be in the Army, seven million seven hundred thousand; in the Navy, three million six; a total of eleven million three.

That means that we must produce between now and July 1, next, three hundred thousand for the Army to bring the Army up to where it goes; nine hundred thousand for the Navy; and make up the loss. Now, at the present time loss is figured on the basis of twenty-five thousand per month for the Navy and seventy-five thousand per month for the Army. That means a hundred thousand, or approximately seven hundred thousand between December 1 and July 1.

H.M.JR: Now just take a minute and explain how that loss is incurred.

GEN. HERSHEY: Discharges of all kinds.

MR. BELL: Killed and wounded.

- 24 -

GEN. HERSHEY: And, of course, that is so little a part of it. Let me detour a second to say that that ten million one--we enlisted and inducted eleven million to get that. In other words, there are approximately nine hundred thousand who have already come out. Now, three hundred thousand of those were over thirty-eight, which is quite a group.

H.M.JR: They are discharging those?

GEN. HERSHEY: They did last spring.

What I am getting at is, we produce eleven million to get a net of ten million one, and the loss figuring for the next six or seven months is a hundred thousand a month. You have a great many people who go into the service and are discharged for psychiatric reasons. They develop nervousness, or this, or that, or the other. That is the unfortunate thing. The largest number of discharges are psycho-neurotics.

H.M.JR: Not a hundred thousand a month psycho cases though?

GEN. HERSHEY: Not a hundred thousand, but you would probably be chagrined as much as I if I would tell you that out of three million six hundred thousand that have been rejected for the Army and Navy, one million of them are for reasons from the neck up. About four hundred thousand are illiterates; about five hundred thousand psycho-neurotics, psychopaths, and that sort of thing; and about a hundred thousand people have some organic neurological reasons for their rejection.

H.M.JR: Of course, the difference between this war and the last--we had them in the last war, but we didn't recognize them.

GEN. HERSHEY: And your war this time is much more mechanized. It is in three dimensions to a greater extent than the other time. And the fellow who developed jungle warfare through the ages is not yet conditioned to

- 25 -

stand modern warfare. It is just a question. If he is already unhinged he will stand a little or none of it.

If he is perfectly normal, he will be used only a certain amount of time, and then rested, or he is going to break. You can break anybody in modern warfare if you keep them at it long enough. That is merely a curbstone opinion from somebody who doesn't know too much about it. But I have been fussing a little bit along that line for ten years. I hope to have a little interest in both the physiological and the psychological approach to these dangers which are comparatively new.

MR. GASTON: You have to produce about two million men between now and next July.

GEN. HERSHEY: That is right. If you want, I will give you an idea of where they have to come from.

H.M.JR: I would.

GEN. HERSHEY: We have at the present time approximately five million fathers.

MR. GASTON: Registered fathers?

GEN. HERSHEY: That is right. We have three million six hundred thousand four-F's. We have a million six hundred thousand men in two-A and two-B, very few of which are fathers because we are just starting to classify, but a few of them. Great numbers of them are men with wives only, and some without any wives. We have a million eight hundred thousand in agriculture. Unless you go over thirty-eight or under eighteen, those are the four sources from which you must get the men, because there are no others. I think that if we run the five million through the sieve, classified them, about one million of them will end up in the Army. I hope that is true, but perhaps only seven hundred thousand will get by. I will tell you why. The boards are going to be very liberal in putting men--deferring men to be in war industries such as the two-B if they are fathers. They are going to be very liberal about putting

- 26 -

in supporting industries, that is, the power plant, the hundred and one things of Government, education, and what not, if they are fathers. They are going to put the farmers in three-A now into three-C, and two and a half million of them will go in four-F.

So if we get one million fathers between now and July we still have a million to find. There are a hundred thousand boys becoming eighteen every month; twenty thousand of them go into the Army and Navy and Marine Corps by enlistment before they are eighteen, so you can count them either as seventeen-year-olds and get a hundred thousand, or you could include them in the eighteens. But in any case, they are a part of this hundred thousand. Some fifteen thousand of these eighteen-year-olds go into agriculture, and we induct somewhere around forty or fifty thousand. So you can figure that in seven months we are going to get somewhere around four hundred to five hundred thousand seventeen and eighteen-year-olds to induct. That leaves you still five hundred thousand to find.

Now, we think that we can take three hundred thousand out of industry. The thing that I find in my local board is, there is a very definite feeling that the eighteens, the nineteens, the twenties, and twenty-ones, and on up toward twenty-five, especially the single ones, ought to get out.

You have probably read in the papers over the week end that we have been working pretty hard to get an agreement among the several agencies to immediately order cancellation of all deferment under twenty-two year olds except in special cases which we will try to control. The thing broke because Mr. May let it out of the bag. We haven't gotten agreement from everybody concerned. Now, that is not going to produce very many men, forty or fifty thousand at the most. Most of them are already gone. We will probably have to move up to twenty-five in two or three months, at least by July 1, if we are going to get these out of industry. The other two hundred thousand will have to come out of four-F's and the farmers.

H.M.JR: How many?

- 26 -

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H.M.JR: How many?

-27 -

GEN. HERSHEY: At least two hundred thousand.

H.M.JR: Well now, General, let me ask you this: Are these all for combat purposes?

GEN. HERSHEY: No, sir; I suppose not, although that very rapidly gets me into something I don't know anything about, what they are going to do about it.

H.M.JR: You get your requests from the General Staff?

GEN. HERSHEY: We never get anything until the Combined Staffs have presented it and the President has approved it.

H.M.JR: Because I have seen what purports to be some figures. I mean, a number they can send overseas, a number they will have here. I don't know. It seems to me they are crowding this raft awfully hard.

GEN. HERSHEY: Well, we have failed in the last three months to produce our men. I don't know how much the armed forces have worried about it. Obviously, I don't like to fail, but on the other hand, we worked under circumstances that were just impossible. That is, the Congress had debated this father business and these local boards by and large weren't going to take many of them until they found out they weren't going to take fathers and then have the Congress prohibit it and then get caught with having sent some people that wouldn't have gone had they waited three or four weeks. We have been in that situation for three or four months.

H.M.JR: Why aren't the American people entitled to this information that you have given me in the last ten minutes?

GEN. HERSHEY: It was published. I made a speech at the National Association of Manufacturers last week, and this was exactly my speech. It was published, yes.

H.M.JR: Did you see that?

MR. THOMPSON: No, sir.

- 28 -

GEN. HERSHEY: I testified up on the Hill when the Wheeler Bill was up.

H.M.JR: You mean just along that line? Get hold of a copy of the General's speech. (Thompson)

GEN. HERSHEY: I think you will find that General McNarney's testimony up there had even more.

Now, obviously the figures in September--while they added up to about the same, first of all assume that we were going to get about two or three hundred thousand in the last three months that we didn't get, so I should have had on January 1 only perhaps a million, two or three hundred to get, whereas I am caught with somewhere near two million now. This month we will do well to get two hundred thousand for both Army and Navy.

You see, the thing that the public doesn't understand is the size of the Navy. Now, I am not here--it happens to be I served in the Navy off and on for ten years, and some of my leading men are Navy men, but there is no prejudice. But Congress had the Army on the mat at the time of the Wheeler Bill for two days. They let Admiral Jacobs off after fifteen minutes. He was asking for that number between the first day of December and the first day of January. They hardly raised their voices.

You see, here ~~they~~ they are asking for nine hundred thousand. Our main job right now is the Navy; make no mistake! I am not worrying much about the Army. If I do, it is fine; and if I don't, it is all the same. They are up to ninety percent of their strength, the Army. The Air Corps will never be at full strength, but the Air Corps is not suffering for men. They have almost as many men in the Air Corps as the Navy has.

MR. BELL: They tell me that they get the pick of the country. They have a waiting list.

GEN. HERSHEY: They do. The Air Corps both in England and the United States. We have the peculiar

- 29 -

situation of the Navy and the Air Corps competing for the cream, and the Ground Forces getting what is left.

H.M.JR: The Navy and Air Corps?

GEN. HERSHEY: That is right. The Navy stayed on a recruiting basis where they wouldn't accept a lot of people. At the present time the Army is taking each month about twenty-five or thirty thousand people the Navy will not have. Otherwise, the Army wouldn't get so many, either. That is why the Congress passed this law for the President to appoint a medical board to lower the physical standard. Whether they will or not remains to be seen.

H.M.JR: What about the women?

GEN. HERSHEY: Recruiting on that is going like any recruiting when there is no compulsion behind it.

H.M.JR: How many women would you need--would the armed forces need? How many could they use?

GEN. HERSHEY: They said they could use half a million. I don't know that to be a fact, but they have so testified.

H.M.JR: If they could use half a million, to that extent--

GEN. HERSHEY: They certainly could. On the other hand, if they would use limited service men--I have six hundred thousand of those.

MR. GASTON: Four-F's?

GEN. HERSHEY: Not only that, every time you take a fellow with a punctured eardrum who has been playing professional football or college football--I hear about them every day. They say, why don't you come and get them. Well, somebody who has a punctured eardrum is playing football--

- 30 -

H.M.JR: Like Frank Sinatra?

MR. GASTON: They have one of the stars of the Brooklyn football team, Paschal--the Army has rejected him.

MR. BELL: Yes, he went through that line and they piled on top of him. There isn't anything wrong with that fellow.

GEN. HERSHEY: And you see the Selective Service gets blamed for the physical standards. We should be, because we are next to the public, but we are nothing but brokers. If we can get people to buy these men, we send them up. If they don't, we have to take them back and put them in stock. That is all there is to it.

MR. GASTON: I think that fellow Paschal has what, one bad ear?

MR. BELL: I thought a good many of them had flat feet. The punishment they take--they could certainly take it in the Army.

GEN. HERSHEY: The Marines had this football player who is quite noted, had him down to Parris Island and his feet wouldn't hold up and they discharged him.

H.M.JR: Anyway, I got what I wanted and I am very much obliged. I don't think we are off the track.

GEN. HERSHEY: You are ahead of time because you haven't any under twenty-five around here, and it will be July before we are up to twenty-five. You are well ahead, Mr. Secretary; you always have been.

TREASURY DEPARTMENTDRAFT DEFERMENTS FROM 11-25-40 to 12-14-43

Number of employees deferred at the present time or for whom requests for deferments are now pending before Draft Boards,	30
Number who have entered the military service since expiration of deferments,	34
Number of deferred employees now over draft age,	27
Number of deferred employees who have been reclassified to 4-F or are awaiting further instructions from their Draft Boards,	<u>9</u>
Total for whom draft deferments have been requested,	100

TREASURY DEPARTMENT
DRAFT DEFERMENTS FROM 11-25-40 to 12-14-43

Name	Title	Age	No. of Children	Length of Deferment	Date Requested	Length of Def. Extension	Deferment Approved by	Present Status
<u>OFFICE OF THE SECRETARY:</u>								
Heffelfinger, Wm.	Ex. Asst. to Under Secy.	38	Single	6 months	7-22-42		H.M.Jr.	Over draft age.
<u>COMPTROLLER OF THE CURRENCY:</u>								
Sibley, W. Leslie	Nat'l Bank Examiner	40	Single	3 "	10-1-42		H.M.Jr.	Over draft age.
Bailey, J. Lawrence	Chief Nat'l Bank Examiner	44	Single	3 "	10-21-42		D.W.B.	Over draft age.
<u>BUREAU OF ENGRAVING AND PRINTING:</u>								
Megee, Garnett W.	Letter Engraver	29	2 children	6 "	11-23-43		H.M.Jr.	Disapproved by Board and he was inducted.
Schoepflin, Chas.	Plate Printer	32	2 "	6 "	11-30-43		H.M.Jr.	
Wiram, Kenneth C.	Pantograph Operator	36	1 child	6 "	11-30-43		H.M.Jr.	Disapproved by Board and he was inducted.
Donahue, Edw. J.	Plate Printer	33	1 "	6 "	12-2-43		H.M.Jr.	
Ponceti, Earl T.	Plate Printer	35	1 "	6 "	12-2-43		H.M.Jr.	
DeBenedictis, Alfred J.	Plate Printer	35	1 "	6 "	12-2-43		H.M.Jr.	
Bland, Clarence A.	Plate Printer	33	2 children	6 "	12-8-43		H.M.Jr.	
Siegfried, Wm. H.	Plate Printer	37	1 child	6 "	12-10-43		H.M.Jr.	

Name	Title	Age	No. of Children	Length of Deferment	Date Requested	Length of Def. Extension	Deferment Approved by	Present Status
<u>FOREIGN FUNDS CONTROL:</u>								
Stewart, R. Ward	Asst. Director	30	1 child	6 months	6-4-43		H.M.Jr.	Def.expires 1-7-44
Hoffman, Michael	Asst. Director	28	None	6 "	9-28-43		H.M.Jr.	" " April '44
Schmidt, Orvis	Asst. Director	31	1 child	6 "	11-3-43		H.M.Jr.	" " 2-3-44
Richards, John	Spl. Asst. to Asst. Director	32	2 children	6 "	11-30-43		H.M.Jr.	Disapproved by the Review Committee
<u>GENERAL COUNSEL:</u>								
Edelman, Albert I.	Asso. Atty.	26	Single	2 "	5-20-42		Foley	Commissioned in Coast Guard
Davis, Thomas	Asst. Ch. Counsel Procurement	35	None	6 "	5-10-43		H.M.Jr.	Def.expires 2-17-44
Luxford, Ansel F.	Asst. Gen. Counsel	32	2 children	6 "	11-15-43		H.M.Jr.	
<u>INTERNAL REVENUE:</u>								
McEachern, W. C.	Engineer	34	None	3 "	2-4-42		H.M.Jr.	In Military Service
Perkins, Edwin M.	Sr. Atty.	34	Single	2 "	6-6-42		D.W.B.	Awaiting instructions from Board (Classified 4-F)
Gatz, Peter	Zone Dep. Col. Alaska	34	None	3 "	6-26-42		H.M.Jr.	Awaiting instructions from Board
Overby, Wesley C.	Zone Dep. Col. Alaska	29	None	3 "	6-26-42		H.M.Jr.	" " "
Kunkel, Martin C.	Special Agent	44	None	6 "	9-11-42		H.M.Jr.	Over draft age.
Lazarus, Louis J.	Int. Rev. Agent	43	Single	6 "	9-15-42		H.M.Jr.	" " "
Smith, Wallace	Agent	45	Single	2 "	9-25-42		H.M.Jr.	" " "

Name	Title	Age	No. of Children	Length of Deferment	Date Requested	Length of Def. Extension	Deferment Approved by	Present Status
<u>INTERNAL REVENUE (Cont.):</u>								
Miller, Robert T.	Asst. Tech. Adv.	44	Single	3 months	9-28-42		H.M. Jr.	Over draft age.
Moore, Joel P.	Tech. Advisor	45	2 children	6 "	9-28-42		H.M. Jr.	" " "
Haines, Henry L.	Ch. Field Deputy	43	Divorced No children	2 "	9-28-42		H.M. Jr.	" " "
Stern, Jacob S.	Int. Rev. Agent	43	Single	3 "	10-6-42		H.M. Jr.	Disapproved by Bd. Over draft age now
Manning, John E.	Col. of Int. Rev.	45	Single	6 "	10-8-42		H.M. Jr.	Over draft age now
Nelson, Emil J.	Tech. Advisor	44	None	6 "	10-8-42		H.M. Jr.	" " " "
Kaplan, Louis	Agent	43	Single	3 "	10-12-42		H.M. Jr.	" " " "
Nickell, Richard	Act. Col. of IR San Francisco	43	None	3 "	10-17-42		D.W. B.	" " " "
Perry, Walter D.	Asst. Tech. Adv.	41	None	3 "	10-17-42		D.W. B.	" " " "
Gordon, Herbert B.	Agent	43	Single	3 "	10-21-42		D.W. B.	Disapproved by Bd. Is in Mil. Service
Wagner, Edward B.	Tech. Advisor	45	Single	3 "	10-28-42		D.W. B.	Over draft age
Curtes, Morris	Agent	44	Single	3 "	10-28-42		D.W. B.	" " "
Romig, George W.	Chemist in Chg.	42	Single	6 "	11-10-42		H.M. Jr.	" " "
Fischer, John A.	Dep. Col.	44	Single	6 "	11-11-42		H.M. Jr.	" " "
Potthoff, Herbert	Tech. Advisor	43	None	6 "	11-11-42		H.M. Jr.	" " "
Berman, Leo	Int. Rev. Agt.	44	Single	6 "	11-11-42		H.M. Jr.	Inducted before request was re- ceived by Board
Porcelli, Attilio	Agent	41	1 child	6 "	12-1-42		H.M. Jr.	Over draft age
Berkowitz, John	Agent	44	Single	6 "	12-4-42		H.M. Jr.	" " "

Name	Title	Age	No. of Children	Length of Deferment	Date Requested	Length of Def. Extension	Deferment Approved by	Present Status
<u>INTERNAL REVENUE (Cont.)</u>								
Buxton, Joseph	Sr. Atty.	39	Single	3 months	12-7-42		H.M.Jr.	Over draft age
Kuehl, Herman F.	Spec. Agent	30	None	2 "	3-16-43		H.M.Jr.	Is in Mil. Service
Donnelly, Henry	Agent	35	None	3 "	4-12-43		H.M.Jr.	" " " "
Tripp, Donald G.	Spec. Agt.	35	1 child	3 "	8-3-43		H.M.Jr.	
Aquino, Vincent	Spec. Agt.	36	2 children	5 "	8-16-43		H.M.Jr.	
Evans, Gerald	Asst. Col. Michigan	37	2 children	3 "	11-12-43		H.M.Jr.	
Greene, Nathan	Agent	35	None	6 "	11-15-43		H.M.Jr.	
Holt, Philip J.	Agent	37	1 child	6 "	11-23-43		H.M.Jr.	
Schroll, S. Lawrence	Spec. Agt.	35	1 child	6 "	11-23-43		H.M.Jr.	
Tomlinson, Laurie	Ch. Fld. Dep.	35	2 children	6 "	11-30-43		H.M.Jr.	Def. expires 6-44
Werner, Elmer C.	Spec. Agt.	36	1 child	6 "	11-30-43		H.M.Jr.	
<u>MINT BUREAU:</u>								
Miller, Charles	Engineer	36	Single	6 "	3-6-42		H.M.Jr.	Com. in the Navy
Neisser, Philip	Asst. Supt. of Melting & Ref.	32	1 child	6 "	9-9-43		H.M.Jr.	Def. expires 3-30-44
Howard, F. Leland	Asst. Dir.	36	3 children	6 "	12-8-43		H.M.Jr.	
<u>MONETARY RESEARCH:</u>								
Ullmann, Wm.	Pr. Ec. An.	32	Single	6 "	11-25-40	6 months on 5-23-41 and 6 months on	H.M.Jr.	Is in Mil. Service

Name	Title	Age	No. of Children	Length of Deferment	Date Requested	Length of Def. Extension	Deferment Approved by	Present Status
<u>NARCOTICS BUREAU:</u>								
Ellis, Ross B.	Agent	32	None	2 months	March '42		Dist. Sup.	Is in Mil. Service
Morrison, LeRoy	Agt. in Chg.	30	None	6 "	11-30-43		H.M. Jr.	
<u>PROCUREMENT DIVISION:</u>								
Parks, David A.	Asst. Chief Trf. & Exp. Unit New York	43	1 child	2 months	7-16-42		H.M. Jr.	Over draft age.
Tarshes, Robert	Sr. Pur. Off.	41	Single	3 "	10-12-42		H.M. Jr.	" " "
Stephens, Thomas	Reg. Proc. Off.	34	1 child	6 "	5-10-43	6 months on 11-15-43	H.M. Jr.	Def. expires 5-13-44
Flatley, John W.	Act. Ch. Contract & Pur. Br.	36	None	6 "	5-10-43	6 months on 11-30-43	H.M. Jr.	
Tripp, Perry C.	Insp. Splst.	35	3 children	6 "	11-30-43		H.M. Jr.	
Widmann, Robt.	Asst. to the Director	32	1 child	6 "	12-10-43		H.M. Jr.	
<u>PUBLIC DEBT:</u>								
Traver, Orville	Head "E" Bond Unit-Chicago	34	2 children	3 "	11-30-43		H.M. Jr.	
<u>RESEARCH & STATISTICS:</u>								
Breithut, Richard	Ec. An.	32	None	3 "	2-23-42		H.M. Jr.	Com. in the Army
Weir, Wm.	Adm. Asst.	37	None	3 "	3-23-42	3 months on 6-2-42	D.W.B.	" " " Navy
Leahy, Thomas	Sr. Econ.	33	None	6 "	4-27-42		H.M. Jr.	" " " "
Lindow, J. Wesley	Fr. Ec. An.	32	None	6 "	2-27-43	6 months on 8-16-43	H.M. Jr.	Def. expires 2-29-44

Name	Title	Age	No. of Children	Length of Deferment	Date Requested	Length of Def. Extension	Deferment Approved by	Present Status
<u>SECRET SERVICE DIVISION:</u>								
Anderson, Howard	Agent	29	Single	6 months	2-26-42		H.M.Jr.	Is in Mil. Service
Barrett, Thomas H. Jr.	Agent	27	Single	6 "	2-26-42		H.M.Jr.	Awaiting instructions from Board
Blakistone, J.F.	Agent	32	Single	6 "	2-26-42		H.M.Jr.	Is in Mil. Service
Deckard, Wilmer	Agent	33	Single	6 "	2-26-42	6 months on 11-6-42	H.M.Jr.	" " " "
Haman, Walter A.	Agent	34	1 child	6 "	2-26-42		H.M.Jr.	" " " "
Lawrence, Elmer	Jr. Agt.	34	None	6 "	2-26-42		H.M.Jr.	" " " "
McNamara, Wm. J.	Agent	33	Single	6 "	2-26-42		H.M.Jr.	" " " "
Millar, Chas.	Agent	33	None	6 "	2-26-42		H.M.Jr.	" " " "
Paterni, Paul J.	Agent	35	Single	6 "	2-26-42		H.M.Jr.	" " " "
Peterson, Burrill	Agent	27	None	6 "	2-26-42		H.M.Jr.	" " " "
Dunphy, Leo	Agent	29	Single	6 "	4-21-42		H.M.Jr.	" " " "
Nelson, Paul	Private	32	Single	6 "	4-21-42		H.M.Jr.	Classified 4-F
Dobeck, Mitchell	Private	23	Single	6 "	5-15-42		H.M.Jr.	Is in Mil. Service
Lanier, Glenard	Private	27	1 child	6 "	6-18-42		H.M.Jr.	" " " "
Moore, George T.	Private	28	1 child	6 "	8-19-42		H.M.Jr.	" " " "
Quimby, Lawrence	Private	33	None	6 "	8-22-42		H.M.Jr.	Classified I-A
Shank, Glenn P.	Private	28	None	6 "	9-22-42		H.M.Jr.	Is in Mil. Service
McLaughlin, Frank	Private	42	None	6 "	10-10-42		H.M.Jr.	Over draft age
Schultz, Theodore	Private	45	Single	6 "	11-5-42		H.M.Jr.	" " " "

Name	Title	Age	No. of Children	Length of Deferment	Date Requested	Length of Def. Extension	Deferment Approved by	Present Status
<u>SECRET SERVICE (Cont.)</u>								
Lewis, James	Agent	35	None	6 months	11-12-42		H.M.Jr.	Is in Mil. Service
Krebs, Hilmer H.	Private	29	None	6 "	3-22-43		H.M.Jr.	" " " "
<u>TAX LEGISLATIVE COUNSEL:</u>								
Wahrhaftig, Felix S.	Cons. Expert	33	Single	6 "	5-10-43		H.M.Jr.	Def. expires 4-14-44
Surrey, Stanley	Leg. Counsel	32	None	6 "	5-19-43	6 months on 11-15-43	H.M.Jr.	" " 5-20-44
<u>TAX RESEARCH:</u>								
Anderson, Carl	Asso. Ec. An.	34	Single	3 "	3-6-42		H.M.Jr.	Is in Mil. Service
Atlas, Martin	Asso. Stat.	29	Single	3 "	3-6-42		H.M.Jr.	Classified 4-F
Due, John	Ec. An.	27	None	2 "	6-6-42		H.M.Jr.	Is in Mil. Service
<u>WAR FINANCE DIVISION:</u>								
Brumbaugh, R. D.	Sr. Clerk	27	Single	3 "	3-24-42		State Adm.	Is in Mil. Service
McCarty, Milburn	Ch., Press Section	30	Single	6 "	5-1-42		H.M.Jr.	Is in Mil. Service
Mager, Harold	Tech. Asst.	35	1 child	3 "	12-2-43		H.M.Jr.	Deferred until Feb. induction

December 15, 1943

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

During his visit this morning General Hershey of Selective Service supplied some interesting general figures about the strength and manpower needs of the armed forces.

As of December 1 the total strength of the Army was 7,400,000 men and of the Navy, Marine Corps and Coast Guard 2,700,000 men, making a grand total of 10,100,000 in the armed forces.

It is expected that the number of men in all services will level off on about July 1 next year at a total strength of 11,300,000 men, including 7,700,000 in the Army and 3,600,000 in the Navy, Marine Corps and Coast Guard. The Army thus will have to be increased by 300,000 men and the Navy and its branches by 900,000, which is the surprising figure of the situation. In addition, losses by discharge and other causes are running at the rate of about 75,000 per month for the Army and 25,000 per month for the Navy, Marine Corps and Coast Guard, so that 700,000 additional men will be needed up to July 1 to replace losses.

This means that Selective Service will have to supply between now and July 1 a total of 1,900,000 men for all branches, of whom 1,200,000 will be needed to bring all forces up to full strength and 700,000 will be needed for replacements.

The sources of supply for this total of nearly 2,000,000 men are as follows: 5,000,000 registered fathers; 3,600,000 4-F registrants; 1,600,000 2-A and 2-B registrants, consisting mainly of those deferred for industrial occupational reasons; and 1,800,000 in agricultural occupations. In addition

- 2 -

there are to be added approximately 100,000 boys reaching the age of 18 every month, or a total of 700,000 for the seven months. From this source General Hershey said we might expect to obtain 400,000 to 500,000 inductees in the seven-month period. The remainder of a million and a half will have to come out of the above list of those held in reserve.

Selective Service is now proposing to take, as far as possible, all men under 22 out of special deferment, deferring men in that age class only for very exceptional reasons. He said he thought that age limit would have to be moved up before July 1 to 25 in order to get approximately 300,000 men from this source.

Another 200,000 may be obtained from the 4-F classification and from the deferred farmers. Getting additional men out of the 4-F classification will mean some relaxation of the physical requirements by the Services.

General Hershey said it was a rather distressing fact to him that out of 3,600,000 men disqualified by medical examination approximately a million were disqualified for what he called "defects above the neck." This number includes 400,000 illiterates, 500,000 found to be to some degree psycho-neurotic and 100,000 having definite organic neuroses.

In reply to your question about getting additional women for WACS, WAVES, etc., General Hershey said we had apparently gotten about as far as we can get under a voluntary system, which never works satisfactorily. He said the resistance would probably be too great to hope for a Selective Service system for women, but if we had it it would be equivalent, up to the limit to which women's services could be used which is far greater than the number in service at present, of inducting the same number of men.

December 15, 1943
10:45 a.m.

DEFERMENTS

Present: Mr. Gaston
Mr. Thompson
Mr. Wilson

H.M.JR: What do you have?

MR. THOMPSON: A couple of plate printers.

H.M.JR: He is a thoroughly intelligent person, Hershey.

MR. WILSON: Yes.

H.M.JR: (Signs deferment request for Walter Cohn, age thirty-four, a plate printer.) The next is John Hospan, a plate printer, thirty years old. He is one-A and has two children, pre-Pearl Harbor. The other man was a pre-Pearl Harbor father. That doesn't seem to make so much difference now, though, does it?

MR. THOMPSON: No, it doesn't.

H.M.JR: Here is a man thirty-seven.

