

DIARY

Book 689

January 1-3, 1944

Argentina
See Foreign Exchange

Bowman, Isaiah (President, Johns Hopkins University)
See Procurement Division: National Youth Administration
Surplus Property

Budget Message

Bell gives resumé of conferences with Budget people to
HMJr - 1/3/44..... 689 67

- a) Forced Savings still an issue; discussion by Treasury group
- b) Draft of letter to FDR discussed by HMJr and Bell - 1/5/44: See Book 691, pages 21,41
 - 1) Actual letter: Book 691, page 44
 - 2) White House-HMJr conversation: Book 691, page 45

Conference; present: HMJr, Bell, Gaston, Blough, and Heffelfinger - 1/8/44: Book 692, page 160

- a) Smith-HMJr conversation: Book 692, page 165
- b) Gamble-HMJr conversation: Book 692, page 192

Actual message - 1/11/44: Book 693, page 16

Burke, Collector of Customs
See Massachusetts

Business Conditions

Haas memorandum on situation, week ending January 1, 1944 -
1/3/44..... 185

China

See also Foreign Exchange

Procedure now that Stabilization Board has been dissolved
outlined in cable to Adler - 1/3/44..... 210

- a) Adler's reply - 1/11/44: See Book 693, page 59

Comptroller of the Currency

Interest Payments on Demand Deposits

Discussion by HMJr, Delano, and Ransom (Federal Reserve Board) - 1/3/44..... 104

- a) Delano memorandum: "Absorption of Exchange"..... 113

Discussion by HMJr, Crowley, and Bell - 1/6/44:

See Book 691, page 221

Doughton-HMJr conversation - 1/7/44: Book 692, page 47

Conference; present: HMJr, Delano, Bell, and HM, III -

1/10/44: Book 692, page 230

Contract Termination Board, Joint

See Post-War Planning

Contracts, Renegotiation of

See Post-War Planning

	Book	Page
Correspondence		
Mrs. Forbush's Mail Report		
a) Outstanding complaints - procedure set up for handling - 1/3/44.....	689	179,180
1) Amendment as dictated by Under Secretary Bell - 1/11/44: See Book <u>693</u> , page 29		
Couve de Murville		
See France		
Cox, Oscar S.		
New Year's greeting - 1/1/44.....		48

Financing, Government		
War Savings Bonds		
4th War Loan Drive: Newspaper asked to assist - 1/3/44....		172, etc.
Foreign Exchange		
China		
HMJr-Grace Tully conversation: Action on FDR's part imperative; air fields must be prepared - foreign exchange situation must be cleared up - 1/1/44.....		17,163
a) Somervell-HMJr conversation.....		1
1) Somervell memorandum on China-Burma-India area.....		166
b) Hull-HMJr conversation.....		24
United Kingdom		
Position on "third countries" explained to HMJr by White - 1/1/44.....		14
a) Army expenditures to be like relief expenditures, (United Nations Relief and Rehabilitation Administration) i. e., same proportion to be paid in third countries which require expenditures on the part of United States or United Kingdom		
1) Argentine wheat case discussed		
a) HMJr-General Strong conversation.....		19
b) Strong's subsequent memorandum.....		42
c) Discussion by McCloy, HMJr, and White - 1/3/44.....		136
d) Hull informed of impending \$75 million purchase for Army in Italy: See Book <u>690</u> , page 1		
e) Conversation with Lewis Douglas' assistant, Franz Schneider (War Shipping Administration) - 1/4/44: Book <u>690</u> , pages 61, 83		
1) Schneider memorandum: Book <u>690</u> , page 89		
a) Copy sent to Hull and Crowley - 1/6/44: Book <u>691</u> , page 273		
b) Copy sent to McCloy - 1/11/44: Book <u>693</u> , page 47		
f) Haas memorandum:wheat surpluses available for shipment to Italy - 1/4/44: Book <u>693</u> , page 91		

Foreign Exchange (Continued)

United Kingdom (Continued)

Argentine wheat case (Continued)

- g) Conference; present: HMJr, White, McCloy, Dunn, and Bell - 1/8/44: See Book 692, page 151
- h) Schneider-HMJr on ownership of any part of stockpile by United Kingdom or United States - 1/10/44: Book 692, pages 245,249

Reduction in Dollar Balances

Portugal to be permitted to exchange sterling holdings for gold

- a) Discussion by HMJr, White, Taylor, Friedman, Bernstein, and Miss Kistler - 1/1/44..... 689 4
- b) HMJr's letter to Admiral Leahy, Combined Chiefs of Staff - 1/1/44..... 43
 - 1) Reply - 1/10/44: See Book 692, page 388
- c) State Department letter - 1/12/44: Book 693, page 120
- d) McCloy consulted - 1/12/44: Book 693, pages 138,140

France

See also Refugees (Jewish)

Couve de Murville coming to Washington to assist Monnet and French delegation - 1/3/44..... 208

- I -

Ibn Saud

See Refugees (Jewish): Weizmann correspondence

Interest Payments on Demand Deposits

See Comptroller of the Currency

- J -

Joint Contract Termination Board

See Post-War Planning

- L -

Latin America

Argentina: See Foreign Exchange

Legislation, Drafting of

Treasury policy discussed by HMJr, Paul, Blough, Surrey.

O'Connell, Gaston, and Sullivan - 1/3/44..... 58,139

a) Forrestal's connection discussed

Paul memorandum on bills drafted - 1/5/44: See Book 691, page 100

- M -

	Book	Page
Massachusetts		
Burke (Collector of Customs) discussed by Frank Walker and HMJr - 1/3/44.....	689	159
a) HMJr discusses with Treasury group - 1/5/44: See Book <u>690</u> , page 17		
Motorcycles		
See Procurement Division		

- N -

National Youth Administration		
See Procurement Division		
Newspapers		
See Financing, Government: War Savings Bonds		

- P -

Portugal		
See Foreign Exchange		
Post-War Planning		
Contracts, Renegotiation of		
Vinson (Congressman) plans to scare opponents by introducing bill restricting profits to a certain percentage of gross sales - 1/3/44.....		58
a) Paul's participation discussed by 9:30 group		
Joint Contract Termination Board		
Subcommittees - Treasury representation on discussed by HMJr, McConnell, O'Connell, Bell, Gaston, and Sullivan - 1/3/44.....		73
a) Memorandum for John Hancock.....		103
Document establishing: See Book <u>691</u> , page 255		
Final drafts of certain principles - 1/7/44: Book <u>692</u> , page 67		
Conference; present: HMJr, McConnell, O'Connell, Bell, Sullivan, Thompson, and Lynch - 1/10/44: Book <u>692</u> , page 250		
a) McConnell brings HMJr "up to date"		
Baruch sends copy of report transmitting to Byrnes Uniform Termination Article and Cost Statement - 1/7/44: Book <u>692</u> , page 378		
Conference in Byrnes' office - O'Connell memorandum - 1/11/44: Book <u>693</u> , page 38		
Estimate of potential claims from termination of war contracts - progress report by Haas - 1/11/44: Book <u>693</u> , page 41		
Procurement Division		
National Youth Administration Surplus Property:		
Bowman (President of Johns Hopkins University, Baltimore, Md.) criticizes distribution - 1/3/44.....		56

- P - (Continued)

	Book	Page
Procurement Division (Continued)		
National Youth Administration Surplus Property (Continued)		
a) Drafts of reply discussed by HMJr, Mack, Sullivan, and Fox - 1/3/44.....	689	121
1) Draft 1.....		129
2) " 2.....		131
3) " 3.....		132
4) Finished letter - 1/4/44: See Book 690, page 230		
b) New Hampshire and Vermont projects explained by Sullivan - 1/5/44: Book 690, page 17		
Surplus Property: Program for disposition of		
Motorcycles.....		133,134
Shearlings.....		135
Surplus property (all): Publicity for discussed by Treasury group - 1/5/44: Book 690, page 19		

- R -

Ransom, Ronald		
See Comptroller of the Currency: Interest Payments on Demand Deposits		
Refugees (Jewish)		
Weizmann tells Mrs. Klotz about letter written to Rosenman at his (Rosenman's) request - 1/3/44.....		201
a) Conversation with Smuts attached: See Book 690, page 42		
(See also pages 46,48)		
b) Letter to Welles attached: Book 690, page 50		
c) Conversation with Churchill attached: Book 690, page 55		
France: License issued to American Jewish Joint Distribution Committee authorizing Swiss representative to assist in evacuation of children principally - 1/3/44.....		202
a) Discussed by Treasury group - 1/4/44: Book 690, page 23		
1) Pehle memorandum: Book 690, pages 31,95		
2) Cable to Bern: Book 690, pages 32,96		
Joint Chiefs of Staff: Letter quoting North African Theatre of Operations Commanding General's attitude of assistance reported to American Embassy, London - 1/3/44.....		203
Yugoslavia: Refugees from-now on Adriatic island of Rab- discussed in messages to American Embassy, London - 1/3/44.....		204
Renegotiation of Contracts		
See Post-War Planning		

- S -

Schneider, Franz		
See Foreign Exchange		

- S - (Continued)

Book Page

Shearlings
See Procurement Division
Somervell, Brehon
See Foreign Exchange: China

- U -

U. S. S. R.
Ambassador Harriman reports on developments in Soviet Union -
1/3/44..... 689 212
United Kingdom
See Foreign Exchange
United Nations Relief and Rehabilitation Administration
See Foreign Exchange

- W -

War Savings Bonds
See Financing, Government
Weizmann, Chaim
See Refugees (Jewish)
Wheat
See Foreign Exchange

- Y -

Yugoslavia
See Refugees (Jewish)

January 1, 1944
10:41 a.m.

1✓

HMJr: Hello.

Operator: General Somervell.

HMJr: Hello.

Operator: There you are.

HMJr: Hello.

General Somervell: Somervell.

HMJr: Happy New Year.

S: Thank you very much, sir. The same to you. As one of our boys said, "There's certainly plenty of room for improvement."

HMJr: That's right.

S: (Laughs)

HMJr: General, the reason I'm calling you, I have your request on China very much in my mind.

S: Yes, sir.

HMJr: And I tried yesterday to get word from the White House if they had any answer and I've had no answer from them.

S: Yes, sir.

HMJr: And I wondered, while I was waiting, whether you'd be willing to have somebody in your organization put down on paper just what your problem is in acquiring foreign exchange in payment of work and payment of troops in the Far East, you see?

S: Yes, sir.

HMJr: And then if I had that before me, and if and when the President decides to move, why I'd be better posted.

S: Yes, sir.

HMJr: See?

- 2 -

S: Yes, sir.

HMJr: So, do you suppose somebody could put that down for us?

S: I'll have it done right away.

HMJr: And get it over to me. Then I could study it.

S: All right, sir.

HMJr: But I -- another cable has come in from Ambassador Gauss and it's going to be difficult, but by hook or crook, I'll take care of you.

S: Well, you always have and we appreciate it a lot.

HMJr: But -- well, thank you if I can have that.

S: All right, sir.

HMJr: But I mean the whole Far East. That'll be both China and India and Burma and wherever you are. It's that vicinity of the world anyway.

S: You don't want Persia in there. That's taken care of, I think.

HMJr: I think we're all right on Persia.

S: All right.

HMJr: I think we're all right on Persia. Just India and China and that neck of the woods.

S: All right, sir.

HMJr: Thank you.

S: Yes, sir.

HMJr: Bye.

January 1, 1944
10:45 a.m.

FOREIGN FUNDS CONTROL

Present: Mr. White
Mr. Friedman
Mr. Taylor
Mr. Bernstein
Miss Kistler

MR. WHITE: This is Mr. Taylor, Mr. Secretary, I don't know whether you have much contact with him.

H.M.JR: I ought to. Didn't I recommend him as the one-and-only?

MR. WHITE: And this is Mr. Friedman.

H.M.JR: Listen, when you go away for two or three days to make speeches I get acquainted with your fellows. It is good for me, seriously. Shows you have a good organization. He (Taylor) was out at the house twice.

MR. WHITE: I accept the compliment.

H.M.JR: No, I had a few suggestions and I thought we might sit around.

This is very funny. Last night at the White House - I won't mention a name - there was a lady there. She is on Keynes' Economic Staff up at the Embassy - he is so terribly excited about what we are doing on dollar balances. This is a bright girl. She asked me a lot of questions and I asked her some.

I thought I would like to sort of take a trip around the world on this thing. I thought I would ask General Somervell. I am disturbed because I haven't heard from the President. I have asked if he has heard from Chiang Kai-shek. I have read the cable and I have read Adler.

- 2 -

I would like to have General Somervell put down on paper what he sees the problem is from the standpoint of acquiring foreign exchange in payment of troops in the Far East. I mean, what are his problems as he sees them, so that I could be prepared to make recommendations.

MR. WHITE: You can get it in writing, or if it is merely information you want, we can tell you.

H.M.JR: No, no, I would like to have it put in writing. Then I was surprised to see that evidently Acheson is already out there.

MR. WHITE: To my knowledge, he just left a day or two ago.

MR. FRIEDMAN: That is right.

H.M.JR: Didn't you see Gauss' cable?

MR. WHITE: That is a different Acheson. That is Acheson that belongs to the State Department. He is not an economist.

(The Secretary asks for General Somervell on White House phone.)

H.M.JR: That is another one. Well, this thing - you see, when you mentioned Portugal why I didn't want to talk. I think before we decide a thing like that, I should ask the Army whether it would be good, at this time, to placate Portugal to the extent of twenty or thirty million dollars.

Now you take, for instance, we haven't been able, as far as I know, to get permission to land on the Azores.

MR. WHITE: Twenty or thirty million pounds.

H.M.JR: Pounds - well, I think before we do that, I ought to write a letter to General Marshall and simply say - or some of you write to Stimson--

- 3 -

(The Secretary on White House phone:)

Hello, General Somervell. Happy New Year.

That is right.

General, the reason I am calling you, I have your request on China very much in my mind, and I tried yesterday to get word from the White House whether they had any answer. I have had no answer from them.

I was wondering, while I was waiting, whether you would be willing to have somebody in your organization put down on paper just what your problem is in acquiring foreign exchange in payment of work and payment of troops in the Far East. You see? Then, if I had that before me, if and when the President decided to move, why I would be better posted, see?

Do you suppose somebody could put that down for us and get it over to me? Then I could study it.

Another cable has come in from Ambassador Gauss, and it is going to be difficult. But by hook or crook I will take care of you.

Well, thank you. If I could have that - I mean the whole Far East; that will be both China and India - or Burma, or wherever you are - that vicinity of the world, anyway. I think we are all right on Persia. Just India and China and that neck of the woods.

Thank you.

(End of telephone conversation.)

H.M.JR: Now let's go ahead. Just state your problem, what this proposal is and what it would mean.

MR. WHITE: The British have said that they are contemplating permitting the Portuguese Government to withdraw in the form of gold some of their two hundred

- 4 -

and twenty-five million dollars' worth of sterling balances which they now hold. Presumably those balances were accumulated under terms of an agreement - whether it is oral or written, I do not know, we have never seen it - under terms of an agreement in which the British Government guarantees to Portugal the exchange risk.

In other words, you can always withdraw that sterling or its equivalent in gold as of the rate in which it was accumulated, so in case sterling depreciates, Portugal will not suffer an exchange loss even though she doesn't withdraw it. And that agreement, to my understanding, is good until five years after the cessation of hostilities.

That item has been one of the items which the British Treasury has insisted should be set off as a gold liability against your gold assets.

H.M.JR: About three hundred million?

MR. WHITE: Three hundred and fifty million, that is right. The rest is Egypt, and there are some smaller amounts. The two major ones are Egypt and--

H.M.JR: What is this agreement with Portugal again?

MR. WHITE: Portugal has about two hundred and twenty-five million dollars' worth of sterling. Portugal, presumably, can take that sterling and demand gold for it of England any time within five years after the cessation of hostilities, and at a rate which would subject her to no risk of loss.

Now, Portugal has not asked her for any, but I gather that the British Treasury feels that this is a good time to make their dollar balances look lower, and so they are going to inform Portugal that the British Treasury is now ready to let them have from twenty to thirty million pounds of gold.

- 5 -

They think, or they have suggested, that that also would improve their relations with Portugal. That is their excuse for doing it. Actually, I think the reason for doing it is they are worrying about their increasing balances and they think this will be a good way to reduce them, because they are afraid if we don't they will lose Lend Lease aid. This way they set off gold liabilities against dollar assets.

H.M.JR: Inasmuch as this is part of the three hundred and fifty million dollars, it doesn't in any way change our position that we want to go ahead and, let's say, discontinue--

MR. WHITE: The politically undesirable arguments--

H.M.JR: Those things which they ought to be able to provide themselves.

MR. WHITE: It doesn't alter that at all.

H.M.JR: Doesn't weaken our position?

MR. WHITE: No. I don't think, Mr. Secretary, we are in a position to say no. That is why I am wondering if you could write to Marshall about it. I don't know how far you can go with England in saying, "You can't pay them gold, even though you have an agreement."

H.M.JR: Who put it up to you?

MR. WHITE: Whaley, naturally; and they didn't ask for our approval. They asked for our comment. They are planning to do this.

H.M.JR: This is my suggestion and I would like it to go out today. What is the date of his letter?

MR. WHITE: I wouldn't know, exactly - within a few days.

- 6 -

H.M.JR: What I would like to know, have we informed State of this?

MR. WHITE: No.

H.M.JR: I would send a letter to the Secretary of State and simply say that I am in receipt of the following letter from Mr. Whaley of the British Treasury. "We here feel that we should say yes." Then I would say, "Inasmuch as this is part of the three hundred and fifty million dollars that the English have always said should not be included, this would in no way change the status of the discussion which we are having between our office" - Mr. Crowley's and mine, see?

MR. WHITE: It is included in the billion, seven.

H.M.JR: I don't want to say "the dollar balances," see? I don't want to say that. I don't want to have Acheson come right back and say, "Ah, hah; this is more evidence."

I just want to say, "This in no way changes the status."

MR. WHITE: That we have always recognized this liability and it in no way changes the status.

H.M.JR: Yes. Do you get the point? Are these boys up? Acheson is trying--

MR. WHITE: Mr. Friedman is.

H.M.JR: Well, he is trying to get us to say we have to turn our soul inside out to the British and let them know everything we are thinking and doing in this life and the next life.

I would say, "I would appreciate a prompt answer."

MR. WHITE: Do you want to mention the fact that unless there are political reasons for our not doing

- 7 -

this independent of questions which we are considering, or we assume there aren't any? We never have, on a matter of this kind, asked them if there are any political reasons, so maybe we don't need to ask about that, either.

H.M.JR: Just like this cable on China. He would say, "I would like your comments on China." I would say, "We feel we would like to do this, unless there is some very good reason which you might want to inform us about." Do you see?

MR. WHITE: Yes.

H.M.JR: The thing that I am thinking about, somebody may say, "Well, now, can't you hold this up?" Where we were smart - the fact that we can't say no, makes no difference. I would send for them and say, "Look, I am trying to help you on getting this money from the British - but how about helping us get permission to land on the Azores?" I mean, I would say to Leahy--

It is the kind of thing we never do around here, and the thing we should do. A little poker. You used to bet when you had nothing in your hand.

MR. WHITE: Yes, we have got nothing much in our hand on this one. (Laughter)

H.M.JR: But you used to win.

MR. WHITE: Sure.

H.M.JR: And then I would write something not quite along the same way.

MR. WHITE: Send just a copy to Crowley?

H.M.JR: I wouldn't send anything to Crowley.

MR. WHITE: I thought you said State.

- 8 -

H.M.JR: Leahy, Combined Chief of Staff.

MR. WHITE: Ask him the same?

H.M.JR: No, Leahy.

MR. WHITE: We would have to phrase that a little differently. Ask if there is any military reason why.

H.M.JR: I mean, it is the kind of thing - normally, if they had the kind of Cabinet, you would raise it at Cabinet and there would be a discussion, and so forth. But if that could be prepared--

MR. WHITE: I will do that this morning.

H.M.JR: Don't boast.

MR. WHITE: Well, this afternoon.

H.M.JR: Well, the thing is to get it to me. Whoever brings it to me, if it is this afternoon, should be the person who will see that it goes to these two people.

MR. WHITE: All right.

H.M.JR: My inclination is to do it, but I was just thinking that maybe they might--

MR. WHITE: If they object, all right; but we are on very weak ground to raise any objections ourselves. There is another problem, then, which bears on this.

H.M.JR: Well, we don't know. I mean, I have got to keep snooping, snooping, all the time, to try to keep up to date. And I will say this much: The more I see of the Army - I have got to take my hat off to some of the things they are doing.

Did any of you read this editorial today in the Post on Crowley?

- 9 -

MR. BERNSTEIN: Yes.

MR. FRIEDMAN: No.

H.M.JR: God, it was really something! They end up by saying the same thing. They have got to take their hat off to the Army.

MR. WHITE: What is it on, relief?

H.M.JR: No, on his organization. He has been in there for three months and it is a worse mess than it ever was.

MR. BERNSTEIN: Yes, sir, and there was a special point in comment about the people commuting down from New York to run his organization.

H.M.JR: What did they mean by that?

MR. BERNSTEIN: Must have meant businessmen who are part time on exports and similar things.

H.M.JR: It also looks like that either Landis or this General Motors man in Cairo--

MR. TAYLOR: Short.

H.M.JR: ...one or the other has come back and talked, you see? Complained. Short isn't the name.

MR. BERNSTEIN: You mean Royce. He was from North Africa.

H.M.JR: Short is one man, but Royce is the one.

MR. WHITE: Royce shouldn't talk very much.

H.M.JR: I suggest you people read it.

MR. WHITE: Did Jim Landis get what he wanted?

- 10 -

H.M.JR: He isn't going to get what he wants.

MR. WHITE: Said he was going to come around to see us.

H.M.JR: Two things that he wants. I tried out the President on them, just to see. One is Landis wants the United States Government and the Army to take an interest in the Balkans. The President said - this is all in the room - "We have no interest in the Balkans; we have got no business in the Balkans and the British have the Balkans." That was number one.

Number two, his other interest was that the State Department should be Assistant Secretary for Air - Civil Air. The President said, "It is very interesting."

Now, those are the two things. The Balkan thing is partly his thing; air isn't, very much. But that is what he told me were the two things when he came back. He said things that we talked to him about are nicely straightened out.

MR. WHITE: Shouldn't have been that the Army was interested in the Balkans, but should be interested in what is being done. However--

H.M.JR: Now you want to talk to me about this stuff in third countries?

MR. WHITE: I might bring up one other problem related to this, which Whaley has raised with us, and which we ought to be able to give them an answer to soon, which is, who is going to pay for the food and other materials that are bought for third countries.

H.M.JR: That is what I mean.

MR. WHITE: They have got a good position on that. They are taking this position; they are saying that this is relief. The fact that the Army is handling it doesn't alter the characteristics of the problem. Inasmuch as it is a relief problem, the expenses ought to be

- 11 -

borne in the same proportion as the expenses of the relief problem. That is, that they ought to bear that proportion of the expense that their national income bears to ours, in third countries.

H.M.JR: Is that a sort of out-growth of my talk with the Ambassador at that luncheon we had?

MR. WHITE: I don't think so, because this is moving in the other direction, of helping us less.

H.M.JR: Of helping us less?

MR. WHITE: That means we pay more for the stuff we buy. We pay four-fifths of it.

H.M.JR: But I said at the luncheon, why didn't we consider the question of some sort of a joint arrangement in third countries.

MR. WHITE: That may be, although the question also came up - which is one of the reasons, I think, why you spoke to him - when the Army had to buy this grain in Argentina. You remember I spoke to you and we couldn't agree as to who was to pay for it, so we took the position that the Army, which orders the stuff, will pay for it, but the adjustment, the reimbursement, or subsequent arrangements, will not be prejudiced by who actually makes the transaction, and at that time they offered to pay half of the expense in third countries.

The Army felt they ought to pay all, because we were spending so much in this country and they were spending so little in their country. They now come with this proposition, which has another part of it which is not so much of concern to us with regard to the dollar position, but of more concern with regard to the whole relief expenditures, and that is that they want the expenditures that are made by the armies, their Army and our Army, in goods or services, or even surplus materials, to count toward their commitments UNRA of one percent of their national income.

- 12 -

H.M.JR: You mean they want to tie the two things in together?

MR. WHITE: They want to say, if our Army gives UNRA any relief, in the way of coal to Italy now, or anything to France, that should be credited to our commitment to UNRA, which was one percent of the national income. The result of that would be that they might not give anything to UNRA, because it is easy enough in a couple of years of war to run that up.

H.M.JR: Does Lehman know about it?

MR. WHITE: I called him up last week and told him.

He was much upset about it. Then, in order to make their position perfectly logical and consistent, which they have done, they have said, "Our Army expenditures, therefore, shall be just like our relief expenditures; hence we will pay the same proportion in third countries which require dollar expenditures on the part of either your Government or our Government.

So that would mean, then, in the Argentine they would pay one fifth as against what they offered a short time ago, to pay a half, as against what we wanted to pay off. Now, whether they pay a fifth or a half, I think depends, in part, on the decisions which are made with respect to this matter, because we could add, as one of the items which they ought to pay for, a certain proportion, whichever you want to agree on, of goods purchased in third countries, and tell that to the Army. That is part of the agreement.

H.M.JR: Now talk in cases.

MR. WHITE: Here is this wheat case.

H.M.JR: You are talking in formulas.

- 13 -

MR. WHITE: There is this problem of buying flour in the Argentine now. They are ordering it to be shipped to Italy. The Quartermaster Corps is buying it through, I gather, the Food Purchasing Commission. The United States is buying it in Argentina. It will be shipped to Italy, charged to the United States Army, paid for by the United States Army, and distributed, I presume, by the Allied Mission.

H.M.JR: Why, in God's name, are we buying it in Argentina?

MR. WHITE: I raised that question with Roy Henderson and his assistants, who are on both the Combined Food Board and the other. The reason they gave was this: The United States is short of wheat; it will be down to two hundred million bushels sometime this summer; they have had to use a lot of wheat for feed; they even had to buy some wheat for Canada to use for feed, even though we sent some of our wheat to England. Now, they can either buy this flour for Italy from Canada or from the Argentine. But if they buy it from Canada, they will be confronted with a transportation problem which they claim is more serious than the shipping problem from the Argentine to Italy.