MR. THOMPSON: Assistant Collector of Internal Revenue. That is really the most important job in the Collector's office.

H.M.JR: He is thirty-seven and has a child. The child was born, I gather, after Pearl Harbor.

MR. WILSON: No, he was a pre-Pearl Harbor father. I checked on that case.

H.M.JR: George Welch, Jr., Assistant Collector of Internal Revenue at Nashville.

- 2 -

(The Secretary on White House telephone)

Hello, Miss Gilligan. Will you ask the Judge when he would like to have lunch with me. I gave him his choice of Thursday or Friday-----

Yes.....

Would you let Mr. Fitzgerald know?

Thank you.....

MR. THOMPSON: (Hands document to the Secretary.)
The Draft Board called and asked if we were going to ask for deferment. If we don't ask, they will put him in one-A, and he will be subject to call.

H.M.JR: How do we ask for him?

MR. THOMPSON: For the six months.

H.M.JR: I see. Do you have any doubts about him?

MR. GASTON: No.

MR. THOMPSON: I haven't the slightest doubt. I feel that Fred Smith is like your right or left arm, as is Ted Gamble in this bond drive.

H.M.JR: I think, though, I would feel happier about it, if this thing goes through, if he could be examined.

MR. GASTON: Yes, I think the chances are more than fifty-fifty that he will be washed out on the physical.

H.M.JR: Well, he has had his gall bladder removed, or something. He can't get any insurance.

MR. THOMPSON: Someone told me thyroid.

- 3 -

H.M.JR: He has a thyroid deficiency, high blood pressure, and he is unable to get life insurance.

MR. GASTON: Norman told me he had been unable to get life insurance, so I couldn't imagine the doctors passing him.

(The Secretary signs request on Fred Smith) He is thirty-five, and has two children.

MR. THOMPSON: This case of Randolph Paul's lawyer-- in view of the fact that the review committee refused to consider lawyers and the General didn't seem to be inclined to fight such cases, I don't know of much we can do for him.

MR. GASTON: Which is he?

MR. THOMPSON: Lesser, Luxford's assistant.

H.M.JR: When does he come up?

MR. THOMPSON: He hasn't been called yet. All Mr. Paul is asking now is an assurance we will defer him if his case comes up. Otherwise, the man is probably going to get a commission.

H.M.JR: Let me just read this thing a minute. Well, I think he would be as important as some others. I can say yes, but it may not do him any good. I guess he just wants us to present it.

MR. GASTON: Yes, I would think so. I don't know much about Lesser except I have heard he is a very good man.

MR. WILSON: He is on the Foreign Funds Legal Staff.

MR. THOMPSON: He is a very good man. It is the kind of case we would approve. It is just this new angle that the Board won't approve lawyers.

- 4 -

H.M.JR: Lesser, Foreign Funds Control, assistant to Luxford. All they are asking is, "If he is called, would I approve it," and I say yes--I mean, would I ask for an exemption.

December 15, 1943
11:20 a.m.

BRITISH BALANCES
INDIA SILVER

Present: Mr. White
Miss Kistler
Mr. Friedman
Mrs. Klotz

H.M.JR: I had a good hour with General Hershey. The next seven months the Navy is taking nine hundred thousand men and the Army only three hundred thousand; and they lose a hundred thousand men a month out of the Army and Navy for one reason or the other.

These figures are not secret. By the first of July the Army will go up to seven million, seven. He says the Navy went on the Hill for only fifteen minutes. The Navy is going to have three million, six hundred thousand.

MR. WHITE: Are these in addition to those lost?

H.M.JR: They need approximately two million men between now and the first of July.

MR. WHITE: Of which a million, two hundred thousand will be replacements?

H.M.JR: No, they need to be exactly a million, nine hundred thousand, of which seven hundred thousand--

MR. WHITE: They talk of losing a hundred thousand men a month.

H.M.JR: This is for the next seven months. At present the figures are ten million, one. They need eleven million, three. So in order to gain this much they have to take in a million, two plus seven hundred thousand.

MR. WHITE: They certainly have to go to the pre-Pearl Harbor fathers.

H.M.JR: He said they are going to screen five hundred thousand married men. He doesn't expect to get very much out of those. There are a hundred thousand boys a month

- 2 -

who become eighteen, but about twenty percent of those are already in the Navy.

The interesting thing is, he says the Navy and the Air Corps get the best, and the Army gets what is left over. The Air Corps are never satisfied.

MR. WHITE: That would be all right. The Air Corps is made up of a lot of people besides fliers. For every flier they have, they have seven or eight on the ground.

H.M.JR: The Air Corps, he said, is practically as big as the Navy now.

MR. WHITE: But this business of giving them the best people--

H.M.JR: I just thought that would interest you. I had to catch my breath, because it came very fast.

MR. WHITE: They are going to demobilize a couple of million of those before they have had two or three months' service, in my opinion. That is the absurdity of their position.

I'd like to first raise the major issue with respect to this British thing. The major issue, as we have discussed it, I think is crystallizing to the point where you have got to go back to our original position. I don't believe there is any way in negotiations with the British in which we will be successful in bringing their balances down. I think there is only one way.

H.M.JR: I thought this was going to be India. No?

MR. WHITE: It is--a part of it is.

H.M.JR: I have got to walk to get some exercise.

MR. WHITE: I think that the only approach to the problem would be to notify the British that from now on the following items they are going to pay cash for, and cut ruthlessly down on a lot of items until they reach a billion dollars. Any other position but that will yield such slim

- 3 -

results that you are not accomplishing your objective.

Now, if the President decides, after that recommendation, that he doesn't wish to have them cut to a billion dollars, that he wants them moved up to around two billion, I think your task is simple; you don't have any of these problems.

H.M.JR: Well, now, when you say they have got to pay tax, you mean for non-military?

MR. WHITE: Yes, foodstuffs, oil--

H.M.JR: I would add to that: I think that the military stuff should be screened.

MR. WHITE: But that doesn't affect their dollar balances. That is a separate problem. If they get less military goods, they don't buy anything; they just get along without.

H.M.JR: That is another problem.

MR. WHITE: That is a savings which is part of your responsibility, too, but it is a separate issue from the dollar balances.

H.M.JR: I agree with you.

MR. WHITE: Now, there is going to be opposition to that, and we have talked it over again and again, and every time we come back to the same thing--it ought to be brought up to the President.

H.M.JR: To hell with the opposition!--pardon me. Let me take a stand on my own feet as Secretary of the Treasury.

MR. WHITE: May I read the recommendation that we want to draft--two paragraphs?

H.M.JR: If we get everybody together on this thing, we will be another ten months. When did the President sign that round-robin?

- 4 -

MR. WHITE: One year ago, almost. In other words, I think the point has come that Crowley is with you on this or he can present a separate memorandum. That would be my judgment.

This is the proposal which it ends up with after four pages, which we will have polished up by lunch today, so you can distribute them. (Reads from "Recommendations," copy attached)

"In our opinion, the considerations which prompted the January directive are still sound and the necessary steps should be taken to reduce the scope of lend-lease aid to the British, unless Congress is informed of the situation and agrees to a more generous policy."

Do you want to put that "unless" in there?

H.M.JR: No. I'd put it the other way around, if you don't mind. I'd say it this way:

"In our opinion, all the factors which went into the preparation of the memorandum which was agreed to by the heads of the affected parties and approved by the President still hold good."

See? "And after having tried for almost a year to - -"

MR. WHITE: Implement the directives?

H.M.JR: "...to carry out this thing, but due to lack of cooperation on the part of other departments, or the interested parties here in the Executive Department, we feel that we now have to make our own independent recommendations to the President." See?

MR. WHITE: All right. That is the way I feel. We have tried for eleven months to get the people to think. Everything that has happened and has gone in that memorandum is still so.

H.M.JR: "...Therefore, Mr. President, as Secretary of the Treasury, I have to make an independent recommendation, independent of the other departments. And this is my recommendation to you."

- 5 -

MR. WHITE: Well, we can have two sheets: one that way, and then we can have you making it along with Crowley.

H.M.JR: That is all right.

MR. WHITE: Give them the other first.

H.M.JR: We'll try with Crowley first, but if Crowley won't go along - . But I'm not going to see Acheson, Mr. Stettinius - I am not going to fuss any more.

MR. WHITE: The question of seeing Mr. Acheson will raise another point which is subsidiary, and I'll take it up with you later, because we promised to keep him informed sometime ago.

H.M.JR: I'd just as soon have a meeting and show it to him.

MR. WHITE: Before you give it to the President?

H.M.JR: Yes, maybe he wants to sign it.

MISS KISTLER: May get to the President before you, you mean.

H.M.JR: I am not going to argue. "You can either come along or stay behind, one way or the other. If you want to join us, okay; but I am not going to argue about it."

MR. WHITE: (Continues reading from Recommendations)

"It is therefore proposed:

"1. 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 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.

- 6 -

"2. Since these measures are insufficient to bring British balances down to the agreed maximum of \$1 billion, it is further proposed to have the British pay for as large a proportion of civilian goods obtained in this country as is necessary to bring down and keep their dollar and gold balances at about \$1 billion.

"If you approve will you please indicate below:"

H.M.JR: I'd say a billion, six.

MR. WHITE: That is what it is now - a billion, seven.

H.M.JR: Well, you could keep it there.

MR. WHITE: Then you don't need that second, if that is the way you want it, because these items will bring it down. The directive says a billion dollars.

MISS KISTLER: You want to get his opinion on the directive, don't you?

MR. WHITE: I think if you feel that way about it -

H.M.JR: Is the directive a billion dollars?

MR. WHITE: The directive says a floor of six hundred million and a ceiling of a billion.

H.M.JR: Let's stick to that. Then draw the directive - I amend it, and then it is the President who takes it over.

MR. WHITE: That is the point.

H.M.JR: I had the six and the one mixed up.

MR. WHITE: It was six hundred to a billion.

H.M.JR: All right, okay. Let's get tough. Are you all with me on that?

MR. WHITE: We are in complete agreement on that.

- 7 -

H.M.JR: You had better be. I feel tough today! I am tired of arguing.

MR. WHITE: No, we have been troubled about this a long time.

Now, about the Indian - There are two things: one is no longer necessary to discuss--the letter from Crowley to Hull in which he states that they are having great difficulty coming to a reciprocal arrangement. If we take this position, we don't care about the reciprocal arrangements; then we can pay cash for whatever we need, and we merely make England pay cash for more items so that the Indian thing no longer is relevant if we stick to that position. If we don't, then it becomes relevant.

H.M.JR: Well, supposing we get turned down?

MR. WHITE: If we get turned down, then if we get turned down and the President says that he thinks the figure ought to be about two billion, as was rumored, then I think our interest in it ceases; because two billion dollars they will gradually reach by - they will know about it twenty-four hours after he pronounces it, and they will probably reach it, my guess would be, within six months or, my further guess would be, if the President makes that statement they will never get any reciprocal arrangement. They will agree in principle and stall for month after month. So I don't think we would have to worry about it - would you?

MISS KISTLER: I agree.

MR. WHITE: Now, the Indian silver. I think the first price of silver is rising. It is now ninety-eight cents in India. I think that we have reached the point where we have got to agree to lend-lease the silver. I think we are increasingly vulnerable with nothing to gain by withholding it. They can take the position that it would have helped. We can't say it wouldn't help. We think it wouldn't help much, but the situation is pretty serious. The risk is very negligible. It is coming out of stocks that wouldn't be used, anyhow.

- 8 -

H.M.JR: What did I say to the Senate group?

MR. WHITE: You told them you were going to give it. The only reason you have held up is because of political reasons - you are trying to get out of Halifax these reciprocal -

H.M.JR: He more or less came through.

MR. WHITE: He agreed in principle.

H.M.JR: All right, let's throw it in the lap of Crowley. What the hell!

MR. WHITE: The Treasury will recommend the lend lease of silver?

H.M.JR: Yes, we'll do it at lunch.

MR. WHITE: Those are the only two problems.

H.M.JR: Are you going to have it ready for me?

MR. WHITE: Yes.

H.M.JR: Come in here at five minutes of one.

MR. WHITE: Yes, sure, we'll have it.

H.M.JR. Can I have that letter back I gave you?

MR. WHITE: I'll give it back to you - no, I think I tore it up.

H.M.JR: I have to have it for my file.

MR. WHITE: I tore the envelope - I tore something. I have forgotten.

Let's start all over again! You want that letter back. (Laughter)

H.M.JR: Can I have the letter?

MR. WHITE: You can have the letter. I can remember

- 9 -

what it was now. I was about to tear it up when I saw it wasn't a letter to me; so I didn't tear it up. I have a logical explanation!

December 15, 1943
11:50 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Bob?

Robert Hannegan: Yes, sir.

HMJr: I've been sleeping over this matter of Norman Cann's.

H: Uh-huh.

HMJr: And if you feel he's the best fellow, it's all right with me.

H: Uh-huh. All right, that's fine.

HMJr: All right.

H: I - I think so.

HMJr: Well

H: And after getting advice from all of the older men around here.

HMJr: Well, I

H: I - I'm glad that you called me, because he's in - he's in town here.

HMJr: Well, it has my blessing, and you can tell him so.

H: Well, thanks a lot.

HMJr: And let him know that I say so.

H: All right.

HMJr: Thank you.

H: Thank you.

Luncheon Meeting in Secretary's Dining Room
Wednesday, December 15, 1943

Present: Secretary Morgenthau
Mr. Crowley
Mr. Cox
Mr. Currie
Mr. White

(Mr. Cox arrived from the committee hearings
about ten minutes late)

After some pleasantries Secretary Morgenthau said the business of the conference was the question of the British gold and dollar balances. The Secretary said that it was clear that Mr. Crowley wasn't being any more successful than the Treasury had been in attempting to obtain British cooperation to reduce the balances. Mr. White had informed the Secretary that Mr. Crowley's shop was having very little success in its efforts to get a substantial amount of Lend-Lease in reverse. It was because of the slow and uncertain progress on that point that the Secretary believed the time had come to present to the President the recommendations outlined in the draft memorandum just read. Mr. White stated that the small degree of success which Mr. Crowley's group were having on this front wasn't due to any lack of effort. He said that he had been in constant contact with Mr. Crowley and Mr. Cox and that he had been leaving no stone unturned to get speedy and effective action but that the British were not desirous of making the desired arrangements.

The Secretary said that he had a draft of a memorandum to the President which he understood had been prepared by Crowley's staff and the Treasury staff. He said that he hoped that Mr. Crowley was still prepared to go along with them on the recommendation contained in the memorandum. He said that in any case he was prepared to make the recommendation inasmuch as he felt he could no longer delay this matter but that he would be happy if Mr. Crowley would go along. He said that he assumed that Mr. Crowley had not changed his mind since the last meeting on the necessity for raising the matter with the President. He asked White to read the memorandum. White suggested that it might be necessary to read only the recommendation inasmuch as the remainder of the memorandum was familiar to the group. After the recommendations were read the Secretary asked Crowley whether he was prepared to go along with those recommendations and Mr. Crowley replied that he was. Mr. Crowley repeated what he had said at some of the earlier meetings with respect to the President's statement that we ought to let the balances be around \$2 billion but that he had asked the President, "Please not to say that but to let Secretary Morgenthau and he (Mr. Crowley) work the matter out and then if they were too tough with the British in the President's judgment that the President could always tell them to change." The Secretary said that the President had mentioned to him a lower figure.

Division of Monetary
Research

- 2 -

It was agreed that the President probably was under a misunderstanding and thought that the British balances were near \$2 billion and that the President was using round numbers.

Mr. Crowley expressed the view that it would be better in his opinion if instead of sending the memorandum to the President after having discussed it with Stettinius, that they walk it over to the President so that they would be in a position to discuss it with the President. He stated that if they were to send it over Stettinius, Acheson, or someone else in the State Department would slip in and see the President alone and again present a one-sided view and that his decision might be made without their getting an adequate hearing. The Secretary agreed that the best way to handle it would be to walk it over. It was then decided that a meeting would be called in the Secretary's office the next day with representatives of the State Department. Mr. Crowley and Mr. Cox said that there wouldn't be much use in having the meeting if Acheson alone came inasmuch as Acheson's views didn't represent the State Department's views in this matter. The Secretary replied that Mr. Stettinius would have to be there along with Mr. Acheson since this matter affected Stettinius directly since Stettinius had until recently been in charge of Lend-Lease.

Mr. Crowley said that he would like to have a chance to study the memorandum before the meeting on the following day and White said that there were some changes that Currie had suggested which they wished to incorporate in the memorandum and a copy would be sent to Mr. Crowley that afternoon.

There was some discussion as to the merits of putting the recommendations and the issue so definitely before the President. The Secretary replied that was exactly what was wanted. White added that it seemed futile to continue to pursue the negotiations which had been going on for so many months inasmuch as there was no prospect that a continuation of such discussions and negotiations with the British would yield results at all commensurate with the desired goal. He said that it was our opinion that to get results it would be to inform the President that we were going ahead to curtail Lend-Lease aid on civilian goods if necessary to fulfill the President's directive of January. If the President didn't wish that directive to be adhered to, he could withdraw it or modify it, but that so long as the directive existed the Treasury and other agencies to whom the directive was issued had the responsibility of carrying it out. Mr. Crowley agreed.

The Secretary then raised the question of South Africa and informed Mr. Crowley that a letter had been sent to him indicating that we were in concurrence with their view that South Africa ought to be put on a cash basis now but that he could not go along with Crowley in recommending that we ask for a reimbursement for sums which we had already sent them

Division of Monetary
Research

- 3 -

as Lend-Lease aid. He thought that we would be welching on our understandings. We would be acting in an undignified manner as "Indian givers" and that such a step would have a bad effect on the other countries having Lend-Lease. They would be uncertain whether we were initiating a new policy requiring that they pay us back in cash for such aid as we had already given them. Mr. Cox said that the request that they pay us back for past Lend-Lease aid was put in to strengthen our bargaining position. Mr. Crowley agreed with Secretary Morgenthau's view that we ought not ask for cash repayment on back Lend-Lease aid to South Africa.

Mr. Currie said that he had learned from the State Department that the South Africans did not want to go on a cash basis and that discussions were now going forward between the State Department and South Africa to see how much Lend-Lease in reverse could be obtained. He said no decisions had yet been made and that he hoped that they would be successful in putting South Africa on a cash basis.

H. D. White

Key gave Crowley 12/15/43

Dear Mr. Crowley:

I am writing to you with regard to the request which the United States Treasury has received from the Government of India to grant its approval for the lend-leasing of 100 million ounces of silver to the Government of India. As indicated in the enclosed copies of memoranda which have been received by the Treasury from Sir Frederick Phillips and Sir Cecil Kisch dated June 1, 1943 and August 27, 1943, respectively, this silver will be used for anti-inflationary purposes.

This Department has been studying the situation in India and believes that the use of this silver will be of assistance to the Government of India in its efforts to cope with the difficult problem of inflation.

It is, therefore, the view of this Department that the need of the Government of India for 100 million ounces of silver for use for anti-inflationary purposes should be met from the stocks of the United States Treasury, provided that the War Production Board finds that the lend-leasing of this quantity of silver will not interfere with the domestic need for silver for use in the war effort. I am taking up this matter with the War Production Board and will inform you of their views.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Lee T. Crowley, Administrator,
Foreign Economic Administration,
Room 414, National Press Building,
14th & F Streets, N. W.,
Washington, D. C.

Enclosures
ISF/RB/efs
12/15/43

COPY

India Silver

The internal price of silver in India has been rising steadily especially during the last twelve months, more or less in unison with the general level of commodity prices as measured by the Calcutta Wholesale Index. It is now selling in the Bombay bullion market at the equivalent of 99d. per fine ounce. This compares with the London price (adjusted for India import duty and for 999 fineness) of about 29-3/4d.

The rupee coin in circulation until some three years ago was of standard fineness, i.e., 11/12 fine. Since then rupees 500/1000 fineness have been coined and put into circulation, while the old 11/12 fine rupees have so far as possible been withdrawn from circulation. The steep rise in the price of silver having now reached a level at which the bullion value of the old rupee is greater than its face value is driving the 11/12 fine rupee in the hands of the public into hoards. There is therefore no further return of these rupees to Government nor do they, of course, circulate freely as money. This and the fact that the public is now also hoarding the 500 fine rupees is doubtless stimulated by the fact that the internal price of silver in India has already reached 2/3 of the figure at which it would be profitable to melt them down.

On April 1st last the Government of India had on hand only 29½ million ounces of silver bullion which together with coin minted but not issued might just suffice till March 31, 1944. Thereafter 4 million fine ounces of bullion per month will be required for coinage purposes (to be on the safe side the first 4 million ounces should be shipped not later than August next).

The Government of India consequently urgently require silver for two separate though closely related purposes:

- (1) To replenish their working reserve for carrying on the minimum amount of new coinage necessary to maintain the circulation even if the present situation does not deteriorate further;
- (2) To form a mass of manœuvre which they could sell in the market if the occasion arose for checking a runaway rise in the price of bullion. The amount which the Government of

- 2 -

India would like to have at their call for this purpose is 100 million ounces. No more, of course, would actually be sold than found necessary to secure the purpose sought. Incidentally the sale of silver to the public would be most helpful in reducing the redundant purchasing power in the hands of the public.

In the absence of any alternative source of supply the Government of India hopes that the United States Government will agree to make the necessary quantities of silver available under lend-lease on replacement terms.

To the end of the war India will remain both a most important source of supply of war materials and a most important base of operations. A breakdown in her currency system would create grave embarrassment to the United Nations.

Washington, D. C.
June 1, 1943

December 15, 1943
2:10 p.m.

HMJr: Hello.

J. E. Brown,
Secy to Mr. Hull: Hello, Mr. Secretary.

HMJr: Who is this, please?

B: This is J. E. Brown speaking.

HMJr: Oh, yes. Mr. Brown, I wanted to arrange thru Mr. Hull's office, that Mr. Stettinius and Mr. Acheson, if convenient, could come over here at three-thirty, tomorrow. At

B: At three-thirty tomorrow?

HMJr: Yeah, and Mr. Crowley will be here too. It's in regard to English balances.

B: I see.

HMJr: See?

B: Yes. Now, Mr. - Mr. Crowley will be there?

HMJr: Mr. Crowley, Mr. Cox, and Mr. Currie will be here.

B: Mr. Cox and Mr. Currie.

HMJr: Yeah.

B: I'll - all right, I'll get that message to them, and they - then send word to your office.

HMJr: Yes, if you'll let Mr. FitzGerald know. It's quite important. I mean, I hope they're going to be able to make it, because

B: I'm - I'm sure they will be, naturally, if they possibly - possibly can.

HMJr: Right.

B: I'll let them know that it's important.

HMJr: If you would.

- 2 -

B: All right, sir. Thank you.
HMJr: Thank you.
B: Good-bye.

December 15, 1943
2:18 p.m.

(First portion of conversation not recorded)

Harry
White:

.... I know.

HMJr:

Well, I'm sorry. Anyway, before you go home tonight, please dictate a memorandum on that thing.

W:

Oh, yes. Yeah.

HMJr:

Will you for me?

W:

I'll do that.

HMJr:

Because that - we were moving pretty fast there.

W:

That's right. I'll do that.

HMJr:

And - it was a good meeting.

W:

I think so, definitely.

HMJr:

I want to see that document before we show it to Stettinius and Acheson.

W:

Ah - before we send it over?

HMJr:

Well, I'm not going to send it over today.

W:

No, but I - I was going to send it over to - to Crowley.

HMJr:

Oh, it's all right to Crowley. Yeah.

W:

Yeah.

HMJr:

No, but when your crowd

W:

We're revising it now to send to Crowley, and then - then they'll probably have some suggestions, and then before tomorrow, you'll see another copy of it.

HMJr:

Corrected

W:

I mean before tomorrow's meeting.

- 2 -

HMJr: As you were, sir.
W: Righto.
HMJr: (Laughs) Okay. Good-bye, sir.
W: (Laughs) Good-bye.

December 15, 1943
3:00 p.m.

DISPOSITION OF SURPLUS COMMODITIES, PROCUREMENT

Present: Mr. Sullivan
Mr. O'Connell
Mr. Mack
Mr. Mapes

H.M.JR: Now, Cliff, supposing you tell me something about this, either you or Mr. Mapes, what has been happening recently in surplus disposal, what you have been doing. I am very much out of touch.

MR. MACK: Very good. Well, starting about February of this year we have been fairly active with the so-called property utilization program, first with the WPA surpluses. Those were contracting materials and equipment of one kind or another. Then along in July as a result of legislation NYA was liquidated, and we have that property to dispose of.

We have some property from other agencies, but just recently we have had surpluses from military services, and those surpluses--

H.M.JR: Wait a minute, let me ask you a question. What methods of selling did you use when you were selling stuff from NYA? How would you dispose of it?

MR. MACK: Well, for the most part, the surpluses from NYA were disposed of to the Federal agencies, and to the extent that that or any other property was disposed of to tax-exempt organizations, say, cities, towns, and States, or for public sale, it was by the competitive method. It was by issuance of invitations and awarded to the highest bidder. In the case of controlled materials, those were negotiated transactions.

- 2 -

MR. SULLIVAN: And sold at the ceiling price?

MR. MACK: Yes. Those control materials were disposed of as a result of allocations made by WPB for the most part.

Now, the materials that have been declared to us by the military services recently have been--and they haven't disposed of much to us until just recently--along the lines of vehicles. We have some sixty-seven or eight hundred automobiles. We have about ten or eleven thousand trucks.

H.M.JR: Take sixty-seven hundred automobiles--what kind are they?

MR. MACK: Those are of various types, light cars, medium--

H.M.JR: How did you dispose of those?

MR. MACK: The passenger cars and the trucks have just been declared to us, but we are working with ODT, the Office of Defense Transportation, and they will be disposed of as the result of, in effect, allocations.

H.M.JR: You have to give me more details.

MR. MACK: Well, it was done in this fashion: The passenger cars are those which were acquired for the most part by the military services from the dealers that had them when cars were frozen.

H.M.JR: They are not Army? They are any kind of vehicles?

MR. MACK: All kinds of vehicles, and, I think, for the most part they are in the same condition as when they came from the dealer.

H.M.JR: Mostly new?

MR. MACK: Mostly new.

- 3 -

H.M.JR: I mean, how will they want to buy them? How can you buy them? How will you sell them?

MR. MACK: I think Mr. Mapes can probably tell you that.

MR. MAPES: The cars are a relatively new program with us, as you know, and we are working with ODT and OPA in connection with their rationing.

Now, the first process, of course, will be to transfer these cars to the Federal agencies where there is a need, and also take in trade any of their old cars.

H.M.JR: You mean you are going to give the Federal Government the first choice?

MR. MAPES: Definitely. All Federal departments have first preference to any of our property; as a matter of fact, before it is offered to any other source, it is first offered to the Federal departments. Then after we have established the fact that there is no Federal need, we go through these other processes of the control agencies Mr. Mack mentioned, such as WPB, OPA, or the Department of Agriculture, and so forth. Now, the actual processes of the cars isn't quite settled yet. We have had conferences with the executives of the General Motors Corporation, Chevrolet Division, also with the Ford Motor Company and Chrysler Corporation because all three manufacturers are involved in this particular lot of cars. We have asked them to consider the possibilities of those cars being taken back into the original manufacturers' stock, and then subsequently out through his normal distributor channels.

In the event they don't consider that a good program, they may recommend to us channels through the distributors or such a plan as they may deem advisable or feasible.

In the meantime, we have worked with OPA on the rationing program, and the Defense Supplies Corporation also has contacted us with a view of taking the stock over.

- 4 -

Now, frankly, we don't think much of Defense Supplies Corporation coming into the picture, because it is merely shifting the responsibility from one agency to the other.

H.M.JR: Who is Defense Supply?

MR. MAPES: One of RFC's corporations. Really, the only function that they might have would be to take the stock over so as to finance it. Actually we don't need any financing in this program, so RFC's or Defense Supplies' function wouldn't normally exist.