H.M.JR: Who claims that?

MR. WHITE: The Combined Food Board claimed, as stated by this chap who represents the Food Board. We do not have anything in writing. I didn't feel, without talking to you--

H.M.JR: How much does it amount to?

MR. WHITE: Well, they are going to buy about seventy-five million dollars' worth of wheat in the next six months, most of which, I think, will come from the Argentine. Now, I am not sure, because I don't know how their plan is run.

- 14 -

H.M.JR: Why don't I call up my friend General Strong, who is interested in the Argentine, and tell him?

MR. WHITE: Would it be better to first get the facts? We could write and say it is part of the problem.

H.M.JR: Let Strong get them.

MR. WHITE: The facts?

H.M.JR: He will get the whole thing.

MR. WHITE: They will merely tell him we have to have the wheat.

H.M.JR: I will tell him this thing should be gotten - the Army is doing this thing, and that they can get it - I believe they can get it in Canada.

MR. WHITE: They can get it in Canada. They say there is a shipping situation.

H.M.JR: What about ships coming back empty from Australia?

MR. WHITE: That I don't know. This fellow - I said to this fellow that you might want to talk to him. He said he would be very glad.

H.M.JR: Who?

MR. WHITE: I have forgotten his name, but he is the man whom Henderson referred me to as knowing most about it.

H.M.JR: Strong is like that (snaps fingers).

MR. WHITE: But I don't know whether he will know where to hit it. Is he interested in buying grain in Argentina?

- 15 -

H.M.JR: He is interested in knocking out this Argentine government.

MR. WHITE: We can try him.

H.M.JR: What harm can it do?

(The Secretary asks for General Strong over the White House phone.)

(The Secretary on the White House phone:)

Hello. Yes.

Right, Grace. Same to you.

We had a good time last night. The President stayed around for an hour.

Well, he sat right by the fire and he enjoyed it. He was in a very good humor.

No, he sat up for an hour.

I don't think so. He was all wrapped up.

Yes, right. Well, I didn't do it. Don't scold me.

All right, it was an hour - all right.

He never sent the message? Well, for heaven's sake. Well, then, he is naughty, too.

Now listen, this is what is bothering me. He really ought to do something. I will tell you why, if I haven't before. General Somervell has got a big problem there in getting these airfields ready, and he has got to pay for them. We have got to help him. I have stalled him off, now, for ten days, waiting for the President to move. If the President doesn't want to move, if he will just say to me, "Well, Henry, you handle it and take care of General Somervell," I will go to town.

- 16 -

Are you going to see him today?

Well, if he would simply say to me - if he doesn't want to communicate with Chiang Kai-shek, I mean--

Well, but if he will just say to me, "You go to town and see that General Somervell can build his air-fields and pay for the troops, and what-have-you," I will go to town and do the best I can, see?

No, I mean if the President doesn't want to communicate--

That is right. It was a memorandum. And he liked it so much he was going to send it as a message to Chiang Kai-shek.

Let me put it differently: If he doesn't, for some reason, want to communicate, and he will simply say to me, "Henry, you go ahead and make your own arrangements and take care of Somervell - take care of the Army"- I will go ahead and do the best I can, independently.

Do you want me to send you a copy of that message so you know what is in it?

Well, it will be easy. HE

Well, look, to save you trouble, I will get you another one.

Thank you so much.

Good-bye.

(End of phone conversation.)

(The Secretary held a telephone conversation with General Strong, as follows:)

January 1, 1944
11:20 a.m.

General
Strong:

Good morning, Mr. Secretary. Happy New Year to you.

HMJr:

Same to you. After I placed your call, the White House called me on another phone so I was stymied.

S:

Okay.

HMJr:

General, this business in the Argentine is up again.

S:

Uh huh.

HMJr:

And this time (Laughs) it's the Army that is proposing to buy \$75 million worth of wheat in the Argentine.

S:

Yeah.

HMJr:

Now, we've been on the outer perimeter and trying to say, "Why don't you buy it from Canada?" And somebody says, "Well, they've got a railroad problem, and so forth." But I wondered if you didn't want to get in on it and see if we can't help. I mean, to dump 75 good U.S. million dollars into Argentine right now, to me seems more cockeyed than most of the things we do.

S:

It seems to me entirely and completely insane.

HMJr:

Well, you and I agree again.

S:

That's particularly true. I don't know whether they called to your attention, Mr. Secretary, but I sent down a rather big volume of stuff on Argentine.

HMJr:

I have it and I'm studying it with the help of John Pehle. I thought it was all right to let him study it, too.

S:

Yeah.

HMJr:

But there's just -- at present, nobody has seen it but myself and Pehle, and this is to go to Italy, incidentally -- the wheat is to go to Italy.

- 2 -

S: Well, now do you know who is -- do you know what part of the Army is back of it? Is it the Quartermaster or....

HMJr: Well, Quartermaster.

S:is it the Civil Affairs Commission or what?

HMJr: Quartermaster.

S: Uh huh.

HMJr: And Civil Affairs.

S: I see.

HMJr: I guess it would be between the Quartermaster and General Hilldring.

S: I see. Well, I'll nail Hilldring right now and I'll try to get the Quartermaster later and find out what the real score is and let you know.

HMJr: Say, I know it's up in Canada. Nobody's looked at Australia as to whether they could get any wheat, but it seems to me any place but the Argentine.

S: Well, that's my reaction.

HMJr: Yes.

S: My reaction, yes.

HMJr: Well, I knew that you'd be interested.

S: Well, I'll find out what the score is and let you know very promptly.

HMJr: And I want, may I take the liberty of complimenting you on the assistance you have given us since -- I think it's been wonderful.

S: Not at all, sir. That's what our job is.

HMJr: I know. But a lot of people have jobs in Washington and we don't get any help from them.

S: Well, that's true, sir.

- 3 -

HMJr: Well, thank you.
S: All right, Mr. Secretary.
HMJr: Thank you.

- 17 -

H.M.JR: His comment was, "It is utterly insane."

He said, "Whom should I contact?" I said, "I think Hilldring, the Quartermaster."

He said, "I will do it within the hour."

MR. WHITE: They will refer him to the Board.

H.M.JR: He said, "It is utterly insane." And he doesn't pull his punches, you see. "It is utterly insane."

Now, wait a minute - just a second. Let's get back to this thing. I mean, all of this is terribly confidential. The President, the secretary says - whatever she tells me is true - she says he just hasn't gotten around to it.

Now, I don't know whether you agreed with me, but you heard what I said.

Oh, let's get this thing right over to him.

MR. WHITE: You told Secretary Hull, I think, that the President had forwarded it.

MR. FRIEDMAN: No, the letter said that the President had said he was going to forward it.

H.M.JR: Wait a minute. Let me just catch my breath. You can see why I wanted to talk to you fellows on foreign affairs for a little bit to pull some of these things together.

(The Secretary calls Mrs. McHugh and sends a copy of the memorandum to the President to Miss Grace Tully.)

(The Secretary places a call to Secretary Hull or his secretary.)

- 18 -

H.M.JR: I am trying to find out which one of those men has seniority. Do you know? Stone?

MR. WHITE: Not Stone, no.

H.M.JR: Have we heard from Acheson?

MR. WHITE: Oh, Dean Acheson - yes, he called me up. He said that there is a one-page memorandum which he was sending over at once - this was an hour ago. He embodied Secretary Hull's comments in your memorandum, a draft of which was submitted to him yesterday, in which apparently he said Secretary Hull goes along with the recommendations, but points to the fact that if the purpose, the objective of the program, is to cut down the dollar balances, that he recommend, or he feels that the matter ought to be taken up with the British ahead of time and thrashed out. But he feels--

H.M.JR: Excuse me. Let one of your men ask whether it has come in (referring to memorandum from Mr. Acheson).

(Mr. Friedman left the conference.)

MR. WHITE: He said that Secretary Hull thinks that it is your ball from now on, and you should do anything you want with his comment, which is in the form of a memorandum to the President, commenting on your memorandum. I gather he hasn't seen it yet. He wants to send it over to you first.

H.M.JR: Do you remember, he said he would let me have it before lunch? I said, "Make it before supper."

MR. WHITE: Well, he called up about an hour ago.

(The Secretary held a telephone conversation with Secretary Hull, as follows:)

January 1, 1944
11:27 a.m.

24 ✓

HMJr: Hello.

Operator: Secretary Hull.

HMJr: Hello.

Cordell
Hull: Hello, Henry.

HMJr: Good morning. Happy New Year to you.

H: Yes, and you, and your family.

HMJr: Thank you. Cordell, I wanted you to know that I have been checking up at the office of the President to find out whether he communicated with General Chiang Kai-Shek on the loan.

H: Yeah.

HMJr: And I -- Miss Tully just called me to say that no message has gone to Chiang Kai-Shek.

H: Well, I had this suggestion to make, Henry....

HMJr: Yes.

H:and I think, probably, you and the President may want to consider it.

HMJr: Yes.

H: That is, you know how that -- how bad that general situation is....

HMJr: Yes.

H:combined economic, political and military -- everything. And now, just to turn him down in a strictly -- as we would in a strictly business way....

HMJr: Yeah.

H:it may -- it might and could well give him more discouragement and those around him and cause them to deteriorate along with the balance of the situation.

- 2 -

HMJr: Yeah.

H: I thought that if we could show him more than what would ordinarily be the case in the way of consideration.

HMJr: Yeah.

H: Say, "We will be glad to send over there one of the ablest authorities on that question." And he can take any assistant he wants along with him. Some fellow who also knows how to handle people, you know....

HMJr: Yeah.

H:who would know how to talk this out with Shek and those around him.

HMJr: Yeah.

H: Let him go over there and make an examination at first hand, of that whole situation and let Shek and his crowd see that we are showing every disposition to get at the merits and so on, and so on.

HMJr: Yeah.

H: In other words, a sort of cushioning of the situation. Now, I don't know, you people can -- I was aiming to bring that to the attention of you and the President....

HMJr: Yeah.

H:but he got sick....

HMJr: Yeah.

H:and I haven't seen him this week.

HMJr: Well, of course, I think it was -- it will be two weeks tomorrow....

H: Yeah.

HMJr:I believe, that I gave him that memorandum which was not a memorandum for him....

H: Yeah.

- 3 -

HMJr:of which I sent you a copy.

H: Yeah.

HMJr: And it was not written as a memorandum or as a cable....

H: Yeah.

HMJr:and to my surprise, at that time, the President said, "Well, I like it so much, I'll send it as a cable. "

H: Yeah.

HMJr: Well, the thing that was crowding me on this thing is General Somervell.

H: I know. Now, he -- I believe if you'll put this sort of a proposition up....

HMJr: Yeah.

H:you see, that makes them feel like that something might be done.

HMJr: Yeah.

H: And that cushions the thing for a -- two or three months or so.

HMJr: Yeah.

H: And keeps them in better spirits. And then, our man would be seeing there just what could -- would be feasible in every way, and talking it out as he goes along over there. That's what I -- there's an opportunity there to ease them along some in that way.

HMJr: Well, I think your suggestions are very interesting and I read Ambassador Gauss' cable....

H: Yeah.

HMJr:and I was quite shocked at the way Madam Chiang talked to him.

H: Yeah.

64677:205

HMJr: I thought that was pretty rough talk.

H: Oh, yes, they -- they -- they're liable to do that.

HMJr: And I think....

H: Of course, you know that Soong is out.

HMJr: I gather he's "in the dog house" as we say.

H: This time he's out.

HMJr: Yeah. Did you have somebody in mind?

H: No, I didn't. I just -- it's just the idea that I wanted to feed out to you and the President.

HMJr: Well....

H: That situation can -- can -- if we just stop them off as we ordinarily would, you understand, they -- that thing could -- he could feel more hopeless and more helpless.

HMJr: Well, anything to tide the situation....

H: Yeah.

HMJr:over, I'd be glad to go along. Now, General Somervell was over here about a week ago and he wanted some help on the financial front.

H: Yeah.

HMJr: And we recommended that the best man we had on strictly finances, was Taylor. I think your people are familiar with him.

H: Well, why not have a financial man and then, maybe, an economic man....

HMJr: Yeah.

H:of outstanding nature so that Shek and his crowd will realize that we are giving them serious consideration in every way.

HMJr: Well....

H: Now, that might be the cheapest thing that could be done to prevent what may otherwise prove a steadily increasing deterioration in the direction of a collapse.

HMJr: Well, I'd be more than glad to sit down and work it out with you.

H: You told -- the only thing I had in mind was that you and the President might talk it over and if you think well of it, why then....

HMJr: Well, if he should ask me, I'll certainly give him your suggestion and say that I think very well of it.

H: Well, you'd better present it yourself.

HMJr: Well....

H: He wouldn't think about asking you for a suggestion, would he?

HMJr: Uh....

H: Any more than what you have given him.

HMJr: Uh....

H: Well, anyhow, that's up to you and the President. I just....

HMJr: Well....

H: I haven't mentioned it to him.

HMJr: Well, why don't....

H: I was aiming to mention it to both of you.

HMJr: Yeah. Well, I wish you would mention it to him.

H: Well, you'll be seeing him before I do, probably.

HMJr: Maybe.

H: And that -- this thing is in real -- real haste, of course.

HMJr: Now, one other thing, so that you'll know everything that I've done on this thing.

H: Yeah.

HMJr: In talking with Miss Tully, when she said that the President had done nothing, I said, "Well, if he wasn't going to do anything, would he release me to go ahead and take care of General Somervell's needs in China?"

H: Yeah.

HMJr: Because I didn't think that General Somervell could be held up any longer.

H: Yeah.

HMJr: So....

H: Now, that could be dealt with in connection with this other thing. Why don't you call up -- if you'll let me suggest....

HMJr: Surely.

H:on account of the haste of the matter....

HMJr: Yes.

H: ...why don't you call Miss Tully and give her a memorandum for the President on this point that I have raised and tell him -- and comment on it any way you see fit, or send him a memorandum. They are probably waiting -- he may be in bed, you know, for three or four days yet.

HMJr: Well, what I'd better do is this, because I talked to her and I just called you -- and she said she was going to see him in the next half hour. I'll call her right back.

H: Yes, that's a good thing.

HMJr: And tell her of my conversation with you and of your suggestion.

H: Yeah.

HMJr: And then, if the President has done nothing, would he consider this suggestion of yours which I go along with.

H: Yes. Then we can...

HMJr: I'll get it to her in the next five minutes.

H: All right, Henry.

HMJr: Thank you.

H: Bye.

- 19 -

H.M.JR: It is all right - it would stall. I would suggest that they send a Treasury man and a State man. Then we don't take all the responsibility. We won't have Acheson saying it is the Treasury's--

MR. WHITE: They have a State Department man there. They will use one there with the Treasury man.

H.M.JR: Of course, that is regular State Department tactics. But I think he is right, that the thing can be stalled for a couple of months, because if in a couple of months we get really going there--

(Mr. Friedman returns with the memorandum from Dean Acheson.)

MR. WHITE: Yes, well, that is not difficult, because at the most he can pay more dollars. He just doesn't like to have it on the books that he has to pay so much money. There are irritations. He has plenty of money to pay for it. He just doesn't like the idea of paying so much more there for building things than he does here. And he is justified in saying that there are complaints of his own men that they are getting gypped. But they can buy all the yuan they want to, but they have to pay the official rate, so it need not stop him from the operations.

He is making more of an obstacle out of this thing from the point of view of the Army than need be. He can get all the money he wants, but he just doesn't like to pay that much. I don't blame him. He is trying to get it for a more reasonable rate. Anybody who goes is going to give a no answer. We ought to know that to begin with.

H.M.JR: He said to stall them for two or three months. I guess he was disturbed after reading Gauss' telegram, I mean the conversation they had. That was a rough telegram.

MR. WHITE: His fears do not seem to be wholly in line with Adler's expression of opinion.

- 20 -

H.M.JR: Look, supposing Mr. Hull says, "I want to send somebody out." They go out. They stall around for a couple of months; the war news gets better; looks as though - I mean, those Chinese generals are getting restless. I mean, here you have--

MR. WHITE: The Chinese generals aren't getting restless. It is the Kuomintang generals that are getting restless.

H.M.JR: I gathered it was the Communists.

MR. WHITE: No, the trouble is from the Kuomintang.

H.M.JR: What are they restless about?

(The Secretary over White House phone:)

Grace?

The reason I am calling you back is that I called up Mr. Hull. I thought he ought to know that cable hadn't gone yet. He said, "Well, if it hasn't I would like to make a suggestion."

I don't know why he wants me to pass it on - he wants to make the suggestion that the situation in China is so serious - are you making notes? Well, would you mind?

I will be glad to lend you a pencil. Seriously - he doesn't think that we should abruptly say no to Chiang Kai-shek, and that some important people be sent out on a mission, who would ostensibly make a study of their situation and sort of stall it for two or three months.

I think it is a good idea, and when you talk to the President you might tell him that I go along with Hull, but that whatever this mission is, they, of course, should be instructed ultimately to say no; that if they can take two or three months, why, fine.

Thank you.

(End of conversation.)

January 1, 1944
11:37 a.m.

32 ✓

Operator: Go ahead.

HMJr: Grace.

Grace
Tully: Yes, Mr. Secretary.

HMJr: The reason I'm calling you back is that I called up Mr. Hull. I thought he ought to know that that cable hadn't gone yet.

T: Oh.

HMJr: And he said, well, if it hadn't he'd like to make a suggestion and -- I don't know why, he wants me to pass it on.

T: Oh.

HMJr: That the situation in China is so serious....

T: Yes.

HMJr:that -- are you making notes?

T: Am I taking notes? No.

HMJr: Well, would you mind?

T: Wait just a moment until I get something to take it on.

HMJr: I'll be glad to lend you a pencil.

(Pause)

T: The situation is so serious....

HMJr: Serious that he doesn't think that we should abruptly say, "No," to Chiang Kai-Shek.

T: Yeah.

HMJr: And that some important people be sent out on a mission....

T: Some what people?

HMJr: Important.

- 2 -

T: Important people. I see.

HMJr: Who would ostensibly make a study of their situation and sort of stall it for two or three months.

T: I see.

HMJr: And I think it's a good idea.

T: Yeah.

HMJr: And if, when you talk to the President, you might tell him that I go along with Hull.

T: All right.

HMJr: • But that whatever this mission is they, of course, should be instructed ultimately to say, "No."

T: Yes.

HMJr: But if they can take two or three months, why fine.

T: Fine. All right, I'll pass that along with your message.

HMJr: I thank you.

T: All right, Mr. Secretary.

- 21 -

H.M.JR: Now, what about the Kuomintang generals?

MR. WHITE: There has been a long fight going on for some time between the reactionary and even Fascist group of Kuomintang, who want to take this opportunity to crush the Chinese because they are afraid, after the war, the Chinese will be too strong.

They are not wholly supported in this by the group in the Kuomintang, who are not "leftish," but who are not as reactionary and who are afraid that if they start something now they wouldn't be able to finish it off successfully. Both groups are apparently increasingly desirous of whittling away Chiang Kai-shek's power, and his power is diminishing vis-a-vis the governors of certain of the important provinces which he never had complete control over, but which he got a substantial measure of control over in 1940 and '41. And he is losing some of that now. I believe that one of the reasons why he may want this large sum of money may be to buy off some of those generals.

What do you think, Irving?

MR. FRIEDMAN: I think that is very likely. The other thing is to be able to demonstrate again that he is fully supported by the United States.

H.M.JR: Like Adler says, every so often they are able to pull a rabbit out of a hat in the way of five hundred million dollars, or something. He has got to do something.

MR. WHITE: But the threat to a unified approach against Japan does not come from the Northwest, but from this Kuomintang group who have been trying to inveigle him to declare war on the other group several times now.

H.M.JR: Of course, the fact remains - I mean, how long will the Kuomintang group or any other group stand for this grafting family at the head of the Government?

- 22 -

MR. WHITE: They have stood it a long time. They are just as bad; they are worse. I don't think that is what bothers them. What bothers them is purely a struggle for power among the personal groups, and I don't think the situation can be described in any other terms. But it has become very rotten, politically. There is no group that really stands for betterment to China, that is at all powerful.

H.M.JR: Well, we did a little business this morning, anyway.

MR. WHITE: Here is that memo. He kept the original. (Memorandum from Mr. Acheson handed to the Secretary)

The paragraphs referred to are here.

H.M.JR: What do I get out of this? Where is the original?

MR. WHITE: The original is for the President. Excuse me, this is the latest one. (Hand's Secretary a duplicate of Acheson's letter)

H.M.JR: Isn't there a letter covering it?

MR. WHITE: No, he called me up and I told him to send it directly to you.

H.M.JR: Who would know about this - my office?

MR. FRIEDMAN: I got it from your office.

MR. WHITE: Then he may have sent another copy to your office.

(The Secretary sends for Mrs. McHugh.)

H.M.JR: What is the name of the throat doctor?

MRS. McHUGH: Moffett.

H.M.JR: Yes. (To White) Have you seen this? (Referring to memorandum from Acheson)

- 23 -

MR. WHITE: Not the one in your left hand, but the one in your right. The one in the left hand is from my office.

MRS. McHUGH: That is addressed to Mr. White.

MR. WHITE: Yes, but he is supposed to have sent you another at the same time. Friedman just got that from my office as the quickest way.

MRS. McHUGH: It hasn't come in.

H.M.JR: Can you tell me how else to identify this? Make a note. It is from Hull to the President - true copy signed by "B.E." Who is that? A true copy of the signed original, "B.E." Can somebody here see that I get a copy of this?

MR. WHITE: Yes, I told them to send you a copy because I said you would get it quickly that way.

(The Secretary makes an appointment with Dr. Moffett for 12:30.)

H.M.JR: That is the Acheson viewpoint.

MR. WHITE: From what he said over the phone, he repeated what he said here.

H.M.JR: Well, the trouble is that I don't get in to see the President for a week.

MR. WHITE: I think it is absurd to raise this - for the President to raise this issue with the British on the question of balances at this time.

H.M.JR: I am trying to save the President.

MR. WHITE: Not only that, if they are so concerned with the good relations, do they think this will promote good relations to have this discussion on the balances?

- 24 -

MISS KISTLER: Promote good relations if we back down and don't do what we intend to do. That is what they hope.

MR. TAYLOR: Good relations one way.

H.M.JR: We have got a good ally in General Strong.

MR. WHITE: It will be very interesting to see if he can do something on this.

H.M.JR: He is a tough guy, you know.

MR. WHITE: If one isn't in the position to tackle the Combined Food Board and say, "Can't you buy it here rather than there?" - but he can.

H.M.JR: Sure, he can say it is military.

MR. WHITE: You may have noted in this morning's paper the article on the removal of Fascists in Italy.

H.M.JR: Yes.

MR. WHITE: No reason why they couldn't have done that six months ago. They say there is, but there really wasn't.

H.M.JR: I thought you meant on the Argentine yarn.

MR. WHITE: That is another matter. That was a shrewd move on their part, to introduce the teaching of Catholicism there. With one stroke they get powerful support.

(The Secretary has a telephone conversation with Mr. Leo Crowley

January 1, 1944
11:49 a.m.

38

HMJr: Hello.

Operator: Hello. Go ahead.

EMJr: Leo?

Leo
Crowley: Yes.

HMJr: I didn't -- Good morning and Happy New Year.

C: Same to you. Thank you.

HMJr: I didn't get word from Hull before lunch or before supper but I got it after breakfast this morning.

C: Yeah.

HMJr: Have you heard?

C: No.

HMJr: Well, he sent us a memorandum -- a copy of the memorandum from the President, and it's two paragraphs. In the first part he says he goes along and then in the second, he says -- this is addressed to the President -- "If, in your judgment it still is practical and wise to attempt to hold British balances to a fixed amount, I respectfully suggest that this policy should be made clear to the British in order to avoid possible friction and feeling of a serious nature between the two Governments by reason of the great importance which they seem to attach to the need for the fullest discussion of their liabilities in connection with any possible policy of limitation of their assets to a fixed amount." Of course, I don't know any better way to irritate the situation than to bring it to their attention, if we intend to go through with it.

C: Naturally, there's no doubt about that. He -- he's just scuttling the whole thing. Well, what do you think about this?

HMJr: Well, I think this, that we have a postponed appointment, and I think that when the President is well, we'll ask for him and when they call me up, I'm going to suggest that Hull be there.

- 2 -

- C: Yeah. But if Hull doesn't want to be there, it's all right with me. I think that the two of us ought to go over and see the President together and we ought to be perfectly frank with him. You know from the President's point of view, he's just sitting right on a keg of dynamite with this darn thing here. And I'll just get hell up on that Hill unless I get this thing worked out some way before these fellows get back here on January the 5th.
- HMJr: Well, I like our memorandum and I'm ready to stand by it and I think we're doing the President a kindness and to show it to the British in advance is what they've done for twelve months, and that way we've gotten nowhere and the British balances have gone up hundreds of millions of dollars.
- C: Well, here -- here's -- I agree with that and I don't -- I'm perfectly willing to go right along with you and the memorandum the way we have it and not be worrying about trying to change the memorandum in accordance with the views of the State Department; because I don't think we ever can get men to agree to a memorandum that will set forth the facts the way we want to do it.
- HMJr: Well, they don't suggest any changes other than that we discuss it first with the British.
- C: Well, I'm certainly not in favor of doing with the British because we'll never get anywhere then.
- HMJr: I mean -- reading it quickly, he says -- uh -- he goes along with us. The only suggestion he makes is that we should show it to the British first. I'll -- if Acheson doesn't do you the courtesy of sending you one, I'll ask White to send you over a copy of the one I -- I haven't got one yet. White has one.
- C: Fine. Well, if you'll do that when you get -- if he doesn't give me one, I'll....
- HMJr: Well, I'll....
- C:be glad to get a copy from....
- HMJr:have you one over before one o'clock.

C: Let's go ahead and make our date with the President and get it before him.

HMJr: Right.

C: Just as soon as you can -- soon as he gets his cold cleared up.

HMJr: Oh, I'm for it, and if Hull or his Under Secretary or Assistant Secretary, if they don't want to be there, I'm through arguing.

C: It's perfectly all right with me and I don't care whether they are there or not, just between us.

HMJr: Well, I'd rather have them there.

C: So would I, but if they don't want to come, it's all right.

HMJr: Suits me.