Now, in connection with the trucks that you mentioned, there are ten or eleven thousand of those, and we also worked--

H.M.JR: How long have you had these automobiles?

MR. MAPES: Actually we have now about twelve hundred that have come to us in the last ten days.

H.M.JR: Who from the War Department decides to turn them over?

MR. MAPES: The Ordnance Division. They have corralled them and declared them surplus and report them to us.

H.M.JR: Did they ~~sue~~ you out?

MR. MAPES: Yes. They voluntarily declared them to us.

H.M.JR: Now, what about the trucks?

MR. MAPES: The trucks came to us the same way through the Ordnance branch, and also without any solicitation on our part. That is in connection with their regular procedure.

H.M.JR: What kind of trucks are they?

- 5 -

MR. MAPES: Those trucks are all pre-1939 vintage. Some of them are quite old. Some of them go back to the last World War. They are all supposed to be serviceable trucks, that is, they told us that there would be nothing turned over to us that would have to be towed. That is the way they put it, they could be driven.

MR. SULLIVAN: Are there any new ones at all?

MR. MAPES: No new ones at all. They are all used trucks, trucks that are being replaced by the Army. We also worked with ODT and OPA on that. Now it looks like OPA will establish ceiling prices on all of these for us and we may work either through the distributor or through competitive bidding on that.

Now, the distributors don't like the idea of using competitive bidding; but on the other hand, the distributors can't tell us which distributor to use for the disposition of the trucks, either. So both the trucks and the cars at the moment--the program for them is not quite completed.

In the meantime, the cars that we have are being transferred to Federal agencies; none of them have been sold. None of the trucks have actually been turned over to us yet.

H.M.JR: Why do you say the distributors can't tell you how to distribute them? I don't know what you mean.

MR. MAPES: The point is this, the first question that arises in our minds when we have surplus property of any sort is to what disposition to make of it and how to make that disposition. In other words, if we were to sell to the distributors, on what basis would we determine whether we should sell this truck to the Smith or Brown Motor Company. There are supposed to be approximately thirty thousand distributors of trucks in the country, and we have eleven thousand trucks, so there won't be enough to go around if we peddled them one to each one of them.

- 6 -

H.M.JR: I thought you meant, let's say, the General Motors trucks might be distributed through General Motors.

MR. MAPES: That is one plan that we have that we have asked the manufacturers to consider. If the manufacturers and their own distributors would work with us on that program, it would solve that question of whom should we give what trucks to.

H.M.JR: I don't say that is the way, but I should think these distributors not having any business would jump at it.

MR. SULLIVAN: That is right.

MR. MAPES: Well, they have not come back with their answer. The gentleman from the Chevrolet Division of General Motors called this morning and said they thought so well of our plan of discussing it with them that he is applying to Detroit to discuss it with the President of the Corporation, and was going to try to have him come down and discuss the subject with Mr. Mack.

H.M.JR: What else are you getting?

MR. MACK: Well, there are some comforters, bed comforters. We have gotten quite a few of those, about two million.

H.M.JR: Where do they come from?

MR. MACK: Those came from the Quartermaster Corps, and they have gone to the Office of Foreign Relief. They have to be repacked for exporting. That is quite a proposition.

H.M.JR: Foreign Relief?

MR. MACK: Governor Lehman's.

H.M.JR: Are they going to store them in warehouses or move them out?

- 7 -

MR. MACK: They claim they want them for shipment by this winter. They have asked us to hurry up the packing.

Then we have just recently received from the Air Corps about four million square feet of so-called shearlings. That is the first years' wool that has been used for aviators' vests, suits, coats, and so forth. But the story we have is this, that this property is surplus because they found that when the flyers had to go overboard in the water, when they got wet this wool would sop up a lot of moisture and water, and it was bad. So they have shifted to alpaca, and then I think there was some that may have been rejected because of the specifications on piling. But we think we can get rid of most of that material pretty easily because there is a good market for it.

Then we have some CCC clothing, a lot of that. I don't think we have a detailed list; at least I haven't seen it; but it is about two and a half billion dollars' worth.

H.M.JR: Let me interrupt you. Are you going to dispose of this wool through competitive bidding?

MR. MAPES: That just came to us this week, Mr. Secretary, and it looks like that will be the method used there. We are now working with WPB to get a list of the manufacturers and consumers, or users, of that type of skin, and we will probably use competitive bids to circularize all of those who may be interested.

MR. MACK: Then we have some harness.

MR. SULLIVAN: From the last war surplus?

MR. MACK: There is about twenty-five or twenty-six thousand sets worth about a half million dollars. Now, those have military traps that have to have some changing, but the manufacturers need harness very badly for industrial purposes. We have been working with OPA first to establish proper price ceilings, and we will sell at those ceilings. We are working with the manufacturers who need raw harness

- 8 -

to find out the information necessary to determine, in effect, allocations to them at those ceilings, because they all want it so badly.

MR. O'CONNELL: Did you work with WPB, too?

MR. MACK: With the industrial branch, and the Office of Civilian Requirements. They are the ones who wanted us to handle that and, I think, get in touch with the Army, and it came to us.

That harness, of course, will have to be trimmed because there are some military traps on it, but it is very badly needed.

H.M.JR: Where is it needed?

MR. MACK: For industrial purposes, for farmers and others.

MR. O'CONNELL: Are you going to rehabilitate that harness yourself? You can sell it as is?

MR. MACK: It has been declared. We have gotten straightened out on the price ceilings, and now we are trying to find out from the manufacturers based on their sales from last year--

MR. MAPES: They have given us a list of all of the harness manufacturers, and we are circularizing the manufacturers, listing the harness in detail and then stating the price at which we will sell it and asking them how many of them they will care to purchase at that price and also to give us a record of their last year's sales of that type of harness in the event that we get more demand than we have harness. Then we will prorate it and distribute on the basis of the ratio to their sales.

MR. O'CONNELL: My question was a little different. Are you going to sell it as is, or are you going to take the military traps off and do a job of servicing it?

- 9 -

H.M.JR: "Rehabilitating" is the word.

MR. MACK: I think we will sell it as is.

MR. O'CONNELL: You will have situations in which it will seem to be good business to do some rehabilitation work in connection with something you get.

MR. MACK: We do it, but thus far only to a very limited extent.

MR. MAPES: We do it where it will be transferred back to Government departments.

MR. O'CONNELL: I know you do it in those instances, but I was wondering if you might not have to do it in some cases where you have to market it.

MR. MAPES: We have discussed it, and where we can see that we are going to get a much better return out of it in comparison with the amount that we spend--in other words, if we can double the return to us by putting ten or twenty-five percent additional money in it, we certainly would contract to do so.

MR. O'CONNELL: But there are a lot of cases in which you can't tell. It is a matter of judgment whether what you spend will be worth while.

MR. MAPES: In those cases we will probably contract for that rehabilitation rather than do it with our own personnel.

MR. MACK: We have a lot of miscellaneous items; for example, I noticed the other day some of these little clasps used on overalls, a great quantity of those. We disposed of those by sending them to the Federal prison industries because they use them.

Then we have clothing, clothing from the Naval depot or the Brooklyn Naval depot, such as underwear and socks.

- 10 -

H.M.JR: What would they be selling it for?

MR. MACK: This is stuff that has been surveyed by them and declared surplus to us.

H.M.JR: They don't need it?

MR. SULLIVAN: Up to a year and a quarter ago, the underwear that was issued to the Navy was surplus from the last war.

MR. MACK: Is that so? Well, we get all sorts of things there.

MR. O'CONNELL: The clothing is surplus because it is obsolete. Are they using something other than this now? It isn't stuff they are using currently but have too much of, is it?

MR. MACK: Of course, we don't go in back of why they declared it surplus, but probably it is from men that are discharged from the service, or worn out equipment, or equipment for one reason or another they have surveyed as excess to their needs.

MR. O'CONNELL: To determine in a fairly adequate way what your selling policy is going to be, it seems to me you will have to know what you are getting, whether it is new or something that is surplus to the Navy needs because it is obsolete and they are using something else, and all those things.

MR. MACK: That is right.

MR. O'CONNELL: They are still buying clothing, I know that.

H.M.JR: General Hershey says that between now and the first of July the Navy wants nine hundred thousand more men. He told me that this morning.

MR. MACK: Oh, they do?

- 11 -

MR. SULLIVAN: Most of the Navy uniforms are whites, which are out now.

MR. MACK: Well, we had from the Navy various types of underwear, kerchiefs, and so forth, and those for the most part were sold through the Department of Immigration and Naturalization. They use them for these alien camps. We made a private sale of the white trousers to a manufacturer, and as I understand it, they are to be used for women war workers as slacks; so they can be remanufactured. But all distinctive insignia, according to Hoyle, should be removed. There shouldn't be any insignia on any of that.

H.M.JR: What else do you have?

MR. MACK: We have some horses, and some mules.

MR. SULLIVAN: Also seventy-five thousand sets of spurs.

MR. MAPES: We have twenty-two thousand horses and mules.

H.M.JR: Horses and mules for sale?

MR. MAPES: Yes, they are just in process to us now.

H.M.JR: What are you going to do with those?

MR. MAPES: We will have auction sales on those. We will work it out with an auctioneer and with the Army Remount Stations. We will circularize farmers and countryside in local newspapers and broadcast to breeders and users of every known variety. Then in due time we will have an auction sale, and we will sell them off either individually or in pairs, or in teams, or in groups, pretty much as the buyers want them.

H.M.JR: Well now, why is the Army selling horses and mules?

MR. MAPES: Well, these are all culls to a great degree. And, of course, they are not using them to the

- 12 -

extent that they used to, either. They are surplus to their requirements; the Cavalry, of course, not being as active as it formerly was, and these are all fairly old horses.

H.M.JR: Fairly old?

MR. MAPES: Yes.

H.M.JR: Now let me ask you, is that roughly the story?

MR. MACK: I think so.

MR. MAPES: We have the smokers, the smoke pots.

MR. MACK: There are one hundred and fifty thousand.

MR. MAPES: The Quartermaster Corps had those bought on the West Coast and in the South. They bought them, of course, for smoke screens, and they feel they won't use them anymore. There are one hundred seven thousand of those. They pay ten dollars apiece for them. They are brand new and have never been used, except for test and experimental purposes.

MR. SULLIVAN: There are seven cars of soup plates.

H.M.JR: When did you go to school on this?

MR. SULLIVAN: Say, I am in the school.

MR. MACK: Wasn't there some kitchenware, fifty or sixty carloads?

MR. MAPES: Eighty carloads of brand new kitchen equipment. It is now down in a port; they didn't disclose the port, but it is a port down around Virginia somewhere. It was bought for use in North Africa, and the need for it was cancelled. The plans were changed, and now they are going to report that whole lot to us in boxes already for export to the public warehouse.

- 13 -

MR. MACK: Isn't there some other stuff that Engineers called you about and said they were going to declare as surplus?

MR. MAPES: The construction equipment used on the Alcan Highway. There are approximately two hundred and twelve carloads of that. That hasn't been actually reported to us yet. It is coming back to Denver from the Alcan Highway, and we will work with the Engineers on that.

H.M.JR: Let me ask you this: Have any of you gentlemen ever told Mr. Robert McConnell what you are doing? Has he ever asked you?

MR. MACK: I have been in to see him a number of times.

H.M.JR: Have you?

MR. SULLIVAN: Surely.

H.M.JR: He has given me--I get the impression that he hasn't a very good impression of Procurement.

MR. MACK: Yes?

MR. SULLIVAN: I don't think Bob knows an awful lot about it, Mr. Secretary.

H.M.JR: He has been around here now for a month.

MR. SULLIVAN: But he has been working on other things.

H.M.JR: But here he is, right in the Treasury with an office right down the hall, and he is available. You fellows certainly haven't sold yourselves to him.

MR. SULLIVAN: I don't think any effort has been made to sell ourselves.

H.M.JR: Why shouldn't there be? You know he is going to make the recommendations to Mr. Baruch. What are you waiting for?

- 14 -

MR. SULLIVAN: Well, Bob and Joe and I had a talk with Hancock and Lubell there one morning, and I think Bob's knowledge on Procurement was rather fragmentary, at least up to that point.

MR. O'CONNELL: I don't think he has any knowledge with respect to actual operations either in Procurement or in surplus property disposition other than the little bit you and I have given him from time to time and the times when Cliff has talked to him, and we don't know the operations. John knows them better than I.

H.M.JR: I am looking at John. I mean, here he tells me the thing is more or less going to be settled tomorrow.

MR. SULLIVAN: I don't believe that is so.

H.M.JR: That is what he just told me.

MR. O'CONNELL: There is a meeting tomorrow morning.

MR. SULLIVAN: That may be, but--

H.M.JR: I have to start out and try to sell them.

MR. SULLIVAN: I have had many conversations with Hancock about this.

H.M.JR: But here is a man right in the Treasury who isn't sold on this thing.

MR. SULLIVAN: Then, if I should have made an effort to sell him on the Treasury agency, I have failed in my job.

H.M.JR: I think you have.

MR. SULLIVAN: Then if I should have gone out to convince him that we were the best there was, then I have been remiss, because I have made no such effort.

H.M.JR: Certainly. You know what he is here for.

- 15 -

MR. SULLIVAN: Yes, I do, and we have been working on other things that appeared to be far more pressing than the one we are discussing this afternoon.

H.M.JR: Such as what?

MR. SULLIVAN: Contract termination.

MR. O'CONNELL: That was the first thing, Mr. Secretary. That is where he is now, over there.

H.M.JR: Yes, but to go back on this thing a little bit, I get the story--I don't know from whom--McConnell and so forth--at least I got the impression from somebody that Procurement didn't want it. I spoke to you about that.

MR. SULLIVAN: I told you that was untrue.

H.M.JR: Who told me about that?

MR. SULLIVAN: I don't know whether it came through Eddie Greenbaum or whom it came through.

H.M.JR: General Browning.

MR. SULLIVAN: You told me about it. You told me when we were walking back from the Statler that we had been offered something and turned it down. I told you that was untrue. I talked with Cliff about it and got a memorandum that nothing to that effect had happened. I will tell you what did happen. Budget has been angling for this information itself, and they had made several inquiries of different people in the War Department as to how Treasury Procurement was servicing them, and apparently was trying to find something where we hadn't been willing to accept whatever was offered to us, and there has been no such incident.

MR. O'CONNELL: A week or so ago--ten days ago when I talked with McConnell about it and he talked with you at the same time, McConnell was thinking along the lines that the most desirable way to work it out from the standpoint

- 16 -

of the Treasury was to have the Treasury Department handle only the consumer goods in the so-called readily salable articles and avoid getting--

(The Secretary asks Miss Chauncey to bring in Mr. McConnell's memorandum of December 9, 1943.)

MR. SULLIVAN: If you are getting that information for me, I read it this afternoon.

MR. O'CONNELL: I saw it at the same time John did.

McConnell was rather trying to avoid what he thinks are the headaches in the disposition of the junk part of the surplus property. Now, I told him I didn't see any way you could separate the cream from the other and just say that the Treasury wants to do the nice, easy part of this job and wants somebody else to do the rest. That is the way he was thinking before he wrote that memorandum. I haven't talked with him since.

H.M.JR: Well, it is too bad he isn't here. There is no use talking about it.

(Miss Chauncey enters the conference and gives the Secretary Mr. McConnell's memorandum.)

H.M.JR: I suggest that you people come back at nine-fifteen tomorrow morning, because I want to see him ahead of his going to that meeting. I, myself, don't believe we should get in on that sort of stuff, speaking of plants.

MR. SULLIVAN: We shouldn't; we shouldn't get into minerals.

H.M.JR: But I think we could do this kind of stuff fairly well.

MR. MACK: Better than any other agency, I know that.

H.M.JR: Well, somebody has to do the job on Mr. McConnell. I will give you the chance at nine-fifteen tomorrow morning. If you can see him tonight you might

- 17 -

soften him up a little bit, or when he comes back. What do you think?

MR. SULLIVAN: I don't know. Frankly I don't think Bob has any background as to whether he can make a decision as to whether we have any ability. I was floored by that memorandum he sent to you without any discussion at all with either Joe or me.

H.M.JR: Well, I didn't solicit the memorandum.

MR. SULLIVAN: I understand that.

H.M.JR: I was floored, and have been trying to get him all week since then. Can't you people get hold of him before I see him?

MR. SULLIVAN: I am going from here back to that other meeting. I will talk with him this afternoon, sure.

H.M.JR: I think it is very interesting work, and I think we have the skill, but certainly this memorandum-- you can read it and leave it outside with Fitz. You show it to Mapes.

But it seems for them to simply use our know-how and turn it over to the RFC--

MR. SULLIVAN: That is perfectly ridiculous. If there is a group of people in town who haven't the qualifications for doing the job, it is the RFC, and the inclination--

H.M.JR: Get a little mad about it, at him.

MR. SULLIVAN: I did.

MR. O'CONNELL: I will testify to that.

MR. SULLIVAN: I told him right off the bat.

H.M.JR: I am surprised he said it to me without consulting--

- 18 -

MR. SULLIVAN: We haven't had a word. He has been present when I argued with Baruch, Patterson, and Forrestal at the Baruch Committee. Hancock had indicated to me that he thought the Treasury Procurement knew more about this than any other organization, that he wasn't sure if there were some things that should be clipped off and whether we would be willing to take something else.

I told him, and I told the whole committee over there that we had this organization that had been in business a long while, and we weren't trying to duck any junk, any of these things that were disagreeable for somebody to sell. Somebody would have to dispose of them, and we weren't trying to duck it, and we weren't going out and try to get hold of the whole. We knew on such things as strategic materials the RFC had a separate corporation of trained men who bought that, and they were obviously the fellows to dispose of that.

H.M.JR: We were in that long before they were. I bought mica and Brazilian diamonds before they even knew they existed. That was the first strategic material program.

MR. SULLIVAN: Hancock was very much in our corner, and Bob sat there and never said a word.

H.M.JR: Look, how many Irishmen are there here? Anyway--

MR. SULLIVAN: One more than is necessary, at least. (Laughter)

H.M.JR: You fellows get together with them and get your Irish up and have a workout with them before I see him tomorrow morning, will you?

Authenticated by Mrs. Wade
 at Washington on Account
 of 12/15/43 - 3 pm.

FREDERICK A. MAPES
 CHIEF, FEDERAL PROPERTY UTILIZATION BRANCH

BORN: JULY 1, 1896 at Jersey City, New Jersey.

EDUCATION: Attended the public schools and high school at
 Baltimore, Maryland.

BUSINESS EXPERIENCE:

Jan. 1916 - Sept. 1926	Cook Laundry Co., Philadelphia, Pa. Manager of Linen Supply Division.	\$1820 per annum		
Sept. 1919 - Jan. 1926	General Processing Co., Phila., Pa. General Foreman - including supervision of Cotton Bleaching, Merchandising, and Dyeing Div- isions.	\$3900	"	"
Jan. 1926 - May 1926	H. A. Copeland Sales, Lockland, Ohio Sales Representative - including selling of various types of Commercial Wrapping Paper in Carlots.	\$2500	"	"
June 1926 - May 1927	S. S. Kresge Co., Philadelphia, Pa. Trainee for Store Manager - including stockkeeping, buying, merchandising and window dressing.	\$1560	"	"
June 1927 - Mar. 1928	Atlantic & Pacific Tea Co., Willow Grove, Pa. Store Manager - Retail Groceries	\$1820	"	"
Apr. 1928 - Nov. 1932	Sears-Roebuck & Co., Phila., Pa. Trainee for Executive Position - retail and mail order, merchan- dising, buying, stockkeeping, warehousing. (Loaned to Pennsylvania State Emergency Relief Board)	\$2100	"	"

FREDERICK A. MAPES

2.

GOVERNMENTAL EXPERIENCE:

Dec. 1932 - July 1935	Pennsylvania State Emergency Relief Board Purchasing Agent. Advanced to Director, \$5000, Oct. 1, 1934.	\$3960 to 5000 per annum
July 9, 1935	State Procurement Officer, Pa. Procurement Division, Treasury Department. Promoted to \$6200 June 16, 1939.	\$6000 to 6200 per annum
Sept. 9, 1940	State Procurement Officer, New York	\$6400 per annum
Sept. 16, 1941	State Procurement Officer, New York	\$6500 " "
Apr. 1, 1942	State Procurement Officer, New York	\$6750 " "
July 1, 1942	Chief, Emergency Relief Branch, Washington, D. C.	\$7000 " "
Oct. 16, 1942	Assistant to Director of Procure- ment, Treasury Department, Washington, D. C.	\$7000 " "
Feb. 11, 1943	Assistant to Director of Procure- ment, Federal Property Utilization Branch, Washington, D. C.	\$7000 " "

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE December 15, 1943

TO: Secretary Morgenthau
FROM: Robert R. Nathan, Consultant
Subject: The War Production Program and the Economic Outlook

Summary of Findings

Except when otherwise indicated, all of the comments and conclusions are based on the assumption that there will be no immediate termination of hostilities.

1. War expenditures (Treasury and Government lending corporations) will probably total between \$92 billion and \$95 billion in fiscal year 1944. The six months just ending will aggregate \$45 billion. The next six months will rise to between \$47 billion and \$50 billion.

2. Failure to attain the original forecast of \$100 billion in fiscal year 1944 is largely the result of failure to meet the aircraft goals which were regarded as feasible at the time the \$100 billion figure was set. There was no general lack of materials or men to meet the higher aircraft objectives, had there been adequate planning and expediting.

3. The war production program over the next half-year will show a moderate over-all increase in physical output and marked divergence in trends of specific items and categories. Most pronounced will be the drop in ground army equipment and the rise in Air Corps demands. The dislocations resulting from shifts in production will not be of significant portions.

4. The raw materials situation is easing slightly, but there will be only minor additions to civilian production of metallic goods in the next six months. Materials released from war production at this stage will probably be used largely for machinery and equipment for reconversion and modernization rather than consumer goods.

CONFIDENTIAL

- 2 -

5. The manpower situation is very tight and will continue so for the next six months, except for minor surpluses in very few special areas. The aggregate of these surpluses will be insignificant. There is no possibility of a widespread unemployment problem in this period.

6. If the war in Europe continues throughout 1944, a moderate decline of perhaps 10 percent from the level of the first half of the year is scheduled for the final six months. This will release materials and manpower for non-war purposes but no complete lifting of restrictions on civilian production appears possible until the end of the war in Europe and probably even for a short time thereafter. Nor will unemployment become serious until some time after the victory in Europe.

7. When the war in Europe ends, assuming the war in the Pacific continues, there will be an immediate drop in war production of perhaps 25% within a few weeks. One year after the European victory, with the Pacific war still in progress, the rate of war production will probably have fallen to one-half its peak.

8. During the interim between the European victory and the end of the war in the Pacific, increasingly larger quantities of materials and manpower will be freed from military needs. This period offers unique opportunities to facilitate the reconversion process through carefully integrating the release of resources from war production with the lifting of restrictions on civilian production. We may be unable to avoid a total of perhaps three or four millions of unemployed and a sharp drop in total production during this period.

- 3 -

DETAILED REPORT

There are widely conflicting statements circulating today as to prospective levels of war production, deficits or surpluses of important raw materials, serious labor shortages or considerable unemployment, and the possible increase in production of consumer goods. Some of this confusion naturally arises from different assumptions as to when the war is likely to end. However, much of the misunderstanding results from a failure to observe and analyze the available data. The following appraisal of the economic outlook is based on existing facts and the informed opinion of experts.

War Production Programs. In the six months just ending, total war expenditures will equal approximately \$45 billion. At the year-end, expenditures will be at an annual rate of \$95 billion. Schedules call for a moderate rise in total war production over the next six months. The total for the coming six months is likely to fall between \$47 billion and \$50 billion, bringing the fiscal year 1944 aggregate to more than \$92 billion, but not in excess of \$95 billion.

When the Federal budget for fiscal year 1944 was projected about a year ago, it was then estimated that war expenditures would total \$100 billion. The failure to achieve this objective by some \$5 billion to \$8 billion is almost entirely due to the lagging aircraft production. The aircraft objectives have been revised downward repeatedly. Yet, the reduced goals have not been achieved month after month, with the result that aircraft production is far below the forecasts made a year ago. Raw materials and manpower could have been made available to produce many more planes. The lack of planning, central direction, and effective expediting has certainly been an important factor in this situation.

- 4 -

We might have accomplished the \$100 billion objective despite the aircraft performance, had there been no leveling off or shrinkage in some other war demands. The production of many military items has been below maximum levels, not because of ability to produce but rather because of limited demands. Greater war production would have been achieved largely at the expense of civilian production. Actually civilian output has exceeded expectations and has helped moderately to alleviate the inflationary pressure.

Prospective Changes in War Production. Whereas the total war production objective calls for a moderate increase over the next six months, there are many items and categories for which declines are scheduled. We are rapidly completing the initial equipment of the ground army and soon will require new equipment only for replacement purposes. Therefore, a substantial decline is scheduled in the production of many ground army items. However, there will still be many items in this category which will show substantial increases.

Aircraft demands will continue to rise in 1944 with the limits set by ability to produce rather than strategic requirements. Little change is expected in the total naval and merchant shipbuilding programs, although even here there will be many declines and offsetting gains in different categories. Lend-Lease equipment and materials and war construction are expected to taper off over the next six months.

The shifts in the war production program have already and will continue to result in dislocations. There will be idle plants and even some idle workers here and there. But by and large, the resources which are released because of reduced schedules will be absorbed by increases elsewhere in the war program. We have attempted to carefully gauge the net effects of these shifts so as to avoid a distorted perspective.

- 5 -

Materials. Demand for most raw materials is still in excess of supply and although the situation has tended to ease, there is no general surplus of raw materials. The supply is still increasing as new facilities are being brought into production. The demand is tending to level off. To some extent manufacturers are tending to shorten their inventory position so as to avoid being caught with large stocks when contracts are cancelled. Reductions in deficits and in the size of unfilled orders are regarded in some quarters as indicative of an imminent surplus of all raw materials. There is no justification for this conclusion. There are exceptions, as in the case of aluminum, which is in relatively plentiful supply because of the failure to meet airplane objectives.

Military requirements, screened by W.P.B., indicate that steel demands for military purposes will reach an all-time peak in the first half of 1944. Any increase in allocations for non-military purposes will be of trifling magnitude in comparison with pre-war civilian needs. There are some metals, especially aluminum and copper, in which measurable releases for civilian purposes might be expected, but even here magnitudes will be moderate in comparison to total non-war requirements. Further, it should be noted that any widespread lifting of restrictions on civilian production will create difficulties, because surpluses will tend to be specialized rather than widespread among all raw materials and components. In other words, available copper or aluminum may be of limited value because complementary materials or components are not available for initiating peace-time production.

In general, no major lifting of restrictions on civilian production can be contemplated over the next six months. There will be modifications of limitation orders here and there, but we must be careful in drawing generalizations from isolated instances. Further, it is likely that release of raw materials will first be used for essential industrial demands such as machine tools and equipment for reconversion, commercial trucks, farm equipment, maintenance and replacement needs of industry, and similar demands before there is a broad resumption of civilian goods production.

- 6 -

Manpower Prospects. The manpower situation continues to be tight, with special concentration in regions dominated by aircraft and shipbuilding. There is today no community in the United States in which an unemployment problem can be said to exist. The production of civilian goods and services is being severely held down because of the lack of manpower. On the other hand, in rare instances, war production is not being restricted by manpower shortages at this time. Because of increased efficiency and despite further inductions into the Armed Services over the next six months, we can expect some easing of the manpower situation. But in the aggregate, there is no indication of surpluses and unemployment on any substantial scale.

There will be ample employment opportunities for displaced workers in most communities or nearby areas despite the cancellation of many contracts. Some pools of unemployment will be inevitable, but these will be few and far between. There will be great pressure from communities to continue war contracts and to propose that the cancellations be initiated elsewhere. Such conditions must be studied carefully so that intelligence might be exercised in contract termination.

The Final Six Months of 1944. If the war in Europe continues throughout 1944, a moderate decline in war production is scheduled in the last half of the year. On the basis of the latest schedules of requirements and production, it appears that war production and expenditures will drop approximately 10% in the second half of 1944, as compared with the first six months of the year. Some people are inclined to think that the actual decline may be much more than is now scheduled, because of the huge inventories which the armed services are accumulating. On the other hand, if the war in Europe lasts throughout 1944, this will be an indication of serious difficulties being encountered in our pursuit of victory over the Nazis. This may reduce the inventories of munitions and thereby avoid a sharp drop in production of war goods.

On the balance, it appears that if the war in Europe continues there is a possibility of sizeable releases of manpower and materials for non-war production in the final

- 7 -

six months of 1944. However, these releases will certainly not be of a magnitude to permit the lifting of all, or even of a majority of the restrictions on the production of metallic civilian goods. There will be a stepping up of the reconversion process during this period but there will be no big spurt in the output of consumer goods, nor is there likely to develop any serious unemployment problem.

After the War in Europe. As soon as the war in Europe is won, assuming that the war in the Pacific continues, war production demands will decline almost immediately. The drop will be concentrated primarily in ground army equipment. The Army Air Force and the Navy now indicate that there will be very little change in their demands as long as the Japs are being engaged in battle. However, as the war in the Pacific progresses, it is very likely that considerable curtailments will emerge in these two categories of munitions as well as others. Within the first few weeks after the European victory we may expect a decline of as much as 25% in war production. After the first sharp drop there will be gradual tapering off and a total decline of 50% in the rate of expenditures may be expected within one year after the European victory. A demobilization of between two and three million troops can be expected between the end of the war in Europe and the final conclusion of all hostilities.

During the War in the Pacific. If the war in the Pacific lasts considerably longer than the war in Europe, the process of reconversion of American industry from a war-time to a peace-time basis will be less disruptive. The sudden end of all hostilities could bring widespread chaos and dislocation. On the other hand, a gradual tapering off offers us excellent opportunities for a sound and intelligent program of reconversion. We must have an integrated set of policies concerning termination of contracts, the lifting of restrictions on civilian production, the disposition of Government plants and inventories, and troop demobilization. The task will be a difficult one but offers fruitful results.

- 8 -

During this period it will be almost impossible to avoid a marked drop in total production and the existence of about three or four million unemployed. A drop in war expenditures from an annual rate of \$100 billion down to \$50 billion cannot be offset wholly by increased civilian production. The technological and organizational job of reconversion will take some time and total economic activity will fall in the interim. However, the preparations made in this period will greatly cushion the shock of the end of the war in the Pacific and help us avoid a completely chaotic period of final readjustment.

December 15, 1943

Dear Mr. Fretwell:

The War is now entering its most violent stages and we shall have to concentrate greater effort than ever before on the home front as well as on the battle fronts. In our 4th War Loan Drive, which is to begin on January 18 and close on February 15, we have set our quota as fourteen billion dollars, of which 5½ billion dollars is to be raised from sales to individuals. To reach this quota, we shall need the assistance of every citizen, young and old, eager to help toward Victory.

The Boy Scouts have distinguished themselves in the past in every patriotic activity and I now call upon them to exert every effort to help make the 4th War Loan Drive a success. I know that we can count on the Boy Scouts to do their utmost in this drive.

Let's all Back the Attack!

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Elbert K. Fretwell
Chief Scout Executive
Boy Scouts of America
2 Park Avenue
New York, New York

JG:NW
12/15/43

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

DEC 15 1943

You asked me to check on the attached newspaper story, from last Friday's New York Sun, reporting that the attorney for the defense in the motion picture industry extortion trial in New York City accused the Government of obstructing efforts of the defense to serve Joe Schenck with a subpoena.

The mystery has not been completely explained, but Department of Justice officials have denied any knowledge of such efforts and Mr. Schenck appeared and testified yesterday in response to a subpoena served upon him last week.

It would be my best guess that the defense attorney was attempting to prejudice the Government's case against his clients by an inference of obstructive tactics by the Government. In any event, after the Judge heard the denial of the Department of Justice people he instructed the jury that they were to disregard the interchange referred to in the news article.

Attachment

NEW YORK SUN

December 10, 1943

UNABLE TO SERVE SCHENCK SUBPOENA

A minor mystery was injected today into the trial of seven men accused of attempting to extort more than \$1,000,000 from the motion picture industry when a defense attorney advised Judge Bright and the jury in Federal court that efforts to subpoena Joseph M. Schenck, movie magnate, and records in Mr. Schenck's possession had failed because of Government intervention.

Judge Bright, puzzled, directed Boris Kostelanetz, Special Assistant United States Attorney-General, who is prosecuting the case, to produce in court any one who might know anything about the history of the subpoena and its execution.

The defense attorney, James D. C. Murray, said that a United States marshal in the Los Angeles district had been forbidden

to serve a subpoena on Mr. Schenck and in offering the subpoena in evidence submitted an attached memorandum, allegedly signed by the marshal involved, which stated that the subpoena was "returned unexecuted by order of the United States Attorney."

No further explanation was forthcoming. Mr. Kostelanetz opposed introduction of the exhibit on the ground that it would be unfair to an official of the Government unless there was proof that the signature on the memorandum was genuine.

Mr. Schenck's testimony was sought by the defense because of the allegation that he paid \$100,000 in 1937 to William Bioff and George E. Browne, union racketeers, who are serving prison sentences for the same extortion which involved the men now on trial before Judge Bright. Mr. Schenck, at the time he allegedly was shaken down by the Bioff crowd, was chairman of Twentieth Century-Fox Film Corporation. Subsequently he was sen-

tenced to the penitentiary for perjury related to income tax charges. He was paroled in September, 1942, and last May signed a seven-year contract as executive production head of the Twentieth Century-Fox studios.

25

December 15, 1943.

Dear Mr. Duck:

In accordance with the request contained in your letter of December 9, the Secretary has signed the resolution prepared by the Trustees of the Franklin D. Roosevelt Library, in connection with the acceptance of Judge Rosenman's gift. I am returning the signed resolution to you herewith.

Sincerely yours,

(Signed) H. S. KlotzH. S. Klotz,
Private Secretary.Honorable Selon J. Duck,
Archivist of the United States,
Washington, D. C.

Enclosure.

GNF/aba

TRUSTEES OF THE FRANKLIN D. ROOSEVELT LIBRARY

Whereas, The Honorable Samuel I. Rosenman has offered a gift of \$494.93 to the Trustees of the Franklin D. Roosevelt Library for acceptance by the Trustees as the beginning of a fund to be used for publications of the Library, therefore, be it

Resolved, that, pursuant to the provisions of the Joint Resolution establishing the Franklin D. Roosevelt Library, approved July 18, 1939, the Chairman of the Trustees is hereby authorized to accept the gift offered by Judge Rosenman on behalf of the Trustees in the form of a check payable to the Trustees of the Franklin D. Roosevelt Library and to deposit it in the Treasury of the United States, subject to use by the Chairman as may be necessary to accomplish the above-stated purpose of the gift.

Dec. 9, 1943

Solon J. Buck
Solon J. Buck, Archivist of the United States and Chairman

Henry Morgenthau, Jr.
Henry Morgenthau, Jr., Secretary of the Treasury and Member

Harry L. Hopkins, Member

Samuel E. Morison, Member

Basil O'Connor, Member

Frank C. Walker, Member



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

December 14, 1943

TO MRS. KLOTZ:

The attached letter from Solon J. Buck transmits a resolution of the Trustees of the Franklin D. Roosevelt Library authorizing the acceptance of a gift of \$494.93 to the Library from Judge Rosenman.

I see no reason why the Secretary should not sign the resolution. I did not realize that he was a trustee of this Library. Have you anything in your files to indicate whether Mr. Morgenthau is a trustee in his personal capacity or whether he is a trustee because he is Secretary of the Treasury.

SWB

THE NATIONAL ARCHIVES
WASHINGTON

December 9, 1943

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

My dear Mr. Secretary:

As you will note from the enclosed copies of correspondence with him, Judge Rosenman has offered a gift of \$494.93 to the Trustees of the Franklin D. Roosevelt Library, of which you are ex officio a member. In view of the difficulty of arranging for a meeting of the Board at this time to accept the gift, I have drafted a resolution of acceptance for signature by the Trustees individually. If this resolution meets with your approval, I trust that you will sign it and return it to me at your early convenience.

The President indicated shortly after the Trustees were appointed that he would like to have arrangements made for the Board to meet with him, but soon thereafter came Pearl Harbor and since then it has not seemed feasible to attempt to arrange a meeting.

Sincerely yours,

Solon J. Buck

Solon J. Buck

C O P Y

THE WHITE HOUSE
WASHINGTON

December 3, 1943

Dear Doctor Buck:

I am enclosing herewith my check for \$494.93 payable to the order of the Trustees of the Franklin D. Roosevelt Library. I am sending it to you as Chairman of the Board of Trustees.

This is a contribution which I am making to the trust fund of the Library, being my share of the royalties on the sale of the Public Papers and Addresses of Franklin D. Roosevelt by the Macmillan Company for the year 1942. The royalties for that year amounted to \$1,346.75. The income taxes, Federal and New York State, totaled \$851.82, leaving the balance enclosed. I should like, if possible, that this constitute the beginning of a fund to be used for publications of the Library.

Please acknowledge receipt.

Very sincerely,

/s/ SAMUEL I. ROSENMAN

SAMUEL I. ROSENMAN

Honorable Solon J. Buck
Archivist of the United States
The National Archives
Washington, D. C.

DEC 7 - 1943

Dear Admiral Land:

Last March the President approved a recommendation made by the Cabinet Committee on the Dollar Position of Lend-lease countries, that in the light of present circumstances appropriate action be taken to maintain Canada's gold and U.S. dollar balances at not less than about \$300 million and not more than about \$350 million. Since then, despite the cancellation of over \$100 million of U.S. contracts and contrary to the Canadian Government's expectations, Canada's gold and U.S. dollar reserve has risen markedly and is now roughly twice as high as the amount decided upon last Spring.

The improvement in Canada's U.S. dollar exchange position is such as to eliminate, at least for the time being, the necessity for transactions entered into by this Government, in pursuance of the Hyde Park Arrangement, for the purpose of increasing Canada's U.S. dollar receipts. In view of this fact, it is our opinion that henceforth no U.S. Government contract should be placed in Canada which cannot be readily justified on the basis of non-financial considerations. Furthermore, we feel that all existing and contemplated U.S. Government contracts as well as all contemplated and incompletd U.S. Government projects in Canada should now be reviewed in order to determine which of them could be cancelled by us and taken over by the Canadian Government without detriment to the war effort of the United Nations.

I should appreciate it if you would let me know what contracts the Maritime Commission and War Shipping Administration have outstanding in Canada and what projects they have under way in that country as well as which of these could be cancelled and taken over by the Canadian Government without hindrance to the war effort. In the determination of the latter, no consideration should be given to the

- 2 -

Canadian Government's ability to finance the transaction, as that matter is to be the subject of further exploration between the treasuries of the two countries.

Finally, I should appreciate it if you would take the necessary steps to see that future contracts placed in Canada by the Maritime Commission and War Shipping Administration are limited to those which are dictated by other than financial considerations.

Very truly yours,

(Signed) H. Morgenthau,

Secretary of the Treasury.

Admiral Emory S. Land,
Chairman,
Maritime Commission and War
Shipping Administration,
Commerce Building,
Washington, D.C.

HDW:TMK:rl 12/14/48

CONFIDENTIAL

200 ✓

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION G-2
WASHINGTON

December 15, 1943

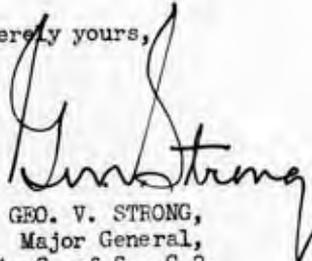
The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

The situation in Argentina with respect to the blocking of the two banks remains generally unchanged. It is reported that Senor Pinedo, formerly the Minister of Finance, recently referred to the matter as typical of our "pin pricking policy."

Very sincerely yours,


GEO. V. STRONG,
Major General,
A. C. of S., G-2.



CONFIDENTIAL

REPUBLICA DE CUBA
Ministerio de Hacienda
Jefatura de Despacho

La Habana, December 15, 1943.

Excellency:

I beg to acknowledge receipt, with thanks, of your favor of the 22nd. of November, accompanying three copies of one Memorandum and three of the preliminary draft for a United Nations Bank for Reconstruction and Development, issued by the United States Treasury Department in November 19, 1943.

I take notice of your statement to the effect that the draft has been made up in an abbreviated form, to bring forth the more significant points of the official views of your government.

The draft will be submitted to the technical staff of this Ministry for its consideration and study and, as soon as possible, it will be my pleasure to submit to you directly or through the offices of our expert at the Cuban Embassy in Washington, D.C., our suggestions and views in reference to this tentative proposal.

I observe that it is your intention to further send us material to amplify many of the provisions of this draft proposal, and such additional material will receive, I assure you, Mr. Secretary, our most careful consideration.

Thanking you for the opportunity offered to us for consideration and discussion of this important project; and with assurances of the highest esteem, I remain,

Yours very sincerely,

/s/ Ing. Eduardo I. Montoulieu

Ing. Eduardo I. Montoulieu
Minister of the Treasury

His Excellency

Mr. H. Morgenthau, Jr.,
Secretary of the Treasury of the
United States of America,
Treasury Department,
Washington, D.C.

copy

(Translation)

Ministry of Finance and Commerce
Republic of Peru

Lima, December 15, 1943

Your Excellency:

I am pleased to acknowledge receipt of your esteemed communication of November 22nd, with which there was sent to this office a preliminary draft, prepared by the technical experts of your department, regarding the establishment of a Bank of the United Nations for Reconstruction and Development.

Thanking you for having sent this important project, I have the satisfaction of informing you that the indicated proposal will immediately be submitted to study by the experts of the Ministry and that their suggestions, when they become available, will be brought to your attention.

Very truly yours,

/s/ Julio L. wast

Minister of Finance and Commerce

His Excellency,
Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.,
U. S. A.

NTN:imc:1/7/44

COPY

Strictly Confidential
Letter II (New Series)

December 15, 1943.

Dear Dr. White,

I think I have already written that the Generalissimo was very pleased with the results of the Cairo Conference, the reasons for his satisfaction being firstly that his political requests were granted and secondly that the international prestige he received gave his regime a badly needed booster. His wife, who of course understands Western politics much better than he, was not so pleased, as China's military and financial demands were turned down. I don't know whether you have already been informed, but the Generalissimo asked the President for a loan of US\$1 billion and the reply was that it would be impossible to get Congressional approval for such a loan.

Talking of conferences, there is a story now current in Chungking about the Teheran Conference. Toward the end of the conference when the Big Three were feeling very expansive, Joe Stalin took a puff at his pipe and with his feet on the desk, said: "In Russia after the War we are going to take care of everybody from cradle to grave." Winston with his cigar in his mouth and equally relaxed replied: "That's nothing - in England we are going to look after people from womb to tomb." Not to be outdone, Franklin D. Roosevelt chimed in: "In America the Government will care for everybody from erection to Resurrection."

The weakness of the Central Government is more profound than is generally realized at home.

- (a) There has been no improvement in the relations between the Kuomintang and the opposition. Perhaps the best way to sum up the position is that both sides are preserving armed neutrality and keeping their

- 2 -

powder dry. Neither has made any concessions to the other, the Kuomintang is continuing its military and political preparations for civil war, and while the immediate tension slackened after the 11th plenary session of the Central Committee of the Kuomintang in September, they are still as far apart as ever. It appears that the Kuomintang mobilized for civil war this summer and that the Generalissimo was only dissuaded from going ahead by fear of international public opinion and by the unanimity of his generals in asserting that it would require a major campaign, as the Chinese Communists were much stronger than Chungking had believed and, though not wanting a civil war, were no longer afraid of its military and political outcome, while the Central Government troops were much weaker. There are a lot of reports here to the effect that the Communists have become very powerful throughout North China and even in Central China behind the Japanese lines, which makes the Central Government all the more nervous as to possible developments after the enemy is expelled but at the same time deters it from hasty action. Nevertheless, the danger of civil war remains grave, nor can any significant improvement be expected at the moment. By the way, no one here takes seriously the movement for a Constitutional Convention one year after the War; the news was timed to coincide with the announcement of the departure of the Chinese Goodwill Mission for England in order to serve as a democratic gesture and selling point, but actually the same people who were "elected" in 1935 to serve on the Constitutional Convention then are to function again, and the Convention will not even have the power to submit amendments to the Draft Constitution which will be put before it for consideration.

- 3 -

- (b) The main danger confronting the Central Government is not economic collapse but political disintegration. You may remember that I stressed this point over a year ago. The danger is becoming increasingly more serious. Right now the Szechuan militarists are extremely restive, and it is reported that the recent Hunan campaign was undertaken partly to stave off a Szechuan revolt which might have obtained some popular support as a result of dissatisfaction with the land tax and conscription and that the Generalissimo and Madame Chiang have even become jittery about their own personal safety.
- (c) Contributing to and reflecting the process of political disintegration, the internal conflicts and dissensions within the Kuomintang have become sharper. Thus the rivalries between Chiang's two leading generals, Ho Ying-chin and Chen Cheng (the latter who is considered by informed foreigners to be China's best field commander has recently developed a diplomatic illness), between Kung and Soong, and between the C. C. group and other equally Fascist factions within the Kuomintang, have all become more acute.
- (d) The Government has lost any interest it ever had in doing anything effective to fight the Japanese, whose defeat it is only too glad to leave in our lap; it recognizes that the defeat of the Japs is inevitable and therefore there is no danger of capitulation, but at the same time it won't do anything to hasten that defeat. Consequently most American Government officials I come in contact with are becoming increasingly critical not only of the Central Government but also of our Chinese policy, which has served to strengthen the Central Government without obtaining anything in return. It is true that one of the

- 4 -

Central Government's few selling points is United States friendship and its ability to extract handouts from us at critical junctures, and it is all too true that we have very little to show for either our friendship or our handouts (witness our difficulty in getting a reasonable arrangement in connection with our expenditures in China). It is felt that it is necessary for us to get tough with Chiang if we are to get any results and that there is no point in eulogizing him to the skies and in being gratuitously generous to him. Foreign praise of him does more harm than good, while the more we give him the more he expects and the less he is willing to contribute to the war effort or to mend his ways. Americans in Chungking heaved a unanimous sigh of relief when they heard that the President had made no financial commitment to Chiang at Cairo.

- (e) There appears to be no sign or reasonable prospect of any real change for the better in the Central Government's internal policy. Its intention remains to hold on to power without making any attempt at improving administrative efficiency, widening the base of its support, or introducing any reforms.

Summing up, what should be emphasized is that the Central Government is unstable, that its instability is increasing, that it is making no serious attempt to rectify its inherent instability - if anything the contrary, that Chiang no longer fulfils the function of being the main unifying factor in China, and that American policy vis-a-vis China which appears to be postulated on the assumption that the Government is stable and strong should be based on the facts.

- 5 -

I have been picking up some dope on Lend-Lease. My information with respect to India is that unnecessary wastages are occurring as a result of the inefficiency and incompetence of the responsible civilian agencies of the Indian Government in placing orders and utilizing material received. Thus, the Tata Steel Company gave the responsible agencies specifications for a much needed blast furnace and roller, but the latter decided to go Tata one better and ordered a much bigger furnace and roller which Tata can't use. The furnace and roller have arrived in India but for all practical purposes are so much scrap. Yet another example is provided by our Lend-Lease man in Calcutta who was approached by the Indian railroads for certain badly needed railway supplies. Our man informed the Indian railroad representatives that the Indian Government had received on Lend-Lease a sufficient amount of the goods in question to last for ten years. Though the railroad representatives were incredulous, it transpired that our man was stating the facts and that the Indian Government had simply failed to inform the railroads of the receipt and availability of the supplies they were looking for.

As for China, the Lend-Lease men here are in the process of investigating the uses to which Lend-Lease supplies have been put in China, and I hope to have something to report in the near future. Their main find so far concerns Lend-Lease and Universal Trading Corporation material and equipment destined for China but now in India. Apparently most of it is now in Assam, which has a notorious climate in which goods rot very easily. Nevertheless the material is inadequately stored and inventoried. Much of the material -

- 6 -

some of which has been lying there for over a year - will have to be scrapped, and most of the rest will have to be salvaged and repacked. The following example of inefficient inventorying was cited to me; the Colonel in charge of the construction of the Ledo road did not know that some equipment he desperately needed was stored only 20 miles away. The main trouble seems to be insufficient personnel, and the blame cannot be laid at the door of the Chinese. Where the Chinese are unrealistic is in persisting in having stuff shipped out from America when there is more in Assam than can be moved into China, given present transportation facilities.

It is clear that the British are stalling about giving the necessary 30 days' notice for the termination of the 1941 Agreement. The reason is that they wish to have the status of the Chinese Government's debt to them under the 1939 Sino-British agreement clarified before agreeing to winding everything up. The result is that as the Board decided that the Sino-American and Sino-British agreements of 1941 should be terminated as of the same date I have to wait until the British take action before being able to hand in my resignation as of a given date. You will be interested to learn that Ambassador Gauss wants me to be Financial Attache; while such an arrangement would have many advantages and would in no way interfere with my taking trips to India for example, it is for you to decide whether it is desirable from the Treasury's point of view.

I had lunch with T. V. Soong last week and he asked to be remembered to Mrs. White and yourself; he mentioned that he found a book your wife sent to his children so engrossing that he insisted on reading it first himself.

- 7 -

He is still in the doghouse and living in comparative isolation, though he is expected to leave for America soon.

With best wishes for a Merry Xmas and Happy New Year to your wife and family and yourself,

Yours sincerely,

(signed) Sol Adler

NOT TO BE RE-TRANSMITTEDU.S. SECRETCOPY No. 12BRITISH MOST SECRETOPTEL No. 409

Information received up to 10 A.M. 15th December, 1943.

1. NAVAL

On 13th/14th Motor Torpedo Boats damaged a Caique and a Barge at RHODES and left a tug in a sinking condition.

2. AIR OPERATION

Western Front 14th. 64 Typhoon bombers and Hurricanes attacked military objectives in the PAS de CALAIS.

Yugoslavia 13th. 43 Mitchells bombed objectives at SPLIT and SIBENIK.

OFFICE
SECRETARY OF TREASURY
1943 DEC 16 PM 3 00
TREASURY DEPARTMENT

December 16, 1943
9:15 a.m.

DISPOSITION OF SURPLUS COMMODITIES, PROCUREMENT

Present: Mr. Sullivan
Mr. O'Connell
Mr. McConnell
Mr. Mack
Mr. Mapes
Mrs. Klotz

H.M.JR: What I wanted to tell you is, I was disturbed by this memorandum, as I think O'Connell and Sullivan were, see? I don't know whether they had a chance to tell you or not.

MR. McCONNELL: Briefly.

H.M.JR: The way I feel--and I thought we could have a very frank discussion of this--I am not looking for new worlds to conquer. At one stage or another I have given a great deal of time to Procurement; I haven't recently because it wasn't necessary, but at the time when we were handling so much of the Russian supplies I gave it a great deal of time. One of the things I am proudest of is, he was able to give me a memorandum in which he said that Russia should come ahead of everything in both production and procurement, and that turned the corner on our supplying the Russians. I mean, the President.

We used to send supplies over and practically load the boats. We turned this thing upside down getting things for the Russians.

Now, this is a new phase again, and I am going to interest myself personally in this until we get it started, just the way I did on this stuff for the Russians. The thing I am not interested in--I am not particularly interested in the raw materials that Jesse Jones bought, see, but I

- 2 -

think that granted everything in the Treasury is a headache and it is just a question of degree, but just because a thing is tough I don't think we should sidetrack it. Now, we are the Government agency that has been set up to handle surplus property. We have been doing it; and as far as I know, we have been doing it to everybody's satisfaction, with the possible exception of the Bureau of the Budget, who is ambitious and might like to do it, itself.

I don't think it belongs to the Budget. I think they have taken on far in excess of what they can do. If they hadn't, there wouldn't be so many other agencies set up to do the very thing which it should do, I mean, all this supervision of the field of expenditures of war plants, all the thousand and one things; and they never forgave me for the memorandum I wrote to Senator Byrd a year ago where I pointed out that a billion dollars could be saved, and it was saved, but they never forgave me for that. The Byrd committee carried out practically ninety-five percent of my recommendations.

But the very thing that these people told me, for instance, when they get these automobiles they have to know and do know that they have to clear it first with the transportation group. Then they can go to OPA to get a ceiling. They go to Mr. Nelson's organization to find out something else. All those things are Government techniques which anybody setting out would have to start out from the beginning.

Now, maybe they haven't got the organization at present. Maybe they need strengthening. I don't know. I am going to find out.

MR. SULLIVAN: There is no doubt about that, Mr. Secretary, everybody agrees. And as soon as we find out what our field is to be, then we will go and get the people we need for those particular things.

H.M. JR: I take it that when the Army gives you eleven thousand trucks they give you somebody to take care of the overhead and dispose of it.

- 3 -

MR. MACK: We have to take care of it ourselves.

H.M.JR: You could get some overhead from them, I suppose.

MR. SULLIVAN: Our appropriation would depend on the amount of work we have to do.

MR. O'CONNELL: They have a sizable appropriation.

H.M.JR: You could. We have done that in other things. I know when other agencies have asked us to handle things we have asked them for fifty or a hundred thousand dollars.

MR. MACK: It is transfer of funds for services transferred.

H.M.JR: I remember Agriculture or somebody--when we always would ask for a certain amount of money for handling--

MR. MACK: On transfer of War Housing functions, or handling Red Cross purchases.

H.M.JR: Now, just how far we go, I don't know, but I mean, whether for instance we want to handle all of the machinery and the plants, and so forth, and so on, surplus machinery that the Government owns, I would like to ask these people now who want to talk how far you think you can go in handling this thing? I don't think you want to handle plants or raw materials.

MR. SULLIVAN: That is right.

MR. MACK: Would you like my ideas on this?

H.M.JR: That is the purpose of this meeting.

MR. MACK: Well, I think there are two very broad divisions. The first has to do with so-called industrial plants or heavy industries. Now, of course, those are primarily the Jesse Jones plants. The heavy industries are those activities that his plants have been carrying on; the equipment, of course, has to do with that. That is

- 4 -

high octane gas, rubber development, synthetics, steel to some extent, and so forth. Now, I think that all that activity is pretty much in one category, and it has been carried on through RFC.

Now, there is another very substantial portion that has to do with military goods, strictly military items, items that have very little, if any, commercial value. Now, those things, I think, might be segregated, but the other broad category that I have in mind--

H.M.JR: You might talk about rubber plants and steel. Do you mean the plants themselves?

MR. MACK: Yes.

H.M.JR: Tell me about them; you just mentioned them and didn't finish your thought.

MR. MACK: I think that the rubber plants and alcohol plants, all of those activities carried on by RFC should be disposed of by them.

H.M.JR: The sixteen or eighteen hundred plants, whatever it is, that they have financed?

MR. MACK: That is right.

H.M.JR: Let them dispose of them?

MR. MACK: I would say so.

MR. O'CONNELL: Certainly I would say we shouldn't dispose of them. We don't have to decide who should.

H.M.JR: I agree that we shouldn't dispose of them. It isn't up to me to say that the RFC personally--I don't think the RFC should.

MR. SULLIVAN: I have my fingers crossed on them, too, and yet nobody else knows as much about them.

- 5 -

H.M.JR: But let's agree that we don't want them.

MR. MACK: We should not. Then the other broad category should be the consumer goods, consumable items, which are just thousands of items.

MR. McCONNELL: Just before you leave the RFC--they have all the metals, the strategic materials.

H.M.JR: I said we didn't want those.