C: Fine.

HMJr: Thank you.

- 25 -

H.M.JR: Of course, he must be sore as hell about that editorial today. Gentlemen, that was a vicious editorial. Whoo! Whoo!

I wouldn't be surprised if it came out of the State Department, either.

Well, I enjoyed this hour that we had.

MR. WHITE: You didn't get on the French question.

H.M.JR: No, I have got to stop now.

January 1, 1944
4:15 p.m.

Message for the Secretary, dictated by General Strong over the telephone to Miss Edelin of the Under Secretary's Office:

"Referring to conversation we had on the telephone this morning, it appears that the matter of the purchase of 75 million bushels of wheat in the Argentine was considered by the Combined Food Board, who on November 1 directed that it be purchased from the Argentine. It is understood that Dr. White of the Treasury and Mr. La Boicisse of State, concurred. There has been considerable discussion in the past two months in regard to availability of shipping and arrangements with the United Kingdom. The War Department is out of the picture entirely. I suggest that in view of financial and political considerations involved it might be well for either Treasury or State, or both, to ask the Combined Food Board on which both have representation, to reconsider the whole subject.

(Signed) GEORGE B. STRONG"

Mrs. Shanahan brought these letters down and said that the Secretary had requested that they be prepared by 4:30 p.m., 1/1/44. They were prepared; taken by one of Dr. White's men to the Secretary for signature; he signed "Henry Morgenthau, Jr." and Dr. White's man personally delivered the letters to the addressees.

25
January 1, 1944

Dear Admiral Leahy:

Sir David Waley has informed us that the British Treasury is planning to offer Portugal the right to convert into gold some of her 54 million pounds of sterling balances. Waley indicated that probably 20 to 30 million pounds are involved. These balances carry a gold guarantee which must be implemented within five years after the war. The reason given by Waley for this proposed step is that, since Britain has just decided to sell gold to Switzerland for shipment to Lisbon, the Portuguese might otherwise feel that they are being less favorably treated than the Swiss.

We in the Treasury feel that we cannot object to this proposed payment. Unless you feel there are military considerations in our relations with Portugal and provided the State Department has no objection on political grounds, I propose to notify the British Treasury that we will offer no objection.

Inasmuch as the British are pressing us for a reply, I should appreciate it if we could have as soon as possible any comments you may wish to make.

Very truly yours,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

Admiral William D. Leahy,
Chief of Staff to the Commander-in-Chief
of the U.S. Army and Navy,
Room 201,
Combined Chiefs of Staff Building,
19th & Constitution Avenue,
Washington, D.C.

HDW:TKK :71 1/1/44

THE SECRETARY OF THE NAVY
WASHINGTON

JAN 1 - 1944

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

As requested in your letter of December 23, 1943, orders were issued by the Navy Department on December 30, 1943, directing Lieutenant Commander Frank A. Southard, Jr., D-V(S), U.S.N.R., to return to Washington, D. C. temporarily for the purpose of reporting on the financial and accounting matters relating to the Allied Military Financial Agency.

Sincerely yours,

Frank Knox



JAN 1 1944

Dear Miss Castle:

This is to acknowledge receipt of your letter of December 29, 1943 conveying message from Dr. Soong. I would appreciate your forwarding the following message to him:

"Thank you for your New Year's greeting. It is my sincerest hope that during the forthcoming year the military situation will so change as to make possible the extension of real and substantial aid to your country in its fight against our common enemy.

"I am sure that as in the past we will continue to cooperate fully in strengthening the close ties of friendship which now bind our two countries and which you personally have contributed so much to build.

"With my best wishes for the New Year.

"Sincerely, Henry C. Morgenthau, Jr.,
Secretary of the Treasury."

Yours very truly,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Miss Hancey W. Castle,
Office of Minister for
Foreign Affairs,
Republic of China,
1601 V Street, N. W.,
Washington, D.C.

HDW/ISF/efs 12/31/43



OFFICE OF
MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

1601 V STREET, N. W.
WASHINGTON, D. C.

December 29, 1943

My dear Mr. Secretary:

We have received a cable from Dr. Soong in Chungking, asking that we convey the following message to you from him:

WISHING YOU A HAPPY AND VICTORIOUS NEW
YEAR. WARMEST REGARDS.

Sincerely yours,

Harvey W. Castle

Secretary to
DR. T. V. SOONG

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



FOREIGN ECONOMIC ADMINISTRATION
WASHINGTON 25, D. C.

January 1, 1943

Dear Secretary Morgenthau:

Thank you very much for your letter of December 31, 1943 about the refugee Executive Order and press release.

At the beginning of this New Year, I can't tell you how much I appreciate the opportunity of having worked and continuing to work with you. It has been a real joy. My only hope is that some day the public generally will know what a great contribution you have made to the cause of the nation.

And may the New Year bring you the success which you so justly deserve.

Sincerely,

Oscar Lof

Hon. Henry Morgenthau, Jr.

The Secretary of the Treasury

D (Photos given to Mr. Smith
for scrapbook of trip)

25

January 1, 1944.

My dear General Clark:

Your letter of December 7 has just reached my office, and I want to thank you very much for your thought in sending me the two prints of the photographs taken at the time of my visit to the Fifth Army. I am delighted to have these as souvenirs of a most interesting and inspiring experience, and appreciate also your good wishes for the holiday.

In sending you my own good wishes for the New Year, I know that we all feel it will certainly bring us nearer our final goal.

Sincerely,

(Signed) H. Morganthau, Jr.

P.S. Hope the apples arrived in good condition.

Lieutenant General Mark W. Clark,
Office of the Commanding General,
Headquarters Fifth Army,
A. P. O. #464,
c/o Postmaster,
New York, New York.

W/dbe

D

HEADQUARTERS FIFTH ARMY
Office of the Commanding General
A. P. O. #464

December 7, 1943

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

Dear Mr. Morgenthau:

I am enclosing with this note two photographs taken on the occasion of your recent visit to the Fifth Army. I hope that they will serve to remind you of the interesting days when we had the pleasure of having you in the Fifth Army area.

With my best wishes for the approaching holidays, I am

Sincerely,

Mark W. Clark.

MARK W. CLARK
Lieutenant General, USA,
Commanding.

52

UNITED STATES SAVINGS BONDS

SERIES F AND SERIES G

1944
Department Circular No. 654
Second Revision
Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, January 1, 1944.

I. OFFERING OF UNITED STATES SAVINGS BONDS OF SERIES F AND SERIES G

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offers for sale, to the people of the United States, through the Federal Reserve Banks, United States Savings Bonds of Series F and Series G, which may hereinafter be referred to as bonds of Series F and Series G. Bonds of a new design, without change in terms, will be provided for issue hereunder in regular course without further notice as stocks of the prior bonds of Series F and Series G become exhausted. The sale of bonds of Series F and Series G will continue until terminated by the Secretary of the Treasury.

2. United States Savings Bonds of Series F and Series G include bonds of any designation issued under this circular as originally published and amended, and those issued under this circular as previously or as now revised. As their terms are identical, no distinction is to be made between any bonds of Series F or Series G so issued.

II. DESCRIPTION AND TERMS OF BONDS

1. Bonds of Series F and Series G will be issued only in registered form, in denominations of \$25 (for Series F only), \$100, \$500, \$1,000, \$5,000 and \$10,000 (maturity values), at prices hereinafter set forth. Each bond will bear the facsimile signature of the Secretary of the Treasury, and will bear an imprint in color (brown for Series F and blue for Series G) of the Seal of the Treasury. At the time of issue, on the face of each bond, the issuing agent will inscribe the name and address of the owner and the name of the coowner or beneficiary, if any, will enter the issue date (which is the first day of the month in which payment of the issue price is received by the Treasury or an authorized issuing agent), and will imprint his dating stamp (to show the date the bond is actually inscribed). Bonds of Series F and Series G shall be valid only if duly inscribed and dated, as above provided, and delivered by an authorized agent following receipt of payment therefor.

2. The bonds of each series will, in each instance, be dated as of the first day of the month in which payment of the issue price is received by an agent authorized to issue the bonds, which date is herein referred to as the issue date; the bonds will mature and be payable at face value 12 years from such issue date. The issue date is the basis for determining the redemption or maturity period of the bond, and the date appearing in the issuing agent's stamp should not be confused therewith. The bonds of either series may not be called for redemption by the Secretary of the Treasury prior to maturity, but they may be redeemed prior to maturity, after 6 months from the issue date, at the owner's option, at fixed redemption values.

3. Bonds of Series F will be issued on a discount basis at 74 percent of their maturity value. No interest as such will be paid on the bonds, but they will increase in redemption value at the end of the first year from issue date, and at the end of each successive half-year period thereafter until their maturity, when the face amount becomes payable. The increment in value will be payable only upon redemption of the bonds. A table of redemption values appears on each bond. The purchase price of bonds of Series F has been fixed so as to afford an investment yield of about 2.53 percent per annum compounded semiannually if the bonds are held to maturity; if the owner exercises his option to redeem a bond prior to maturity the investment yield will be less.

4. Bonds of Series G will be issued at par, and will bear interest at the rate of 2½ percent per annum, payable semiannually from issue date. Interest will be paid by check drawn to the order of the registered owner. Interest will cease at maturity, or, in case of redemption before maturity, at the end of the interest period next preceding the date of redemption. A table of redemption values appears on each bond, and the difference between the face amount of the bond and the redemption

value fixed for any period represents an adjustment (or refund) of interest. Accordingly, if the owner exercises his option to redeem a bond prior to maturity, the investment yield will be less than the interest rate on the bond. Bonds of Series G may be redeemed at par, in whole or in part, (1) upon the death of the owner, or a coowner, if a natural person, or (2) as to bonds held by a trustee or other fiduciary, upon the death of any person which results in termination of the trust. If the trust is terminated only in part, redemption at par will be made only to the extent of the *pro rata* portion of the trust so terminated, to the next lower multiple of \$100. In any case request for redemption at par must be received by the Treasury Department, Division of Loans and Currency, Merchandise Mart, Chicago 54, Illinois, or by a Federal Reserve Bank or Branch within 4 months after the date of death and in accordance with the regulations governing savings bonds.

5. Tables at the end of this circular show separately for bonds of Series F and those of Series G: (1) The redemption values, by denominations, during the successive half-year periods following issue, (2) the approximate investment yield on the issue price from issue date to the beginning of each half-year period, and (3) the approximate investment yield on the current redemption value from the beginning of each half-year period to maturity at the end of the 12-year period.

6. Bonds of Series F and Series G will not be transferable, and will be payable only to the owner named thereon, except in case of death or disability of the owner or as otherwise specifically provided in the regulations governing savings bonds, and in any event only in accordance with said regulations. Accordingly they may not be sold, discounted, hypothecated as collateral for a loan or the performance of a service, or disposed of in any manner other than as provided in the regulations governing savings bonds, and, except as provided in said regulations, the Treasury Department will recognize only the inscribed owner, during his lifetime and competency, and thereafter his estate or heirs.

7. *Taxation.*—For the purpose of determining taxes and tax exemptions, the increment in value represented by the difference between the price paid for bonds of Series F (which are issued on a discount basis), and the redemption value received therefor (whether at or before maturity) shall be considered as interest, and that interest and interest on bonds of Series G, are not exempt from income or profits taxes now or hereafter imposed by the United States.¹ The bonds shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

DI. PURCHASE OF BONDS

1. *Agencies.*—Bonds of Series F and Series G may be purchased, while this offer is in effect, upon application to any Federal Reserve Bank or Branch, or to the Treasurer of the United States, Washington 25, D. C. Sales agencies, duly qualified under the provisions of Treasury Department Circular No. 657, as amended and supplemented, and banking institutions generally, may submit applications for account of customers, but only the Federal Reserve Banks and Branches and the Treasury Department are authorized to act as official agencies, and the receipt of application and payment at an official agency will govern the dating of the bonds issued.

2. *Payment for bonds.*—Every application must be accompanied by payment in full of the issue price. Any form of exchange, including personal checks, will be accepted, subject to collection. Checks, or other forms of exchange, should be drawn to the order of the Federal Reserve Bank or the Treasurer of the United States, as the case may be. Checks payable by endorsement are not acceptable. Any depository qualified pursuant to the provisions of Treasury Department Circular No. 92 (Revised), will be permitted to make payment by credit for bonds applied for on behalf of its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

3. *Postal savings.*—Subject to regulations prescribed by the Board of Trustees of the Postal Savings System, the withdrawal of postal savings deposits will be permitted for the purpose of acquiring savings bonds.

¹ For information concerning the taxable and exempt status under Federal tax laws of the interest (increment in value) on United States Savings Bonds issued on a discount basis (including bonds of Series F), and alternate methods of reporting such interest, see Internal Revenue Manual, Coll. No. 5299, R. A. No. 1177, dated December 17, 1941. For credits on account of Victory Tax, see Internal Revenue Manual, Coll. No. 1545 and 1546, as amended by Treasury Decision 5245.

4. *Form of application.*—In applying for bonds under this circular, care should be exercised to specify whether those of Series F or Series G are desired, and there must be furnished: (1) Instructions for registration of the bonds to be issued, which must be in one of the authorized forms (see Sec. V); (2) the post office address of the owner; (3) address for delivery of the bonds; and (4), in case of bonds of Series G, address for mailing interest checks. The use of an official application form is desirable, but not necessary. The application should be forwarded to the Federal Reserve Bank, or Branch, of the district, or to the Treasurer of the United States, accompanied by remittance to cover the purchase price (\$74 for each \$100 face amount of bonds of Series F, or \$100 for each \$100 face amount of bonds of Series G).

5. *Issue prices.*—The issue prices of the various denominations of bonds of Series F and Series G follow:

SERIES F						
Denomination (maturity value) _____	\$25.00	\$100	\$500	\$1,000	\$5,000	\$10,000
Issue (purchase) Price _____	\$18.50	\$74	\$370	\$740	\$3,700	\$7,400
SERIES G						
Denomination (maturity value) _____	\$100	\$500	\$1,000	\$5,000	\$10,000	
Issue (purchase) Price _____	\$100	\$500	\$1,000	\$5,000	\$10,000	

IV. LIMITATION ON HOLDINGS

1. The amount of United States Savings Bonds of Series F, or of Series G, or the combined aggregate amount of both series, originally issued during any one calendar year to any one person, including those registered in the name of that person alone, and those registered in the name of that person with another named as coowner, that may be held by that person at any one time shall not exceed \$100,000 (issue price): *Provided, however,* That as to bonds of these series originally issued on or after January 1, 1944, the amount held by a commercial bank having savings deposits as defined in Regulation Q of the Board of Governors of the Federal Reserve System shall not in any case exceed \$100,000 (issue price) or 10 percent of such savings deposits as shown on the bank's books as of the date of the most recent call statement required by the supervising authorities prior to the date of acquisition of such savings bonds, whichever is less; and *Provided further,* That the amount of savings bonds of Series F and Series G originally issued on or after January 1, 1944, held by a commercial bank together with 2½ percent Treasury Bonds of 1965-70, to be issued under Treasury Department Circular No. 729, and 2¼ percent Treasury Bonds of 1956-59, to be issued under Treasury Department Circular No. 730, shall not exceed in the aggregate \$200,000 or 10 percent of the savings deposits of such bank as above defined, whichever is less.

2. Any bonds acquired on original issue which create an excess must immediately be surrendered for refund of the issue price, as provided in the regulations governing savings bonds.

V. AUTHORIZED FORMS OF REGISTRATION

1. United States Savings Bonds of Series F and Series G may be registered only in one of the following forms:

(1) In the names of natural persons (that is, individuals), whether adults or minors, in their own right, as follows: (a) In the name of one person; (b) in the names of two (but not more than two) persons as coowners; and (c) in the name of one person payable on death to one (but not more than one) other designated person.

(2) In the name of an incorporated or unincorporated body, in its own right, except that they may not be registered in the names of commercial banks which are defined for this purpose as those accepting demand deposits; *Provided, however,* That bonds originally issued on or after January 1, 1944, may be registered in the name of a commercial bank having savings deposits to the extent and under the conditions set forth in Section IV hereof.

(3) In the name of a fiduciary (except where the fiduciary would hold the bonds merely or principally as security for the performance of a duty or obligation).

(4) in the name of the owner or custodian of public funds.

2. *Restrictions.*—Registration on original issues and authorized reissues, whether as owners, coowners, or designated beneficiaries, is restricted to residents (whether individuals or others) of the United States (which for the purposes of this section shall include the territories, insular possessions and the Canal Zone), citizens of the United States temporarily residing abroad, and to nonresident aliens employed in the United States by the Federal Government or an agency thereof; *Provided, however,* That on original issues but not on reissues, a nonresident alien (not a citizen of an enemy nation) may be named as coowner or designated beneficiary; and *Provided further,* That a nonresident alien, whether owner, coowner or beneficiary, succeeding to title on death of the owner, or succeeding to title upon the death of the surviving coowner or beneficiary will be entitled only to request and receive payment either at or before maturity and will not be entitled to reissue.

3. Full information regarding authorized forms of registration will be found in the regulations currently in force governing United States Savings Bonds.

VI. DELIVERY AND SAFEKEEPING OF BONDS

1. Federal Reserve Banks and Branches and the Treasurer of the United States are authorized to deliver bonds of Series F and Series G, duly inscribed and dated, upon receipt of the issue price. Bonds not delivered in person will be delivered by mail at the risk and expense of the United States, at the address given by the purchaser, but only within the United States, its territories and insular possessions and the Canal Zone. No mail deliveries elsewhere will be made. If purchased by citizens of the United States temporarily residing abroad, bonds will be delivered at an address in the United States, or held in safekeeping, as the purchaser may direct. Personal delivery should not be accepted by any purchaser until he has verified that the correct name, or names, and address are duly inscribed, that the issue date (the first day of the month in which payment of the issue price was received by the agent) is duly entered, and that the dating stamp of the issuing agent is duly imprinted with current date—all on the face of the bond. If received by mail, the same verification should be made, and if any error in inscription or dating appears, such fact should immediately be reported to the issuing agent, and instructions requested.

2. Savings bonds of Series F and Series G will be held in safekeeping without charge by the Secretary of the Treasury if the holder so desires, and in such connection the facilities of the Federal Reserve Banks, as fiscal agents of the United States, and those of the Treasurer of the United States, will be utilized. Arrangements may be made for such safekeeping at the time of purchase, or subsequently.

VII. PAYMENT AT MATURITY OR REDEMPTION PRIOR TO MATURITY

1. *General.*—Any savings bond of Series F or Series G will be paid in full at maturity, or, at the option of the owner, after 6 months from the issue date, will be redeemed in whole or in part at the appropriate redemption value prior to maturity, on the first day of any calendar month, on 1 mo. th's notice in writing, following presentation and surrender of the bond, with the request for payment properly executed, all in accordance with the regulations governing savings bonds.

2. *Notice of redemption.*—When a savings bond of Series F or Series G is to be redeemed prior to maturity, a notice in writing of the owner's intention must be given to and be received by a Federal Reserve Bank or Branch, or the Treasury Department, Division of Loans and Currency, Merchandise Mart, Chicago 54, Illinois, not less than 1 calendar month in advance. A duly executed request for payment will be accepted as constituting the required notice.

3. *Execution of request for payment.*—The registered owner, or other person entitled to payment under the regulations governing savings bonds, must appear before one of the officers authorized by the Secretary of the Treasury to witness and certify requests for payment, establish his identity, and in the presence of such officer sign the request for payment, adding the address to which the check is to be mailed. After the request for payment has been so signed, the witnessing officer should complete and sign the certificate provided for his use. Unless otherwise authorized in a particular case, the form of request appearing on the back of the bond must be used.

*During the war emergency the Treasury may suspend delivery to be made at its risk and expense from or to the continental United States and the territories, insular possessions and the Canal Zone, or between any of such places.
†Redemption facilities may be offered at some Division of Federal Reserve Banks, and in such connection an inquiry may be referred to the Branch.

(16-3776)

4. *Officers authorized to witness and certify requests for payment.*—The officers authorized to witness and certify requests for payment of savings bonds are fully set forth in the regulations governing savings bonds, and include but are not limited to (1) United States postmasters and certain other post office officials or designated employees; and (2) officers (or designated employees) of all banks or trust companies incorporated in the United States or its organized territories, including officers at domestic branches (within the United States or its territories or insular possessions and the Canal Zone), or at foreign branches. All certificates should be authenticated by official seal, if there is one, or by an imprint of an issuing agent's dating stamp.

5. *Presentation and surrender.*—After the request for payment has been duly executed by the person entitled and by the certifying officer, the bond must be presented and surrendered to a Federal Reserve Bank or Branch, or to the Treasury Department, Division of Loans and Currency, Merchandise Mart, Chicago 54, Illinois, at the expense and risk of the owner. For the owner's protection, the bond should be forwarded by registered mail, if not presented in person.

6. *Disability or death.*—In case of the disability of the registered owner, or the death of the registered owner not survived by a coowner or a designated beneficiary, instructions should be obtained from a Federal Reserve Bank or Branch, or the Treasury Department, Division of Loans and Currency, Merchandise Mart, Chicago 54, Illinois, before the request for payment is executed.

7. *Method of payment.*—The only agencies authorized to pay or redeem savings bonds are the Federal Reserve Banks and Branches, and the Treasurer of the United States. Payment in all cases will be made by check drawn to the order of the registered owner or other person entitled to payment, and mailed to the address given in the request for payment.

8. *Partial redemption.*—Partial redemption at current redemption value of a bond of Series F, of a denomination higher than \$25 (maturity value), or of a bond of Series G, of a denomination higher than \$100, is permitted, but must correspond to an authorized denomination. In case of partial redemption the remainder will be reissued in authorized denominations bearing the same issue date as the bond surrendered.

VIII. SERIES DESIGNATION

1. Bonds of Series F, issued during the calendar year 1944 are designated Series F-1944, and those of Series G are similarly designated Series G-1944, and those of either series which may be issued in subsequent calendar years will be similarly designated by the series letter, F or G, followed by the year of issue.

IX. LOST, STOLEN, OR DESTROYED BONDS

1. If a bond of Series F or Series G is lost, stolen, or destroyed, a duplicate may be issued on the owner furnishing a description of the bond and establishing its loss, theft, or destruction.

2. In any case of the loss, theft, or destruction of a bond of Series F or Series G, the owner should give immediate notice to the Treasury Department, Division of Loans and Currency, Merchandise Mart, Chicago 54, Illinois, briefly stating the facts and giving a description of the bond. On receipt of such notice, full instructions for procedure will be given the owner.

3. A descriptive record of each bond of Series F or Series G held should be kept by the owner, apart from the bonds, so that a full description of the bonds will be available if they are lost, stolen, or destroyed. The record for each bond should show: (1) the denomination; (2) the serial number (with its prefix and suffix letters); (3) the inscription (name or names, and address, on the face of the bond); and (4) the issue date (month and year of issue).

X. GENERAL PROVISIONS

1. All bonds of Series F and Series G, issued pursuant to this circular, shall be subject to the regulations prescribed from time to time by the Secretary of the Treasury to govern United States Savings Bonds. The present regulations governing savings bonds are set forth in Treasury Department Circular No. 530, Fifth Revision, as amended, copies of which may be obtained on application to the Treasury Department or to any Federal Reserve Bank or Branch.

(16-3776)

2. The Secretary of the Treasury reserves the right to reject any application for savings bonds of either Series F or Series G, in whole or in part, and to refuse to issue or permit to be issued hereunder any such savings bonds in any case or any class or classes of cases if he deems such action to be in the public interest, and his action in any such respect shall be final.

3. Federal Reserve Banks and Branches, as fiscal agents of the United States, are authorized to perform such services as may be requested of them by the Secretary of the Treasury in connection with the issue, delivery, safekeeping, redemption, and payment of savings bonds of Series F and Series G.

4. The Secretary of the Treasury may at any time or from time to time supplement or amend the terms of this circular, or of any amendments or supplements thereto, information as to which will be promptly furnished the Federal Reserve Banks and Branches.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

16-5776-1

UNITED STATES SAVINGS BONDS—SERIES F
TABLE OF REDEMPTION VALUES AND INVESTMENT YIELDS

Table showing: (1) How United States Savings Bonds of Series F, by denominations, increase in redemption value during successive half-year periods following issue; (2) the approximate investment yield on the purchase price from issue date to the beginning of each half-year period; and (3) the approximate investment yield on the current redemption value from the beginning of each half-year period to maturity. Yields are expressed in terms of rate percent per annum, compounded semiannually.

Maturity Value..... Issue Price.....	\$25.00 \$18.50	\$100.00 \$74.00	\$500.00 \$370.00	\$1,000 \$740	\$5,000 \$3,700	\$10,000 \$7,400	(2) Approximate investment yield on purchase price from issue date to beginning of each half-year period	(3) Approximate investment yield on current redemption value from beginning of each half-year period to maturity
Period after issue date	(1) Redemption values during each half-year period						Percent	Percent
	Not redeemable.							
First ½ year.....	\$18.50	\$74.00	\$370.00	\$740	\$3,700	\$7,400	0.00	*2.53
½ to 1 year.....	18.55	74.20	371.00	742	3,710	7,420	.27	2.64
1 to 1½ years.....	18.62	74.50	372.50	745	3,725	7,450	.45	2.73
1½ to 2 years.....	18.72	74.90	374.50	749	3,745	7,490	.61	2.82
2 to 2½ years.....	18.85	75.40	377.00	754	3,770	7,540	.75	2.91
2½ to 3 years.....	19.00	76.00	380.00	760	3,800	7,600	.89	2.99
3 to 3½ years.....	19.17	76.70	383.50	767	3,835	7,670	1.03	3.07
3½ to 4 years.....	19.40	77.60	388.00	776	3,880	7,760	1.19	3.15
4 to 4½ years.....	19.65	78.60	393.00	786	3,930	7,860	1.34	3.20
4½ to 5 years.....	19.92	79.70	398.50	797	3,985	7,970	1.49	3.24
5 to 5½ years.....	20.22	80.90	404.50	809	4,045	8,090	1.63	3.27
5½ to 6 years.....	20.55	82.20	411.00	822	4,110	8,220	1.76	3.29
6 to 6½ years.....	20.87	83.50	417.50	835	4,175	8,350	1.87	3.29
6½ to 7 years.....	21.20	84.80	424.00	848	4,240	8,480	1.96	3.31
7 to 7½ years.....	21.52	86.10	430.50	861	4,305	8,610	2.03	3.32
7½ to 8 years.....	21.85	87.40	437.00	874	4,370	8,740	2.09	3.35
8 to 8½ years.....	22.17	88.70	443.50	887	4,435	8,870	2.14	3.40
8½ to 9 years.....	22.50	90.00	450.00	900	4,500	9,000	2.19	3.45
9 to 9½ years.....	22.85	91.40	457.00	914	4,570	9,140	2.24	3.54
9½ to 10 years.....	23.22	92.90	464.50	929	4,645	9,290	2.29	3.63
10 to 10½ years.....	23.62	94.50	472.50	945	4,725	9,450	2.34	3.72
10½ to 11 years.....	24.05	96.20	481.00	962	4,810	9,620	2.40	3.81
11 to 11½ years.....	24.50	98.00	490.00	980	4,900	9,800	2.46	3.91
11½ to 12 years.....	24.50	98.00	490.00	980	4,900	9,800	2.46	4.08
MATURITY VALUE (12 years from issue date)	\$25.00	\$100.00	\$500.00	\$1,000	\$5,000	\$10,000	2.53	

*Approximate investment yield for entire period from issuance to maturity.

16-5776-1

REGULATIONS GOVERNING UNITED STATES SAVINGS BONDS

1944
Fourth Amendment to
Department Circular No. 530
Fifth Revision, dated
June 1, 1942
Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, January 1, 1944.

To OWNERS OF UNITED STATES SAVINGS BONDS, AND OTHERS CONCERNED:

Department Circular No. 530, Fifth Revision, dated June 1, 1942, as amended, is hereby further amended as follows:

1. Section 315.5 is amended by striking out the second sentence of the first paragraph and inserting in lieu thereof the following:

"Bonds of these two series may also be registered in the names of fiduciaries, corporations, associations or partnerships, except that they may not be registered in the names of commercial banks, which are defined for this purpose as those accepting demand deposits: *Provided, however*, That bonds originally issued on or after January 1, 1944, may be registered in the name of a commercial bank having savings deposits to the extent and under the conditions set forth in Section 315.9 (c) hereof."

2. Section 315.5 (d) is amended to read as follows:

"In the name of any private organization, whether incorporated or unincorporated (except that bonds originally issued prior to January 1, 1944, may not be registered in the name of a commercial bank as hereinbefore defined), using in each case the full legal name of the organization without mention of any officer or member but making reference, if desired, to a particular bookkeeping account or fund (not a trust), as follows:

- (1) A private corporation, followed by the words "a corporation," for example: "Smith Manufacturing Company, a corporation";
- (2) An unincorporated association, lodge, church or society, or similar body, followed by the words "an unincorporated association," for example: "The Lotus Club, an unincorporated association." The term "an unincorporated association" should not be used to describe a trust fund, a partnership or a business conducted under a trade name;
- (3) A partnership, considered as an entity, followed by the words "a partnership," for example: "Smith and Brown, a partnership."

3. Section 315.9 (c) is amended to read as follows:

"Series F and G—\$50,000 (issue price) for the calendar year 1941, and \$100,000 (issue price) for each calendar year thereafter, of either series or of the combined aggregate of both: *Provided, however*, That as to bonds of these series originally issued on or after January 1, 1944, the amount held by a commercial bank having savings deposits as defined in Regulation Q of the Board of Governors of the Federal Reserve System shall not in any case exceed \$100,000 (issue price) or ten percent of such savings deposits as shown on the bank's books as of the date of the most recent call statement required by the supervising authorities prior to the date of acquisition of such savings bonds, whichever is less; and *provided further*, That the amount of savings bonds of Series F and G originally issued on or after January 1, 1944, held by a commercial bank together with 2½ percent Treasury Bonds of 1965-70, to be issued under Treasury Department Circular No. 729, and 2¼ percent Treasury Bonds of 1956-59, to be issued under Treasury Department Circular No. 780, shall not exceed in the aggregate \$200,000 or ten percent of the savings deposits of such bank as above defined, whichever is less."

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

UNITED STATES SAVINGS BONDS—SERIES G
TABLE OF REDEMPTION VALUES AND INVESTMENT YIELDS

Table showing: (1) How United States Savings Bonds of Series G (paying a current return at the rate of 2½ percent per annum on the purchase price, payable semiannually) change in redemption value, by denominations, during successive half-year periods following issue; (2) the approximate investment yield on the purchase price from issue date to the beginning of each half-year period; and (3) the approximate investment yield on the current redemption value from the beginning of each half-year period to maturity. Yields are expressed in terms of rate percent per annum, compounded semiannually and take into account the current return.

Maturity Value— Issue Price...	\$100.00	\$500.00	\$1,000	\$5,000	\$10,000	(2) Approximate investment yield on pur- chase price from issue date to beginning of each half- year period	(3) Approximate investment yield on cur- rent redemption value from be- ginning of each half-year period to maturity
Period after issue date	(1) Redemption value during each half-year period					Period	Percent
First ½ year	Not redeemable					0.10	2.25
½ to 1 year	\$38.80	\$194.00	\$388	\$1,940	\$3,880	0.30	2.75
1 to 1½ years	97.80	489.00	978	4,890	9,780	.44	2.90
1½ to 2 years	96.90	484.50	969	4,845	9,690	.61	2.96
2 to 2½ years	96.20	481.00	962	4,810	9,620	.75	2.99
2½ to 3 years	95.60	478.00	956	4,780	9,560	.88	3.10
3 to 3½ years	95.10	475.50	951	4,755	9,510	1.04	3.20
3½ to 4 years	94.80	474.00	948	4,740	9,480	1.20	3.28
4 to 4½ years	94.70	473.50	947	4,735	9,470	1.35	3.36
4½ to 5 years	94.70	473.50	947	4,735	9,470	1.51	3.43
5 to 5½ years	94.80	474.00	948	4,740	9,480	1.70	3.50
5½ to 6 years	95.20	476.00	952	4,760	9,520	1.89	3.57
6 to 6½ years	95.50	477.50	955	4,775	9,550	2.05	3.63
6½ to 7 years	95.80	479.00	958	4,790	9,580	2.18	3.68
7 to 7½ years	96.10	480.50	961	4,805	9,610	2.23	3.72
7½ to 8 years	96.40	482.00	964	4,820	9,640	2.27	3.75
8 to 8½ years	96.70	483.50	967	4,835	9,670	2.31	3.78
8½ to 9 years	97.00	485.00	970	4,850	9,700	2.35	3.80
9 to 9½ years	97.20	486.50	972	4,865	9,730	2.39	3.82
9½ to 10 years	97.00	488.00	978	4,880	9,760	2.44	3.85
10 to 10½ years	97.00	489.50	979	4,895	9,790	2.44	3.85
10½ to 11 years	96.20	491.00	962	4,910	9,820	2.44	3.85
11 to 11½ years	96.00	493.00	960	4,930	9,860	2.44	3.85
11½ to 12 years	96.20	496.00	962	4,960	9,920	2.44	3.85
MATURITY VALUE (12 years from is- sue date)	\$100.00	\$500.00	\$1,000	\$5,000	\$10,000	2.50	

*Approximate investment yield for entire period from issuance to maturity.

OTHER SERIES

United States Savings Bonds of Series E are also offered for sale concurrently with those of Series F and Series G. They are intended primarily for the investment of small or moderate amounts saved from current income by individuals, and their issue is restricted to individuals in their own right, with the amount originally issued to any one person during any one calendar year that that person may hold limited to \$5,000 (maturity value). Full particulars regarding Savings Bonds of Series E are set forth in Treasury Department Circular No. 653, Second Revision, dated August 27, 1943, copies of which may be obtained from the Treasury Department, Washington, or from any Federal Reserve Bank or Branch.

MOST SECRETNOT TO BE RETRANSMITTEDOPTEL NO. 1.

Information received up to 10 a.m. 1st January, 1944.

1. NAVAL

Bay of Biscay. Five German Officers and 57 ratings, survivors from the action on the 28th were picked up yesterday by one of H.M. minesweepers. An S.S. signals that she has 164 survivors on board.

2. MILITARY.Italy

Eighth Army In the coastal sector Canadian and Indian troops are making their way slowly forward over minefields covered by heavy machine-gun fire.

Fifth Army. U.S. troops have captured three peaks to the North of Acqua Fondata. The Commando raid, in conjunction with an attack by British troops across the Garigliano, was successful. A bridge was destroyed and enemy in the area were engaged.

3. AIR OPERATIONS.Western Front

31st. 234 escorted Fortresses and 58 Liberators attacked an airfield at Cognac dropping 699 tons. 66 escorted Liberators attacked another airfield East of Rochefort dropping 163 tons. 121 escorted Fortresses attacked ball-bearing works in the Paris area dropping 324 tons. Results in all cases reported fair to good. Enemy casualties reported: by Bombers 17.11.4, by Fighters 11.3.1, our losses 29 Bombers and 12 Fighters. 273 escorted Medium and Light Bombers with 117 Fighters effectively attacked military constructions in the Pas de Calais. Enemy casualties 6.1.0, ours two Fighters missing.

TREASURY DEPAR

1944 JAN 3

OFFICE
SECRETARY OF

Regraded unclassified

NOT TO BE RE-TRANSMITTEDCOPY NO. 12BRITISH MOST SECRET
U.S. SECRETOPTEL No. 2

Information received up to 10 a.m., 2nd January, 1944.

1. NAVAL

A convoy of 21 ships from North RUSSIA has arrived in Home Waters. On 29th/30th, U.S. light craft damaged a trawler and probably torpedoed a stationary ship in the GULF OF GENOA. A schooner was damaged and driven ashore by 2 of H.M. Destroyers in the ADRIATIC. On 31st one of H.M. Minesweepers was mined and sunk and a tank landing ship was damaged on passage from MADDALENA to BASTIA. There were 47 survivors.

2. MILITARY

Weather conditions have deteriorated rapidly.

ITALY. To noon 1st, Canadian troops on ADRIATIC coast made some advance against strong opposition and subsequently beat off a heavy counter-attack. They also took S. TOMASO.

RUSSIA. Russians have recaptured large number of localities on southern flank of KIEV Salient, including towns 15 miles to the south and southwest of KALATIN and 20 miles southwest of BYELAYA TSEKOV.

3. AIR OPERATIONS

WESTERN FRONT. 1st. 44 light and fighter bombers and 8 fighters attacked military constructions in PAS DE CALAIS. Typhoon bombers damaged a merchantman off BOULOGNE. 1st/2nd. Aircraft despatched - BERLIN 421, HAMBURG, WITTEN, DUISBURG and COLOGNE total of 34 Mosquitoes, military constructions near CHERBOURG 4, Intruders 2, Leaflets 14. BERLIN - preliminary report. Complete cloud over objective, 28 aircraft missing.

ITALY. 30th. 192 escorted heavy and medium bombers attacked railway communications in northern and central ITALY at PADUA and RIMINI attacked by Fortresses. Excellent results are reported.

YUGOSLAVIA. 30th. Medium bombers dropped 39 tons on ZARA detonating about 75 mines on the quay.

BURMA. 31st. Spitfires intercepted about 30 enemy bombers and fighters near AKYAB and scored 8, 3, 7.

January 3, 1944
9:30 a.m.

GROUP

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

H.M.JR: John, I asked Cliff Mack to come over. This personal and confidential letter from the President of Johns Hopkins - it is the darnedest letter I have ever seen - in which he starts out claiming Procurement is playing politics with shop materials of NYA, that the only States that can get it are New Hampshire and Vermont.

MR. SULLIVAN: I wish the boys would let me in on the game.

H.M.JR: It says that of course he can't substantiate any of the rumors, and then asks me if I wouldn't throw a little business to Maryland.

MR. BELL: That makes three States.

H.M.JR: He understood that we, here, are opposed to Governor O'Connor of Baltimore. That is from the President of Johns Hopkins.

After I read that, I wondered who had written his books for him. Here is Isaiah Bowman, supposed to be a scholar. It is one of the stupidest letters I have gotten in ten years.

- 2 -

MR. PAUL: Is that the University?

H.M.JR: Johns Hopkins.

MR. SULLIVAN: Did you give the substance of this to Cliff?

H.M.JR: Yes, he is coming over.

MR. SULLIVAN: We have several plans ready for your approval.

H.M.JR: I was interested in New Hampshire and Vermont. Why not Maine?

MR. SULLIVAN: Why not let me know about New Hampshire?

MR. GASTON: The boys are giving you a little help on the side.

MR. SULLIVAN: I would kind of like to know about it.

H.M.JR: Anyway, at different times we in the Treasury have talked about White Papers, and history, and so forth - and the State Department gets out a lot. Here are two exceptionally good jobs that I have received recently: One is "Report of the Commanding General of the Army Air Force" going back to the last three years; it is a beautiful job. Here is another one, "Report on War Financing - Duchess County." I just wondered, Fred, if we couldn't get somebody - there is quite a difference, but they are awfully good - who could do, for instance, starting with the first Savings Bond, down to date, and then take some other things around you - the financing of the war. Here General Arnold gets out this report - popular stuff. It is beautifully done. Whoever did this job - I imagine it is the Editor of the Poughkeepsie papers because the whole get-up - I mean, certainly we didn't pay for that. Have you ever seen that?

MR. GAMBLE: No, I have not seen it.

- 3 -

H.M.JR: It is a beautiful job. Fred, will you think about it? Harry White has talked to me about this a number of times. There are other things that could be done, but I was thinking as good a one as any would be the financing of the war, starting with the first Savings Bonds.

MR. SMITH: That would be the best one.

H.M.JR: You think about it.

Paul, you mentioned just as you were leaving yesterday - you intrigued me - that you were going to go up and do some particularly dirty work on the Hill at ten-thirty.

MR. PAUL: Vinson has a scheme for producing a psychological effect, as he calls it, by flashing in a bill to restrict profits to a certain percent of gross sales. It is a bill along the old Vinson-Trammel lines. He doesn't want it passed, but he wants to scare the people who are for eliminating renegotiation by saying, "Gentlemen, this is the worst thing that you will get if you are not careful." We have drawn a bill for them.

MR. BLOUGH: This is Congressman Vinson?

MR. PAUL: Yes, and we expect to have a little tactics conference this morning. I have told Patterson about it.

H.M.JR: You didn't tell me.

MR. PAUL: I didn't have a chance. I told you yesterday, which was the first chance I had.

H.M.JR: You didn't talk with anybody else around here about it?

MR. PAUL: Yes, I talked to Joe and Roy, I guess. Well, your shop did the bill.

MR. BLOUGH: I knew about it.

- 4 -

H.M.JR: That is a pretty risky piece of business.

MR. SULLIVAN: He was a hundred percent for restoration of the Vinson-Trammel Act in September '41, and was very sore at me because I wouldn't draft a bill for him.

MR. PAUL: I don't see how we can refuse to draft a bill for him as a service, even if we don't agree with the bill.

H.M.JR: Well, on a thing like that, I think it is important enough that I would like to be consulted, Randolph.

MR. PAUL: All right, but it only came up very recently. It came up while you were away.

H.M.JR: Yes, but I was on the phone every morning from a half hour to an hour. Well, I mean, it was his idea - his coming to us?

MR. PAUL: He came to us. He came to us about ten days ago. We haven't yet had a conference. We were supposed to have one last week, but didn't manage to get together.

H.M.JR: What do you think, Dan?

MR. BELL: I agree. I think when things like that come up there ought to be a conference. I think the same thing was said yesterday in that meeting, in McConnell's corner, that we ought to get together around here and see what the other people in the Treasury think about it. I think it should be done on all these fronts.

MR. PAUL: Well, I will just send him the bill I have.

MR. BELL: I am not so sure we are under any obligation to draft a bill for a Congressman just because he wants it. I think we are inclined to get into difficulty. When you draft a bill you have a hard time dodging responsibility for it.

- 5 -

MR. PAUL: It has been our policy right along to draft bills in the tax field. We draft not only bills but memoranda as a service to Congress.

MR. BELL: I am not so sure it isn't against the President's order, that you are not supposed to communicate in any way with the Chairman of the Committee without first going through the Budget to see whether or not it is in line with the President's program.

MR. PAUL: Well, if you are going to have a meeting on every one of these things, you are going to spend all your time in meetings.

H.M.JR: All right, Randolph, but you have a way of going off on a tangent and not letting anybody know anything. I mean, Bell is here, as Acting Secretary. I am on the phone every morning. And then something goes wrong and I am hauled up and Doughton, or somebody, gets sore at me.

MR. PAUL: I haven't seen anything that has gone wrong on any of my tangents.

H.M.JR: Well, here I was told that this renegotiation thing was practically licked. You certainly--

MR. PAUL: I don't know where the term "practically licked" was used; nothing is ever practically licked until it is all over with, with a man like George against you.

H.M.JR: So I took the initiative on the thing and called up Patterson and got that meeting called over at Byrnes'. I mean, I have certainly taken a lot of time and trouble on the thing. When something like this happens, I would like to be consulted.

MR. PAUL: Well, I didn't think it was as important a matter as that. I mean, it is just one little segment.

H.M.JR: Well now, Randolph, look; we are all of age. It isn't just a little segment of the thing, if the thing goes wrong.

- 6 -

MR. PAUL: I can sit down for an hour with you and talk with you about all the things that are going on on the re-negotiation front any time you want.

H.M.JR: Why shouldn't you ask to see me? Why do I have--

MR. PAUL: Because you are very busy and I don't like to bother you all the time about things that don't seem to me to be--

H.M.JR: When I stepped into this thing, certainly you or somebody around the Treasury told me the thing was practically finished.

MR. PAUL: I don't think we ever meant to convey that impression.

H.M.JR: That is what I got from you. George is right; I don't know anything about it, if my own people won't tell me.

MR. PAUL: I have been only too anxious to tell you more, but your time is very limited and these are very complicated questions.

H.M.JR: Well, the only way I can find out - if you will seek me out, then if I don't want to see you, that is something else again. I am ready any time. I would like to know what is going on. What do you think, Herbert?

MR. GASTON: About introducing this bill?

H.M.JR: Yes.

MR. PAUL: Vinson introduced it. You know that.

MR. GASTON: I think it may have a good effect for Vinson to introduce the bill.

MR. PAUL: That was my judgment, anyway - whatever we do--

- 7 -

MR. GASTON: If it cuts low enough - I just don't know - what is he figuring on, six percent?

MR. PAUL: Well, he is figuring on a different rate, a varied rate, as low as two percent after taxes.

MR. GASTON: I would hate to see Congress grab it in place of renegotiation.

H.M.JR: Does anybody want to express an opinion? Roy?

MR. BLOUGH: Well, I don't know as I was in the office when the thing started, and it went directly from Randolph to one of my people. When I saw it, my reaction was this, that we must be very careful with Vinson, so that when he is run into a corner he doesn't say, "Well, this thing, after all, was worked out in the Treasury."

Now, aside from that, if we can protect ourselves on that front, I don't see any harm in it. But I do see harm in it if, when Vinson is run into a corner on it, he says, "Well, the Treasury worked this out," and even though we say we are not supporting it, still, if he says that the Treasury worked it out, we are caught.

Now, if we can keep him from doing that, I don't see any damage.

H.M.JR: You know when anybody gets in a tight place he always will blame us or somebody else. It is always that way.

MR. GASTON: He should take entire responsibility for it, that is sure.

H.M.JR: Well, Herbert, he won't; you know that.

MR. PAUL: Well then, we better decide on a policy for not only this item, but all other items. And they come up again and again when people ask you to do things without any enforcement but as a technical job. That is what he has asked us to do.

- 8 -

H.M.JR: Well, I think you better. There is a need to talk these things over and get the judgment of whatever the group is worth. John, do you want to say anything?

MR. SULLIVAN: Well, I don't know. I haven't seen Vinson for over two years. I do know that back in September of '41 he was sincerely for this sort of thing, not as a move to stop something else, but because he thought it had merit in and of itself. I don't know whether he still feels that way or not, Randolph.

MR. PAUL: No, he doesn't. He has been converted to the renegotiation statute, and nobody defended it more vigorously than he did before the Ways and Means Committee. But he thinks one way to help beat it is to threaten with this other old type of limitation.

Now, I take it he has a perfect right to do that, and he will call on us for technical assistance. Now, what is the answer? Do you want me to say, "I can't give it to you," or do you want me to say, "Here it is"?

H.M.JR: I don't know how much involved you are.

MR. PAUL: I am not so involved that I can't say, "I can't give it to you; the Secretary orders me not to."

H.M.JR: That would be a big help!

MR. GASTON: My judgment would be--

MR. PAUL: Well, I had assumed that our policy has been right along that way. It has been. I have done it countless times. We have done it in the tax field. Somebody who doesn't agree with us - the whole tax bill is drawn - we assist in drawing the whole tax bill, including the provisions we disagree with.

MR. BELL: Do we draft the bill, or help out the Drafting Committee?

- 9 -

MR. PAUL: We help out Gerry Morgan's staff, which couldn't do it without us. And we do it with the idea that we keep a lot of bad things, or mistakes, from creeping into it. But we don't agree with it. It has been policy for years to do that.

Whenever a particular member, be he Republican or Democrat, or whatever he is, asks for a certain provision, or asks for help, or for an economic report; that is the only way, in my opinion, you can keep any relationships up there.

We have a regular paragraph that goes into the transmittal letter that this does not express any views of the Treasury.

MR. GASTON: Should there be any transmittal letter? My judgment would be just to hand it to him with the distinct understanding.

MR. PAUL: Then you are up against just what Roy said - but we have got a record that it is not our policy.

MR. BELL: It seems to me it ought to be, in the first instance, the responsibility of the Drafting Committee on the Hill. They have Drafting Committees, and it ought to be their responsibility. If they want to consult the Treasury informally about technical provisions, then that should be permitted.

MR. BLOUGH: Has this been drafted as a bill or just informative?

MR. PAUL: The important section is drafted as a bill, not the whole bill, but just the technical language of that section. I can avoid the issue, partly this way: I can tell them I can't go up, and have Gordon Keith go up and put it on a purely technical level.

H.M.JR: Who is he?

- 10 -

MR. BLOUGH: He is in my shop - a very able fellow. That would have some advantages in that it would keep it to a strictly technical level in the Treasury.

H.M.JR: I think that would be the best way to do it. I am ready at any time that you are to talk about what you are doing, or what you propose to do with regard to this renegotiation of contracts.

MR. PAUL: Whenever you have a free time.

H.M.JR: I will make free time. All of us here are trying to help. I don't know whether you are keeping anybody in the room here posted--

MR. GASTON: Joe O'Connell told me that Vinson - it was either Joe or you, I think it was Joe O'Connell - told me about ten days ago that Vinson was proposing this tactic of introducing a bill.

H.M.JR: I can meet at ten-thirty. Who is interested in this?

MR. SULLIVAN: I am.

H.M.JR: Who else?

MR. PAUL: Joe O'Connell and Roy.

MR. BELL: I suppose I ought to be in, in case acting at any time comes up.

MR. BLOUGH: Yes, I will break another appointment.

H.M.JR: Who is the man at the head?

MR. BLOUGH: Surrey.

MR. PAUL: He is pretty much in it.

H.M.JR: I would like Surrey on it.

- 11 -

MR. BLOUGH: You see, this hasn't been worked so much through the Tax Section as it has through Joe O'Connell. He has been spearheading it. It has enough relationship to our business.

MR. PAUL: Surrey has maintained his interest throughout, and is one of the best informed.

H.M.JR: One other thing - I have taken up so much time - I have talked with Smith about getting a statement for me on material together. I think he has talked with you (Blough) about trying to show why it is going to be so difficult on the 15th of March to pay one's taxes. What progress are you making?

MR. BLOUGH: Is that the one you--

MR. SMITH: That is right - the one we recommended. That was the original order.

MR. BLOUGH: That is a different animal. That is what the Treasury has in the past recommended to Congress on simplification.

MR. SMITH: I thought that was what you asked me for over the phone - our own recommendation.

H.M.JR: What I would like to get is, as the bill stands now, I think about the best - what would a person have to do on the 15th of March? Give me an example. And what would the situation have been if the Congress had accepted the Treasury's recommendations? I would like to have that awfully soon. I would like to sit down with Paul and whomever else is interested, and go over it and see whether I should make such a statement.

MR. BLOUGH: We can get you that today, sir. That was not what I understood you wanted.

MR. SMITH: That is what I understood. I thought we wanted a round-up of our recommendations.

- 12 -

H.M.JR: No, what I am trying to do is, I want to show that if this thing stays with Congress and not the Treasury, I want to have the people mad at the right person. "This is my suggestion. Now if anybody has a better one, all right."

"Now, if you take the Treasury's plan, here is the way you do it on the 15th of March; now, with the Congress' plan, here is what you do. Now, there is still time to change it if you think the Treasury is right."

MR. BLOUGH: The difference between the two will be substantial, but the job that will be left to the taxpayer will still be so great that I don't know that anybody will get a great deal of benefit out of it.

H.M.JR: Well, let's take a look at it, will you, please?

O.K., I have got five minutes to go. Does anybody have anything?

MR. BELL: I want to tell you that we have been over the first draft of the Budget Message submitted to us, and Roy Blough and I had conferences with Colm and Weldon Jones Friday evening after various people in the Treasury had submitted their criticisms of it. They accepted a good many of our suggestions, but clearly there is an issue on the forced savings. I told them I didn't think that Harold ought to go to the President on that subject unless you were along, if we couldn't come to some agreement before he went to the President. But we didn't make any impression, I am sure, on the Budget people on that subject.

We are supposed to have another draft today and we will see then what they have done with it.

H.M.JR: Well, if they don't, I tell you what I wish you would do: Write a letter for me to the President and make it just as strong as possible. I don't care how tough you put it, but present the attitude that I am damned sick and tired.

- 13 -

We have gone through three loans; we have made a success of the thing, and so forth and so on. I should think it is about time the Bureau of the Budget should quit trying to cut the ground out from under our feet. Here I am on the eve of the Fourth War Loan and I need all the backing I can get from the President down. I am sick and tired of fighting this thing, and I am perfectly willing to say that I am not going to go into a Fourth War Loan unless this thing is settled.