MR. McCONNELL: Well, the job of surplus is going to be about sixty percent--I have heard estimates--I don't know where it is--sixty percent scrap metal. Now, I am not sure if you are selling scrap lead, scrap zinc, or scrap aluminum, but there should be a very close cooperation between the scrap metal which will be in enormous tonnages; I mean sixty percent by cost value, not by sales value, because it would be worth perhaps ten cents on the dollar or less of cost, but the dismantling of the tanks and guns and segregating those materials into various alloys. Your alloy materials very often will come out of your scraps, so it isn't quite foreign. I am quite sure it is not foreign to the business you are contemplating if you are contemplating the entire surplus material business.

H.M.JR: I am a little bit disappointed in the time you have been here that you haven't made more of a study of Procurement; and I gather from talking with them that you haven't spent much time with them. I don't know if you have any conception of the tonnage of steel and copper and stuff that we have bought for Lend-Lease. I mean, it is perfectly stupendous.

And to everybody's satisfaction, with the exception that I have insisted on breaking up this English buying trust in this country on steel, and I wouldn't do business with them and insisted on doing business directly with the English Government and wouldn't go through the middle man--that is about the only complaint, wasn't it?

MR. MACK: That is right.

- 6 -

MR. McCONNELL: Disposal was a very small part of that total, a hundred million, or three, or five.

H.M.JR: Which is?

MR. McCONNELL: Rather than procurement, this is disposal, the sale, and it is quite different.

H.M.JR: No, we were doing at one time almost a hundred million a month, weren't we?

MR. MACK: Yes, in buying we went up to a hundred fifty or two hundred million.

MR. McCONNELL: I understood your total of disposal or the sale was quite another job, was something around a hundred million for the year.

MR. MACK: That is right.

H.M.JR: But we were buying a very large amount of steel and copper and all the rest of those things. We bought all of the non-military things, non-ferrous metals from Lend-Lease, and we still are, aren't we?

MR. MACK: That is right.

MR. McCONNELL: But my point is, that isn't the experience that is necessary in the sale of scrap metal, sir.

H.M.JR: I agree with you, but I have to take the time now, which I sort of hoped you would, to familiarize yourself with just what they are doing, and after all, so that you could pass it on to Baruch and Hancock, what we are doing, so they could evaluate what we are doing. Sullivan tells me the impression he has is that Hancock sort of is inclined to let Procurement do its share.

MR. SULLIVAN: He was two weeks ago, anyway.

MR. McCONNELL: This memorandum is the result of a conversation that started on contract termination. Hancock

- 7 -

asked me to come in; it was purely informal. And as Hancock went along he began to talk about surplus. Then he began to conceive this idea of using the freedom, as he called it, of RFC, of the organization and the paper foundation of the Procurement Division, and I thought best to report it to you as his line of thought at the moment. How much he has talked that over and how far it has gone, I don't know.

H.M.JR: Of course, boiling that down, that would mean Procurement would be taken over by RFC.

MR. McCONNELL: Probably.

H.M.JR: I am going to fight that, because everybody wants to take over Procurement. I mean, we have the know-how. I don't want to see Procurement go to RFC.

MR. SULLIVAN: Of course, one of the reasons he cites is the fact that the RFC isn't accountable to the General Accounting Office. I am sure that Congress will insist in the disposal of this surplus that every safeguard that now exists will be maintained, and perhaps others instituted.

H.M.JR: That is the best argument that they shouldn't have it, the fact that they--

MR. O'CONNELL: They wouldn't have to come to GAO in regard to disposal of surpluses because the GAO's primary responsibility is with respect to Government funds and they don't have much to do with disposition of surplus.

H.M.JR: I wouldn't invite all kinds of supervision. And to give it to an agency because they have the least supervision is the very argument why I wouldn't.

MR. O'CONNELL: Supervision is all right, Mr. Secretary, but I wouldn't want a lot if the supervision was the supervision of the GAO. That is the very thing we are fighting against in contract termination.

- 8 -

H.M.JR: But talking in general terms, the fact that an accounting organization wants to go over our accounts-- I would invite it.

MR. McCONNELL: Hancock has this idea, which is wrong in fact, I think, that the Procurement Division is subject to Civil Service limitations and regulations, and that the RFC is not. Well, I have checked them, and I am quite sure that RFC has agreed to limit itself to Civil Service regulations, but there are devices apparently through the corporate setup in RFC where they are able to circumvent to some extent some of the most stringent of those Civil Service regulations and come out and get a fifty thousand dollar or twenty thousand dollar man, or whatever is necessary to handle a job as big as this. That is Hancock's line of thought.

MR. SULLIVAN: Bob, I think he misses the boat there. If we are to have any considerable part of the disposal of this surplus, it will be necessary to bring in the top men in that particular type of merchandise for two months, for four months, or for six months to set up the plan. Those aren't the fellows who will put the plan into operation. Those are fellows who are going to advise us on the particular technique we should use for the disposal of that specific commodity.

H.M.JR: Let's go along a minute. The Government crossed that bridge when we went in the war. Nelson dropped his eighty or ninety thousand dollars and took ten; the Army has a hundred or two hundred thousand dollar people working for six and seven, and we have our production. I don't know what Charlie Wilson gave up with General Electric, a hundred or a hundred and fifty; most likely he is getting ten, so that argument--I mean, the Government is getting along and getting along damned well with the people they have.

MR. McCONNELL: That argument doesn't hold in wartime, sir, but as soon as there is an armistice those fellows are going to retract.

H.M.JR: Granted, but Congress isn't going to stand for one minute paying anybody that. I don't know where RFC pays anybody over ten thousand dollars.

- 9 -

MR. O'CONNELL: Their salaries do run a little higher than that, not much. But what Hancock is thinking about is a matter of power. If they wished to do so, RFC with its power to create organizations could create a surplus property corporation and make a management contract of some sort with it, and that corporation could pay its operating executives the same amount that any private corporation could. They might be criticized, but they have the power.

H.M.JR: As head of the Treasury, there are certain things I would like. Maybe Mr. Baruch and Mr. Byrnes wouldn't want to give them to me, but at least I am going to ask for them.

MR. McCONNELL: That is the direction I want to have.

H.M.JR: At least I would like to fight for them. Now, if Byrnes and Baruch and Hancock decide they don't, all right, but at least I want the people who represent me to fight for me. And quite frankly, I know you are sincere enough so that if you can't fight for it you will say, "Now look, Morgenthau, let somebody else represent you on that part." If you can't put up a good fight for us on this thing, then say so and drop out of that picture and let Sullivan do it, you see. If you are half-hearted about it, please tell me so, see?

MR. McCONNELL: I think they are going to put up an argument, Mr. Secretary, on this thing, just as I stated in this memorandum, and that argument is along the lines that Hancock talked about with me the other day.

H.M.JR: If they can't sell you on this thing, then tell us. If these four men can't sell you on the fact that they could do it better than anybody else in the Government, see--if they can't sell you on that, then I say, don't handle that part and let Sullivan take the front. That is fair enough, isn't it?

MR. McCONNELL: Quite.

H.M.JR: If you don't believe in this group, well then--

- 10 -

MR. McCONNELL: If I am lukewarm on it, I won't hesitate to tell you, sir.

H.M.JR: That is all. I want to make the most of this time. Start over again, will you?

MR. MACK: I was speaking about the first broad category of defense plants, so-called, being operated by RFC, and that is going to represent a pretty good share of the disposal problem in terms of dollars, yet I don't think that is anything we should have any part of.

H.M.JR: Do you agree with that, John?

MR. SULLIVAN: Yes.

MR. O'CONNELL: There is no question about that.

MR. MAPES: Definitely.

MR. MACK: There is a broad category I would like to speak of for a minute.

H.M.JR: Talk about what you think you can do.

MR. MACK: That is it, and that concerns the so-called consumer goods, thousands of consumable items, clothing and all kinds of items that wear out.

MR. SULLIVAN: Hardware, and drygoods--

H.M.JR: Horses, and mules.

MR. MAPES: Livestock of any sort.

MR. MACK: It covers a pretty broad field, also usable industrial and construction items. Now, those are the kinds of things that we buy. As an illustration, on clothing, when we have a big clothing program we send people to New York; we get together the buyers of J. C. Penney, Montgomery Ward, Macy's, William Filene's Sons Company, merchandise men who are tops in their field, and we work with them, and we outline

- 11 -

the program and talk about it for a few days, and then we go ahead on the basis of their recommendations and reach our own decisions, based on views that they give us. They have been very cooperative.

Now, those are the same types of fellows, those merchandising men in the biggest merchandising establishments there are throughout the country, that we have to work with on a disposal program. We know the source of supply; we know the merchandise; our men who have to go out and inventory and appraise that type of material and supplies have a basis for determining what it is worth. Therefore, they have some intelligent basis for knowing what they should get for it. Following the last war, goods were disposed of by auction. We have been spending a lot of time on methods of disposal. We figure we should use all three methods, that is, the so-called competitive method where we get quotations from a number of people, or negotiations under certain circumstances and disposition of control material, and items that War Production Board or the Petroleum Administrator or others have suggestions as to disposal that would be to the best interest of the war effort.

That has to do with the present situation. Those sales are negotiated. And then, of course, with livestock we think in terms of auctions. But that is something we are just now getting into. There are a thousand and one things that have to be done, for example, the classification of commodities so that you know what there is throughout the country on an over-all basis of a given type of commodity so that you can determine whether that is so substantial it will affect that given industry. For example, I guess we had a couple of hundred thousand sewing machines. If it had run up to a million sewing machines, we would know to what extent that would affect that industry and whether it is something that we should talk to an association about or talk with the industry about.

So I think that the consumers' goods, the industrial items, and the construction items, which are the kinds of things that we know our men are familiar with--they know

- 12 -

the values, they know things in terms of commercial channels of distribution, they know the picture as to each type of commodity--I think that is where we can do the best job. And I think that our fellows have been able to gain a lot from the training that they have had in developing procedures and methods and classifications and trade associations to deal with individual and various industries to keep in touch with them. It takes months and months to develop all of that to a point where it is useful information. And it seems to me that that is the field where we can do the most good.

MR. McCONNELL: Let me ask, if I may--on the other side, do you want the junk business, the scrap metal business?

MR. SULLIVAN: Somebody has got to do it.

MR. O'CONNELL: He hasn't covered that field.

MR. MACK: No, I haven't.

H.M.JR: This is taking more time. You fellows ought to get together outside of my office. It isn't going to be settled this morning?

MR. McCONNELL: They will take up organization this morning.

H.M.JR: Are you going over on this?

MR. SULLIVAN: Yes, sir.

H.M.JR: It is not necessary for you to go?

MR. O'CONNELL: No.

MR. SULLIVAN: I think Cliff should come with Bob and me.

MR. McCONNELL: Yes. On that point I have talked to Mr. Sullivan and Mack and others, and my understanding is generally that it is very questionable that you want to do the junk business, which is two-thirds.

- 13 -

MR. SULLIVAN: That is right. But it is evident from the talks they have had in this meeting that they will try to throw the junk business at us. I don't think that just because it is a tough job, Bob, we should duck it.

MR. McCONNELL: I am not sure of that, because Hancock has talked of dividing the business along the lines Mr. Mack has talked about, that the junk business is somewhat separate from all the usable items. He talked about that about two meetings ago.

MR. O'CONNELL: Well, it seems to me there isn't any substantial difference of view among the people here, except on possibly one point. It is clear we don't want to do the facilities job.

If they are confident we can do the other end of the job, and that is the so-called consumers' usable goods plus construction items, that leaves in the middle a great big area of the military items such as tanks, guns, and other things which will be scrap after the war. I say it would be a good thing if we can do it, if we can get only the cream of this job to do and at least see if we can't work on the idea of letting somebody else do the junk business. I don't see any reasonable way of arriving at that conclusion.

MR. SULLIVAN: I don't think we can take the position we don't want to handle the dirty end.

H.M.JR: Which is that?

MR. O'CONNELL: Junk.

MR. MACK: All the goods that are in process; for example, when they cancel a contract, they will have goods in process. International Harvester has three thousand sub-contractors; and if there are military items in production, there will be a salvage job.

H.M.JR: I don't see how you can say, "I want the cream and don't want the bad."

- 14 -

MR. McCONNELL: Except that you are arguing for the business that you are in.

H.M.JR: I mean, I won't put up a fight to get the junk business, but on the other hand, I wouldn't want to be in the position that they give us the junk business and nothing else. I don't want the junk business and not the other.

MR. McCONNELL: Well now, that is one point. The contracting officers who cancel these contracts, the Army who has the Ordnance and Ammunition, and the Navy in the same category--I am not sure but that they would, speaking of it broadly, do a better job of disposal, of breaking up, and so forth, or the nucleus of that--I don't know whether you agree--than can be done in your present Procurement Division starting from no place.

H.M.JR: The interesting thing is, if this thing was left to us, the way the flow is now from Army and Navy, it comes to Procurement. That is the way it is going right now. When they have eleven thousand trucks, Army Ordnance doesn't sell them; they ask us. They have a lot of automobiles, and they ask us.

MR. McCONNELL: That is what we agree on. Those are usable items.

H.M.JR: Extra sheepskin stuff--they ask us to sell that. It seems as if both the Army and Navy if left alone look to us to do it.

MR. O'CONNELL: Mr. Secretary, the meeting this morning is to discuss the disposition of surplus property acquired in connection with termination of contracts. That will be inventoried, worked in process; it won't be the sort of stuff we have been getting from the War Department, which was stuff they bought and paid for and owned.

H.M.JR: You fellows go on over there. These meetings go on and on and on. You go over there, and after you go over, sometime this afternoon would you report back to me and let me know what has happened? If you are not doing anything, do you mind staying behind?

- 15 -

MR. MAPES: All right.

H.M.JR: But you fellows get started and then come back.

John, you let me know if you have something to report, will you?

MR. SULLIVAN: Yes.

MR. O'CONNELL: I am going to Jesse Jones' office. He is having a meeting at ten-thirty. Judge Byrnes talked to LaFollette. LaFollette and Walsh are going to file a minority report with such others as will join them, and we are going a little further in working out the strategy.

H.M.JR: What is the matter, if Jim Forrestal is right-- simply said that these fellows would settle if we say all business transacted during the calendar year '44--

MR. O'CONNELL: I think he is wrong. I think you make the suggestion and they will tack that on to everything else they have given us. You see, this isn't a new idea, Mr. Secretary. It was tried out by the Ways and Means Committee. Nobody has paid much attention to it yet.

H.M.JR: I will say this much for Jim: He is getting the publicity. Yes, he got that editorial in the Post the night before Lawrence--did you see Krock this morning? Krock went to town. So Jimmy was certainly working.

MR. O'CONNELL: He is doing a fine job, but he and Bob Patterson debated that single point a number of times. If it were a little earlier in the game, I think it would be better, but I am afraid we won't gain much.

(Mr. Sullivan, Mr. O'Connell, Mr. McConnell, and Mr. Mack leave the conference.)

H.M.JR: Mapes, on this business of used automobile trucks, see, which ones are used?

MR. MAPES: Trucks.

- 16 -

H.M.JR: I want to make this suggestion, that we invite in the heads, I think, of three big financing companies; General Motors has one; and there is the CIT. That is Baltimore, isn't it?

MR. MAPES: Yes.

H.M.JR: And the one in New York, Commercial Investment Trust, General Motors Acceptance, and then there is one in Baltimore. I don't know what it is called. It is practically the same as Commercial. I mean, you could ask. The big one in Baltimore, Commercial Investment Trust--the one in Baltimore and that one. Those people know this business because they have to take them back.

I would invite them down here for Saturday. And then if you would bring them over here after you have told them what the problem is--at eleven o'clock Saturday I would like to see them myself, see? You might put up to them automobiles.

MR. MAPES: Because there will be in the future a lot of used automobiles, too.

H.M.JR: Tell them what it is. You may get the President of the company, whatever his name is; they might not know a thing about it. Tell them what we want is the man who would advise with us on how to dispose--

MR. MAPES: The practical side of it?

H.M.JR: Yes. If the head of the company wants to come, all right. They can meet with me at eleven. They can meet with you for a couple of hours first.

Before the thing is settled, however, you dispose of these big items; I want to pass on it finally myself. A large number of automobiles, a large number of trucks, the horses, anything which you are getting for the first time--before the thing is settled, I want you and Cliff to tell me, "Now, this is what we recommend," and I will pass on it. But I think my suggestion to these finance companies is a good one.

- 17 -

MR. MAPES: Very good.

H.M.JR: Now, you can't hire those fellows, but they will stay here for a week, if necessary. And it is perfectly legitimate to let them make some money on it. They have nothing to do; they have the organization, and their business is to repossess automobiles and then sell them. They know that business, and they could form a pool with a perfectly legitimate profit. They might take that business and say, "All right, we will take these eleven thousand trucks, and under your supervision we will dispose of them."

Remember, you were saying yesterday--I think my guess is that that special thing--it is a better thing to use the big finance companies on a used article. Now, there may be some small ones out West, but those are the three big ones.

MR. MAPES: Right.

H.M.JR: Maybe there are some small ones we ought to invite in. We don't want to just do business with the big boys.

While this argument won't be settled right away--but the better job we do each day--we will say, "Look what we did with the automobiles."

MR. MAPES: That is exactly what we had in mind. This business is coming now, and it is coming in increasing volume, giving us a wonderful background and basis for future expansion.

H.M.JR: As I say, this is the way to handle horses, used cars, and trucks, but I want to take enough interest in the thing myself until I get it started.

December 16, 1943
10:14 a.m.

HMJr: Hello.
Operator: Mr. Forrestal has just gone out to the dentist,
and he'll be back in about half an hour.
HMJr: Well, leave word that I called.
Operator: All right.

2:55 p.m.

Operator: Go ahead.
HMJr: Hello.
James
Forrestal: Henry.
HMJr: Yes, Jim.
F: Would you be willing, if you have time, to
have one of your people say a word to Robertson
of PM?
HMJr: Sure. Do you think we can do that?
F: Well, I'm just putting this up, so I - I
HMJr: Sure.
F: I
HMJr: That's easy. Can
F: And Drew Pearson
HMJr: Wait - wait a minute. My, what a list you're
giving me.
F: Huh?
HMJr: I see you hit the Jack-pot with Arthur Krock.
F: Well, it was a pretty - pretty good piece, I
think.

- 2 -

HMJr: I thought it was excellent. Just a minute.
Nathan Robertson. All right.

F: And Pearson.

HMJr: Wait a minute. Robertson - Pearson - yeah.

F: And a fellow named Bledsoe on The Times. He
writes Sunday articles.

HMJr: Yeah. Bledsoe.

F: And, then if you have time, there's a fellow
named Stone on the Scripps-Howard papers.
That's all.

HMJr: That - from us - we're - we're poor people
to tackle him.

F: All right. Well, we'll get somebody else.

HMJr: We're poor people on that, but I

F: All right.

HMJr: give me another one. I'll take another one.

F: Well, that's - how about - Ray Clapper's a very
good fellow.

HMJr: Ah - we're all right with Ray Clapper.

F: Yeah. All right. Well, I don't want to burden
you with too much, Henry. If you can do that

HMJr: No - no - no. I - we - we're equipped to do it.

F: All right.

HMJr: I don't know whether we can do it half as well
as you did.

F: Well, that's very kind of you.

HMJr: Who's taking Ernest Lindley?

F: Well, I - Bob Patterson - I've got him down for
him, but I think if you could say a word to him,
it - he's such a decent fellow that

- 3 -

HMJr: Well, I'll put - I tell you who's going - I'll put Herbert Gaston - he's very good at this.

F: All right.

HMJr: I'll put him right on it.

F: Okay.

HMJr: Thank you.

F: Thank you, Henry.

- 3 -

HMJr: Well, I'll put - I tell you who's going - I'll
put Herbert Gaston - he's very good at this.

F: All right.

HMJr: I'll put him right on it.

F: Okay.

HMJr: Thank you.

F: Thank you, Henry.

December 16, 1943.
1:07 P. M.

H.M.Jr: Hello.

Jesse Jones: Hello, Henry. (Aside. Will you get me that letter I just wrote to Secy Morgenthau).

H.M.Jr: You're talking to him.

Jones: Yes, but I had just - I was going to run up to the Hill. I sent you a little note, but I'll read it to you.

H.M.Jr: Yes.

Jones: I don't know how much interest you want to take in it, but the O.W.I. sent over here a small speech that Dan's going to deliver tonight about that...

H.M.Jr: Yes.

Jones: Up at Massachusetts.

H.M.Jr: Yes.

Jones: And I just had this one thought. I'd - they only sent us, of course, about a page.

H.M.Jr: Yeah.

Jones: And the opening paragraph on that page reads as follows: "We in the Treasury have given careful consideration to this matter" - that's reconversion money

H.M.Jr: Yeah.

Jones: "and believe that funds for the reconversion of war industry will be ample, provided that a prompt settlement is made of cancelled war contracts. Our reasons for believing this are as follows:". Now, my thought is that he - he gives argument to the fellows who are parting on this cancelled war contracts things, and I suggested - I make this suggestion, using his language as far as I can, why "We in the Treasury have given careful consideration to this matter .." Wait - I've got it right before me - (pause)

- 2 -

Jones: cont'd. "We in the Treasury have given careful consideration to this matter, and believe that industry will have sufficient funds for reconversion from war production to normal peace-time production."

HMJr: Yeah.

Jones: I don't like to say "but" or an "if". "We believe that prompt settlements will be made on termination of contracts for war work, and should there be delay in any individual cases, ample loans or advances will be available upon favorable terms." Now, it's been discussed, you know, that probably ninety per cent would be advanced

HMJr: Yes.

Jones: or something like that

HMJr: Yeah.

Jones: and so forth and so on, and I just thought that it might be a little bit better if, in the whole cause, if that were changed.

HMJr: Well, I haven't got the speech before me, but I'll certainly look at it, and give your suggestions very careful consideration.

Jones: Well, I'll - I'll send the letter on over to you, because it's in writing, you see.

HMJr: Will you do that?

Jones: I'll send it right over.

HMJr: Thank you.

Jones: Okay.

HMJr: Thank you.

December 16, 1943
2:51 p.m.

Herbert
Gaston:

Hello.

HMJr:

Yes, Herbert.

G:

No, I would not send that letter. I would not send any letter.

HMJr:

All right. Do you want us to send it back? And we'll - we'll turn him down.

G:

Yeah.

HMJr:

What?

G:

All right. I'll send them back to you.

HMJr:

You - you send them - send them to Mrs. Klotz, and - and we'll - we'll turn him down. I think it's - I thought it was a mistake.

G:

Yes. I think it's a mistake.

HMJr:

Thank you.

G:

Right.

December 16, 1943

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

The following relates to the clearance of Dan Bell's speech to be delivered tonight before the Economic Club of Worcester, Massachusetts:

(1) The speech was completed late Tuesday afternoon. I sat in with Dan Bell, George Haas and Henry Murphy on the final revision, at which time comments by Fred Smith, Mager and others were considered.

(2) A copy was sent to O.W.I. at about 9:30 Wednesday morning, according to Mr. Shaeffer.

(3) At 12:10 today, Thursday, Mr. Shaeffer was advised by O.W.I. that clearance had been received from Army, Navy, Maritime Commission, Federal Reserve Board, Department of Commerce, Fred Vinson (through Paul Porter) and Bernard Baruch (through Sam Lubell). This included all agencies to which copies or extractions of the speech had been sent except S.E.C.

(4) Since Mr. Shaeffer had been advised that Mr. Bell would be available up to 12:30 at a given telephone number in Boston, after which he was to be out for the afternoon on an inspection trip, he asked my opinion as to whether he could not take a chance on S.E.C. and give Mr. Bell final clearance. I told him to go ahead, as I couldn't imagine that there would be any objection from S.E.C. to which we need pay attention. He did so. At 2:40 p.m. O.W.I. called Shaeffer to tell him of Jesse Jones' proposed correction. Shaeffer asked for confirmation of their earlier statement that Commerce had cleared it. He was told that it had been cleared by Bill Costello, Mr. Jones' assistant.

- 2 -

(5) I have read the transcript of your telephone conversation at 1:07 p.m. with Jesse Jones and also his letter addressed to you which arrived about 1:50 p.m. In the draft of the speech it is stated that "We in the Treasury * * believe that funds for the reconversion of war industry will be ample, provided that a prompt settlement is made of canceled war contracts." The favorable cash position of war contractors is then analyzed in three succeeding paragraphs. Mr. Jones proposed to change this by substituting an expression of our belief that prompt settlements will be made and coupling that with a promise that in any cases where there may be delay, loans will be available on favorable terms. I do not think the change should be made, nor does George Haas. I do not think the Treasury is in a position to promise either prompt settlement or low-rate loans. Besides, the injection of this loan idea disturbs the flow of the speech.

(6) I read Jones' letter to Bell over the telephone at 5:00 p.m. He said he wouldn't change the speech unless we thought otherwise. I told him I would leave it alone. I talked to Jesse Jones soon afterward and explained to him that it was impossible to catch up with the mimeographed copies of the speech, but that I had communicated his thoughts to Mr. Bell.



THE SECRETARY OF COMMERCE
WASHINGTON 25

December 16, 1943

Dear Henry:

OWI submitted to me an excerpt from a speech by Dan Bell to be delivered tonight before the Economic Club of Worcester, Massachusetts.

I, of course, can have no criticism of anything that Dan wishes to say, but it has occurred to me that the paragraph:

"We in the Treasury have given careful consideration to this matter, and believe that funds for the reconversion of war industry will be ample, provided that a prompt settlement is made of canceled war contracts. Our reasons for believing this are as follows:"

might be better if changed as follows:

"We in the Treasury have given careful consideration to this matter, and believe that industry will have sufficient funds for reconversion from war production to normal peacetime production. We believe that prompt settlements will be made on termination of contracts for war work, and, should there be delay in any individual cases, ample loans or advances will be available upon favorable terms. Our reasons for believing this are as follows:"

Sincerely yours,

James Jones
Secretary of Commerce

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

*If you concern your
can communicate with him -
I of course will not
I am -*



TREASURY DEPARTMENT

Washington

FOR RELEASE, 7:30 P.M., E.W.T.
Thursday, December 16, 1943.

Press Service
No. 39-95

(The following address by Daniel W. Bell, Under Secretary of the Treasury, before the Worcester Economic Club at the Hotel Bancroft, Worcester, Massachusetts, is scheduled for delivery at 7:30 P.M., E.W.T., Thursday, December 16, 1943, and is for release at that time.)

Financing the War and the Post-War Readjustment

I welcome the opportunity to discuss with you this evening the problems of financing the war and the post-war readjustment. It is because we feel that these two problems are so closely tied together that I have chosen to discuss some aspects of each in the same address.

War Finance

It has come to be generally recognized that the real cost of a war must be paid for while it is being fought. This real cost consists in the labor put forth and the sacrifices endured in order to produce and to use the goods of war. Guns cannot be fired until they and their shells have been made, nor can they be fired with time borrowed from tomorrow. The labor and sacrifice involved in these things must be made today and cannot be postponed.

There are, of course, some exceptions to this rule. A war may be fought, in small part, by the use of stocks of goods accumulated before it begins; and, to a much larger extent, by postponing the replacement of capital goods wearing out during its course. With these exceptions, the whole physical cost of a war must be paid for while it is being fought.

What then, it may be asked, is the role of war borrowing. The answer must be that war borrowing is a method of postponing, not the cost itself, but the final allocation of the total burden of the war to some future date, when the costs now paid for through the sale of bonds are finally assessed in the form of taxes — at which time it is inevitable that a much larger portion of them will be paid by the persons now in the armed forces than if they were assessed today.

- 2 -

When this fact is seen in its stark reality, it is clear that the money cost of the war should be met as far as possible by taxes, and so be paid for once and for all by today's civilians at the same time that the men in the services are paying their much higher price in human cost on the fighting fronts. Exceptions from this rule should be permitted only when clearly justified by special circumstances.