MR. WHITE: I think you have a new argument you can use, that was used with less effectiveness before, and that is, whatever merits there may have been for forced loan - and you know that I have been for it - have ceased to have much significance at this stage of the game. There is only another year or so of loans, and before you could get a law passed, and before it would be effective, I think it is a little short of almost ridiculous, at this stage of the war, to shift over to forced loans.

I think the argument that you are interfering with your Fourth War Loan has this difficulty, that you are always either right before a loan or always behind and that it is not too effective, because every time you have raised that issue, and they are in the position of saying, "Can we never raise this issue?" I think in addition to the usual arguments which you had against forced loans, that you may want to repeat - but the more trenchant argument, to me, seems that it couldn't be effective before July 1, I presume, if not later, and to adopt forced war loan in this, the fourth year of the war, with probably another year to go--

MR. BLOUGH: If I could indicate, or Dan, their principle argument, and our principal objection, it might help in this connection. Their principal argument was they want the President to have the firmest fiscal policy recommendations that they can. And they say that the President will say to Congress, "I want taxes; that is the thing I asked for; that is the thing I want first. But if you aren't going to get me that, then I want to be supported with these non-negotiable loans that will be paid back in instalments."

- 14 -

Our answer to that was that, quite aside from the usual argument on forced loans, in which there is a difference of opinion, that at this time you have so very little chance of getting anywhere with it at all in Congress, that you are simply risking a lot of adverse effect on the method of financing you are now using, and have very little chance of getting the forced loans that are asked for; and that so far as the legislative situation is concerned, even for a person who believes in forced loans, it isn't worth the effort at this time.

I mean, from the point of view of the public interest, it wouldn't be desirable.

H.M.JR: Whom do you argue with?

MR. BLOUGH: Colm and Weldon Jones.

MR. BELL: We understood that they had discussed this policy end of the Budget Message with Harold and Wayne Coy, and they decided to go out on this limb again. It has not been discussed, I understand, with the President. So they don't know how he stands on it.

No, I wouldn't call up Harold at this time. I think I would wait until I saw the message today and find out if they have discussed it with Harold.

MR. BLOUGH: They are sending a new draft over.

H.M.JR: Anyway, I would like to have a letter, a very strong letter. I am sick and tired. It is hard enough around here without the Bureau of the Budget trying to cut the ground out from under you.

MR. WHITE: I don't like that tone, Mr. Secretary, because I think they have a right to set their views forth. I think you have to meet them on cogent arguments. I don't think they are trying to undermine you, Mr. Secretary.

H.M.JR: Oh, Harry, God damn it! The President of the United States, three times, has cut it out of his budget.

- 15 -

I have in my own shop. The President decided three times against it. Two, or three Budget Messages?

MR. BELL: Two, anyhow.

H.M.JR: I mean, how often does he have to say something before people who work for him say, "All right"?

MR. WHITE: I think they have a responsibility of saying what they think is right and not impugning their good faith.

MR. BELL: I think what you ought to do is just see that you get an opportunity to talk to the President before he puts this in the Budget Message.

MR. GAMBLE: All this trouble we have had has come from the Bureau of the Budget from a gentleman by the name of Mills, who started this investigation of the Western Newspaper Unions - Procurement, Treasury - lined up with the Office of War Information, Scripps-Howard papers, and carried on this vicious attack.

MR. WHITE: A vicious attack or an investigation?

MR. GAMBLE: It is both.

MR. WHITE: Well, after all, I am not going to defend the general attitude, but I think on the forced savings, it is not necessary to indict them for that. They have a responsibility to the President in making their recommendations. They make them, and I think they have to be met with good arguments. I think you have them. Why resort to the other?

MR. PAUL: I agree.

MR. GASTON: I don't think they should have any responsibility for making tax and fiscal recommendations whatever; it is outrageous. Those fellows sit over there on the side and create for the President a tax and fiscal policy totally remote from what is actually being done and which is actually being put into effect.

- 16 -

H.M.JR: Personally, I think the Federal Reserve Board has much more right to make recommendations to the President than the Bureau of the Budget.

MR. PAUL: But you have a perfectly good argument to knock them over. I don't see why you don't use that.

MR. SULLIVAN: The question is how many times you are going to be obliged to knock them over.

MR. BLOUGH: Every year, because they say they have responsibility under the Budget Act.

MR. SULLIVAN: If they want to sit around their club and discuss it academically, all right, but I think this is disgusting.

H.M.JR: That is the way John and I feel, anyway.

MR. SULLIVAN: I feel a little bit hotter about it than you do.

H.M.JR: All right. I will stop now.

MR. WHITE: General McSherry has asked to see me. He is coming in today. Do you want to see him?

H.M.JR: Yes, very much so.

MR. WHITE: Secondly--

H.M.JR: I can't see him today, but I would like to see him.

MR. WHITE: I will tell him and he can make arrangements through your office.

Secondly, we are at the point where we are going to give a reply to the British to their reply to us on the International Stabilization Fund. The thing is coming to a head, and I think it would be helpful to us, and I think

- 17 -

you ought, at this stage, have a half hour or an hour in which to see where we are, and what we have cut out, and what we have in. So, sometime today or tomorrow - that is all.

H.M.JR: Anybody else? I am seeing you two fellows?
(Smith and Gamble)

MR. GAMBLE: All right.

H.M.JR: And I am seeing McConnell and Sullivan.

MR. SULLIVAN: I thought it was Bob McConnell.

H.M.JR: McConnell, O'Connell, Sullivan and Morgenthau.

MR. SULLIVAN: We will be glad to have you.

MR. GASTON: You asked for Joe McConnell; that ought to cover both of them. (Laughter)

H.M.JR: Did I? (Laughter)

MR. SULLIVAN: Get one of those fellows to change his name.

MR. BELL: How are you going to get an Irishman to change his name? (Laughter)

January 3, 1944
10:10 a.m.

APPOINTMENTS TO SUB-COMMITTEES;
JOINT CONTRACT TERMINATION BOARD

Present: Mr. Bell
Mr. Gaston
Mr. Sullivan
Mr. O'Connell
Mr. McConnell

H.M.JR: How are you?

MR. McCONNELL: Very well, sir. How are you?

Is Bell coming in?

H.M.JR: Is he?

MR. SULLIVAN: Dan is coming in on renegotiation.

H.M.JR: Do you want him in?

MR. McCONNELL: I have talked to him about it.

MR. O'CONNELL: Mr. Secretary, what that boy said to you is not true. It is still a rumor.

H.M.JR: Wonderful.

MR. McCONNELL: Have you reported on the action?

MR. SULLIVAN: Yes, about the adoption of the contract termination.

MR. McCONNELL: Now, in preparation there is a statement, a covering statement with the contract termination article, and the cost determination of the contract termination article, which Mr. Hancock is preparing for Mr. Baruch's signature to go to Mr. Byrnes. I have Thursday's copy, which was merely a draft by Strauss.

- 2 -

(Mr. Bell entered the conference.)

MR. McCONNELL: He is with Jim Forrestal. That will probably be revised to a great extent. There is no use bringing that up, but it does cover the things that have been done and the things they are looking forward to doing in anticipation of questions as to what is coming next.

Now, those things that they are looking forward to doing primarily are these five subjects. I assume it is the subject of conversation this morning. Have you been told about those five committees?

H.M.JR: Yes, I saw Joe yesterday and some of these other gentlemen.

MR. O'CONNELL: I think I covered all five of them. You might want to go over them, Bob, but, Dan, they are the ones that you and Bob and I talked about.

MR. McCONNELL: The first is the termination of financing. I talked to Dan about that as to the plans. They had a meeting Friday or Saturday, I have forgotten which, and we have not as yet appointed a member from the Treasury for membership on that committee.

H.M.JR: Which is that?

MR. McCONNELL: Termination financing.

MR. BELL: That is a sub-committee.

MR. McCONNELL: Of the Baruch board, which will try to work out a statement of policy that will be published or released by the Baruch board as to the propriety of such financing--interim financing--that they may have to have before settlement.

MR. BELL: And whether or not the Government would in any way participate in that interim financing. They have under consideration, as I understand it, a loan

- 3 -

somewhat analogous to the V loans. The V loans are in a sense guaranteed by the War and Navy Departments and the Maritime Commission.

H.M.JR: Has that anything to do with what the Federal Reserve wants to see me about, discussion on the Hill about regulations?

MR. BELL: No, that is something else again. Who wants it?

H.M.JR: Three o'clock?

MR. BELL: No, that is interest rates or payment of interest through correspondent accounts. Delano is in on that and has to testify that we can.

H.M.JR: Who should be in on that with me?

MR. BELL: Delano and I should.

H.M.JR: Excuse me, but I am trying to pull the things together.

(Mr. Gaston entered the conference.)

MR. BELL: Probably you ought to have ten minutes before that meeting with Delano and me.

H.M.JR: All right.

MR. BELL: Is that today?

H.M.JR: Yes. I have nothing to do today.

MR. BELL: In about another hour you will have.

MR. O'CONNELL: The sub-committee on financing is having a meeting at two-thirty this afternoon.

H.M.JR: Is that the most immediate thing?

- 4 -

MR. McCONNELL: That is the most important. Those committees are meeting, and it seemed to me it was important to get started with the right men.

H.M.JR: Tell it again. You want a representation from the Treasury on what?

MR. McCONNELL: The Committee on Financing Termination, for interim financing before final settlements of contracts in event of termination.

MR. GASTON: The part payments?

MR. McCONNELL: That is right, sir.

MR. BELL: It may be loans pending.

MR. GASTON: Some sort of advances pending final settlement.

MR. McCONNELL: The immediate job is for this Committee to prepare a statement of policy which would be a statement of policy by the Baruch unit of the Byrnes Committee.

Now, that policy would come back to the board, just as the termination articles come back to the board for ratification, corrections, additions, and so forth, but the drafting job was probably left to the Committee, that Termination Committee.

MR. SULLIVAN: Who is the War Department's representative?

MR. McCONNELL: Colonel Paul Cleveland, who is well-known to Dan. He is the chairman of that Committee.

MR. SULLIVAN: Is Mechem on there?

MR. McCONNELL: I don't see him.

H.M.JR: Who is Cleveland?

MR. BELL: Cleveland was assistant to Mechem. He is a former banker, but he is the man that has been working on the V loans and worked up that scheme for the V loans.

- 5 -

MR. McCONNELL: W. A. Coolidge--he is from Navy; R. E. Anderson from the Maritime Commission; Charles T. Fisher, Jr., RFC--

MR. BELL: Fisher is the Detroit man.

MR. McCONNELL: Mr. Vest and Mr. Clayton--not Will Clayton--of the Federal Reserve Board.

MR. BELL: Vest is the Assistant General Counsel of the Federal Reserve Board.

MR. O'CONNELL: General Counsel?

MR. BELL: Assistant General Counsel. He worked on V loans over there, too.

H.M.JR: Who do you think ought to do this?

MR. BELL: I thought maybe for the first few meetings that probably I should go and George Haas should be the alternate. I don't know just how important it is going to be to the Treasury. I thought maybe we might find out, you know.

H.M.JR: That is agreeable to me.

MR. McCONNELL: Is that O.K.?

H.M.JR: That is George Haas and Bell? I think that somehow this thing is getting so big and so important that if the President takes the stuff--I wonder if we couldn't put somebody to sort of act as secretary to keep all of us informed who want to be informed?

MR. McCONNELL: I think we could, if we could have Mr. Davis.

MR. O'CONNELL: You can't.

H.M.JR: Who is Davis?

MR. O'CONNELL: He is Assistant Chief Counsel for Procurement, and he has more work than he can do in

- 6 -

connection with the operation of Procurement. He is a pretty competent young fellow. He is one of the two lawyers we have asked draft deferment for.

MR. McCONNELL: He has been following it; that is the reason I ask.

MR. O'CONNELL: But I would prefer to suggest someone like Tom Lynch, who is in the Treasury office and who has some young fellows working for him, and who I think will spend as much time as necessary to ride herd and work with McConnell on all these matters. Let him be a permanent secretary so he will be in touch with all the meetings of all the sub-committees. If that is what you are thinking of using Davis for, I think Lynch would be preferable from the standpoint of availability. He is a bigger man than Davis by far. He knows his way around better.

MR. BELL: He knows the Government better than Davis.

MR. O'CONNELL: He has been with WPB, Justice--

H.M.JR: Do you know him?

MR. SULLIVAN: Yes.

H.M.JR: What do you think?

MR. SULLIVAN: I think that the comments Joe and Dan have made are right. Davis is an exceedingly able fellow in his own particular line, but so far as the whole picture is concerned, I think Tom is much better qualified.

MR. O'CONNELL: He is an older man; he is over forty.

MR. BELL: He has been around the Government; he has been in several Government departments and knows the setup.

H.M.JR: Do you know him, Herbert?

MR. GASTON: Oh, yes; I think he will do well.

- 7 -

H.M.JR: How about you?

MR. McCONNELL: Oh, yes, I know them both. I just mentioned Davis because he had been doing it. I think Joe is right. I think Lynch is probably a better man; certainly he is more desirable if he is available.

MR. O'CONNELL: He is available, because I have been trying to work into these things.

H.M.JR: Why not have him act as sort of secretary. It is his job to see that all of us who are interested are kept posted, see? How would that be?

MR. McCONNELL: Yes, sir.

H.M.JR: I mean, somebody go around--if he has to sit in my outer office or somebody else's and see that we all know what is going on.

MR. SULLIVAN: This would be pretty near a full-time job for him.

MR. McCONNELL: This is going to become one of the important things here, I am sure. It is going to loom way up almost next to the war here as the weeks go by.

H.M.JR: Well, the little contact I have had with Lynch--my impression is good. I haven't had much contact with him.

MR. O'CONNELL: He is the best man we have.

MR. GASTON: He is a good man.

MR. McCONNELL: I have known him since '40 in WPB.

MR. O'CONNELL: He was Counsel for Jeffers in WPB.

H.M.JR: Did he get along with Jeffers?

MR. O'CONNELL: He did.

- 8 -

H.M.JR: He must have a nice disposition. (Laughter)
Would that be all right with you? We are not moving too fast, are we?

MR. McCONNELL: That would be fine, sir.

H.M.JR: Is Lynch fairly liberal-minded?

MR. O'CONNELL: You bet he is.

H.M.JR: Where does he come from?

MR. O'CONNELL: He comes from Niagara Falls, New York. He went to the University of Michigan Law School. He practiced in Toledo before he came here. He came here with SEC about '34 or '35 as Assistant Counsel. He then worked with Thurman Arnold. He was loaned to WPB and became Assistant General Counsel of the WPB, and then he was assigned to Jeffers as his main occupation while Jeffers was Rubber Director.

Just about the time Jeffers was leaving, we offered him a job over here as Assistant General Counsel.

H.M.JR: Who discovered him?

MR. O'CONNELL: I have known him for years. Tietjens went to law school with him before any of us were in the Government. I recommended him to Randolph, and Randolph spoke to you about him. That was the way it happened. He is an old friend of mine.

H.M.JR: I won't hold that against him. (Laughter)

MR. O'CONNELL: I hoped you wouldn't.

H.M.JR: I think we need somebody like that around.

MR. McCONNELL: I don't know as one is quite enough. I was going to bring up the question--I think in the first place each one of these boards should have an alternate nomination. If Mr. Bell goes on the Financing Board, then Heas should be designated as an alternate,

- 9 -

so when Bell is not there he can speak for the Treasury. That means right away ten men, if you do that.

H.M.JR: How do you mean?

MR. McCONNELL: There are five sub-committees; that is only one of five.

H.M.JR: All right.

MR. McCONNELL: Then that may get around. I may ask you if I couldn't have some man to help me. I think Lynch will work out for the time, though.

H.M.JR: Let's try Lynch and see how that works out.

MR. McCONNELL: As secretary, his principal job is to keep everybody informed of what transpires.

MR. O'CONNELL: He might, in order to do that, be expected to go to most of the sub-committee meetings with whoever goes. If Dan, for instance, were free to go this afternoon, you might or might not want to take Lynch with you. But certainly with some of the other committees, like the one Saturday where we had one from Procurement and one from Revenue to work on the technical matters--I went to that meeting with them Saturday. They were "babes in the woods." It was desirable to have someone go to see what was going on.

For that sort of a situation, it would seem to me as the eyes for this office Lynch ought to go to said meeting, especially to the earlier ones.

MR. SULLIVAN: Then where one impinges on the other, he can keep the members of the other sub-committees informed. There has to be one fellow in on all.

H.M.JR: How many assistants does Lynch have?

MR. O'CONNELL: He has a group of about five lawyers working for him. They are not overly busy, but they are busy enough.

- 10 -

H.M. JR: But not overly busy?

MR. O'CONNELL: No.

H.M. JR: Let's say that there were two meetings at the same time and Lynch wanted to go to one. He could send one of his boys to the other?

MR. O'CONNELL: That is right.

MR. McCONNELL: You understand, there will be nothing definite done on these sub-committees.

MR. SULLIVAN: The trouble is, when you get them to agree, then it is pretty tough to move the Board.

MR. McCONNELL: That is right. The sub-committee is so much more familiar with that particular subject.

MR. O'CONNELL: Sub-committee work is awfully important. By the time it gets to the big Board, it has been threshed around and each member of the sub-committee has discussed the matter with his own agency, and the policy will be made in the sub-committee more than any place else.

MR. McCONNELL: Now, the second one is the one that Joe brought up, Cost Interpretation, which is a standing committee. It will not be an appeal board. Contractors nor the Government, neither one, can appeal to this Committee, but it will from time to time, almost constantly, decide broad questions of cost, what is allowable, how far payments will be made on termination. It is all on termination of contracts, and these costs definitions in broad language, will be originated in this committee probably for all the period of contract cancellation settlements, because so many items come into the question of payments as to whether one cost is allowable or proper or whether it should be included or excluded. That Committee is visualized as a standing or continued committee during the period of termination.

- 11 -

MR. O'CONNELL: It seems to me in some respects it is like the Joint Adjustment Board. The entire presentations, of course, are going to be made in the first instance by the agencies that are terminating the contract, the War Department, Navy Department, and so forth, as time goes on, and right now there happen to be five or six very difficult cost questions which the War Department wants to check up on, somebody else to give them some advisory opinions on or some rulings.

Now, other agencies will have the same thing. Over a period of time it is visualized that this continuing committee will be able to give over-all advisory advice to each agency that has termination problems in the cost field, and will be able to bring a degree of uniformity. So if you see the War Department taking one view, and the Navy taking another, you can resolve those difficulties and get them to come to--

MR. GASTON: There are some very good cost people in the Bureau?

MR. McCONNELL: Two very good men, sir, Mr. Herrin from the Revenue Bureau, and Mr. Gunther from the Procurement Division, both of whom are here ready to attend these meetings as being probably the most able men you have.

MR. GASTON: Was Herrin attached to the staff?

MR. SULLIVAN: No, he is with the Revenue agency.

MR. GASTON: He is an evaluation engineer?

MR. SULLIVAN: No.

MR. GASTON: He is a cost specialist?

MR. SULLIVAN: That is right. Graves picked him for me Friday as the ablest fellow on this subject we had in the Internal Revenue Service. He got here Saturday morning.

H.M. JR: What is his name?

- 12 -

MR. SULLIVAN: Herrin, from New York.

H.M.JR: Didn't you speak to me about him?

MR. SULLIVAN: No.

MR. GASTON: From Allen's office?

MR. SULLIVAN: No, no.

H.M.JR: Is this a sort of appeal board?

MR. McCONNELL: No, sir.

MR. O'CONNELL: I think it made the main contribution. It is going to be a board which unifies cost statements, which determines as to whether a Navy procedure on this particular item of cost is better than the Army, or vice-versa, or Maritime, or anybody else selling contracts, uniform cost basis for settlement. It will be appealed to only by the agencies, not by the contractor.

H.M.JR: Early in the war there was an awfully good man up at Harvard in the business school on procurement, and I know we used him first. Then I think either the Army or Navy retained him. He set up a school--Navy--for procurement officers. Take a look at the Harvard business school. I know we used him as a consultant for Procurement. The Navy thought he was so good that I think they took him on full time to run a school for supply officers. I just wonder what has happened to him, because they must be about over their peak now, I should think.

MR. O'CONNELL: I know whom you mean; I can't remember the name.

MR. SULLIVAN: Cliff would know right off the bat.

H.M.JR: Yes. You might ask and see what he is doing. I was thinking of people you might borrow. The Navy, I think, took him. They had to start a special school for supply officers.

- 13 -

MR. McCONNELL: Stewart, Hopkins, and Rustin--those are the three Navy nominations.

H.M.JR: None of them sound right.

Now, do you want us to recommend somebody on that?

MR. McCONNELL: We have these two men picked. One of them, as I understand it, is cost analysis, and the other cost account, Herrin and Gunther.

H.M.JR: What is Gunther?

MR. SULLIVAN: Procurement.

MR. O'CONNELL: He has been in Procurement a short time. I know nothing about him other than he is the old Bureau of Efficiency man.

MR. BELL: Then he went to the Farm Credit Administration. When Farm Credit went to Kansas City, he went to Procurement.

H.M.JR: These men would be technicians, not top men.

MR. McCONNELL: This is a technical committee.

MR. O'CONNELL: Technical and accounting questions--do you allow this or that?

MR. GASTON: What type of things enter into costs.

MR. O'CONNELL: But they will be operating under general directions as to what sort of things enter into the cost; they wouldn't decide that severance pay is allowable, and so forth, and so on.

H.M.JR: Here is a job for Lynch. Let Lynch get me the dockets and dossiers on these two men. I would like to look at them before I commit myself. Tell Lynch to get it in to me.

- 14 -

MR. SULLIVAN: They have already attended a meeting Saturday. There may be another tomorrow.

H.M.JR: Let them carry on.

Mrs. Klotz isn't here; she is sick. Mrs. McHugh is here, but tell them to stick around until I get them. He can walk in and give it to Mrs. McHugh.

MR. McCONNELL: The next one is Personnel Training, which is an important committee. It is important that it get started. It is conceived that the Government will have crews of men representing the Government on negotiated settlements for termination of contracts in a plant working with the company crew. Those crews--starting today--this morning--at the War College, there will be a hundred men selected. I think we have nominated four, the Army seventy-five, the Navy fifteen, and the Maritime Commission three.

H.M.JR: Who is going to teach whom?

MR. McCONNELL: Well, the Dean of the school is an Army Colonel. I have forgotten his name. He has been picked by the Army and Navy to do that job.

Now, these men will go from that school--the school will only run two or three weeks--to the plants and actually take contract cancellations--some ninety or a hundred in different plants. They will work out a basis of cancellation, perhaps, with duplicate crew chiefs with them, and will move to other plants as soon as they have been trained in that cancellation procedure.

The first thing for those men to know is the termination article thoroughly and the definition of cost that accompanies that article. I presume for some little time that will be indoctrinated into those men so they are thoroughly familiar with what has gone ahead on this termination article that has already been decided upon.

Now, Mr. Mack had been suggested and tentatively appointed as a member of the personnel training sub-committee

- 15 -

of the Baruch board, representing the Treasury. I don't believe any alternate for him has been suggested.

H.M.JR: I think Mack has all he can do. I won't put him in there and have him sitting around on committees.

MR. BELL: Well, he is about the main one who will be interested in that committee. See, all the training will have to do with the Procurement end; all the contract end is Procurement. We have no other difference.

MR. SULLIVAN: I am very anxious to have him in there. I want him to learn the book on this one.

MR. O'CONNELL: The alternate is the key of this situation, because Cliff is so busy he will have to have an alternate who will be a good man. Now, we haven't picked the alternate.

H.M.JR: Couldn't we get an alternate out of Norman Thompson's office?

MR. SULLIVAN: That doesn't do any good. It will be Procurement that will be terminating these contracts and negotiating the settlements.

H.M.JR: I was thinking in terms of personnel.

MR. SULLIVAN: I would like to have Cliff in there. We will pick an alternate over there, but I want him primarily responsible on that.

MR. BELL: The alternate should be from Procurement, too, because it is all tied in with the contract end. I don't know Walsh very well. He would be, really, the fellow who ought to be the alternate.

H.M.JR: Walsh has yet to sell himself to me; he hasn't done it yet. I told him so. I am not trying to cast anything on him. I mean, he has yet to prove to me--

MR. SULLIVAN: Are you talking about Walsh or Mapes?

- 16 -

H.M.JR: Mapes. Thank you.

MR. SULLIVAN: You will have the same problem with Walsh.

H.M.JR: I think you will get the same impression. I have only been in two conferences, and I got it--Walsh--

MR. O'CONNELL: He is the Assistant Director. He is second to Mack.

H.M.JR: I don't think I know him.

MR. SULLIVAN: I don't think you do, sir. I will say this, that when Cliff has been away and I have had to move fast on things, Walsh has always come through. I will admit that I am always surprised that he does.

H.M.JR: Let's leave it this way, that at Mr. Sullivan's insistence Mack is the one. I am willing to have Mack, but I would like to be educated, or consulted, rather, on his alternate, see? Is that agreeable?

MR. SULLIVAN: Sure.

MR. GASTON: Yes.

H.M.JR: You seem worried.

MR. GASTON: Well, as I understand it, these men are the ones who are actually going to put into effect termination policies decided upon by the larger board, so it is pretty important, the selection of this training group.

H.M.JR: I should have had Norman Thompson here, and I didn't, so when this is typed, let him read it.

MR. McCONNELL: The chairman of that committee is Colonel Reber, a regular Army man, Corps of Engineers.

H.M.JR: Not formerly of the Texas Oil Company? Funnier things than going from a Captain to a Colonel have happened, or stranger. (Laughter) Is it spelled the same way?

- 17 -

MR. McCONNELL: R-e-b-e-r.

H.M.JR: I think the other is R-i-e.

MR. O'CONNELL: He had an "I" in his name.

MR. McCONNELL: Reconversion Cost is the next committee. That is an exploratory committee, to talk out and determine what if any reconversion costs might be allowed under contract termination.

MR. SULLIVAN: Underlining the "any" and the "if."

MR. McCONNELL: Underlining "unemployment," probably, more than anything. If there is a situation where a man could get back to employ a large number of people whereby he was allowed some logical reconversion cost, they would bring that to the attention of the Board. That is another statement of policy. But it may be that no policy would be stated on that question, because, as I say, it is more exploratory, as I understand it.

There has been no one suggested for that committee that I have heard of from the Treasury. That is one of the lesser-important committees.

MR. O'CONNELL: I thought that was the one we discussed and Roy Blough was suggested for.

MR. McCONNELL: That is true.

MR. SULLIVAN: I think that is a very good suggestion.

MR. O'CONNELL: You see, we have had the same problem in renegotiation. You have the same problem in the tax field. We have been discussing it, and Roy has been hearing the arguments and comments on the Hill with respect to reconversion and taxes.

MR. SULLIVAN: I think a further reason for having Roy there, Joe, is because I have some doubt as to the authority of this board to get away with anything like that. I think you might need legislation on that.

- 18 -

MR. McCONNELL: You sure would.

MR. SULLIVAN: That is an added reason for having Roy in on it.

MR. O'CONNELL: Why would you need legislation?

MR. McCONNELL: To allow payments.

MR. SULLIVAN: It is a cost outside your contract, Joe.

MR. McCONNELL: Blough's brother from WPB is chairman of that committee.

MR. O'CONNELL: They will control the committee.

MR. SULLIVAN: He is a sound man.

MR. McCONNELL: I think Blough is a good suggestion there. I don't know about an alternate.

H.M.JR: He can get one out of his own shop.

MR. BELL: If it is going to involve legislation, you could do worse than have Surrey.

H.M.JR: There is a cross conflict there, in the first place, cross authority. Blough is really responsible to this office and not to the General Counsel. Surrey is responsible to the General Counsel, isn't he?

MR. GASTON: That is right.

H.M.JR: I think you had better let Blough pick out somebody. I wouldn't cross that up, would you?

MR. O'CONNELL: On any one of these committees you may get to the point where there will be legislation. One of Lynch's jobs is to keep his eye on each of the sub-committees with a view to seeing what legislation is necessary.

- 19 -

H.M.JR: This is a memorandum for Lynch and Thompson; they had better get together and give me a little organization chart on this thing. Keep this up to date.

Lynch had better get together right away with Norman Thompson, you know.

MR. O'CONNELL: Yes.

MR. GASTON: And with Mr. McConnell.

H.M.JR: I am taking that for granted. They say I buzzed this morning and said, "Send in Joe McConnell," and by God, the two of them came in. (Laughter)

Work it out with Mr. McConnell and Mr. O'Connell and Mr. Lynch in Mr. Norman Thompson's office.

MR. BELL: This committee ties in a little with the Cost Interpretation Committee.

MR. O'CONNELL: This assignment has more or less been carried out of their bailiwick for the time being.

H.M.JR: These people, right in the room here, without any legislative training are taking on a terrific responsibility.

MR. SULLIVAN: They have kept the committees on the Hill fully informed as to what they are doing.

H.M.JR: All right, we will trail along.

- 20 -

H.M.JR: How much does Mr. Byrnes keep in contact with this?

MR. McCONNELL: Hancock said the other morning that he had, until the labor thing came up, seen Mr. Byrnes every morning, usually with Mr. Baruch.

H.M.JR: Now, what else do you have?

MR. McCONNELL: One more, sir: Facilities and Equipment under Special Contract. The first question that Committee will have to consider is the study of the legalities of these contracts, which the Attorney General has said are illegal. He said that the twenty-year provision, whereby the Government agrees to stay out of a business for twenty years, or stay out of activity in that business, is illegal. He says the option provisions are illegal.

MR. GASTON: Government-owned facilities and equipment?

MR. McCONNELL: That is right, sir.

H.M.JR: I have that report in my office on this whole question. I mean, I think we have the Attorney General's opinion on that here. Have you seen it?

MR. O'CONNELL: If so, I haven't seen it.

H.M.JR: You can ask Miss Chauncey's office for it, if you want.

MR. O'CONNELL: I'd like to see it. It is a very difficult question, as a matter of fact.

MR. SULLIVAN: It seems very funny that the Attorney General waits two years to say that.

MR. O'CONNELL: That is Patterson's point, and it is a good point; but the Attorney General has a pretty good point that the right of the War Department or other Government agencies to bind the Congress by agreeing with corporations that they won't use facilities that the Government owns except in a way satisfactory to this private contractor is highly doubtful.

- 21 -

H.M.JR: I have maintained that. I have said so at Cabinet, that these contracts were never carried out in the spirit the President wants.

I'd like you to know that early in the game the President said when the Government goes along with these contracts, "I want the same sort of contract I had as Assistant Secretary of the Navy with the Charleston Armor Plate Corporation, where the Government said at the end of the war whether it wanted to keep the plant at the end of the war or didn't."

I told him consistently that they didn't. Jesse Jones said, "It is all right, Mr. President - -"

MR. SULLIVAN: We have had many disagreeable set-to's with these contractors who have come in for closing agreements, and in many instances we have refused to grant a closing agreement that would confer on them a benefit that was contrary to that spirit.

H.M.JR: I think you ought to know that. Jones kept saying, "No, Mr. President, it is all right."

Anyway, the Attorney General two years later comes in -

MR. SULLIVAN: I have a nominee for your man on that Subcommittee.

H.M.JR: Just again to digress a little bit, because this burns me so, because I am on the receiving end-- the way the OPA runs their business is just unbelievable. I am part of Mr. Roosevelt's family, so I can't say anything, but believe me, if I were on the outside I would raise my voice plenty. And that is just a little sector of how these other fellows might feel, to go along and suddenly two years later the Attorney General says this is illegal. That doesn't make any friends.

MR. SULLIVAN: Of course, it doesn't. Those contracts had better be lived up to, too.

MR. McCONNELL: This committee will not contact the Attorney General. They are to try to formulate some kind of policy with their interpretation.

- 22 -

H.M.JR: Do you have a candidate?

MR. SULLIVAN: I have (indicating Mr. O'Connell).

MR. BELL: I have two candidates. I thought in dealings largely with contracts and taxes involved Sullivan should be the principal, and O'Connell the alternate.

MR. O'CONNELL: Read some more of the things that will have to be dealt with.

H.M.JR: Is that why you don't want Sullivan on?
(Laughter)

MR. SULLIVAN: Go ahead, Joe.

MR. McCONNELL: "Disposal in any instance, further monopoly. What will the Government do with real estate?" These are just general remarks made at the meeting. The scrambled plants are a very serious problem, where a plant has been made an integral part of another plant and that piece is owned by the Government--what to do with scrambled plants. What information or what conclusion they may come to will be turned over to the central disposal agency which hasn't been named yet, but presumably on plants it will be the RFC.

Now, they will have to try to make some decisions as to what happens to surplus before it is declared surplus, when it comes out of a plant to a procurement agency before the agency declares it is surplus and turns it over to the central agency; also the financing of purchases and termination of facilities.

MR. O'CONNELL: The whole field.

MR. GASTON: And parts--

MR. McCONNELL: Chairman of that Committee is J. H. He is a pretty able man.

MR. GASTON: What is his business?

- 23 -

MR. McCONNELL: I am not sure.

MR. GASTON: Commander in the Navy?

MR. McCONNELL: That is right.

MR. GASTON: Reserve Commander.

MR. BELL: What is our main interest in this Committee?

MR. O'CONNELL: Just an over-all interest other than any tax interest.

MR. BELL: Isn't the tax a big interest?

MR. O'CONNELL: That is an operating interest. The only other interest we have is just a broad Government--

MR. GASTON: ...question of equity and economic policy, also, Joe.

MR. O'CONNELL: We won't be physically selling plants. Our interest will be, I think, in coming to John and wanting closing agreements with respect to a deal he won't like.

H.M.JR: Or as a conscience.

MR. O'CONNELL: ^{It} It still makes it important.

MR. BELL: That is the reason I suggested Sullivan. I thought it would be coming to him more than anyone else.

H.M.JR: Which one are you on already, John?

MR. SULLIVAN: Of these sub-committees? I am not on any.

MR. McCONNELL: John has been acting, up to date, as my alternate, or with me on the board. That is on the question of termination.

- 24 -

H.M.JR: When will this last Committee meet?

MR. McCONNELL: They are starting meetings right away, sir.

H.M.JR: What committee are you (O'Connell) on?

MR. McCONNELL: They met at four o'clock on the 1st of January.

H.M.JR: Who went there?

MR. McCONNELL: Davis went there to report for the Treasury.

MR. BELL: He submitted a memorandum.

H.M.JR: What committee are you on?

MR. O'CONNELL: Me? I am not on any.

MR. McCONNELL: Who appointed Davis on that Termination Board?

MR. O'CONNELL: By mutual consent—he had been working on the committee that worked on joint termination for a year and a half, I think by mutual consent; and Lynch carried on with the sub-committee that actually did the winding up of the other. It was so logical that I don't think anybody ever bothered to throw his name in, his nomination.

MR. SULLIVAN: If this Executive Order comes out this week on surplus, I am going to spend full time on that for quite a while.

H.M.JR: Well, good.

MR. GASTON: I just said that I liked Joe's suggestion that John should be the principal member and Joe his alternate.

MR. O'CONNELL: That wasn't my suggestion.

- 25 -

MR. GASTON: The alternate to that is that Joe would be the member.

H.M.JR: I feel that John has all he can swing now.

MR. SULLIVAN: I think that is right. I am not trying to duck anything, but if this order comes out this week--

H.M.JR: I think you have all you can swing.

How about you?

MR. O'CONNELL: Do you mean, am I busy?

H.M.JR: No, I know you are busy, but can you take it on?

MR. O'CONNELL: I would like to try it as a starter. I mean, if things--you see, I have a lot of detailed things that are part of running the General Counsel's office. But I would, if it is agreeable to you, like to try it as a starter.

H.M.JR: If it is agreeable to John, you try it and get some bright young fellow who isn't too busy now.

MR. GASTON: Joe could perhaps get some help from George Haas' shop on this particular thing.

H.M.JR: Well, think about it. My suggestion, unless somebody disagrees, would be O'Connell.

MR. GASTON: I agree.

MR. McCONNELL: Yes, sir.

MR. SULLIVAN: Anyway, Joe and I have always worked very closely on this type of problem.

H.M.JR: Let's leave it then.

MR. McCONNELL: That takes care of everything we have. We have to nominate an alternate for Mack, and you want a dossier.

- 26 -

MR. SULLIVAN: The Secretary wants to pass personally on the alternate.

H.M.JR: I asked for the personnel file on these people. It will most likely be Walsh. Let Mack make a suggestion. It will come up to me, and I will go over it.

We have done a little business this morning, haven't we?

MR. McCONNELL: Quite a little, sir.

H.M.JR: Does that clean you up for the moment?

MR. McCONNELL: Yes, pretty well. If you approve, I would like to have all members write a memorandum within twenty-four hours after they go to a meeting, so we can discuss it with them.

MR. GASTON: Yes.

MR. BELL: Won't that be the secretary's job? He will go along each time.

MR. O'CONNELL: To the extent he goes.

MR. BELL: Either the member or the alternate would write a memorandum of the meeting.

H.M.JR: While this is new and getting under way, I am going to have to give it plenty of time myself. I am ready to.

MR. McCONNELL: That is right, Mr. Secretary. It is looming up as one of the largest problems involved.

H.M.JR: What we will have here on these people-- I don't want the whole thing to jell too much, but for the time being until it does jell, we had better have a little board meeting in here once or twice a week to keep me posted.

- 27 -

MR. McCONNELL: Could we have an hour for that, I mean a definite time?

H.M.JR: That is difficult for me, but if you would, for instance, send word in to Fitz, "I would like an hour with Mr. Morgenthau," say, on Tuesday--I don't like to make my schedules so tight that I have to cancel--if you said today, "I need an hour Tuesday," I can give you an hour.

MR. McCONNELL: Right.

H.M.JR: All I need is one day's notice. The first thing I know, my whole week is tied up. Then something comes and I can't move.

MR. SULLIVAN: Bob, do you know whether this group is going after the veterans problem, veterans benefit?

MR. McCONNELL: Friday we discussed what was ahead a little bit. We will have a preliminary schedule of things that are in the future. Whether the veterans problem will be on it, I don't know.

MR. SULLIVAN: Fulton Lewis is starting in this week, and there are some pretty bad records on that business, on the way their claims are being handled, and the way they are not being re-employed.

MR. O'CONNELL: Baruch's charter doesn't include anything like that, does it?

MR. McCONNELL: Post-war employment.

MR. SULLIVAN: Post-war stuff, Joe.

MR. O'CONNELL: Then there is nothing that doesn't come under Baruch's jurisdiction. If you take that view and don't attempt to limit the field at all, he will flit so lightly over things that he won't get anything accomplished.

- 28 -

MR. GASTON: So far he has been concerning himself with war contracts, entirely.

MR. O'CONNELL: That is right. And every committee has a subject that is collateral to the subject of war contracts.

H.M.JR: Don't, gentlemen, hesitate to ask to see me. I consider this important. You have got to tell me when you want to see me.

MR. McCONNELL: I am going to try to see you once every week, anyway. These committees meet and go over what has been done.

H.M.JR: Now, are you all right for another twenty-four hours?

MR. McCONNELL: Yes, sir.

MR. BELL: I think, Mr. Secretary, those meetings are very important. I think it is also important that each of these men on these sub-committees ought to understand that while they are representing the Treasury they shouldn't speak for the Treasury on policy matters until they are brought back and discussed in this room to see if we are all in agreement.

H.M.JR: I think so. I think we will get it organized. There will be a sub-committee in advance, and each of these fellows could take ten or fifteen minutes to report on the problem.

MR. McCONNELL: I think Dan is talking about meeting outside of here where we all get together to compare notes.

MR. BELL: If we can't see the Secretary, I think he would like to have them in here for the time being. Each representative ought to understand that if they stand up in a meeting and make a statement they ought to be careful that it is not really a policy statement unless it is passed on here first. That is important.

- 29 -

H.M.JR: That is right. I want to pass on them in the first instance until we get going.

MR. McCONNELL: Then when the Board meets, these committee members should go to the Board meeting, when the Board meets to discuss that subject.

H.M.JR: Yes.

I would like Bell and Gaston to stay.

Office of the Secretary

Mr. McConnell asked that a copy of this memorandum to Mr. John Hancock be sent to your office for your files.

MR. McCONNELL

1/2/44

Mr. John Hancock
 Advisory Unit for War and Postwar Adjustment Policies.
 E. N. McConnell

The following Subcommittee members and alternates will represent the Treasury Department on each of the five subcommittees that you organized last Thursday:

Termination Financing: Member - Mr. D. W. Bell
 Under Secretary of Treasury
 Alternate - Mr. George Haas
 Director of Research and Statistics ✓

Personnel Training: Member: Mr. Clifton E. Mack
 Director of Procurement ✓

Reconversion Costs: Member: Mr. Roy Blough - Gordon Keith
 Director of Tax Research ✓

Cost Interpretations: Mr. Gerald T. Herrin ✓
 Mr. Jerome F. Gunther ✓

Facilities and Equipment
 Under Special Contract: Member: Mr. Joseph J. O'Connell, Jr.,
 Assistant General Counsel - C. J. Jones ✓

I will supplement this memorandum when the other alternates are determined upon. Mr. Thomas J. Lynch, Assistant General Counsel, will plan to attend as many subcommittee meetings as possible in order to keep the Secretary and me informed and to coordinate the information coming to the Treasury. ✓

R. E. M.
 C. J.

January 3, 1944
2:45 p.m.

INTEREST PAYMENTS ON DEMAND DEPOSITS

Present: Mr. Preston Delano
Mr. Ransom

H.M.JR: Opegard, who is he?

MR. DELANO: He used to be Deputy Comptroller before I came in here.

H.M.JR: I knew the name was familiar.

What the heck is this? (Refers to Mr. Delano's memorandum to the Secretary dated January 3, 1944, copy attached.)

MR. DELANO: It boils down to this, that the Federal Reserve Board under authority granted to it from Congress has decided that the absorption of exchange for depositors accounts is indirectly a payment of interest on demand deposits. Now, that has precipitated quite a quarrel, because the FDIC is the guardian as to who the main beneficiary is of this practice.

There have been quite a few protests on the Hill, particularly from the South and Georgia, those small banks who are again largely beneficiaries of the practice. They have protested to the House Banking and Currency Committee and started hearings on the subject.

Now, there isn't any question but what under certain circumstances, such as this particular Lincoln, Nebraska case, the absorption of exchange is an indirect method of compensating for demand balances. On the other hand, there isn't any question but what there is a large popular viewpoint out in the small banks which Crowley is capitalizing on, to let them keep on doing the thing. That is

- 2 -

the reason why I think that he has taken that position.

H.M.JR: Crowley?

MR. DELANO: Yes.

As far as we are concerned here, we are not policy makers in this particular thing; we are charged with the responsibility of carrying out the law as interpreted by the Federal Reserve. I have tried to keep us definitely in that position, as pure policemen on the beat, so to speak, of this regulation.

Now, what Ronald wants to do is bring you up to date on this thing. We have hearings over here, and I probably am going to have to testify next week.

H.M.JR: Which way?

MR. DELANO: I was going to talk to you. I have been trying to talk to Dan about the thing.

H.M.JR: Dan is across the street. Why don't I listen and just see--

MR. DELANO: That is the thing to do. Later on we can do this more freely.

(Mr. Ransom entered the conference.)

H.M.JR: I appreciate your calling me up on my tenth anniversary.

MR. RANSOM: Sorry I didn't get you in person.

H.M.JR: I got your message, anyway.

MR. RANSOM: Mr. Secretary, I wonder if I may take ten minutes to tell you a ten-year story.

H.M.JR: That is a year a minute.

- 3 -

MR. RANSOM: It is covering a lot of territory, but your time is well occupied, and better occupied than on this, but I thought it would not be fair to you or fair to us if I didn't bring you up to date on it, in view of the fact that this past week both Senator Barkley and Chairman Spence of the House Banking and Currency Committee took the matter by letter to the White House, and the White House in turn sent it over and asked us to prepare replies, which was a somewhat difficult assignment, because, of course, we had to avoid arguing a case about which we feel somewhat strongly, and try to rest it on merely objective and factual bases.

I thought it was possible that it might come up somewhere and you might be caught wholly unaware. It is quite a tempest in a teapot, but because it largely comes out of my own Southern area of this country, they can raise a considerable disturbance over a rather small matter.

In 1933 Congress, in the Banking Act of that year, prohibited the payment of interest on demand deposits by member banks directly or indirectly, or by any device whatsoever. That prohibition grew out of the realization that Senator Glass very eloquently stated in the record that the competitive bidding for demand deposits on the part of banks had led to a very distorted picture, had caused funds to flow into the speculative market, and caused many bank failures that added up in the sum total to the catastrophe of '33.

I am glad to say that Congress has never seen fit to repeal that Act, or to weaken it.

In 1935 they somewhat implemented it by giving the Board additional authority to deal with the regulation more specifically than the '33 Act had done. It has been a bothersome question, the struggle for ten years to enforce the law.

Now, the bankers on the whole approved it in the beginning. But no sooner did they find themselves faced

- 4 -

with something that I am quite sure they wanted than their ingenuity started to work, and they commenced to find ways to evade that prohibition. It became a growing perplexity and troublesome thing, and I am glad to say that to the best of my knowledge and belief we are completely in agreement with the Comptroller of the Currency's office. He can speak for himself. We have found that most helpful, most cooperative.

The matter would, in my opinion, now be completely operative and effective if our mutual friend Mr. Leo Crowley had not somewhat intervened and taken a quite contrary position. That is nothing new, because he has been on the opposite side of our effort to enforce this law for the whole period since '35. He has the same regulatory authority.

H.M.JR: Who runs FDIC these days?

MR. RANSOM: I am assuming Leo does, but I don't know.

H.M.JR: Is there somebody over there who gives it his time?

MR. RANSOM: In this particular matter, my guess would be that it comes from some of the staff people who have considerable feeling, apparently, about it. The attitude has been that now that we have discovered a way to enforce the law, the ultimate result is either one of two things, that we will have to take one further step and prohibit all bank service charges, which is utter nonsense, that is, not paying interest. It is causing the depositor to pay the bank something for his service. We have already answered that.

Secondly, it may lead ultimately to a par clearance system. I have assured Leo and everyone else that it might be a by-product, but it was not their objective. It has nothing to do with our position or the law that we are called on to enforce, the law as it is written.

- 5 -

Now, back in '37 the Board had been working to come to an agreement with FDIC on the language of their regulation. We wanted it uniform, but our position, with all reason, is this: that if you prohibit the payment of interest directly and also indirectly and the banks absorb a large quantity of out-of-pocket expense for some depositor, that is an indirect payment of interest. To illustrate, a certain small number, relatively, of banks of this country charge exchange on their checks. In the aggregate it comes out a pretty large total, hard to estimate, but I have guessed on the record that it may be between eight and ten million dollars. That is the best guess I can make.

Now, the bank practice has been this: It existed before the law. They merely emphasized it when they were prohibited by paying directly. They take a certain number of favored accounts, either correspondent banks, country banks, or city banks, for that matter, or a number of large corporations. The railroads, the utilities, and local interests that carry large balances--they are indulging in what Congressman Patman and Congressman Crawford, in some hearings we have been having, have well pointed out were nothing more than secret rebates, and that they say, "If you will carry a certain balance with us, the earning value of that balance at prevailing rates will be so much to us, and to that amount we will absorb your out-of-pocket expense, your exchange charges." If that is not an indirect payment of interest, we can't understand the English language.

Now, as Mr. Delano knows, we struggled very hard for quite a few years to find a workable answer. In '37 some sixty-odd Congressmen asked me to come up there one afternoon and discuss it with them, not as a committee, but quite informally. I spent the whole afternoon and another afternoon with Mr. Doughton and a group he had called into his office. Our regulation provided that effective on a certain date in the then future the definition of interest would include the absorption of exchange charges and other out-of-pocket expenses.

They asked if we could defer the effective date of that provision of our regulation for sixty days so that

- 6 -

Congress might work out a solution more satisfactory to Congress, if they concluded to work out a solution at all. We gave them the sixty days, of course, and they have had seven years and never done anything about it.

Now, this time when it came up again on quite a different set of circumstances, the first thing that occurred to any of them was to get another seven year postponement by asking for sixty days.

In the meantime, the Comptroller of the Currency, well within his right, had asked us for a specific ruling on a specific case. We changed our regulation to become uniform with the FDIC, so that we would not make any more hypothetical rulings or try to define interest. We would rest on the general law of what interest is. We would search the facts of every case that came before us properly and make a decision, case by case.

The Comptroller brought up a case some time in '38, I believe.

MR. DELANO: Yes, early in '38.

MR. RANSOM: It was under constant advisement and discussion by these three Federal agencies of bank supervision. We had innumerable conferences. We discussed it with an advisory council, with bankers. We tried to find the best possible solution. We wanted to be right this time.

Again in '42 the Comptroller reminded us, part of a series of correspondence, that we hadn't yet ruled on this case. And as I have told the committee of Congress, if any criticism is in order, it should be criticism directed at our inability as to the enforcement of the law. To that we replied to the Comptroller that under the facts stated, which fully bear out our position, in our opinion that was an indirect payment of interest. Briefly, that bank was absorbing eighteen thousand dollars a year out of twenty-five thousand dollars of possible absorption. In innumerable cases--there was always some relation to the balance maintained, a very glaring case.

- 7 -

But to be sure that Congress knew what we were doing, because I had had a gentleman's agreement with Senator Wagner and Mr. Steagall, I wrote them, I think, on August 6, and I said that these facts had been presented to us by the Comptroller of the Currency. I recall our informal discussion and your request that we defer for sixty days so that you could find some other solution, and we are now up against making a decision on this case, on these facts. Here they are. This is going to be our decision: This letter we sent to the Comptroller on the twenty-third day of August--this was the ninth day of August--actually after having done that, we, of course, sent copies to Leo and to Preston.

Leo then wrote a long letter, differing with us, not in my opinion validly or substantially, and then he did raise some question as to our motives and our objective, which the Board solemnly answered at great length. He sent his letter to Wagner and Steagall. We sent our reply. So before this ruling or decision was published in our September '43 Federal Reserve Bulletin, the two chairmen of these two committees had had three separate notices, three separate letters of some length, explaining the whole situation, and as yet I have never heard from Wagner and I have never heard from Steagall before his death.

We published the ruling; the result was that banks all over the country, reading the ruling and the decision in the light of their own practices, started discontinuing--started obeying the law, and complying.

Now, the net result of that was they wanted to act collectively. They wanted to do it all over the United States at once, every bank. They couldn't do that, so they took it by clearing houses, and they arbitrarily selected some date in the future on which they solemnly resolved, in effect, "On such and such a day we will start obeying the law." That ran from December through January, every group picking its own date. But because somewhere down in the State of Georgia some bank decided on January 1 and communicated that decision to its

- 8 -

correspondent banks, they took it up with Congressman Paul Brown from Georgia and said, "We want a little more time to think this over. We ought to have a little more time." And Paul picked January 1 as the effective date of our regulations, which was sheer nonsense, because whenever the Board decided a case, that decision was immediately, that day, applicable.

Well now, the Comptroller's Office could not make all the banks obey at once, but they found they could get them to obey group by group. And I will say that the Comptroller's Office has done a magnificent job, and the Federal Reserve Banks have, I hope, supported their position. We have tried to make them do it. So the enforcement agencies, the Federal Reserve Banks and the Comptroller, have been applying the enforcement to this particular problem.

That put the pinch on the country banks whose exchange was being absorbed in the city banks, a perfectly nonsensical procedure.

H.M.JR: I will have to stop in a minute or two.

MR. RANSOM: Yes, sir, I know.

The city banks make more than the country banks get paid. We have hoped and urged the country banks to use their own money. We have made it possible, with your help, to make it available to the country banks to invest it in Government bonds and be perfectly liquid and make an earning.

Now, that all resulted in a request from Spence that we attend a series of hearings, and we were there for five days.

H.M.JR: Spence?

MR. DELANO: Chairman now of the House Committee.

MR. RANSOM: He is from Kentucky.

- 9 -

Now, the reason Mr. Barkley and Mr. Spence had pressure is not from the twelve small banks in their State that charge exchange, but from the large city banks in Louisville that absorb exchange for innumerable other accounts all around the country.

If this thing is allowed to go on and not enforced, you will have a terribly distorted banking picture. You have the FDIC and the Government guaranteeing bank deposits and then a little bank in Jacksonville--a suburban bank in one year went from eight hundred thousand of deposits to well over seven million by openly soliciting the correspondent bank balances on an absorbing basis. Now, we are up against that. The thing will be terribly distorted if we can't enforce it.