There are a number of these special circumstances, and it is because of them that the Treasury Department has never recommended to Congress that the whole cost of the war should be paid for out of current taxation. But it is these exceptions, and not the general rule, which need special justification; and I should like to explain to you tonight, not why the Treasury has recommended to Congress additional taxes, which if enacted would only provide sufficient revenue to cover about one-half of total Federal expenditures, but rather why it has not asked for taxes to cover the full cost.

The use of borrowing, to the extent that it is justified by special circumstances, makes for a smoother working of our war economy than would the exclusive use of taxation. What are these circumstances under which borrowing is thus the superior instrument of war finance?

In the first place, the burden of a tax -- or of any other compulsory levy, even if it is subsequently reimbursable -- must be levied according to fixed rules. These rules can take but little account of individual circumstances. It requires considerable time for many individuals to adjust their living standards and commitments to the new and lower levels which would be dictated by all-out wartime taxation.

While some individuals are revising their living standards downward, other individuals, whose incomes have been increased by the war to levels considerably above those required to meet their former standards of living, are ready and willing to lend a substantial proportion of their increased incomes to the Government in order to insure their future security.

Ultimately, if the war should last long enough, these adjustments might be continued under a steadily increasing burden of taxation until each person's standard of living and financial commitments had become adjusted to his place in the war economy. This is unlikely to occur, except in a very long war; and, in the meantime, a considerable proportion of the total war cost must be borrowed in order to avoid unnecessary disruption in the economy.

In the next place, the magnitude of our war effort is fixed by our full gross product, rather than by our net national income. This means that during wartime replacements and repairs on plant and equipment must be postponed, as far as possible, so that the manpower and materials which they would otherwise have absorbed can be thrown into the war effort. Producers, as well as consumers, are asked by their Government to "Use it up, Wear it out, Make it do, or Do without."

- 3 -

This means that during the war period, the capital assets of most business firms are wearing out more rapidly than they are being replaced, and the depreciation reserves set aside to offset this wear and tear are piling up in cash. At the same time, the accounts receivable of these firms are running down, which results also in piling up cash. These funds are all available to be lent to the Government; but they are not available to be taxed since they represent capital, rather than income, of the firms possessing them, and represent very different proportions of the total capital of different firms, depending upon the type of business. A policy of borrowing these funds, rather than taxing them away, is, therefore, clearly indicated.

In the third place, the great wartime expansion in the economy requires -- even at a constant price level -- a great increase in the available supply of currency and bank deposits; and this increase, under our existing institutions and under wartime conditions, can be supplied only by an increase in Government borrowing.

Finally, it is necessary that some financial incentive be supplied to individuals to work long hours, and to corporations to operate with the utmost efficiency. If the whole of the extra incomes resulting from the overtime pay of individuals and the efficient management of business enterprises were taxed away, there would be no economic incentive to call forth these exertions.

The borrowing which is justified entirely by the special considerations which I have just enumerated would have to take place for our wartime economy to operate smoothly, no matter how willing Congress might be to levy additional taxes or the people to bear them. This borrowing alone would amount to a great deal of money by peacetime standards; but it would certainly be much less than the nearly fifty billion dollars a year which we should have to borrow even if the Treasury tax proposals were granted in full.

An additional amount of borrowing -- over and above the minimum required on economic grounds -- can also be accomplished without danger of inflation to the extent that individuals can be induced, for patriotic reasons, to increase their savings. This the Treasury is endeavoring to do by means of the payroll savings plan and the War Loan campaigns.

The volume of total savings required is dictated by the size of the deficit and may differ materially from the sum total of savings which would occur from economic and patriotic motives. At the present time the Federal Government is purchasing about one-half of the total volume of goods and services being produced, while the remaining 50 percent is being purchased for private use. Federal taxes, however, are bringing in only about 20 percent of the gross income generated by production, leaving about 30 percent in private hands. There is, thus, a discrepancy equivalent to about 30 percent of the value of total output which makes up the Federal deficit on the one hand and the corresponding necessary private savings on the other hand.

- 4 -

To the extent that total borrowing exceeds the aggregate amount of savings consciously and intentionally undertaken, we are placing liquid assets in the hands of persons who may use them to put added pressure on price ceilings. It is to aid in immobilizing such unstable accumulations, as well as for fiscal and equitable reasons, that the Treasury considers the need for additional taxes so urgent.

I do not desire to go into the matter of particular types of wartime taxes at any length this evening, but I should like to make some general observations.

First, there can be no doubt of the ability of the people of the United States to pay taxes much higher than those now levied. Of course, it would be hard because war itself is hard. But the very fact that we are threatened with inflation is evidence of our ability to pay higher taxes, for it means that we have more dollars to spend than things to buy with them.

Second, the view is sometimes voiced that, while we have exhausted our ability to pay some kinds of taxes, such as income taxes, we have not exhausted our ability to pay other kinds of taxes, such as sales taxes. I can see no merit in this view. Ability to pay resides in persons, rather than in kinds of taxes — both income and sales taxes must be met from the same pay envelopes; and if we have the ability to pay one, we have the ability to pay the other.

The income tax can be adjusted, and is adjusted to the personal circumstances of those upon whom it is levied. Exemptions are granted commensurate with family status, so that the tax does not fall with merciless brutality upon those with small incomes and large families. No such adjustment mechanism is customary or practicable for the sales tax. The view that we have exhausted our ability to pay additional income taxes, but still have the ability to pay a sales tax, logically reduces itself to the view that the principal additional ability to pay in the economy resides in that portion of incomes falling within the exemptions from the individual income tax — that is, five hundred dollars for a single person, twelve hundred dollars for a married couple, and three hundred fifty dollars for each dependent. I cannot accept this view; and I do not believe that the advocates of the sales tax would, if they realized the full implications of their proposal.

Third, it is often proposed that we should place a special tax on increases in individual incomes; that is, tax a man with an income of, say, three thousand dollars more heavily if he has recently come up from one thousand dollars than if he had been receiving three thousand dollars for some time. This proposal seems to me to be wrong on a number of counts.

- 5 -

It is unfair. It seems to me that, consciously or unconsciously, it is based in part on the feudal concept that every man should stay in his place, and it strikes at the root of the principle that every man may rise according to his worth — a principle which has given so much life and hope to the American scene for generations past.

It is uneconomic. It would undermine the incentive of workers to transfer to war industries located in inconvenient places and to work long hours at hard jobs. Particularly, it would strike at the incentive for wives to enter war plants in order to earn incomes supplementary to those of their husbands. It would, therefore, aggravate the labor shortage.

It would be very difficult to administer. This would be true, not only for the Treasury, but also for the taxpayers, as it would require the use of forms and questionnaires far more complex than any involved in the administration of the individual income tax.

It seems to me that the basic problem of the taxation of individuals in wartime is really not very complex. Aggregate individual income is higher, and the Government must tax a portion of it away. There may be a great deal of dispute as to which income brackets should be drawn upon the most heavily, but any reasonable pattern of withdrawal can be effected by means of the individual income tax.

I think it is a good rule when any other tax is proposed, that you first express the distribution of its burden in terms of the individual income tax, and then ask yourself whether you would consider it reasonable that the burden of the individual income tax itself should be so altered. If the answer is "No," then the other tax should be placed on the defensive and its proponents made to justify it by reasons of strong public policy. Sometimes this can be done — for example, I believe that the luxury excises proposed by the Treasury this year and the spendings tax proposed last year are cases in point. The test should be rigid, however, and the considerations of public policy should be important before a tax is placed on the statute books, the burden of which is distributed in a manner other than that in which we would be willing to distribute the burden of an increase in the individual income tax.

I turn now to our policies with respect to wartime borrowing. These have been dominated by the following considerations.

First, we have tried to borrow as much as possible from investors other than commercial banks. This principle must be stated subject to some qualification. It would neither be possible nor desirable to do all of our borrowing outside of the banking system. I have already explained that one of the reasons for borrowing at all, rather than relying exclusively on taxation, is that an expanding wartime economy needs — even at a constant price level — a greatly increased amount of currency and bank deposits. These can be obtained, under existing institutions and in wartime, only by a corresponding increase in the Government security holdings of commercial and Federal reserve Banks; and a sufficient amount of securities have to be sold to the banks to provide this necessary circulating medium, even if adequate markets exist for them elsewhere.

- 6 -

The amount of Government securities which would thus have to be sold to the banks in any event is substantial; but, in practice, I must admit that this has proved little of a problem, since it has taken care of itself by the rapid expansion of the borrowing needs of the Federal Government and the slower development of nonbanking sources for Federal borrowing.

For this reason, we have directed our main effort to the sale of securities to nonbanking investors. During the past year, we have sold to such investors, net after all switches and redemptions, about forty billion dollars of Government securities, as compared with about thirty billions absorbed by the banks.

Second, we have tried to make the securities sold to the small investor as riskless as possible. The Treasury has considered itself the trustee of the inexperienced investor. It is with this in view that the Department's appeal to small investors has been confined to Series E bonds which are non-negotiable, payable on demand and hence are guaranteed against fluctuations in market values.

The Treasury is less concerned with the large volume of demand obligations which is being built up by the sale of savings bonds to small investors than it would be with the only practicable alternative to this course. This alternative would be the sale to small investors of marketable securities payable by the Treasury only after the expiration of a fixed term of years.

The fixing of a definite term on securities sold to small investors by no means insures that they will be held by these investors for the full term. By and large, the holders of marketable securities would sell them on the same occasions when holders of redeemable securities would redeem theirs. Indeed, there is one important occasion upon which marketable securities would be sold, but redeemable securities would not be redeemed -- that is, the fear of a decline in price, from which the nonnegotiable securities are immune.

Now it may appear, at first glance, that while the Treasury should be properly concerned with redemptions, it should not be concerned with market sales, since it must meet the redemptions out of its own pocket; while the market sales will be taken up by somebody else. This type of reasoning would suffice for a private borrower, but it is entirely inadequate for the Treasury since it overlooks the real problem which the holdings of government securities -- whether redeemable or marketable -- by small investors will present in the post-war period.

This problem is that the holders of these securities may dispose of them and spend the proceeds on consumers' goods at a time when the supply of such goods will be scarce; and the spending can result only in price rises. This problem would exist, however, whether the securities were payable on demand or were negotiable and payable at the close of a fixed term, and will be somewhat less troublesome for demand securities, because, as I have already pointed out, the liquidation of this type of security will never be precipitated by the fear of a fall in the price of the security itself.

- 7 -

The other problems which will be caused by holdings of Government debt by small investors in the post-war period are minor, relative to the major problem which I have just mentioned; and will be less serious with demand obligations than with negotiable obligations of fixed term.

When savings bonds are presented for redemption to the Treasury and it is necessary to refund them, the Treasury offers the type and maturity of new securities best suited to the market at the time, and offers those securities for distribution through the regular channels of the Government security market.

Marketable securities, by contrast, would be offered in small blocks, oftentimes through irregular channels where the original holders may not receive full value, and might dribble into the market in such a way as to keep it continually disturbed. They might not be fitted by coupon rate, maturity, or other characteristics for the predominant demand then existing in the market, but they would have been cast in whatever mold they were, once and for all, and the market would have to make the best of it.

To the extent that the refunding of demand obligations would have been accomplished by the sale of securities to banks, so also would the marketable securities find their ultimate lodgment in banks, but only after a roundabout journey, probably involving both loss to their original purchasers and a higher interest cost to the Treasury.

It seems clear, therefore, that the Treasury is in a much better position to refund the non-negotiable securities than the individual would be to refund negotiable securities through the market.

The third of the principles governing our borrowing policy has been the maintenance of the liquidity of the banking system. We have laid down the policy that no securities will be offered to commercial banks for the investment of their demand deposits with a maturity at time of issuance of over ten years. The great majority of the securities sold to commercial banks have had maturities far shorter than this. Indeed, more than half of the total increase in the portfolios of commercial banks since Pearl Harbor has been in the form of three-month Treasury bills and one-year certificates of indebtedness. This concentration of sales to commercial banks in short securities insures that our banking system will be in a strong and liquid position to meet the problems of the post-war period.

Finally, we have financed this war at an average rate of slightly less than $1\frac{3}{4}$ per cent. This compares with an average rate of about $4\frac{1}{4}$ per cent on the securities issued to finance the last World War.

Interest rates have remained stable during the wartime period and confidence in the continuation of this stability has been and is widespread and well justified, and has caused investors to subscribe to new issues of Government securities in successive war loans without any sign of holding back in anticipation of higher rates.

I think it can be fairly said of the United States, as the late Chancellor of the Exchequer, Sir Kingsley Wood, recently said of Great Britain, that ". . . we have revolutionized public opinion as to what are fair rates for Government war borrowing." I believe that this revolution in opinion has a sound basis in underlying economic realities, and is applicable to the coming times of peace also. I hope that the policies of the Government will be directed to this end.

Financing the Post-War Readjustment

I come now to the second major division of my topic, that is, the problems of the post-war readjustment period.

I approach this subject with some trepidation. No post-war plan will be of any value unless we win the war and are in a position to put it into effect. The war is not yet in the bag. Hitler's post-war plan is slavery, and there will not be room for both his plan and our own.

You all remember the recipe for rabbit stew which begins "First catch the rabbit." So it is with post-war planning. We must first win the war; and we must not let anything, even post-war planning, distract our minds from this for an instant.

Immediately following the close of the war, we will be confronted with the problem of reconversion. The period of reconversion will be a time fraught with exceptional hazard to our economic structures.

During normal times, most of our people are engaged in producing goods which they and their fellow workers can buy with their wages. During wartime, they are largely engaged in producing war goods which they cannot purchase with their incomes, but the excess purchasing power which is thereby created is held in check by direct controls, by personal taxation and by Government borrowing from individuals. The people are willing to accept and cooperate with these measures because of patriotism and the all-pervading spirit of sacrifice which exists during wartimes. During the reconversion period, however, while the tools of production for peace goods are being made ready, purchasing power may outrun the goods available for purchase, while wartime measures of control may be relaxed if the people do not recognize the need for continued restraint.

A price inflation is, consequently, one of the hazards of the reconversion period. Stalking hand-in-hand with it goes the hazard of unemployment. Normally, these two are never seen together, since unemployment usually rises from a lack of demand for goods and inflation from a shortage of goods. The unemployment of the reconversion period will be caused, however, not by a lack of demand for the finished products, but because the plants are not yet ready for mass reemployment, and so may go hand-in-hand with inflation.

Once the period of reconversion is over and the tremendous potentialities of the American economy which have been demonstrated during the war period are directed to the production of the goods of peace, the main hazard of inflation will be over.

- 9 -

The task of statesmanship in the period immediately following the war will be to hasten the reconversion process while mitigating its hardships and reducing its human costs. This task will, of course, be easier if a termination of the war on one front before the other should make it possible to complete part of the reconversion process under a wartime environment. But we must press for victory against Japan as well as Germany without regard for the economics of reconversion.

This evening I shall discuss only three aspects of fiscal planning for the reconversion period, and these briefly. They are, first, the cancellation of war contracts; second, the adequacy of corporate financial resources to carry on the work of reconversion; and, third, the control of individual spending during the reconversion period.

If the war should end today on all fronts, there would be outstanding more than 75 billion dollars of war contracts on which deliveries had not yet been made. Much of the material covered by these contracts would be of no use to the Government if it were delivered after the immediate emergency of this war had passed. This is because there are no goods with respect to which obsolescence runs faster than it does for the goods of war; so the best preparation for future wars consists in maintaining the skills and plant capacity necessary for the development, production, and use of new war goods rather than in hoarding vast quantities of old ones.

Part of the undelivered contracts would still exist merely in blue-prints in the hands of the contractors, while part would be represented by goods in process, some of which in turn could be converted into peacetime goods.

In my opinion, all war contracts should be canceled immediately upon the passing of the military need for the goods contracted for. This is desirable for two important reasons. First, it avoids the tremendous waste of human and material resources involved in making goods which we will never use; and, second, it gives the maximum stimulation to the men and management released from making such goods to seek employment in the production of goods for which there is a human need, and so hastens the process of reconversion.

The abrupt cancellation of war contracts will give rise to two problems. These are: First, provision for the labor thrown out of employment; and second, compensation for the contractors.

The first of these problems should be settled with liberality; the second, with the utmost of speed.

A generous treatment of the labor displaced by contract cancellation is required, not merely by considerations of common humanity and fair dealing, but also by considerations of economy; for without it, we are unlikely to secure abrupt cancellation at all, and there is no form of relief more expensive than the production of unneeded tools of war. We should be sure, however, that the treatment accorded labor displaced from war production is of such a character that it encourages, rather than slows down, its quest for peacetime employment.

- 10 -

Payments to contractors should be just in accordance with a fixed standard of equity; that is, they should be enough to make the contractors and their subcontractors whole for the losses they have sustained as the result of the contract cancellations.

It is important also, that payments to contractors should be prompt. This is not primarily for the benefit of the contractors themselves -- although I have no doubt that they will appreciate it -- but for the benefit of the country as a whole. A dollar paid out in the settlement of war contracts during the early reconversion period may -- in terms of national well being -- be worth several dollars paid out a year or so later. It is far more important, therefore, that the settlements be prompt than that they be accurate to the last dollar according to some accounting concept, which may itself be open to question.

The settlement of war contracts along the lines which I have just outlined will involve a heavy outflow of funds from the Treasury in the few months immediately following the end of the war. We are prepared for this outflow, and we feel that there will be few occasions when a disbursement of funds may be made with so little real cost to the Government and so much benefit to the economy.

My second point with respect to the reconversion period relates to the adequacy of corporate financial resources to carry on the work of reconversion. The adequacy of these resources is important, not merely or even principally from the point of view of the corporations involved, but from the point of view of the whole economic system.

We in the Treasury have given careful consideration to this matter, and believe that funds for the reconversion of war industry will be ample, provided that a prompt settlement is made of canceled war contracts. Our reasons for believing this are as follows:

First, the wartime period has been a profitable one for American corporations as a whole. Net corporate profits, after taxes, have averaged about twice as much per year during the wartime period as they did in the years 1935 through 1939 (the base period for the FRB index of industrial production); and, by and large, the greatest increases have gone to those firms whose problems of reconversion will be greatest. Corporate dividend policy, furthermore, has been so conservative that most of the increase in corporate earnings has been added to surplus.

Second, in addition to their savings from undistributed earnings, American corporations have piled up a large volume of liquid assets as a result of repayment of receivables, and in some cases reduction in inventories, and the general inability to expend depreciation and depletion reserves which has been brought about by wartime conditions. According to the estimates of the Federal Reserve Board, the demand deposits of nonfinancial businesses, including unincorporated enterprises, amounted to over 30 billion dollars at the end of last July; and, according to Treasury estimates, the holdings of Government securities -- payable for the most part on demand or at very short term -- by nonfinancial corporations alone, amount at the present time to

about 20 billion dollars. Each of these figures is far above any peacetime precedent; but, to make the picture brighter, American business, during the same time it has been acquiring them, has reduced the amount of both its bank loans and its bonded debt.

Third, generous carry-back and carry-forward provisions included in the corporation tax laws insure that corporations suffering losses during the reconversion period, or even earning incomes of less than their excess profits credit, will receive substantial refunds of the taxes paid in their prosperous years. These refunds -- for the expediting of which the Treasury has made recommendations to the Congressional committees -- will be available to carry on the work of reconversion. In addition, there is provided in the present law a post-war refund, irrespective of future tax status, of ten per cent of the excess profits tax paid in the war period.

For the reasons given, I do not believe that the adequacy of business funds for reconversion purposes will present a major problem. But I cannot speak with equal assurance with respect to the prospects for the control of individual spending during the reconversion period -- the third post-war problem to be discussed.

Immediately following the end of the actual fighting, we can probably expect a let-down in the willingness of people to submit from patriotic motives to a continued reduction in their consumption. There is likely to be a demand for an immediate end of the direct controls; and this demand may, to some extent, succeed. For some time, however, while industry is being reconverted and the war effort demobilized, there will be only a very gradual increase in the supply of consumers' goods. When it is considered that there will be available to be spent currently, in addition to the incomes being received for the production of consumers' goods, not merely the incomes from work in demobilizing the war effort and reconverting private industry, but also the large liquid resources piled up during wartime, it is easy to conjure up the specter of a post-war inflation.

Against this must be set the powerful force of human foresight and sobriety. The reconversion period is bound to be attended by considerable unemployment, and each individual will naturally ask himself how he is going to come out in the swirl of readjustments he sees around him. His natural tendency will be to "play it close to the chest" and handle his reserve funds as carefully as possible. This human tendency alone may maintain a high rate of saving during the reconversion period, and so forestall the possibility of a post-war inflation.

We hope that this will be so; but counting on it would be as improvident as counting on an internal smash-up in Germany to win the war. We must consequently lay our plans to prevent a post-war inflation from occurring, but stand ready to adjust any such plans on short notice to conditions as they actually develop during the reconversion period.

What should these plans be? It seems to me that the direct controls, such as price ceilings, priorities, and rationing, should be kept in effect as long as necessary; and high income taxes, as long as possible.

Let me explain the difference between "necessary" and "possible" in the statement which I have just made.

While I believe that we should keep the direct controls as long after the war as necessary, I do not believe that this will be very long. I feel certain that the last of them can be done away with as soon as the reconverted plants commence to pour their flood of consumers' goods on the market.

I have said, however, that the high rates of taxation should be kept as long as possible. I think that the case here is very different. High personal taxes serve the anti-inflationary purpose of absorbing surplus purchasing power; and this may be very useful and necessary in the reconversion period. But they also serve the purpose of helping to pay off the national debt; and this purpose is also useful and necessary.

It seems to me, therefore, that, while the criterion with respect to the removal of the controls should be "How soon can we remove them without risking inflation?"; the criterion with respect to wartime rates of taxation should be "How long can we keep them without risking unemployment?" Perhaps for a long time to come, if the post-war period lives up to our hopes and expectations.

But this would take me into new vistas beyond the scope of tonight's address for I have no intention of discussing the broader phases of fiscal policy beyond the reconversion period.

I would like to make, however, a few general observations. The war has opened the eyes of the American people to the tremendous productivity of industrial and agricultural America. The shortages of peacetime goods and services that exist now have not blinded us to the enormous potentialities for abundance inherent in our productive mechanism. It is precisely this unexampled capacity to produce upon which the future prosperity and welfare of our people ultimately depend.

To help society achieve more fully the promise of abundance implicit in our capacity to produce; to help maintain output and employment at a level more nearly corresponding to our true productive potential; and to secure this at a price that a peaceful democracy can pay; -- that will constitute the greatest task of economic statesmanship in the post-war world.

I do not believe that the glory of America belongs only to the past. I believe that the real promise of America belongs to the future. Between the goal of securing maximum utilization of our resources and the goal of achieving a more equitable distribution of wealth, there need be no conflict. Our history has been testimony to that fact, and our future will be the record of its fulfillment.

December 16, 1943
2:57 p.m.

HMJr: assignment for you.

Herbert
Coston:

Yes.

HMJr:

I don't know whether you've noticed, there are three articles which appeared on this renegotiation contracts.

G:

Ah

HMJr:

One by Krock today; one yesterday in the Post, and one the day before by - ah - oh, the fellow that gets out this weekly magazine - oh

G:

Dave Lawrence.

HMJr:

Dave Lawrence.

G:

Uh - huh.

HMJr:

And those were all out in through the personal efforts of Jim Forrestal. Now, he said, he's dividing it up, and he's asked us to take on the following people.

G:

Uh - huh.

HMJr:

Nathan Robertson of PM.

G:

Yes.

HMJr:

Drew Pearson.

G:

Nate Robertson and Drew Pearson.

HMJr:

And Bledsoe of The Times.

G:

Yes.

HMJr:

And Ray Clapper.

G:

Yes.

HMJr:

And Ernest Lindley.

G:

Well, I'll see - yes, those are all people with whom I've - yeah.

- 2 -

HMJr: You could - you know them all.

G: Yeah. Nate - Nate Robertson

HMJr: Pearson.

G: Pearson.

HMJr: Bledsoe.

G: Bledsoe.

HMJr: Clapper.

G: Clapper.

HMJr: And Lindley.

G: Clapper and Lindley.

HMJr: Now, look

G: Yeah.

HMJr: If I may make a suggestion, I find that Joe O'Connell knows this stuff inside out.

G: Yes. I don't know it well enough to talk

HMJr: Well, he - he knows it inside out.

G: Yes.

HMJr: And, I - I think he thinks much more clearly on it than Paul does.

G: Yes.

HMJr: So, if you want somebody there with you who knows it.

G: I would have to have somebody.

HMJr: I'd have Joe O'Connell.

G: Yes.

HMJr: He makes - I think he makes a much better impression

- 3 -

G: Yes.

EMJr: than Paul.

G: Yes.

EMJr: I'm worried about Paul anyway. I think he acts as though he was on the verge of a nervous breakdown.

G: Well, that may be.

EMJr: Something's the matter with him, anyway. Look, could you do as many of these as you could yet this week?

G: Yes. Yes, indeed.

EMJr: And, then we'll be doing - now, you see, I stirred this whole thing up the day before yesterday. As a result of which, we met over at Jimmie Byrnes'. Joe O'Connell was there, and he's following it for me, personally. He knows it all.

G: Yes - yes. They - they - our fellows were a lot concerned about it, but they didn't apparently know how to put the drive behind it.

EMJr: Well, the drive's behind it now.

G: Yes.

EMJr: See?

G: Yes.

EMJr: And they're dividing up these various people, which I think is excellent.

G: Yes - yes.

EMJr: Okay?

G: Yes. I suppose you saw Walter Lippmann today, did you?

EMJr: Yes, I did. Very interesting.

G: Yeah. Well, that was the stuff that we slanted with him.

- 4 -

HMJr: Of - the spending tax?

G: Yeah. Uh - huh. Well, we - we discussed the thing, and he thought some new rabbit ought to come out of the hat to - to

HMJr: What you mean is - is an old rabbit in a new skin.

G: That's right.

HMJr: Oh, yes.

G: So the only thing that we could of was the spendings tax, and he went for that.

HMJr: It's good enough.

G: Yeah.

HMJr: My wife's for that. She says that's the only thing that's going to stop people like her from spending.

G: (Laughs) Well, that's wonderful.

HMJr: That's what she said.

G: Yeah.

HMJr: She's said it right along too.

G: Is that so?

HMJr: Yeah. She said that it's the only thing that will stop people from spending.

G: It'll do the business.

HMJr: Right.

G: Yeah.

December 16, 1943
3:27 p.m.

Leo
Crowley:

Hello.

HMJr:

Henry Morgenthau talking.

C:

Yes.

HMJr:

This letter which we sent over last night, have you had a chance to read it? The one that's to go to the President.

C:

As far as I'm concerned, I haven't talked to Oscar, but as far as I'm concerned, personally, it's all right.

HMJr:

Good. Because I didn't want to have any dis

C:

Oh, there wouldn't be - there'd

HMJr:

Because

C:

.... I - if I did have any changes, just between us, I wouldn't bring them up with them, I would do it with you, alone. But it's all right with me.

HMJr:

Well, will I be able to say - hello?

C:

Hello.

HMJr:

Can I say, when they come, that this is a thing that you and I are together on?

C:

That's right.

HMJr:

I can say that?

C:

That's right.

HMJr:

Well, I - I wanted to be sure, because neither White nor I had heard.

C:

Well, that's perfectly all right.

HMJr:

Thank you.

C:

You can - you can say that.

- 2 -

HMJr: Well, all right. Then I'll see you at four o'clock.

O: Fine.

HMJr: Thank you.

December 16, 1943
3:30 p.m.

ARGENTINE

Present: Mr. White
Mr. DuBois
Mr. Pehle
Mr. Luxford
Colonel Towson
Lieutenant Walker

H.M.JR: Young man, I hear you have a story.

COLONEL TOWSON: Mr. Secretary, the point in bringing this to your attention is that under normal circumstances we are exchanging information freely with Foreign Funds, as you no doubt already know.

This information, however, comes to us from a very highly secret source; so secret that at the present time we feel that it would be extremely dangerous both to the informant and to the ultimate success of the project, if there were any action taken on the basis of it at this point, or any disclosure made of the information.