H.M.JR: You (Delano) and Bell and I can get together in a couple of days. You tell Bell.

MR. DELANO: Yes.

H.M.JR: Then we will not wait seven years to give you an answer.

MR. RANSOM: You boys are doing everything I could ask you, and more. There is no possible complaint, but the fact that the matter comes to the President's attention is an outrage, because it shouldn't at a time like this. Now, I have done the best I could in preparing the replies for him.

H.M.JR: Well, I appreciate it very much.

MR. RANSOM: We have no differences with the Comptroller.

H.M.JR: Well, neither have I. (Laughter)

MR. RANSOM: I hope you will have none with us. If the matters need further explaining, I am always at your service.

MR. DELANO: Will you keep that here?

January 3, 1944

MEMORANDUM FOR THE SECRETARY:

In Re: Absorption of Exchange

The Banking Acts of 1933 and 1935 prohibited member banks from paying interest on demand deposits "directly or indirectly, by any device whatsoever." The Banking Act of 1935 supplemented the foregoing by authorizing the Board of Governors of the Federal Reserve System "to determine what shall be deemed to be a payment of interest", and also provided that the FDIC "shall by regulation prohibit the payment of interest on demand deposits in insured non-member banks."

In November 1935 the Board of Governors adopted a regulation defining "interest" to include the absorption by a member bank, for a depositor, of exchange and collection

-2-

charges which involved out-of-pocket expense. However, because of the opposition of the FDIC to this regulation, and also at the request of the Chairmen of the two Banking Committees of the Congress, the Board withdrew the regulation, and the matter lay dormant until February 1937 when the FDIC and the Board of Governors adopted identic regulations providing that "any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest." This was followed by a joint press release stating that henceforth the question of what in a particular case is a payment of interest or a device to evade the prohibition against the payment of interest would be, for both agencies (the FDIC and the Federal Reserve System)

a matter of administrative determination as specific cases might develop.

On June 22, 1938, the Office of the Comptroller of the Currency, through Mr. G. J. Oppegard, then Deputy Comptroller, presented to the Board of Governors of the Federal Reserve System, a question as to whether absorption of exchange as practiced by the National Bank of Commerce, Lincoln, Nebraska, constituted a payment of interest on demand deposits. Mr. Oppegard referred this question to the Federal Reserve Board because of a request for such a decision by National Bank Examiner Miller who had just completed an examination of the bank in question. From time to time similar inquiries were forwarded from national bank examiners, and the office also was pressed for a decision by several competing banks who saw in the practice

a threat to their own operations. These recurring inquiries from national bank examiners and national banks were responsible for the reiterated requests by the Office of the Comptroller of the Currency to the Federal Reserve Board for a ruling. In the September 1943 Federal Reserve Bulletin a ruling was published finding that absorption of exchange as practiced in the Lincoln, Nebraska case constituted a payment of interest on demand deposits and was a violation of Regulation Q. The Office of the Comptroller of the Currency promptly called to the national bank examiners' attention the Board's interpretation and instructed them to be guided by its general principles in determining whether banks which they examine are violating Regulation Q. Federal Reserve examiners were similarly instructed.

The Office of the Comptroller of the Currency is obviously not charged with the responsibility of making policy in this matter but is clearly charged, so far as national banks are concerned, with supervisory responsibility to see that the law, as interpreted by the Federal Reserve Board, is obeyed.

Many small country banks who realize a substantial income from this practice of absorption of exchange protested vigorously to their Congressmen at the promulgation of the Board's ruling based on its findings in the Lincoln, Nebraska case. As a result, hearings on this matter were held by the House Banking and Currency Committee in December of last year. These hearings were largely taken up by the testimony of Governor Ransom and Governor McKee, who testified in favor of the Board's action, and by Mr. Crowley

and Representative McGehee of Mississippi, who presented the contra view. Less than half the Committee members attended the hearings, and no legislation was drafted. It seemed that the majority of the members present (including Brown of Georgia, Folger of North Carolina and Rolph of California) were not sympathetic to the Federal Reserve position, although Patman of Texas and Crawford of Michigan strongly assisted the Board's representatives, and a few others, including Ford of California, tended to agree. The House Banking and Currency Committee adjourned 2 during the holiday season. It is understood that hearings will be resumed shortly after the reassembling of Congress next week.

Preston Delano
Preston Delano

January 3, 1944
2:51 p.m.

HMJr: Hello.

Ambassador Gromyko: Mr. Secretary.

HMJr: How are you?

G: Good afternoon, Mr. Secretary.

HMJr: Happy New Year.

G: Thank you. I am all right. A Happy New Year to you.

HMJr: Thank you.

G: Mr. Secretary, I want to inform you....

HMJr: Yes.

G:that three of the members of the Soviet Financial Delegation are about to leave Moscow for the United States through Tehran by plane.

HMJr: Fine.

G: I received this information from Moscow.

HMJr: I'm delighted.

G: And the second, two of the members of the delegation are in the United States already.

HMJr: I see.

G: One of them, Mr. Shirmanov, who served on the -- also as a member of the delegation to the Atlantic City conference.

HMJr: Oh, yes.

G: And the second arrived some days ago in the United States, too.

HMJr: I see.

G: And I talked with Dr. White today. I think it would be wise for them to meet one another and to talk.

- 2 -

HMJr: I think that would be fine. Have you arranged that?

G: Yes, I shall advise our representatives to meet Dr. White.

HMJr: Fine. And when they come from Moscow, I hope that you'll have time to introduce me. I'd like to meet them also.

G: All right. Thank you very much. I will do this. And head of the delegation is still in the second group -- did not arrive.

HMJr: I had some very vodka and caviar last night, thanks to you.

G: (Laughs) And good appetite?

HMJr: All my family enjoyed it.

G: (Laughs) I'm glad.

HMJr: Thank you.

G: Thank you.

HMJr: Good bye.

G: Good bye.

January 3, 1944
3:30 p.m.

DISPOSITION OF SURPLUS COMMODITIES

Present: Mr. Sullivan
Mr. Mack
Mr. Fox

H.M.JR: This letter which I got doesn't suit me at all. In the first place, unless a man is an expert, he wouldn't know what the heck you are talking about. Have you got the other?

MR. SULLIVAN: I have, sir. (Mr. Sullivan hands Secretary draft #1 of the Bowman letter, attached.)

H.M.JR: Because what Dr. Bowman does, in so many words, is accuse us of playing politics.

MR. FOX: Really?

H.M.JR: Are we giving New Hampshire and Vermont stuff and Maryland none?

MR. MACK: No, sir.

H.M.JR: Because if they are, John wants to know about it, because he wants to claim credit.

MR. SULLIVAN: Yes.

MR. MACK: I will give you the story and then perhaps John Fox has some details of this particular instance. In the State of Maryland there were five projects, so-called shop facilities, containing machine shops, wood-working shops, and so forth, reported to us by NYA.

Two of those shops were in use on June 30 for vocational training, shared in by the State and by the NYA.

- 2 -

Therefore, under the law, those could be transferred by loan to the State, if they asked for it. We did receive requests and we made the loans.

Now, the property which Dr. Bowman is talking about doesn't fall within that category. He is asking for property which the Army and Navy and all Federal agencies have first choice of, and the property that we could properly transfer to him would be subject to any excesses that might be left over after the Federal agencies specified what they wanted.

In this case, Dr. Bowman called for all of the equipment at a project in Baltimore, and as a matter of fact, the Army and the Coast Guard have called, I think, for all of the equipment in each case.

Is that right, Fox?

MR. FOX: Yes, sir.

MR. MACK: And John is now in the process of determining - checking, item by item. From the looks of the file, there just isn't going to be anything left in this property. And we couldn't give it to him without taking care of the Army and Navy and Coast Guard needs, first.

Now, if there is any property that is returned, or if there is any property made available, such as he has asked for, which is sort of a remote possibility, then we would have something to turn over to him.

But the way it is now, that is a rather remote possibility.

H.M.JR: Well, let me write a letter. (Dictates draft #2, attached)

MR. FOX: You might be interested - when he was talking with me at one time on the phone he mentioned that he wondered - he supposed the usual way to go after this was to get the proper Congressman.

- 3 -

H.M.JR: He said that?

MR. FOX: Yes, to me; and I said, "Dr. Bowman, we are glad to talk to Congressmen, but we also like to deal with college presidents. We could do business with either one." So I am interested here; it is the first I have heard of it. If anybody mentioned politics, he was the one who originally thought it up.

H.M.JR: He says in his letter that we are doing this on a political basis, which is terrible; and then he ends up by saying that, of course, if he comes over to see me, he could fix it up. I would like to smack this so-and-so down good and hard. Don't weaken my letter too much.

MR. SULLIVAN: All right, sir. I will try not to.

What is this Vermont and New Hampshire business?

MR. FOX: I don't know about that. That is something else again.

H.M.JR: I think you ought to put in the letter, "Of course, if you have any facts on which to base your accusation, I would be glad to receive them." Do you see?

MR. SULLIVAN: That is right.

H.M.JR: But I would give it to him right between the eyes. I had a run-in with him four or five years ago. He acted very peculiarly on something.

You were perfectly courteous to him, weren't you?

MR. FOX: Yes, sir, I think so. He was very pleasant. There was no question at all - he rather laughingly brought the thing up, and I laughingly replied to him.

- 4 -

H.M.JR: You would have to go through his Congressman?

MR. FOX: Yes.

H.M.JR: I thought you had cleaned this all up, Cliff.

MR. FOX: This is all cleaned up. He is in line with about seven others on this "not in use" claim in Maryland. We have two lists a mile long from Army and Coast Guard that we can't fill yet, you see.

H.M.JR: Things they want?

MR. FOX: Yes. Of course, they pick and damn a little.

H.M.JR: Is it safe to say that everything you have the Army, Navy, and Coast Guard have a use for?

MR. FOX: That machine shop stuff, yes. We have a lot of beds and stuff that nobody has picked up yet.

MR. SULLIVAN: And automobile robes.

H.M.JR: What is this place he spoke of where there is a machine shop?

MR. MACK: Manassas, Virginia. That is an entirely different proposition, because at Manassas, Virginia, that unit was in use on June 30; therefore, it comes within the category of giving the State the first chance. They were in to see us, as a matter of fact, last week. It is still being discussed with them.

H.M.JR: Tell me this - well, we will have him come over and have some straight talk. But get that letter to Mrs. McHugh in the morning.

MR. SULLIVAN: Yes, sir. (Final draft #3, attached)

- 5 -

H.M.JR: What about your four thousand motorcycles? (Refers to attached notice signed by Mr.Mack)

MR. MACK: About forty-eight hundred or so Indian motorcycles, special order jobs, built for the Army, and we think that first we ought to see what can be done about cancellation with the manufacturer, and failing that, then to go through--

H.M.JR: How can you cancel with the manufacturer?

MR. MACK: Well, it is a bit optimistic. Tell them that here they have orders for two or three years, and now we have four thousand on hand, and try to talk them into a trade, if we can. We would hate to have them saying, later on, if we had only told them they would have taken them off our hands.

H.M.JR: By States?

MR. SULLIVAN: Yes.

H.M.JR: New York City will take them alone, I think.

MR. MACK: There is an interesting story there. We have been checking into these motorcycles and they cost just about four hundred dollars each - three hundred and ninety-eight, or something like that; they are a low compression engine, built for strictly military use. It compares to the small model civilian type motorcycle which hasn't been in production for a couple of years, that sells for about two hundred and twenty-five dollars.

H.M.JR: You mean as to power?

MR. MACK: Yes, it has a limit of sixty-five miles an hour speed. These have a special rust-proof job and special paint job. They were ear-marked, evidently, for the British.

MR. SULLIVAN: You can still get your three hundred and ninety-eight for them, Cliff.

- 6 -

MR. MACK: We are going to look up every angle. Our idea is to go through the municipal organizations, after first, of course, clearing with the manufacturers, and so forth.

Incidentally, we have five thousand more motorcycles reported today. They are Harley-Davidsons, the heavy model, and we will follow the same procedure there, if that is agreeable. (The Secretary signs Mr. Mack's memorandum entitled, "Program for Disposition of Surplus Motorcycles")

H.M.JR: Same kind?

MR. MACK: Yes, sir. Now, between now and January 31, we will have about ninety-two hundred trucks declared to us, 1939 or earlier models - no further military use. We have cleared with OPA. There are no established price ceilings, but we have arranged for them to work with us in the regions they are declared.

H.M.JR: Do you do this by bids?

MR. MACK: We thought so, yes. So that there won't be any question about equal opportunity. We are thinking there of going through the factory dealers, the independent dealers, which is a big block, and through farm cooperatives. We are working with Agriculture and, by the way, the Secretary of Agriculture sent over a Mr. Sims from his office in response to your letter.

H.M.JR: Was he helpful?

MR. MACK: Yes, and he is working with us. Also Mr. Kramer.

He told me that he would like to have you know - as you probably do - that the Secretary of Agriculture is away, and there will be a formal acknowledgment later.

- 7 -

H.M.JR: Do I keep this big thing? Refers to chart)

MR. MACK: No, that is a break-down of all the trucks, kind and makes.

H.M.JR: Are you going to do it by bids?

MR. MACK: There may be cases where we would have to negotiate, if we found that there was a definite need, for example, through the county Farm Bureaus, and we may have to, in those cases, negotiate. But we would see that it was administratively controlled.

H.M.JR: What did you do about Front Royal?

MR. MACK: Front Royal - we checked with Agriculture; first we checked as to the kind of horses, and we found that only about ten percent are suited for work, and that is very light work, and the rest are cavalry horses.

MR. FOX: Riders.

H.M.JR: You can't give them away.

MR. MACK: That is it.

MR. FOX: Half of them have been out on the range two years or more, loose.

MR. MACK: Costs about seventy-five cents a day to feed them.

H.M.JR: I have seven right up on my farm. If you find out how to dispose of them, let me know, will you, please?

MR. MACK: The fellow who is working with us - well, I guess you know him, Finney.

MR. FOX: Coast Guard.

(Memorandum entitled "Program for Disposition of used Motor Trucks, Model 1939 and earlier," attached, signed by the Secretary)

- 8 -

MR. MACK: He is Secretary of the Maryland Breeders Association. He says he knows you.

MR. FOX: In other words, an auction is going to be held on the 12th, 13th, and 14th.

H.M.JR: At Front Royal?

MR. SULLIVAN: Yes, and others along the coast, too.

MR. MACK: That is shearlings. We haven't actually received the declaration on shearlings, although we understand seventy-five carloads were shipped to us. We are selling those through commercial channels, and you will be interested to know that when the Army started to buy shearlings - the Air Corps - the OPA ceiling was kicked out and they were selling around a dollar and a half - another special order job - moth-proof, and this and that.

MR. SULLIVAN: Three dollars.

MR. MACK: Before they got through buying them, the price was up to three-fifty. It gives you a heartache, honestly.

(The memorandum entitled "Program for Disposition of Shearlings," attached, signed by the Secretary)

H.M.JR: One thing I want to say, I think that every time you make a move on these things, before you do it, I think through Public Relations, we should announce the thing publicly to the press. Do you do that now?

MR. MACK: They started this week to have a fellow from our place meet with Smith once a week.

My dear Dr. Bowman:

Upon receipt of your letter of December 28, 1948, I requested the Procurement Division to furnish me with a report of pending applications from Maryland vocational education authorities for National Youth Administration equipment.

I am advised that the National Youth Administration reported to the Procurement Division five facilities. Only two of these facilities qualified under the language of the Second Deficiency Act, 1948, approved July 11, 1948, as having been in use as of June 30, 1948, and loans have been approved by the Procurement Division to Maryland vocational education authorities. The law required that any property not "in use" for vocational training on June 30, 1948, should be made available to Federal agencies and that any excess to Federal needs could then be loaned to vocational education authorities for training purposes upon application. I am advised that there are several applications, including one from Johns Hopkins University, which were filed for property falling within the latter description, but the requests could not be filled because there was no available property in that category excess to Federal requirements. Such applications have been held, however, with the thought that in the event property such as requested may become available then it could be applied to the applications.

There have been numerous applications for property subject to the provision that it might not be required by Federal agencies, particularly machine shops, and, as a consequence, the applications could be met only to the extent that there were excesses.

- 2 -

I have requested the Procurement Division to periodically review all pending applications filed by vocational education authorities to determine whether the requirements may be met by the possible release of National Youth Administration property now in use.

Sincerely yours,

Secretary of the Treasury

Dr. Isiah Bowman
Johns Hopkins University
Baltimore, Maryland

ROUGH DRAFT

Dr. Isaiah Bowman
President
Johns Hopkins University
Baltimore 18, Maryland.

Dear Doctor Bowman:

I am in receipt of your letter of December 28, marked "Personal, Confidential."

Quite frankly, I was shocked at the contents of your letter. May I please inform you on the record - because I have no business in the Treasury that is not official and on the record - that I do not know what you are talking about when you refer to "the attitude of the Sun papers" or of Governor O'Connor's position on centralized Federal power."

Nor does anybody in the Procurement have any interest in or knowledge of the political situation which you refer to. This is the first time, to my knowledge, that anybody has accused Procurement, based on either rumor or gossip, that they do business on a political basis.

In view of the important position which you occupy, I would be glad to have you come to the Treasury at your convenience and discuss this matter in greater detail with Mr. Sullivan, Assistant Secretary, and Mr. Mack, Director of Procurement.

I am enclosing a memorandum herewith, giving you the facts.

Dear Doctor Bowman:

I am in receipt of your letter of December 28th marked "Personal and Confidential."

Quite frankly I was shocked at the contents of your letter. Please permit me to inform you on the record—because I have no business in the Treasury that is not official and on the record—that I do not know what you are talking about when you refer to "the attitude of the Sunpapers or of Governor O'Connor's position on centralized Federal power."

Nobody in the Procurement Division has any interest in or knowledge of the political situation to which you refer. This is the first time, to my knowledge, that anybody has accused the Procurement Division of doing business on a political basis. If there is any evidence to support such a suspicion I should like to have it. I should be glad to have you come to the Treasury at your convenience and discuss this matter with Mr. Sullivan, Assistant Secretary, and Mr. Mack, Director of Procurement. We shall be happy to give you any information we possess and to furnish any details you desire.

Meanwhile, for your information, I am enclosing a memorandum to me from Director Mack setting forth the facts on the N. Y. A. facilities in Maryland.

Dr. Isaiah Bowman,
President,
Johns Hopkins University,
Baltimore 18, Maryland.

Sincerely yours,

Secretary of the Treasury.

JLS:kb

PROGRAM FOR DISPOSITION OF SURPLUS MOTORCYCLES

PRESENT SURPLUS: The U. S. Army has released to us 4667 motorcycles; 2146 units at Belle Mead, New Jersey; 621 units at Springfield, Massachusetts; 800 units at Voorheesville, New York and 1100 units at Elmira, New York.

CONDITION: New - unused military models without side cars, partially disassembled and crated. These motorcycles are surplus to present War Department needs.

PARTICIPATION WITH OTHER GOVERNMENT AGENCIES: Cooperation with Industry Branch, War Production Board, Office of Defense Transportation and Office of Price Administration in determining priorities for essential requirements for the war effort and applicable price ceiling.

RECOMMENDED DISPOSITION: Transfer to other Government agencies having need, negotiation with the manufacturer for equitable liquidation, sale to tax supported organizations for use in law enforcement branches; the need to be developed through various Municipal Associations or Leagues.

OK,
J. J. J.
Jan 3, 1944

CLIFTON E. MACK
DIRECTOR OF PROCUREMENT

PROGRAM FOR DISPOSITION OF SHEARLINGS

PRESENT AND INDICATED SURPLUS: The Army Air Corps has released to us at Syracuse, New York 85 carloads, approximately 1,171,419 sq. ft. of shearlings. They contemplate releasing an additional quantity of 1,962,586 sq. ft. located at Topeka, Kansas and Memphis, Tennessee.

CONDITION: New - unused, tanned and moth-proofed, wool thickness ranging 1/4-inch to 1-inch. Use of shearlings discontinued by Armed Services as of July, 1943.

PARTICIPATION WITH OTHER GOVERNMENT AGENCIES: The only Government agency showing interest in this item was Federal Prison Industries, who, after considering the manufacturing of garments whereby these shearlings could be utilized, decided not to use them.

RECOMMENDED DISPOSITION: To be sold to commercial trade in conjunction with requirements made known through the Office of Civilian Requirement, Textile and Leather Branch of the War Production Board, at prices to be evaluated in keeping with the Office of Price Administration. Effort will be made to dispose of these through the original suppliers.

CLIFTON E. MACK
DIRECTOR OF PROCUREMENT

OK
J.M.F.
Jan 3, 1943

Meeting in the Secretary's Office
 Monday, January 3, 1943
 3:45 P.M.

Present: Secretary Morgenthau
 Assistant Secretary McCloy,
 War Department
 Mr. White

The stenotypist was present and the Secretary asked Mr. McCloy whether it was all right to have her there to take down the conference or would he prefer that she weren't present. Mr. McCloy replied that he thought it would be better not to have her. He said that the Secretary could make notes about the meeting after the meeting if he thought it wise to do so. Mr. McCloy said he came about two things.

1. He said that he informed Mr. Stimson that Secretary Morgenthau had recommended Currie and had spoken to the President about it and that Secretary Stimson had been "as mad as a boil" and had said he didn't want Currie and would not take Currie unless the President ordered him to do so. Furthermore, he said that Secretary Stimson was quite angry that Secretary Morgenthau should have spoken to the President about Currie before he had spoken to Stimson about him.

Secretary Morgenthau explained that he had spoken to the President because Currie was still one of the President's assistants and the proper thing to do was to speak to a man's employer and get his approval before recommending him to another job. Apparently Mr. McCloy did not know that Currie was still one of the President's assistants. The Secretary replied that so far as he knew he was and that he would appreciate it if Mr. McCloy would explain to Stimson that he had spoken to the President because of that fact.

Mr. McCloy said that he understood that Currie was doing a poor job at FEA and was going to be fired from that job. Mr. McCloy said he got it from a very high authority in the FEA. Mr. McCloy added that the Army men were not favorably impressed with him.

The Secretary replied that if Currie was to be asked to leave the FEA he could assure McCloy that he (the Secretary) had no intimation of it. In fact he said that Currie was not certain whether he would accept the station in London if it were offered to him. He was disinclined to take it. The Secretary said that in his relation and observation of Currie he was a first-rate, top man in the field of money and finance or he wouldn't have recommended him if he didn't think he would do a good job there. He added that he (the Secretary) would be glad to give him a job in the Treasury. Mr. McCloy replied that he wasn't apparently doing a good job at FEA and hadn't done a good job in China and he repeated Stimson wouldn't take him unless the President ordered him to do so. Mr. McCloy said that "After all Stimson is doing the hiring."

Division of Monetary
Research

- 2 -

The Secretary replied that that of course was very true and that the Army was at liberty to make any appointment it saw fit, but that he would reserve the right to complain about the appointment where it affected monetary matters and if necessary to discuss the matter with the President if he considered it important. Mr. McCloy replied "Of course."

The Secretary said that he was only trying to help Mr. Stimson avoid making a serious error. He said that he hoped the Army wasn't going to make the same mistake as was made in the London conference. Mr. McCloy said no they would want to avoid that. The Secretary said "Now, let's be perfectly frank about this. The Army seems to feel that this job in London is very important and it is important." It is important because that man selected would help shape monetary, economic and financial developments throughout Europe possibly for the next decade and that it was therefore important that men not be sent who would not represent the President's views. He said that if the Army was going to start in making recommendations of the wrong kind of men for this job that the President was not going to like it, and that moreover the President might not approve their selection. He said that men with the right kind of training who were not connected with some big bank were very scarce and that he had found Currie extremely able and easy to get along with. The Secretary added that he had spoken of Currie to the President when he heard that General Eisenhower was to take over in London because he knew that a decision would have to be made quickly in view of the six months delay already and that he wanted to be prepared with a suggestion if the Army asked for one. He then informed Mr. McCloy of his suggestion. Mr. McCloy said, "Well, we want someone who will be mutually acceptable."

The second thing Mr. McCloy wanted to bring up was the matter of purchases of wheat from the Argentine for relief purposes in Italy. Mr. McCloy said that Waley of the British Treasury had asked whether it wouldn't be possible to have the purchase of relief goods not held up by being tied with the question of British dollar balances. White explained to him that apparently he (McCloy) had been misinformed about the Treasury position with respect to the matter. The Secretary asked Mr. McCloy whether it wouldn't be all right if White explained it to him in White's office inasmuch as he had a group outside and was already behind schedule. Mr. McCloy said that that was perfectly all right.

The Secretary also mentioned to McCloy that he had raised the question with the Army of purchasing wheat from the Argentine in his capacity as a citizen. "Why the devil should we be spending \$75 million on wheat in the Argentine now if it could be bought elsewhere, in view of the political turn of events in the Argentine. Mr. McCloy replied that he wasn't thinking of that aspect of it that that was a matter of decision with the State Department.

Division of Monetary
Research

- 3 -

Mr. McCloy then went on to my office and I explained to McCloy that the Army had raised the question why the U.S. Army should bear the expense of buying wheat in the Argentine needed for relief to Italy? The Treasury had taken the position that the question of who should pay how much should not delay the purchases in view of the urgency of the Army's needs, but that the Army doing the actual procurement should advance the money. The determination of the principle as to which government should pay what portion of relief expenditures in third countries would be decided later, by the appropriate officials. The decision might involve a reimbursement of part or all of either of the Army's expenditures for relief but that in the meantime the purchases should be made by whichever procurement agency would normally make the expenditure and settlement of principle would be made as quickly as feasible. I told McCloy that Major Palmer had been handling the discussions with the Treasury and Waley had been informed of the decision. There was no basis for the view apparently expressed to McCloy by Waley that the Treasury was in any way holding up the procurement purchases of wheat from Argentine because of any question as to who should bear what portion of the cost. White went on to explain that the question raised by the Secretary as to why we needed to buy wheat from the Argentine was something that has cropped up within the last few days and had nothing to do with the decision referred to above. McCloy said he was glad to be straightened out on the matter.