However, it covers a matter which is primarily of Treasury interest, so the General wanted it brought to your attention for your information.

H.M.JR: You know we in the Treasury can keep a secret.

Just before Lieutenant Walker starts, the man who came up here - I was a little bit mixed up on it - who was the man I wanted G-2 to see?

MR. WHITE: Mr. Smith.

- 2 -

H.M.JR: Do you know about him?

MR. PEHLE: We mentioned him.

H.M.JR: Will you arrange that he see Colonel Towson and tell his story to Colonel Towson? I thought he was a Treasury man. He is a State Department man who has come back to join up in the Navy. Now that he is out of the State Department, he talks, but he is talking pretty generally. That was the man I referred to.

Do you (Towson) know Smith?

COLONEL TOWSON: No, sir.

LIEUTENANT WALKER: No, sir.

H.M.JR: Now, I have from now until one minute of four.

LIEUTENANT WALKER: All right, sir. The story I have to tell, sir, is around a very large commercial association in Latin America known as the Permanent Council of the American Association of Commerce and Production. And we were fortunate enough to be able to have a man become our agent and get inside the inner councils of this commerce association in Latin America. He has just returned with this story.

Dr. Raphael Venils is the guiding hand and genius behind this Council, according to our man, and he is a Spaniard, about fifty-eight years old. He was born in Barcelona, Spain. He launched his career, politically, through cooperation with Cambo, the big Spanish politician, and became involved in the utility business in Spain and later in Uruguay with Cambo and their interests. He has always been interested in commerce associations as a sideline to his activities in the utility business. He came over to Uruguay and then went into Argentina and at the present time he is a director of C.A.D.E; that is the Companie Argentina de Electrica, the biggest electric company in Argentina.

- 3 -

The President of that company is Carlos Myer Pellagrini, on whom we have exchanged a good deal of information with your organization, and another director of that same electrical company is Mr. Alejandro Shaw of Shaw Strupp, on whom we have a great interest and exchanged a lot of information.

Now this gentleman, Vehils, remains in the background officially, of this Council, yet he controls every operation of this Council - all the Latin American countries, we believe, are members of this Council. He is using it as an information gathering, intelligence gathering system throughout Latin America, and particularly in the economic, financial, and industrial sphere. Our agent believes that he is definitely pro-German, and he definitely is anti-U.S. He does not speak the English language.

I guess since childhood he has always feared the United States and Britain, and yet today, however, he has pulled himself up over the years and educated himself, and he is now reported to be one of the most brilliant men in Latin America, according to our man, who is a very brilliant man, himself.

Now, with the tie-up that he has with all these other gentlemen in the utility industry, and other industries in Argentina, and his control of this Council, he is in a perfect position to use all this information and power if he wanted to, to help the enemy invest in and control all of the industries and enterprises of Latin America that they might so desire.

We have no definite proof that he is using this Council towards that end, but we have many facts that would lead us to believe that that is the way it is being used. And it just ties in - all these very questionable characters whom your organization has been interested in for a long while, and we have been interested in for a long while - and it ties them in, we think, fairly well together. And we are naturally very anxious to cooperate with your organization in following this thing through.

- 4 -

The report isn't completed on this Council, but naturally we will make everything available to your organization.

One name I forgot to mention, that he has been involved with, is this Danny Heineman.

MR. PEHLE: This is all part of the Sofina setup.

H.M.JR: Well, we are all talking here amongst each other. One of the few times I have really been put under pressure was on this Heineman. Do you know who put me under?

MR. LUXFORD: I know enough about Heineman to know you would be put under pressure.

H.M.JR: The American Ambassador to Mexico.

MR. PEHLE: Little Denny Heineman.

H.M.JR: He called me up and came to see me and practically wept.

MR. PEHLE: Messersmith. He was in Cuba.

H.M.JR: Before that he was in Belgium as Counsel General.

MR. PEHLE: And in Germany.

MR. WHITE: Counsel General in Berlin.

H.M.JR: In Antwerp, or something, I think. You look it up.

MR. WHITE: But he functioned in Berlin.

H.M.JR: We were just doing a wicked thing by keeping Mr. Heineman's money frozen in Cuba, and so forth. Oh, he really got as near being disagreeable as a State Department man can be.

- 5 -

MR. PEHLE: Well, he has a failing, Mr. Secretary - Mr. Messersmith. He seems to be a good man generally but he is making the same mistake on King Carol. he is actively pushing King Carol.

MR. WHITE: I just got a long letter in favor of King Carol.

H.M.JR: Down in Vienna he was very anti-Nazi. As I remember it, I think he was very good down there. He was American Minister, I think, in Vienna. he was very good on the Nazi question.

MR. WHITE: That other man you mentioned, Pellagrini.

MR. PEHLE: That is the fellow Smith told us about.

MR. WHITE: It is in that document. Pay attention to the name when you read the document. Pelliagrini.

H.M.JR: Are you under any obligation to Smith? Wouldn't it be easier, as long as--

MR. PEHLE: I have a copy of it.

H.M.JR: Why wouldn't it be easier to let G-2 have a copy. Are we under any obligations?

MR. PEHLE: No, sir.

MR. WHITE: No, not to the Army, certainly. They will protect him.

MR. PEHLE: He has a family down there and he wants to be protected, but as far as the Government is concerned--

H.M.JR: Any reason?

MR. WHITE: I don't think so.

MR. LUXFORD: I think he is most anxious to have it circulated.

- 6 -

MR. WHITE: I think it would be more fruitful if they saw him personally. He is available and he can see them himself.

COLONEL TOWSON: Thank you.

H.M.JR: I ought to warn you, this story which broke on Argentina from Drew Pearson, we think it came from this fellow Smith.

MR. WHITE: But he made no bones about the fact.

H.M.JR: He drew me in that I had gone to see Mr. Hull. I could tell nobody but the President, because all he knew was I had gone to Mr. Hull. He didn't have any other details.

H.M.JR: Did you finish your story?

LIEUTENANT WALKER: Yes, sir.

H.M.JR: We have all this information; what can we do about it?

LIEUTENANT WALKER: One thing I would like to ask is that we have some reasonable hope that we can get a permanent employee, that is, we can get a man into this organization as a permanent secretary, or something of that sort. If we are able to do that--

MR. PEHLE: The problem is a general one.

H.M.JR: Excuse me a minute. Let me tell you so you can tell General Strong what we are trying to do. I told General Strong this morning I thought they could help through the Chief of Staff or through the General Staff. This happened while I was away. What we are trying to do is to freeze all the assets of the Argentine in this country. I think they should be supplied with copies of the correspondence between myself and Mr. Hull. I don't know any better way to bring them up to date.

COLONEL TOWSON: Thanks.

- 7 -

H.M.JR: Well, I would go back and give them the whole file as between the message that went to Hull, the unfortunate message in which I was away, in which they set it up we were trying to overthrow the Argentine Government, joint memoranda. Based on that, Hull in Moscow said no, he didn't want to freeze. He finally got the message and Stettinius said I would have said no. I am talking frankly now, because I think this is very dangerous.

I told Stettinius I thought the message was wholly unfair to the Treasury, that we were doing it purely on economic grounds and weren't interested in overthrowing the Government, because, as a matter of fact, before this present Government came in the thing was just as bad as it is now. It isn't just this Government. It has been a situation for years. I mean, you have got to do something. The last war Switzerland was - what do they call it - the shop?

MR. PEHLE: The fence.

H.M.JR: This time it is Argentina. We have been asking for almost two years to freeze the thing. We just can't budge. I finally went to Hull. I have got him interested.

But I think it is so important, particularly financing spy stuff, and everything else, and sabotage, and what-have-you from there that you people ought to really get in on it and battle with us. That is what I think.

COLONEL TOWSON: I gather, sir, that General--

H.M.JR: I think the General ought to get in. And I am going to furnish the General, through you, the whole file, beginning with what happened from the time while I was away, unfortunately. I mean, the message never would have gone. Why Hull said no was because he was misinformed. We have an exchange of letters with Hull since then. Now, right now, Hull personally, through all the Ambassadors in South America, is having each country sounded out whether they would have any objection to our freezing.

- 8 -

Adolf Berle said these South American countries would take affront if we went in and froze Argentina. So far we have only heard from Brazil and Columbia; they have taken no affront.

MR. WHITE: We have heard from three more countries. Peru would go along, Columbia and Brazil--

MR. PEHLE: Mexico.

H.M.JR: Berle's position was - I mean, I am going overboard, after all, with you people, so I want secrecy on this - Berle's position was that this was to be North America wielding the big stick, and all South American countries would get together and be aroused. Has anybody been, so far?

MR. WHITE: Of the five countries who indicated, two said they could go along and two said they couldn't for a specific reason of their own, but that the Ambassadors thought they would be sympathetic with the view.

H.M.JR: But nobody said, "This is powerful North America."

MR. WHITE: They haven't presented the matter to the Governments. So far they have only had the views of their Ambassadors in these areas. but the indication to date doesn't support Berle's position.

H.M.JR: Mr. Hull said, "I hate their guts; I would like to cut their throats," talking about Argentina.

MR. PEHLE: "Throw it out."

MR. WHITE: "Kick it out."

H.M.JR: But the people below, you see, keep telling him--

- 9 -

Now, the other thing where the State Department have got themselves in a spot - they went along with us and let them freeze these two institutions, and then what they have been saying to us is, "Let's unfreeze them and put them on their honor," you see?

COLONEL TOWSON: Oh, dear!

H.M.JR: Now, as a matter of fact, it is much worse, because these two institutions are both Government-controlled. We are actually freezing the Government-controlled institutions and the private institutions are free. So the State Department have themselves in a very uncomfortable spot.

So I say to them, "All right, if you want to put them on their honor, we freeze them, using the pattern of Switzerland and Sweden." Then we freeze them and say, "You are on your honor as long as the Government reports to us. But you are frozen, and the minute you break that thing, the agreement is cancelled." And I refuse to depart from that position. But I have kind of got them on the hip because I have the two Government banks frozen and the State Department can't do anything about it.

In the meantime I took it directly to Mr. Hull and he sounded me out. I think when he gets through he is going to say, "Well, I guess Mr. Berle doesn't know what he is talking about." Mr. Berle jumped all over Fehle because he was so bold as to say they were Fascist. Mr. Berle objected to that word. He doesn't like that word. So - if the lady doesn't mind - I said, "All right, let's call them S.O.B.'s if you don't like the name Fascist." I said, "Let's call them that, if that name makes you feel any happier. They are so many S.O.B.'s."

So I should think, after all, we are fighting the thing on economic warfare. I am convinced that the Germans down there have a free-for-all, and they can do any damned thing that they want. They have unlimited money. We have been unable to find Mr. Goering's money and Mr. Hitler's money, and everyone else. We thought we found it in Martinique, the Bank of Morocco.

- 10 -

I can't believe they are stupid enough to send it to Switzerland. I should think that our interests would be parallel.

COLONEL TOWSON: Surely.

H.M.JR: I have got Mr. Hull personally interested and anything that you can throw on the military front, if you could get something that these people - they are still letting - Argentina still lets them use code messages; don't they go out to Japan and Germany from the Argentine?

COLONEL TOWSON: I think so; yes, sir.

MR. WHITE: I should think the military would be particularly interested in the recent Government which consists chiefly of military officers who are very closely connected, or at least they are certainly sympathetic, if not much more so, with the German Government. And hence the character of the developments in Germany has shifted, making this a matter of concern to the United States military authorities.

MR. LUXFORD: One of their Government officials served in the German Army during the last war.

COLONEL TOWSON: All trained by the Germans, too.

H.M.JR: John, furnish these people with the whole story of what has happened on the Argentine versus U.S. Give them the whole file, will you?

COLONEL TOWSON: Thank you very much, sir.

H.M.JR: Tell the General to let me know personally how much he is going to do to help me, will you?

COLONEL TOWSON: I certainly will, sir. Could I ask just one question, sir?

H.M.JR: Two.

- 11 -

COLONEL TOWSON: Do you suppose it is a State Department view that if all of Argentina were frozen that the Government would fall?

H.M.JR: No, I don't think so. I personally don't. I think the answer to that is no. They haven't said that.

MR. PERLE: At one point the Mission thought that if they were freezing them it might have that affect. More recently the State Department tactic has been to say, "Probably not." I gather there is very little real opposition to the Government.

H.M.JR: I thought there was even an implication that if we froze it would strengthen the hand.

MR. WHITE: That is an argument the boys used. It was a symbol of Yankee Imperialism.

H.M.JR: The answer to your question is quite the opposite.

MR. PERLE: They did use that argument, Mr. Secretary.

MR. LUXFORD: To the President.

H.M.JR: Said it would be strengthening the hand. I am not interested as a private citizen - yes, I am interested, but as Secretary of the Treasury I am doing it on the basis of economic warfare. I can't over-emphasize the importance of freezing those people. Now I am willing, at the beginning, to say, "All right, we will put you on your honor, or freeze you and give you a general license. The first time you don't keep your word" - all right, but in the meantime, how much do you know about this thing - all of the gold goes out by air - how many hundred million here?

MR. PERLE: Three hundred.

H.M.JR: It would all go out if we didn't stop it. But every ship that takes a million dollars - they are transferring this stuff to Sweden. The stuff is just

- 12 -

going out from under our fingers. And the stupidest thing ever done was when we announced we were going to freeze and put them on notice. That was our stupidity.

COLONEL TOWSON: Sounds like the old days when I was in Foreign Funds, sir, when we tried to freeze Germany three times.

H.M.JR: That is right. But this thing and Germany, we battled on Sweden and they always give them notice. Here you have got this stuff, and the leverage of three hundred million dollars worth, and I figure if we freeze it, then big business down there maybe will get a little scared and with three hundred million dollars worth of assets belonging to the rich families in the Argentine, they are going to be careful. This way they just thumb their noses at us.

COLONEL TOWSON: Certainly.

H.M.JR: So I am delighted that General Strong sent you over here, but don't lose too much time on this.

(To Pehle) when can you get them a set of this?

MR. PEHLE: Right away.

H.M.JR: Tonight?

MR. PEHLE: Yes, sir.

H.M.JR: Good.

December 16, 1943
4:00 p.m.

BRITISH DOLLAR BALANCES

Present: Mr. White
Mr. Crowley
Mr. Acheson
Mr. Rostow
Mr. Stettinius
Mr. Coe
Mr. Currie
Mr. Cox

H.M.JR: The reason Mr. Crowley and I asked to see you gentlemen was that we have prepared jointly a memorandum that we would very much like to send to the President, and we hoped you would join us on it.

I think the quickest way would be - do you have copies?

Mr. WHITE: Yes, sir. (Mr. white distributed copies of the memorandum for the President, dated December 16, 1943, attached.)

H.M.JR: I am going to ask you a question. Unless this is settled, I am going to ask that this be kept between the State Department, Mr. Crowley, and ourselves, and that nobody else sees this. Is that a fair question?

MR. STETTINIUS: Entirely. The subject is what?

H.M.JR: Balances.

MR. STETTINIUS: British dollar balances.

- 2 -

H.M.JR: But I am asking that it be kept between State and ourselves.

MR. STETTINIUS: It is agreed as far as State is concerned. It will not be discussed outside.

H.M.JR: (To Mr. Coe) Seeing you sitting next to Harry makes me smile, because you go out in other places and move around. We have friends all around; some of them come in as colonels, generals, and what-not.

MR. WHITE: That chap you have just seen was the one you referred to me. You were impressed with him and sent him down to me. Do you remember?

H.M.JR: Yes.

MR. WHITE: About six years ago. I expect to see Lauch Currie one day as a general.

MR. CURRIE: For the next war.

MR. STETTINIUS: Sir, I am not prepared to approve "3" of this first page. Knollenberg sat on this Committee representing me all the time, and I am not prepared to say whether that is a fact or not.

MR. WHITE: I assumed that he represented you, but that is why you are reading it here, to introduce modifications.

H.M.JR: I didn't expect you to sign it today.

MR. STETTINIUS: We will have this for study and consideration?

H.M.JR: Yes, but the only thing I am going to insist on is that it be a matter of days and not weeks, see? I mean, I have been pushed around on this thing for eleven months, and talking for myself, I have reached the end of my rope. For eleven months I have been pushed around on this thing, and I am sick and tired of it.

- 3 -

MR. WHITE: You always had two representatives present and I am quite sure that this reflects their views, and I presumed they reflected yours.

MR. STETTINIUS: Well, Harry, my frank impression was that the Committee never got together on a recommendation that could be given to the principals, and this is the first that I have heard that the State Department and Lend Lease were responsible for the liberal treatment. That is the first indication I have ever had of the matter, and I follow my business pretty carefully.

MR. WHITE: I had assumed that the representatives you send, represented you, but if they didn't - well, it is easy enough.

MR. STETTINIUS: They did represent me.

MR. WHITE: You mean they hadn't cleared their views with you?

MR. STETTINIUS: No, and it wasn't my understanding that they took this liberal view. Oscar is very familiar with this. We never had any view in Lend Lease that we should take an over-liberal, over-generous view on this subject.

MR. COX: I didn't attend these meetings. I gather what you are raising is the question of fact, whether Knollenberg and Denby were for or not for a liberal interpretation. I think you can check that very easily.

MR. WHITE: Mr. Rostow and Dean Acheson were at most of the meetings. You (Coe) were at most.

MR. COE: Now, they may not have cleared with you, or you may not have felt that a decision was before you at that time. That is possible. I had assumed that this reflected your attitude, but there could be no doubt that this was their presentation at the meeting. It is true that it didn't get to the stage where it was brought to the Cabinet group officially.

- 4 -

H.M.JR: I don't get the point. They say that they do represent you, but on the other hand, you say if they did take this view, it doesn't represent you?

MR. STETTINIUS: No, it doesn't, not at all. We in Lend Lease have never taken the position that the balances should go over what was agreed to in that last Christmas-week memorandum. We have never taken that position.

H.M.JR: I think there is a memorandum from you written on this very subject.

MR. WHITE: Asking for re-examination.

H.M.JR: Yes.

MR. STETTINIUS: Asking for re-examination of the facts?

MR. COE: When the British put in that statement, brought up the question of short-term liability.

MR. STETTINIUS: Their request that the matter be reviewed?

MR. WHITE: Oh, no, no. Your representatives took the position that we should inform them and it was I who took the position that we get a specific request from them before we would act.

H.M.JR: But I got the distinct impression - you did write a letter on this very subject. I can get your letter.

MR. STETTINIUS: I remember now.

H.M.JR: Do you want to see it?

MR. STETTINIUS: No.

- 5 -

MR. COE: Maybe the best way to deal with that would be to delete the history.

MR. WHITE: In this, yes.

H.M.JR: Ed, let me just say this for you. I am not trying to put anybody in the hole, see? That isn't my purpose. Mr. Crowley can talk for himself. What I am talking about is a formal document which was signed by a lot of people, approved by the President, and which is eleven months old. And since that time we have not carried out the Directive which was approved by the President.

The English dollar balance has steadily increased. We have tried desperately to get cooperation, and the backing both of State and Lend Lease. We were unable to do it, and I want to find out where I stand, fish or cut bait.

I think Mr. Crowley can talk for himself.

MR. CROWLEY: Let me say this - and I don't know anything about the history, I am not concerned with that - the thing that I would like to discuss, Ed and Dean, is what are we going to do about this dollar balance position, and are we going to be in agreement that something ought to be done, and if we are, how are we going to do it? If we get into this, we never get into the main show, as I see it, at all.

When I talked with the Secretary, and with you, Ed, and we have talked with Dean at different times, we felt that we had to do something about this dollar position, and that we should do something to put the facts before the President.

MR. STETTINIUS: I agree.

MR. CROWLEY: And try to do it in complete agreement if we possibly can, and then if he says we are wrong on the thing, then we are wrong, but at least we have brought up to him the convictions we have.

- 6 -

MR. STETTINIUS: I agree completely.

H.M.JR: That is all we are trying to do. Maybe this isn't the best kind of a document. I am open to suggestions.

MR. STETTINIUS: but I would like to leave the door a little bit open, Harry, for me to consult with the fellows rather than having Lend Lease Administration and the State Department charged with the responsibility of not having moved on this matter.

MR. WHITE: Well, there isn't the slightest desire or slightest intent on our part to misrepresent what I thought they would be the first to affirm. I think this is an understatement of the position taken by the men.

Now, whether they represented your view, or whether you felt it hadn't come to an issue in which you had to make a decision, is quite another matter. You might wish to say that is what they thought, but that you didn't pass on that, and therefore you can't say that Lend Lease - after all, only you can finally speak for Lend Lease. Dean Acheson is here. If it misrepresents the State Department, the position which he took at these meetings, or the State Department policy--

MR. CROWLEY: Harry, could we do this? Could we forget about the whole history here, and talk now? And if we are in agreement, then it seems to me that a different kind of a memorandum could be drafted setting forth our problem.

MR. WHITE: If you wanted to you could merely delete those few sentences which go back to the history. That is a simple matter.

H.M.JR: May I ask Stettinius this? Do I take it from what you say that you are in agreement that this thing should be brought to a head?

- 7 -

MR. STETTINIUS: Absolutely; we have for months, Henry. Oscar Cox can verify the fact that I have had a heartache on this matter for months and months.

H.M.JR: That is all we are trying to do.

Does the memorandum of last January stand that we should keep the English dollar balances between six hundred million and a billion?

MR. STETTINIUS: It must be brought to a head.

H.M.JR: And all we are trying to do is bring it to a head.

MR. STETTINIUS: Fine, perfect. We are fully in accord.

H.M.JR: That is all I am trying to do. If you want to leave out the past history, it is all right with me.

MR. CROWLEY: Do you have any views over in State as to how far we ought to go on the thing, or put it right up to the President?

MR. STETTINIUS: I think that Dean has been studying this matter. He discussed it with the Secretary and myself this morning, and I think it would be helpful to have Dean say a word on that, as to the result of his considerations.

MR. ACHESON: Well, I have had a view which Harry is very familiar with, because I have expressed it at all meetings that we have had from the start, and that was that the fundamental problem that we have here is not to try to keep the assets side of the British balance sheet within a particular figure which was fixed a year ago.

The figure that was fixed a year ago was fixed under the circumstances then existing, and it was said, in the light of those circumstances, that seemed to be all that they had to have at that time.

- 8 -

Since then the British liabilities have been growing a great deal faster than this gold that they have - gold for foreign exchange. It seems to me that the policy of the United States is not served in any way by saying to the British, "We as a matter of national policy, wish to keep your assets at a perfectly fixed sum no matter what happens to your liabilities, no matter what costs you are bearing in the war, or any other reason. We won't consider any of those factors. We must keep your assets in this fixed form."

I think if we do that we seem to then be taking an attitude which is purely hostile to them, not because we dislike them, but because we feel that for political or other reasons, we must do that. And from their point of view, it unnecessarily harms them.

I think what the British would completely understand is to say that we must cut out certain lend-lease practices which, from our point of view, are causing this embarrassment and trouble. And therefore the conclusions at the end of this document in paragraph one recommend that certain steps should be taken.

Now, with most of those steps I would have no quarrel. I think you have to examine each one in the light of the particular circumstances. For instance, you can't say with one sweep that we are going to stop all off-shore purchases such as Iceland fish, Caribbean sugar, and oil from outside the United States. Those are three wholly separate problems, each one involving much more than the British dollar position.

The first one involves our whole relations with Iceland and the commitments which the President made with the Iceland Government and people.

But if what we are concerned with is not to continue long-range capital installations, very well, let's stop that. The British will understand that and not regard it as a move against them.

- 9 -

It is only when we say to them that we are going to take whatever action may be necessary to keep balances between six hundred million and a billion, although the costs of the war are piling up at a tremendous rate - external short-term liabilities. From their point of view it would seem to be extraneous, an oppressive act on them, which I think will do the war and our relations with them far more harm than any good which it will do us.

Therefore, I do not see the purpose to be served in maintaining this figure of between six hundred million and a billion. I should think that a far wiser course would be to say, "We will review this - we will cut out every single lend-lease transaction which, on its own merits, we think is bad," but we will not undertake to try to decide what the foreign exchange assets of the British should be without any relation to their foreign exchange liabilities.

MR. WHITE: I think that is what we have indicated right here.

H.M.JR: May I answer you to explain? Is it all right if I answer it first?

MR. CROWLEY: Yes.

H.M.JR: This is where I differ with your view. In the first place, you say that these things were arrived at last year. At the time these things were arrived at, if you don't mind my differing with you - it wasn't last December when this memorandum was created; it was the time that I went up on the Hill to get the first Lend Lease, and I had to go overboard on telling the Congress of the United States that the British would sell every piece of real estate, that they would sell all their stocks, that they would do everything. And at that time, as I remember, Mr. Hull was even in favor of hypothecating all of their securities in South America, and I said no, that we shouldn't ask them to do that.

- 10 -

I feel that as Secretary of the Treasury, purely on the original operation, from the testimony which I gave - the Treasury gave - in order to get this thing through, we made certain representations to Congress.

Now, talking for myself and nobody else, we have not kept our bargain with Congress. The fact that the English have had to, in order to pursue the war, create a lot of sterling debt, from our standpoint, and from my relationship vis-a-vis Congress - I was authorized to talk for the Administration at that time, and was the spearhead on the thing.

In the testimony, again, Mr. Hull, on three different occasions, said he knew nothing about it and referred the matter to the Treasury. I have got a moral obligation, and there is nothing which I consider more important in my relationship to the Administration, as the spokesman, than what I told Congress. Now, the Administration hasn't lived up to it.

The fact that the English have had certain difficulties doesn't change the relationship of the Treasury to Congress; the Treasury talking, at that time, for the Administration. There was no question but that the Administration made certain definite promises, and on that basis Congress passed it and re-passed it, and nobody has ever said to Congress, "Well now, the English are having a tough time; they are doing a swell job," and so forth and so on - which, of course, I believe - "...and in view of that, we should permit the dollar balances to go up at the expense of the American taxpayer."

Now, what I am trying to do is perfectly obvious, and I am not pulling my punches on anything. I am simply saying, "This is the position, Mr. Stimson, Mr. Hull, Mr. Stettinius" - I don't know how many other people signed a document that went to the President of the United States, and he O.K.'d it - "...and from that day to this, there has been nothing changed." And the document was based on the original testimony which was given to Congress.

- 11 -

Now, I am trying to do one of two things: Either I am trying to bring this thing to a head - and I won't take second place to anybody in the Administration as to my interest - going back to the beginning, as far as trying to help the British and help ourselves through helping the British to defeat Nazism and Fascism in this war - going back to helping the French to buy the first planes, and from then on. I was the whipping boy up until the time Lend Lease was passed and turned over to Harry Hopkins, and turned my organization over to him lock, stock, and barrel, to run that.

But this is a moral obligation which I committed the Administration to, vis-a-vis Congress, and something has to be done about it, and I tried for eleven months to bring this thing to a head, but I have been licked on it.

I want to bring it to the President's attention, and Mr. Crowley is in sympathy with me to bring it to the President's attention.

MR. STETTINIUS: We are, likewise - entirely.

H.M.JR: Fine. Now, if the President wants to say - whatever he wants to say, it is all right. But I want him to know that there is this obligation, and it has nothing to do with the internal situation - nothing. And that is my position.

MR. STETTINIUS: It is a very fair position.

H.M.JR: And (to Crowley) excuse me one minute - and you carried on from there, and you capitalized on that position.

MR. STETTINIUS: That is correct.

H.M.JR: And got two second and third renewals.

MR. STETTINIUS: Three and four.

- 12 -

H.A.JR: And you have never said that the situation was any different. You carried on where I left off.

MR. STETTINIUS: That is right.

H.M.JR: So you pretty near have the same obligation that I have.

MR. STETTINIUS: Yes.

H.M.JR: It is a very serious thing.

MR. CROWLEY: Well, as I view this thing here, there isn't any difference of opinion among the three agencies about getting this up to the President and calling his attention to it.

MR. STETTINIUS: None whatever.

MR. ACHESON: That is right.

MR. CROWLEY: Now, the question comes back as to whether we agree on the recommendations that we make to the President after we call his attention to it. Is that correct?

We all agree it should be called to his attention. Now, whether State agrees with us that the dollar balances should be reduced, is a question.

You don't think, Dean, that it should be done that way?

MR. ACHESON: That is the only difference. It is not that it should not be brought to his attention - never has been.

MR. CROWLEY: But when you bring it up to him - you know more about it than I do - when you bring it up to him you have to have some recommendations, don't you? You should have some recommendations.

- 13 -

MR. STETTINIUS: Sure.

MR. CROWLEY: Now, if the three agencies could agree, then at least he would understand that all three agencies recommend a certain procedure to him.

MR. STETTINIUS: I think that would be desirable, if we could all agree.

H.M.JR: May I say this? I think this: As near as I can tell, Stettinius is in the same position that Crowley and I are; namely, that we have a moral obligation between the Administration and Congress; that we gave Congress to understand that the balances would be a certain position, and it is up to us to carry out that obligation, unless something is changed as between Congress and ourselves.

Now, that is what is motivating me, and not that I am trying to make it difficult for the British to carry on. That is the difference, I think, Dean. In trying to carry out this obligation, I have got to do certain things. I am not hostile to the British Treasury. I have just recommended that we lend-lease a hundred million ounces of silver to India. But in order to carry the thing out, there are certain things we have to do which will hurt the British Treasury; but I am not trying to hurt the British Treasury; that isn't my motive.

I should think we could get together.

MR. STETTINIUS: Why don't we each appoint somebody and take a fresh look at this whole thing?

H.M.JR: We have done that over and over and over again.

MR. WHITE: I think the issue has been very clear, because this is an issue that has been before us in a very large number of meetings. I think the issue centers around number two. If, as Dean says, that he is willing to go along on many of these things, so each one won't

- 14 -

have to be examined, that is exactly what we have been doing, and it is exactly where we will get nowhere. You might get the fish, and you might get something else, and months will pass and the net result will be that the balances keep rising.

I believe that an acceptance of "1" and an operation of "1" is merely to reproduce to a large extent our experience of the last three months; and three months from now we will meet again and we will again have the same issue. That is why I think "2" is necessary.

I think the only way to bring the thing to a head, to get a clear mandate, is to have "2" along with "1". If "1" suffices, then you don't have to worry about "2". In other words, by taking up each one of these things such as the boys are already trying - Mr. Crowley's outfit is already trying "a" and "b" and "c" and "d" - I don't know about "e" and "f", but they are already going forward on "a", "b", "c", and "d" and they have been getting very little results. Almost every other day for a month we have been in communication, and there isn't any considerable promise they will get along much faster.

But should Dean be right, in other words, should their efforts bear fruit, and this results in a substantial reduction, then you don't have to go to "2", but it is because we are convinced that judging from the past they will not bear results, that to agree on one is merely another way of vitiating the whole memorandum and postponing the issue - dragging it out and making the situation, I think, from our point of view, less defensible.

MR. STETTINIUS: Excuse me. Do I understand, Harry, you are convinced that "2" on Page 4 of the memorandum I have - putting a ceiling of a billion-- That, in a final analysis, is the only answer.

MR. WHITE: That is the answer to about a billion. If you can accomplish it by doing the "1" that is the best way to accomplish that.

- 15 -

MR. STETTINIUS: Is that your position, Leo?

MR. CROWLEY: Yes.

MR. STETTINIUS: That you would like to agree on a ceiling of approximately a billion?

MR. CROWLEY: That is right.

H.M.JR: There is no disagreement that I know of starting from "Recommendations" - from there down. As I say, I am going to be fairly difficult to deal with.

MR. STETTINIUS: Which are you reading from?

H.M.JR: I am starting from the bottom of Page 3.

MR. STETTINIUS: Is that the same one I have, Harry?

MR. WHITE: I think so.

H.M.JR: Take mine.

MR. STETTINIUS: No, that is it.

H.M.JR: Starting from here (indicating) down. How you arrive at it, or what pretty words you put before, I don't care very much, just as long as the recommendations stick.

Now, I didn't ask you to come over here so I could say, "This is what I am going to do." But I am going to tell you, I am going to be kind of difficult to deal with. Now, now you led up to the recommendations, I don't care very much.

MR. ACHESON: Can we talk about the recommendations for a moment?

H.M.JR: Yes, sir.

MR. ACHESON: Because I don't agree with Harry on "1" and "2".

- 16 -

MR. CROWLEY: I don't care how that language is set up, just so we get our recommendations.

H.M.JR: You agree with me on the recommendations from there on down?

MR. CROWLEY: That is right.

H.M.JR: If I didn't want to talk it over, I just would have walked it over, that is all.

MR. STETTINIUS: Mailed it over. (Laughter)

MR. ACHESON: What I was going to say is that I don't see the essential connection between "1" and "2" in the recommendations.

For instance, I understand that the Lend Lease has decided and informed the British that it will not receive any more requisitions for long-term capital installations. It just isn't going to give those under Lend Lease any more.

MR. WHITE: I don't know whether they had done that under "1" or not.

MR. ACHESON: That action has already been taken. Nobody has criticized that.

Now, when we come to off-shore purchases, Iceland fish, Caribbean sugar, and oil from off-shore ports, that, as I said, is something which involves other questions. If it can be worked out, fine. We sent a note to the Icelanders, now, to try and do that. Those questions can be taken up.

MR. STETTINIUS: I thought we just signed a new contract with the Iceland Government.

- 17 -

MR. ACHESON: We just told them what we wanted to do was to bring the British into that and have a contract and have the British pay the expenses.

MR. STETTINIUS: Weren't the British going to pay one-third of the twenty-five?

MR. ACHESON: That is the last one.

MR. COX: This is the new one; it runs out on December 31.

MR. ROSTOW: The present one.

MR. STETTINIUS: I thought I signed a new one here last week.

H.M.JR: You were a little worried. (Laughter)

MR. STETTINIUS: I thought they had something on Iceland fish.

MR. ACHESON: Similarly on civilian goods to the Middle East. I don't know what the problem is, but I see no reason why it can't be solved. All goods to South Africa, that is a small matter. If South Africa gives us Reverse Lend Lease we get more from them than we give to them. It probably isn't difficult to have them agree that everything be on cash.

MR. WHITE: Not if we started on this nine months ago.

MR. ACHESON: Small requisitions, and other questions.

H.M.JR: Do you mind if I interrupt? I will lay all my cards down. After all, there is no reason why I shouldn't. I feel that the Lend Lease in Reverse is such tough going that--

MR. STETTINIUS: Reverse Lend Lease.

- 18 -

H.M.JR: ...is such tough going that it is one of the reasons why I have arrived at wanting to take positive action. If this is done, I think - I mean if everything is going to be held up to get Lend Lease in Reverse, we won't get anywhere. I just say to hell with it.

MR. ACHESON: But it isn't held up. The Indians came in yesterday and have accepted the Reverse Lend Lease. They are going to give us the materials. The British have agreed to pay the Australians; so that one is cleared up.

MR. WHITE: Was the point you are making that as a result of these negotiations that have been concluded, and as a result of the steps Lend Lease has taken, and as a result of the negotiations that you are undertaking and think there is an excellent chance of obtaining, that the British balances will diminish to a billion dollars?

MR. ACHESON: No.

MR. WHITE: Then that is the point at which we apparently separate.

MR. ACHESON: That is number two. What I am saying is you have two recommendations; one is you wanted to change certain things about Lend Lease; that is in "1".

All right, I think that can be achieved, and I think most of it is achieved now. Now, you have another idea which is to cut the British balances down to a billion.

MR. WHITE: That is the objective; the first is merely the implementation.

MR. ACHESON: That is the argument.

MR. STETTINIUS: Are you saying you don't need "1" to accomplish "2"? You are just going to agree--

- 19 -

MR. ACHESON: I am saying you don't need "2" to accomplish "1"; and I want to discuss the merits of "2".

MR. WHITE: It is because I agree with you that we need "2". It is because "1" will not be effective, quantitatively, in proportion to the magnitudes we are talking, that I say "2" is necessary. So let's forget "1" and concentrate on "2".

MR. STETTINIUS: That is what I would think would be sensible.

MR. COE: There is agreement on "1".

MR. STETTINIUS: We all agreed on "1", Dean?

MR. ACHESON: Yes, subject to being able to work out this Iceland situation.

MR. STETTINIUS: And Caribbean sugar.

H.M.JR: Well, now, in fairness to Dean, he isn't agreeing. What he is saying, if I understand it correctly, he is agreeing to "1" subject to each negotiation, which means that each one of these things we'll have to negotiate, which may take from three months to a year.

MR. ACHESON: No, I don't think so.

MR. WHITE: Most of them are a little faster than that.

MR. ACHESON: I do not think these present any serious problem in "1".

Then, what I want to raise is, is it the object of all of this to reduce the balances, for the purpose of reducing the balances to a billion dollars?

MR. WHITE: That is the primary object.

- 20 -

MR. ACHESON: If it is, then we have another discussion.

H.M.JR: I am repeating myself, but I would like to. If they took out the words "a billion dollars" in "2" - the purpose is this: Going back to our testimony in Congress, which led up to the memorandum which was signed by the President, in which this memorandum of approval, or whatever it was, said that the balance should be kept between six hundred million and a billion, if we said, "Since these measures may be insufficient to bring Britain's balances down to those agreed upon in the memorandum signed by the President" - and so forth, and not mention any figures - now, I say that these steps are necessary to be taken in order to carry out a directive of the President of the United States.

MR. ACHESON: May I again make clear, the first point that was brought up this afternoon was that there was this directive from the President, that the balances are now above that, that that fact ought to be brought to the President's attention, and instructions should be received from the President as to whether he wanted some action taken to bring it down to his previous directive, or whether he wished to change his previous directive.

H.M.JR: No, that wasn't the spirit in which Mr. Crowley and I approached this thing. The spirit in which Mr. Crowley and I want to approach it is that we are bringing to the President's attention, eleven months afterwards, what has happened since he signed this memorandum, and we now feel that additional steps must be taken to carry out this memorandum; that we propose to go ahead and do this thing, unless we hear to the contrary. We don't need any posture - we have a directive. But unless he says no to us, we will go ahead and do this thing.

MR. CROWLEY: But taking up Dean's - what we did agree on, first, was that we would call it to the President's attention.

- 21 -

Now then, where we split on the thing is, as I view it, Dean, that on "1" - you are in sympathy with "1", but you are not sympathetic to "1" tied in with "2", bringing the balances down to a billion dollars; that you don't agree that the dollar balance thing, perhaps, should be touched without taking into consideration England's financial position and their liability, and so forth, and so on. Is that right?

MR. ACHESON: That is correct; and that in drawing it to the President's attention I should think it would be proper and right, also, to draw to his attention any considerations which might warrant the changing of the directive of a year ago, because a year has gone by.

MR. CROWLEY: Now, then, as I see the thing, Dean, if you voice the opinion of State, is that you wouldn't join us in a memorandum saying that these are our recommendations and that we feel that the dollar position ought to be brought down to a billion dollars; you would call his attention to the fact that they are over the amount that his agreement called for, but you wouldn't make a recommendation that they be reduced down to his agreement.

Is that right?

MR. ACHESON: Yes, we are now discussing what the recommendations should be, and what I was trying to do was to persuade - attempt to persuade you that something more was required than merely saying, "A year ago you said they ought to be a billion dollars; they are over a billion dollars."

MR. CROWLEY: we are not in disagreement with that. We all feel, Dean, that we should make a recommendation to the President as to the way to bring these balances down. But I have the impression from you that you were in sympathy with number one, but not in sympathy with tying it in, just because of the dollar balance position.

- 22 -

MR. ACHESON: That is true. That is entirely right.

MR. CROWLEY: And the Treasury and ourselves feel that it should be tied into the dollar balance position, because if you don't do it that way you will never get that balance position down.

Isn't that right, Mr. Secretary?

H.M.JR: That is right.

MR. WHITE: The position is that following "1" would yield quantitative results that are too small to indicate that we have abided by the President's directive.

Therefore, should that prove to be the case - we expect it will prove to be the case - it becomes necessary to use other measures.

And "2" says "...it is further proposed to have the British pay for as large a proportion of civilian goods obtained in this country as is necessary to help reduce the British Government's gold and dollar holdings to, and keep them at, about \$1 billion." We have always said "about" - a hundred million, plus or minus, never mind.

MR. ACHESON: What I was trying to do is to discuss the merits of that recommendation.

MR. CROWLEY: That is right. I just wanted to get it clear. That is what I understood.

H.M.JR: Well, Senator Butler should get hold of this stuff and go back and read my testimony and Ed Stettinius' testimony, and everything else, and in the light of what we said, and in the light of what the situation is, it would make the South America thing look like a pink tea-party.

MR. ACHESON: Can we discuss it for a moment?

- 23 -

H.M.JR: That is what we are doing.

Mr. ACHESON: It is quite right that you did carry the balance, and you were the spokesman, and that you did more than anybody around here to get this thing started in 1940 and 1941. That is perfectly clear and there is no question about that. When you did give your testimony after the 11th of March, 1941, we were neutral - not in the war. A great deal has happened since then. We are in the war; we have been in it for a long time. The act has been extended by Congress; it was extended under hearings in which a wholly different idea of the Lend Lease was put forward. Lend Lease is a weapon - is something you were using in the war. The Congress quoted at length from Lend Lease reports of the President, in which they approved the idea that bearing the costs of the war, if the costs of the war were born equally by the various countries, that this was the desirable and proper result. And they quoted that in the Lend Lease report in which they asked to have the Act renewed. It seems to me that we have a different philosophy and I should not suppose that Congress would be shocked by it. We are fighting just as much as the British are fighting for the same purpose; we are just as keen about the result.

There are certain dollar costs of the war, and certain sterling costs of the war. The actual burden on the two countries is approximately equal. It is not a basic underlying legal necessity that every single dollar that the British can scrape together should be paid to us to bear the dollar costs of the war, even though that may greatly impair the stability of the British financial position, bring about difficulties between us, and make the settlement after the war infinitely more difficult.

Those are new factors which could be taken into consideration. They have got to be brought to the attention of the President, no question about that, but in making him a recommendation, I do not believe that it is necessary to say that a year ago a limit was fixed.

- 24 -

"That limit is exceeded, and therefore, unless you direct otherwise, we will cut off Lend Lease aid to the point where the British use enough of their gold in dollars so that they are brought down to a billion dollars."

I think these other considerations can be brought to his attention, also.

MR. WHITE: What was the purpose of that directive which was issued when we were at war? You would interpret that directive to mean what? If we are not violating it now, then what, in your opinion, does that directive mean? What significance does it have? Why did we go through all that lengthy discussion and bring the matter of that character before the President, unless we wished to get a definite directive?

Apparently it was his wish; he approved it. Now you are suggesting we ignore it.

MR. ACHESON: I am not suggesting we ignore it at all.

H.M.JR: One thing - I don't think you are correct. That has nothing to do with the argument. "We are both spending about the same amount of money." I don't think that is correct.

MR. ROSTOW: In proportion to our income?

H.M.JR: Mr. Acheson didn't say that.

MR. ACHESON: I didn't say we were spending the same amount of money. I said the proportionate burden was the same.

H.M.JR: You meant it in connection with the population? I can answer you very easily, in preparing a brief I have no objection to stating something like this: "Undoubtedly you know, Mr. President, since you have signed this directive the British sterling position has changed from this to this" - and give that part of the thing and bring it to his attention.

- 25 -

MR. WHITE: We have that in there, Mr. Secretary; that statement is in there now.

H.M.JR: I think he should have all the facts; in other words, we are not just pleading one side of the case. That is the point Mr. Acheson was talking about, weren't you? That is the point you were talking about, that we should bring to the President's attention what has happened internally, in the United Kingdom since January '43.

MR. STETTINIUS: Do you realize--

H.M.JR: Any objection?

MR. CROWLEY: No.

MR. WHITE: Very definitely and very clearly we have set the British case out as well as the British could themselves.

H.M.JR: That is what Dean was talking about.

MR. WHITE: We said that their balances were increasing at a rate of two and a half billion; they claim it was increasing at the rate of two and a half billion a year.

MR. COX: Page two.

MR. CROWLEY: Let me see if I get Dean's position. Dean's position, if I see it on that, is this, that we say that unless you advise us to the contrary, we are going ahead. That is a positive statement.

Now, what Dean wants to do, as I view it - Dean wants us to call his attention in the memorandum to the dollar balance position, to the situation which may have changed in the British Empire, and so forth, and so on. And then leave the thing without a recommendation to the President - let him make the determination. Is that right, Dean? Without a positive recommendation on our part?

- 26 -

MR. ACHESON: No, no. I am trying to argue to you to make a different recommendation. If I could be a magician and be both of you, and exercise your wills, I would try to get a different report; one that did not make this recommendation that we should reduce.

MR. WHITE: You are not doing a bad job!

H.M.JR: Now, wait a minute. You were talking about the fact that the situation has changed since the President signed this memorandum. That is what this last argument was, wasn't it?

MR. ACHESON: Yes.

H.M.JR: It says here (reading) "Secondly, they claim that their short-term sterling liabilities to overseas countries are five times the amount of their gold and dollar holdings and that these liabilities are increasing at a rate of \$2.5 billion a year.

"The British claim that they should be permitted to accumulate gold and dollars as a necessary reserve against these growing liabilities. They assert that the continued accumulation of gold and dollars is a prerequisite to the continuation of the policy by which they have managed to finance their war expenditures in India, the Near East and other overseas areas.

"Finally, the British fear that their mounting liabilities to overseas countries will place them in a very vulnerable position after the war and jeopardize their chances of a speedy post-war recovery."

It seems to me that informs the President as to what their claims are.

MR. COE: But Dean wants a definite recommendation in, don't you, to the effect that we recommend that the "dollar balance limit that you directed on January 1" be taken off.

- 27 -

MR. ACHESON: Yes, that is exactly what I would do.

H.M.JR: What is it that you want? Let's get it down. I didn't hear you say that; I didn't get it.

MR. ACHESON: To pick up where you left off reading, here, it is true that we have stated that they say the situation has changed, and then paragraph five says that in our opinion this change doesn't warrant a change in the directive and that we ought to take certain steps to correct it. I think it does warrant a change in the directive, and I am putting forward a different view from the view put forward in the memorandum.

MR. WHITE: Yes, that is what I thought was your conclusion, but I didn't know you wanted to put it as simply as that. But that is exactly the issue. You want to raise the ceiling - I mean, have no ceiling; you want to remove the ceiling because you say the situation is changed.

H.M.JR: He hasn't said that yet.

MR. ACHESON: I do want to raise the ceiling or remove the ceiling. I do not believe that the wise way to deal with this is to take an attitude that the total British assets must be kept within a ceiling. I think the way to do it is to operate on particular Lend Lease steps which seem, of themselves, to be dangerous, not connected with the British cash position at all.

MR. WHITE: Why didn't you feel that way last year? You are entitled to change your mind, but you apparently have changed your mind since you signed the document last year.

MR. ACHESON: We had a directive from the President which, except for a little over two million dollars, has been adhered to, and Lend Lease has so conducted itself that except for about two hundred and thirty-five million, that is all we are over, really; if this claim of the British that the gold that they have is not to be included, is right.

- 28 -

MR. WHITE: We are seven hundred million over the top ceiling. It was six hundred to a billion, and we are now a billion seven.

MR. ACHESON: Well, the figures that you have here are a billion six, with the claim that three hundred and sixty-five is a deduction against that.

MR. WHITE: Let's not be meticulous. It is a billion six-fifty.

H.M.JR: When we first talked to them about six hundred million, they also claimed that that gold was-- (gestures).

MR. WHITE: They had then about three hundred million.

H.M.JR: Now how much?

MR. WHITE: Now a billion seven.

H.M.JR: The gold, they always put that to one side. They always claim that shouldn't be counted.

MR. WHITE: I am not sure.

MR. STETTINIUS: Mr. Secretary, do you remember that the presidential directive on this matter was born in this room about a year ago this week, when you and I alone had a private conversation about what we are discussing here this afternoon, and you picked up the phone and telephoned Mr. Hull and you asked me to arrange with Henry Wallace for a meeting?

H.M.JR: Yes, very well.

MR. STETTINIUS: At that time--

H.M.JR: To use the vernacular, "And so what?"

- 29 -

MR. STETTINIUS: I am just collecting my thoughts again on this business. If I didn't know - if I had come to you greatly concerned on this business of dollar balances and asked you to assist me, as Lend Lease man, in getting the policy of this Government arrived at--

H.M.JR: What you are saying is you remember you took the initiative.

MR. STETTINIUS: Yes, I am connecting it up with the fact - it has all come back to me.

H.M.JR: I would have to refresh my memory, but my offhand opinion is that you are correct, that you sought me out.

MR. STETTINIUS: Oscar, do you remember that? And I asked you to communicate--

H.M.JR: I think you sought me out.

MR. CROWLEY: I think all we have to do is to bring it up to date, and I am in your position. (General laughter) I am going to seek some fellows out here to get this thing settled.

MR. STETTINIUS: It has to be settled.

H.M.JR: After all, this argument has been going on for fifteen minutes. I understand that Acheson's position is he would like to see - if I am wrong, you correct me - why don't you state your position, rather than my stating it?

MR. ACHESON: I think you were going to state it correctly.

H.M.JR: That you want to see the ceiling off?

MR. ACHESON: Yes, sir.

- 30 -

H.M.JR: My position is that I would like to say in these recommendations, and without trying to be arbitrary - I think I have been courteous - I always try to be courteous - I have listened - but I am not convinced as to your position.

I think that through Lend Lease we should make every effort possible not only not to let the English balances grow, but should use every effort possible to reduce their dollar position.

Now, that is an honest difference of opinion.

MR. CROWLEY: Dean, so we get this up to the President, and Ed, it looks to me as though they would have to have two memoranda over there.

H.M.JR: Stettinius has something to say.

MR. ACHESON: He is the boss; I am not.

H.M.JR: Stettinius is sitting in two positions.

MR. STETTINIUS: I would like to ask Dean a very simple question. If we had Senator Truman and his colleagues here and were asked to explain, Dean, simply the fact that when Lend Lease commenced the balances crashed from three billion down to two hundred million, and England had to adopt Lend Lease to help them continue in the war - "Now, gentlemen, Lend Lease - if the British dollar position has risen from two hundred million to one billion seven - we would like to know how that is justified."

Now, what would be your simple crisp answer to that, in a way the Congress would understand it, and the public would understand it?

MR. ACHESON: I would have two things which I would try to make clear to them. One is that to look at what a man has in his pocket, without finding out what he owes, is a very poor way to get his net position.

- 31 -

If some years ago a man had five dollars and owed nothing, he is not better off, because today he has fifty dollars and owes a million. He is busted worse than he was before, although he appears to have more cash in his pants pocket. Now that is the first thing.

The British position, that has not been improving; if you look at the net, it has been deteriorating and they are in a worse position than they were before. That is the first fact.

MR. CROWLEY: We do, too--

H.M.JR: We can withdraw.

MR. STETTINIUS: Do you like my question?

H.M.JR: I think, if you don't mind my saying so, I think you fellows ought to go into a huddle and decide. We have worked on this thing. I think the State Department ought to get together.

MR. STETTINIUS: Well, you said we had a few days.

H.M.JR: Sure, but I think, in view of the fact that Crowley and I are together on this thing--

MR. STETTINIUS: Dean and I aren't prepared, sir, to reach a decision this afternoon.

H.M.JR: No, and I don't think it is fair to do it in front of so much company.

MR. WHITE: Except I would like to answer this point, that Congress did not look to see what the net position of the United Kingdom was when it passed the Lend Lease. It looked only in its pocket. It was not influenced by the fact that we presented to them the assets of England, which at that time were very substantial, and are still substantial, though not as much so now. They did not say, "England has fifteen billion dollars for

- 32 -

investment; we don't have to lend her money." No, they said, "They haven't the dollars to buy the goods they need." That was the sole criterion; because they did not have the dollars they needed to buy the goods, Congress said we would provide them with the dollars. There never was any question about England.

MR. ROSTOW: There has been a lot of legislative history since then, Harry.

MR. WHITE: We were talking about it at that time.

MR. STETTINIUS: You think my question is a good one?

MR. WHITE: I am interested. I thought his answer had two sides. I thought I would give the other side.

H.M.JR: I think the thing in the report is a very clean-cut thing, where they say (reading) "In the latter connection, we should never forget that lend-lease was originally authorized by the Congress, solely because the English and others whom we desired to assist did not have sufficient American exchange to purchase materials needed by them. Lend-Lease was never intended as a device to snuff a portion of their war costs to us, but only as a realistic recognition that they did not have the means with which to pay for materials they needed.

"Before authorizing lend-lease, the Congress expressly requested and received assurances that lend-lease assistance would be extended only where the recipient was fully utilizing all of its own resources."

MR. ROSTOW: Is this the Truman Committee or the Subcommittee?

H.M.JR: It is in the report of the Truman Committee.

MR. ROSTOW: I was under the impression that was the Subcommittee.

- 33 -

MR. WHITE: I would assume it was Truman.

H.M.JR: It is issued in a bulletin of the Truman Committee.

MR. WHITE: I think many of Dean's arguments are very excellent arguments which we would sympathize with wholly, to give to Congress or a committee which is re-examining their position, but they are not arguments that are relevant, in our opinion, to the directive.

H.M.JR: If I were a private citizen on the outside, I would be glad to organize and help to back Dean.

MR. ACHESON: Thank you.

H.M.JR: But I am not.

MR. STETTINIUS: Now, may we have a couple of days?

H.M.JR: I am not.

MR. STETTINIUS: May we have a couple of days to study this matter carefully within the State Department?

H.M.JR: Would Tuesday rush you too much? Today is Thursday.

MR. STETTINIUS: We would like to analyze it carefully.

H.M.JR: How about you?

MR. CROWLEY: Tuesday is all right.

H.M.JR: Would in the morning be all right? How do you people work?

MR. STETTINIUS: How do you work? We will fit in with your schedule.

H.M.JR: Do you like to have the first appointment?

- 34 -

MR. STETTINIUS: The middle of the morning with me, if that doesn't conflict with yours.

H.M.JR: Eleven o'clock?

MR. ACHESON: I suppose that Mr. Sol Bloom's committee will be through with me. May you wouldn't want me.

MR. STETTINIUS: No, this is a matter we will carefully consider in the Department and discuss with Mr. Hull and be back Tuesday morning.

MR. ACHESON: The afternoon is a little safer, Mr. Secretary, because the Committee has had me up there every morning for the last two weeks.

H.M.JR: Well, I don't have to have my teeth cleaned.

MR. ACHESON: Not all afternoon.

H.M.JR: Three o'clock?

MR. STETTINIUS: Good.

MR. ACHESON: Fine.

H.M.JR: I had a doctor's appointment at four. I can keep that or not--

MR. STETTINIUS: Yes, you keep that. I have a meeting with Crowley at four.

MR. CROWLEY: I will be with you at three and Stettinius at four.

H.M.JR: I will leave the room and you can stay right here.

Can I keep my dentist appointment at four?

MR. STETTINIUS: Sure.

- 35 -

H.M.JR: Getting a dentist appointment these days is something!

MR. ACHESON: Make it two-thirty, then you will be sure.

MR. CROWLEY: That is all right.

H.M.JR: I just thought you people would come over and say yes or no. All right, two-thirty.

MR. WHITE: I am afraid they will come over and say yes or now.

MR. ACHESON: You mean yes and no.

H.M.JR: I will tell a very old story. One of the first days Mr. Roosevelt was here he had Professor Einstein down, and he had just come over from Germany. The President was telling him one of his humorous jokes. When he got through, Professor Einstein turned to my wife and said, "I understand each individual word, but does he mean yes, or does he mean no?" (General laughter)