Mr. McCloy asked me if I knew Searles and Hancock, that he was quite favorably impressed with them. I said I had heard of them but did not know of them. Mr. McCloy said that he had heard Clayton was a very excellent man. I said I thought Clayton was a very able fellow indeed. I said that apparently McCloy had a different idea of the functions of a man whom they wished to appoint. It was our view in the Treasury that there ought to be somebody on their staff who was expert in the subject and who could handle the international financial, monetary and economic problems with which they (the Army) were bound to be confronted. I said that it was not a question of a man who was a good administrator or a good operator but one who technically knew the subject well and who could advise the head of the American group on such matters. I said other governments would have very competent men and so far as I knew the present set-up the U.S. Army did not have any such one on the American side and it would be unfortunate if the most important country were not to have in important conferences men of top ability in the international economic field. McCloy said he agreed and asked whether I thought Mr. Currie would take a second place. I said I had an idea that Currie did not seem to be eager to take the first place but I did not know.

H. D. White

January 3, 1944
4:00 p.m.

TREASURY POLICY
Drafting of Legislation

Present: Mr. Paul
Mr. Blough
Mr. Surrey
Mr. O'Connell
Mr. Gaston
Mr. Sullivan

MR. PAUL: I told them to let John know. Isn't he coming?

(The Secretary sends for Mr. Sullivan.)

H.M.JR: Well, let's go ahead.

MR. PAUL: I prepared some notes here, just sort of topical. I might summarize the picture for you if you want - its development.

You remember that on December 15 you had the meeting over at Byrnes' office. You remember what happened there. It was a pretty good party line with the possible exception of Forrestal. We decided to make it fit.

On December 16 a working subcommittee was set up to prepare the materials to use in dealing with the situation. Joe O'Connell has been representing us on that committee, and that committee - Joe can tell you later - just had a meeting over in the War Department on the question of strategy. I want to summarize the whole picture and then any of these details can be brought in.

- 2 -

Then you had a press conference on the 20th in which you made a statement criticizing the bill and criticizing particularly the renegotiation provisions which prompted George to reply to you, and you decided not to make any reply. That was the 22nd of December.

In the meantime, between the 16th and the 29th, The War Department in conjunction with Navy, and we assisted, went down to draft the Minority Report. It was then suspected that LaFollette and Walsh would be the two signers.

It now appears that additional people may sign, although it is not quite clear now - Lucas, or maybe Connally.

MR. O'CONNELL: Maybe Barkley.

H.M.JR: Who?

MR. PAUL: We first expected merely Walsh and LaFollette, but it now appears that Lucas is going along, and maybe Connally.

(Mr. Sullivan enters the conference.)

MR. O'CONNELL: And possibly Barkley and conceivably Clark, although that isn't clear yet. Those are possibly added.

MR. PAUL: The draft of the Minority Report was sent by the War Department to Senators Walsh and LaFollette on the 29th. We had a lot of conversations with LaFollette at that time, because a difference of opinion developed between LaFollette and Walsh.

LaFollette thought that there ought to be a release of the report, oh, as much as three or four days last week when the newspapers didn't have much in them, and a lot of space could be devoted to the thing. But Walsh was away, and they were supposed to have gotten together today when Walsh returned.

- 3 -

It is now contemplated that the report will be issued Wednesday. Joe can tell you something later about that recent meeting.

MR. GASTON: Did the Army show us the draft of the report?

MR. PAUL: Yes, we saw the draft from time to time. I now have a draft in printed form which was delivered to me by LaFollette with great oaths of secrecy.

MR. O'CONNELL: That was one of the assignments of the working subcommittee which was mentioned.

MR. PAUL: We received a copy of the report on the 31st, in confidence.

Early last week I got worried - I think early last week, or the end of the week before - I got worried about Forrestal. You remember I spoke to you about some meeting he had had with George, following which I had a long conference on the whole situation with Patterson.

H.M.JR: I think I asked you to find out what had happened, after I read about it in the paper.

MR. PAUL: I did, and talked to him on the phone.

H.M.JR: You gave me a copy of that.

MR. PAUL: Following that, I was even more worried and I talked at some length to Patterson. He was over here for about an hour and a half the end of the week before last. He felt pretty uncompromising. He and you would be the two irreconcilables on any compromise.

He developed the idea at that meeting that it would be a good thing to have another meeting in Byrnes' office or a re-statement of the party line. He called Byrnes, and then the railroad strike came in last week and Byrnes was very busy, and then finally he called me Friday of last week and said he had finally reached Byrnes.

- 4 -

Byrnes didn't want to have a meeting and he therefore thought - still thinking there should be some meeting - he thought he would ask Jones to call me as soon as Jones returned, which I think he thought was today. But I haven't heard from him today.

Just to get Forrestal committed--

H.M.JR: Why couldn't we call a meeting?

MR. PAUL: We can, if you want to.

MR. O'CONNELL: I might say that when I get to the report of the developments of the last day or so it will remind you there is not much necessity for a meeting, as we thought there was a week ago.

MR. PAUL: Forrestal heard a rumor, as you remember, that we were criticizing him, or we felt that he was uncertain, and Duffield called up Joe and Joe can tell you what he told Duffield.

MR. O'CONNELL: Do you want me to tell that right now? He called me Saturday, I think - or Friday - and said that he had heard from a couple of sources that we felt, over here, that Jim Forrestal and the Navy were rather weakening on holding to the general position agreed to in Byrnes' office, and wanted to know upon what we based it and if it was true.

I said it was true, that we had felt from the report that Jim Forrestal had given us with respect to his conversation with Senator George that he had the wrong idea, and the statements at the Byrnes' meeting, too; that we felt that Forrestal was a little bit inclined to think he could make a reasonable compromise with George. When Forrestal talked with Randolph and me on the phone, Forrestal said he had just finished talking with George at great length, and George didn't seem to feel very strongly about any of the points we were in controversy with on renegotiation, and he thought we could work out a reasonable deal.

- 5 -

We felt, and Patterson felt, that was not a realistic view of the situation, having listened to George's position as expressed by him before the Committee in Executive Session.

So I told Gene that. Gene said that he had learned that Forrestal had gone down and talked to George. When Forrestal told him of his conversation, Gene's reaction was the same as ours, and he told Forrestal that he thought he was making a very serious mistake if he thought there was room for compromise, in the first place, and in the second place, that while we were presumably playing ball with our friends on the Committee - meaning Walsh and LaFollette - in writing a Minority Report for them, and so forth, that we should not be in the position of attempting to make a deal with George, because that would put us in a position of rather pulling the plug on our friends.

So what I got from my talk with Gene was that he and the people in Navy had been helpful in bringing Forrestal back in line, if he was out of line.

That is one of the reasons I had for saying a moment ago that I thought from the way our discussion went today, and a working committee of the War, Navy, Treasury, and Maritime, that there was no longer any great necessity for a meeting if the purpose of the meeting would be to stiffen Forrestal and the Navy. I think they are in line again, if they were ever out of line.

H.M.JR: Good.

MR. PAUL: Now, going on. That pretty much covers the historical end of things.

We have a number of problems, some of which aren't solved. One problem is a very concrete one. It has been customary for Surrey to be allowed on the Senate Floor during debate. Last year Surrey was on. As the debate proceeds, a lot of these problems will arise "instanter."

- 6 -

We had worked out this morning the thought that Surrey would go on this year as traditionally, although there was a fight, if you remember, to put them off last year - and they will never let any War Department man on the Floor, like Jim MacIntosh - that we hold Jim and Joe somewhere near - off the Floor and somewhat near - so you can meet any emergencies on the Floor, with Surrey a kind of person present, and the others in the background. We have that problem.

We have the problem of getting amendments in the Senate bill, getting the legislative situation in such a form that there will be something in conference.

In other words, so that George can't say with respect to a certain amendment, "Well, that is not in conference; there is no disagreement between the Senate and the House." So every point has to be checked carefully from that standpoint or it will be simply out-maneuvered.

Of course, you are familiar with the favorable comment we have had right along in the press, which has been the joint effort of everybody to educate some of these columnists and editorial writers, and so forth. Herbert is doing a lot of that.

MR. BLOUGH: Even Time is friendly, for some reason or other.

MR. GASTON: You saw this last week's Time?

MR. PAUL: The Times had a rather niggardly editorial to which Patterson replied. He wrote the letter himself, he told me, and it was a pretty good letter. That was published a couple of days ago.

Another item we have, which is not solved, is the so-called Disney bill, which shortens the period of amortization from five to three years at the taxpayers' option. We are being asked by the Budget for a report on that bill.

- 7 -

There are a lot of questions that arise. Some people in War - I don't know what the War Department attitude is, but Colonel Foster and some of those people are pressing in favor of that bill.

MR. BLOUGH: The chief effect would be, if amortization must be deducted in renegotiation it would increase the amount of amortization.

MR. PAUL: Another way of getting renegotiation relief.

MR. O'CONNELL: Would relieve the War Department of such possibilities as it now has for determining when a facility has lost its useful value.

MR. PAUL: Well, they won't issue the certificates now - Navy won't.

MR. SULLIVAN: But I mean on the termination - the useful value is terminated.

MR. PAUL: Yes, in some of these cases. But factories will be closed up and the war isn't over; and who knows whether the emergency period is ended? Navy won't certify. Some of the people in the War Department think the way out is to shorten the period.

MR. O'CONNELL: On the taxpayers' side. Reduce the administrative burden on the War Department.

MR. PAUL: That situation has just arisen and we haven't really discussed it.

MR. SULLIVAN: Eddie Greenbaum is interested in that, too.

MR. SURREY: In favor of the bill?

MR. SULLIVAN: Yes.

MR. BLOUGH: The Price Adjustment Board, I understand, is against it.

- 8 -

MR. PAUL: Your brother seems to indicate WPB.

MR. BLOUGH: He told me WPB wasn't taking the position because Nelson didn't feel that he had any responsibility in it, in view of the fact they were issuing negotiation certificates - not non-negotiation certificates. He said it was his understanding that the Price Adjustment Boards of the various agencies were against the taxpayers' option of shortening the period. But apparently there has been no formal determination of their view, and no representation to the Budget Bureau.

MR. PAUL: The next very concrete problem is the matter of the issuance of the Minority Report. You (O'Connell) can report what just happened.

MR. O'CONNELL: I went to a meeting with Stanley at two-thirty over in the War Department. We had a meeting of this working subcommittee which has been getting material together and preparing material for our friends and people on the Hill that may want to use it, and making it available to the people that would be contacting people on the Hill.

Part of the purpose of the meeting was to discuss the mechanics of the treatment of the bill when it gets to the Floor; specifically what Stanley Surrey's position would be, whether he would be on the Floor, and what the arrangement would be off the floor.

The other people who were there, the Navy people and MacIntosh who hadn't arrived when I left, had talked with Walsh this morning. He just got in this morning from Boston. They started to go over the Minority Report with him and his tentative reaction was - the report has, I think, gone to the printer this afternoon - but his original idea was to give the Minority Report to the newspapermen, possibly tomorrow, twenty-four hours in advance of publication, and then have it for release possibly the following day.

- 9 -

When that was mentioned at our committee meeting, several of the people there - Gene, and in fact, most of the rest of us - felt that if Walsh could be persuaded to adopt an alternative technique which would be something like this, it would be preferable. They are going back to talk to them this afternoon with the suggestion that he arrange for a press conference Wednesday morning. They have already given him not only the Minority report, but a draft of the press release.

If he would have a press conference Wednesday morning and issue the press release and make available copies of the Minority Report at that time, it would foreclose at least the possibilities; one, that the newspapermen, getting a Minority report only, would not read it and it wouldn't get the publicity reaction you want; and two, it would foreclose the possibility that for twenty-four hours our opponents would have that much time in which to digest the Minority Report and have the same issue that the papers carry the defense. In any event, that is what they are going back to do, and talk to Walsh about, this afternoon; suggest either that he do that or that he issue the Minority report with a copy of a press release tomorrow afternoon for release Wednesday morning in the papers.

Either of those two techniques, I think, as I understand it from listening to these fellows who know more about publicity than I do, would be preferable to the idea of just giving reports to newspapermen twenty-four hours in advance.

There is no question, I think, but what the report will be issued on Wednesday or thereabouts. That is a sort of compromise, I think, between what LaFollette originally thought and Walsh originally thought. I think probably this is as good a time as any.

Walsh, I believe, intended waiting until the Congress came back. LaFollette was in favor of getting it out as soon as possible.

- 10 -

If it is out Wednesday it will be out in advance of the time the Congress comes back. There was some discussion as to who else should sign the report. They hope that up to six people will sign it, but there is no assurance.

H.M.JR: Well, the whole point is this: I am not the only person who is interested in the Treasury--

(Mr. Bell entered the conference.)

H.M.JR: Mr. Bell is interested. Frankly, if there is any important policy decision to be made, I would like to have a chance to go into it with you even though it may be embarrassing to the person involved that he can't speak for the Treasury.

But there are so many of us, and this is so important. I can always adjust myself, within reason.

MR. PAUL: I will additionally report that I did not go to see Mr. Vinson. I called him and said that I was tied up on some meeting and would send Mr. Keith up, which I did. Keith is in the process of writing a memorandum from me to you, as to what happened.

MR. O'CONNELL: At this point - I wasn't at the meeting you had this morning and I haven't heard much about it - but I had thought - and I really probably spent more time and had more to do with the regular operations of this work than anyone else - I had thought that the party line, or the understanding of the policy of the Department, was so well understood at the Byrnes' meeting that there was little or no necessity, as far as anything we were doing, for bothering you with it.

H.M.JR: That is correct, but if there is any departure from it, and the Treasury could in any way be accused of fathering or assisting, or anything else, a bill going back to something along the Vinson-Trammel line - I haven't seen the thing - I would like to have a digest of the bill. I would like to read it.

- 11 -

MR. PAUL: I told Keith to put a copy in his report - a copy of my letter to Vinson.

H.M.JR: Could we have a copy of what is in the bill?

MR. PAUL: In the Vinson thing?

H.M.JR: This thing drafted in the Treasury.

MR. PAUL: You will have the actual thing in the Keith memorandum.

H.M.JR: Good. I mean, you never can get away with a thing like this without getting caught at it. And let's say that Mr. Forrestal is a little sore; then he heard we did this thing without consulting with him. He could perfectly well jump on us and say, "Well, it was going all right, and then you did this thing and ditched it."

MR. PAUL: When Forrestal tells us everything he does without being called about it, he will be in a position to accuse us.

H.M.JR: Well, anyway, I would like - certainly within the Treasury I would like everybody who is interested to know what is going on if there is any departure.

MR. PAUL: Of course. I think it worked out pretty well this morning, but I think from the standpoint of Congressional relations, I think I should have gone up there this morning. I don't think, as it worked out, it is too important, because I wrote the letter and gave them the bill, and slid out on an excuse.

H.M.JR: Well, I think your Treasury relations come first, as I tried to explain this morning, and that those of us who are interested in this thing should have a chance to say whether we think this is good tactics or not.

MR. O'CONNELL: May I say something, too, because I am a party to whatever mistake we made?

- 12 -

MR. PAUL: I would like to say something after Joe.

H.M.JR: Anybody else? (Laughter)

MR. O'CONNELL: I think I talked to Herbert just briefly. I think it was even before Vinson called Randolph. It seemed to me that as a strategy move it was almost inevitable that someone would attempt to get this problem back into the groove, the way it looked a year and a half ago, by offering a tough fixed limitation profit bill, and either the day before or the day after, I mentioned that to you (Gaston).

Vinson called you and asked you, as I recall it, to give him a draft or something of that sort. It seemed to me to be swell. I was equally clear that if the Treasury Department were asked if they were in favor of a bill like that, we would say we were not, because we opposed Vinson-Trammel and we would do it again. But I didn't think we would be tagged with responsibility for the bill - at least we would try to make it on the level of merely in response to a request, drafting a bill of a technical nature.

H.M.JR: You weren't here this morning?

MR. O'CONNELL: No.

H.M.JR: Then I will go over it again, briefly. I don't say I want to pass on a thing like that, but I certainly want to be consulted in advance, because I feel it is a matter of good faith with these other people. Also, as somebody said here - Paul or somebody - that you certainly guarantee that if Vinson had his back against the wall he would say, "wait a minute - this was handed to me by the Treasury."

If he did, both Doughton and George would have very good reason to be very angry at us - even more so than they are right now. The whole point is that I stepped into this thing - who was it that got me into this thing? Who came in to see me?

- 13 -

MR. PAUL: Originally, before the Byrnes meeting, I did.

H.M.JR: I called up Patterson. Who was in the room? Somebody gave me the impression the thing was going very badly and I should interest myself in it. I called up Patterson, anyway. And I just think, here is Bell, Gaston, Sullivan - we are all interested.

I may be giving it too much importance, but I just feel--

MR. PAUL: I would like to say--

H.M.JR: May I just finish one sentence? When the things go wrong, you fellows always know that I take it for the Treasury. It is my job. And, frankly, I didn't want to take this if we got caught at it. That is all.

Now, Mr. Paul?

MR. PAUL: Of course, I disagree with what Roy - I don't suppose there is any use of re-hashing this stuff now, but I disagree with the fact that there is any danger. You could not do things without taking some risks, but this letter expressly made a statement that it was not Treasury policy. They could make a charge of anything, but they couldn't support it. It was impossible to let some of these people know. Herbert was away all last week. You gave explicit directions not to bother him at home. I did bother him about another thing, and I think John should have been told more than he was. But everybody else - Bell was swamped every minute. We had trouble getting together on the Budget, which was a much more pressing thing.

MR. BELL: But, after all, I was here and could have been consulted. You are the one that couldn't get down on the Budget. I was available all the time.

- 14 -

MR. O'CONNELL: This is one of about twenty-five things that were done after that committee was set up. I never thought of it.

MR. PAUL: I must frankly say that I probably didn't tell as many people, like maybe Dan and John, but if I am going to tell about each of these twenty-five things as they come up, as Joe says - I don't know, twenty-five, or ten - I am never going to get anything done.

You could not have a Treasury conference on every one of these items.

H.M.JR: Well--

MR. PAUL: You have to use your judgment about which things are important enough.

H.M.JR: Well, I consider this sort of thing important.

MR. PAUL: Well, of course--

H.M.JR: And as head of the Treasury, I feel that I want to be consulted. I want a meeting on this kind of thing, and if it slows the thing down a little bit, well then, I can slow it; I will take the responsibility. I wouldn't have made the remark, but I have to make the remark - from what you have said - but this kind of thing I want to be consulted on. I want to have a chance to talk with these people and hear what they have to say. I wouldn't give a snap judgment, myself.

Don't look at me (to O'Connell). Good God! It isn't a matter of life and death. I say I hope I make one mistake in the morning and one in the afternoon, and can admit it. All right, this is just one of the things. If Paul hadn't told me yesterday that he was going to go up and do something on the Hill, I wouldn't have known enough even to ask him.

Shall we put it to bed?

- 15 -

MR. BLOUGH: I think the Treasury is well protected on this.

I think you can put it to bed.

I think the Treasury has been well protected in the letter.

H.M.JR: Wait a minute. I am sure you didn't hear.

MR. BLOUGH: I think the letter that went up with this stuff, and the way in which it went up, gives the Treasury a perfect record in case the issue comes up later.

H.M.JR: Now, look, in the first place, somebody in the General Counsel's office better look up whether Bell is right or not, whether we aren't breaking a Presidential Directive when we send a thing like that up with a letter. Bell thinks we are.

MR. O'CONNELL: It depends on the way you interpret the Budget letter - but we have, for years. It isn't a matter of recommending legislation.

H.M.JR: Take a fresh look at it, see?

MR. BELL: I think it goes a little further than that.

H.M.JR: You never can catch up with the press. I mean, the fellow on the Floor of the Senate says, "This is the Treasury." Then everybody jumps on us. The next day we give the press the fact that we wrote a letter and we are not responsible, and they never print it. You have seen it happen.

MR. BLOUGH: I know.

H.M.JR: Do you (Sullivan) want to say something?

- 16 -

MR. SULLIVAN: No, sir.

H.M.JR: Shall we put it to bed?

Does Surrey want to say something?

MR. SURREY: No, I hadn't thought of it as a violation, technically, of instructions; I had always assumed we could give technical advice to any Congressman or Senator.

MR. PAUL: I can't even go to my office until I know the answer to the question. They call, sometimes, three times a day.

MR. BELL: Well, you look up the Executive Order and the regulations on the Bureau of the Budget and see if it isn't pretty definite they don't want the Departments drafting bills for Congressmen and then coming back on the Department, which they will, many times.

I think it goes a little further than that. I know Randolph sent up a letter and said, "This isn't the policy of the Department." Supposing he had sent it up the other way and said, "This is the policy of the Department"?

I think it ought to be determined some place on a high level as to whether or not it is or is not the policy. That is my point.

MR. O'CONNELL: I don't agree, because I don't think we were asked.

MR. BELL: You said that it is not the policy of the Department.

MR. BLOUGH: Should not be interpreted as reflecting the policy of the Department.

- 17 -

MR. O'CONNELL: We weren't asked what the policy of the Department was. Every day we are asked. They write us memos we aren't asked to comment on. If we were, we would report we either did or didn't like it.

H.M.JR: Let's just take this as a hypothetical case - it is extreme: Supposing this bill, by some chance, passed the House and then they sent it down for report. We reported unfavorably.

MR. O'CONNELL: You would be perfectly free.

MR. SURREY: Wouldn't bother them.

H.M.JR: It wouldn't? It would bother me.

MR. SURREY: I think you have to separate out your functions.

H.M.JR: Would it bother you?

MR. BLOUGH: No, because we say to Mr. Vinson that this is being supplied in response to his request, as a technical service, and it is not to be interpreted as reflecting the policy of the Treasury Department.

H.M.JR: What the hell is the bill-drafting committee for, in Congress?

MR. BLOUGH: There aren't enough.

H.M.JR: I hear every day that there aren't enough people in the Treasury, either.

MR. GASTON: It is a well-known fact; I suppose two-thirds to three-quarters of the legislation that is introduced up there is drafted, not by the bill-drafting service, but in the Departments.

H.M.JR: Which side are you on, Herbert?

- 18 -

MR. GASTON: That is just an observation of what the fact is. Maybe I ought to confess, too, that if they are guilty, I am, too; because the other day I told the WPB how they ought to draft a bill to admit light-weight paper free.

MR. SULLIVAN: I have signed a lot of unfavorable reports on legislation that was drafted.

H.M.JR: All right.

Is she in bed now? (Laughter)

MR. PAUL: This particular issue is in bed. I think it is unimportant. But I do think that I have got to find out what I am supposed to do about a lot of these things. I don't know, now. I will try to work it out some way.

H.M.JR: O.K.

MR. PAUL: I don't even know how to answer the telephone.

H.M.JR: Oh, now, Paul! Now, don't!

MR. PAUL: I don't. You don't have any idea.

MR. BELL: I probably get as many telephone calls as you do, Randolph. I get a lot from Congressmen and Senators. I don't have any difficulty distinguishing between a policy matter and one just for straight information.

MR. O'CONNELL: He didn't have any difficulty, either, in connection with the Vinson call, but now he finds he has difficulty, and he doesn't know just what the test is.

H.M.JR: Well, when you get a couple, come in and we will have a little meeting. Take a half a dozen cases. I take it you are not going to say you are

- 19 -

muzzled, or anything like that. If you are in doubt - if anybody is in doubt - come in.

MR. BELL: Staff meeting every morning.

H.M.JR: You have had no trouble operating so far, have you?

MR. PAUL: No, but apparently I have been violating the rule for two years. I don't know.

H.M.JR: Do you know the thing he is talking about? Have you looked at it?

MR. PAUL: No, he raised it the first time.

MR. BELL: I am not sure.

H.M.JR: Take a look at it.

Well, all I am asking you for is - we have very few people here - we are over-worked. The day isn't long enough and we all have to cooperate and help each other. That is all I am trying to do.

It is a very difficult fight. We have all the big business interests against us, and I just don't want to be caught in an embarrassing position where I could be sent for by Mr. Byrnes and somebody else and have them say, "Why did you do this without consulting - and if you are going to get behind the bill" - and so forth and so on. "I guess we should have been consulted," and so forth. It is one thing to operate when you are in the Treasury, and another thing when you represent four or five departments. That is all.

MR. PAUL: Do you want me to call Patterson and suggest you have this meeting?

H.M.JR: No.

MR. SURREY: I don't think we need a meeting.

- 20 -

MR. O'CONNELL: No, really--

MR. PAUL: I think I had better call and say we don't need a meeting.

MR. O'CONNELL: I would. It would be on the basis of something that hasn't come up yet. I think we are doing so well now I am a little worried.

MR. GASTON: Is the prospect any better than it was?

MR. O'CONNELL: Oh, wonderful! At the time the Secretary called Patterson, I didn't think we had a chance.

MR. GASTON: Is there going to be a real fight on this bill?

MR. PAUL: That is why I wanted to call attention to the fact that I just ran into Alvord and he has a luncheon date with Jim MacIntosh.

MR. O'CONNELL: Well, we will have to watch Jim.

MR. PAUL: He wanted me to come along.

MR. BLOUGH: You mean, somewhat worse than the House bill, but a good deal better than the Senate Committee? Is that it?

H.M.JR: Listen, I can't take any more tonight, Roy, if you are going to be funny.

159
January 3, 1944
4:58 p.m.

HMJr: Hello.

Operator: Mr. Walker. Go ahead.

HMJr: Hello. Frank?

Frank Walker: Hello, Henry.

HMJr: How are you?

W: Happy New Year to you.

HMJr: Same to you and many of them.

W: Say, Henry, on that Massachusetts situation.

HMJr: Yes.

W: I'm kind of on the spot there, you must realize, with McCormack wanting a certain fellow who was my State Chairman.

HMJr: Yeah.

W: And he told me he had had a talk with you and neither you nor Gaston want to appoint him.

HMJr: Well, it's me that doesn't want to appoint him on account of his record.

W: Yeah. What -- when was the last conversation you had with John? What -- how did you leave it?

HMJr: Well....

W: Did you tell him that definitely you wouldn't?

HMJr: I told him definitely that I wouldn't and then I wrote the President of the United States a letter, explaining to him that John had gotten very excited, very angry, gave the President all the facts, plus all the record of the man.

W: Yeah.

HMJr: And I'm under the impression that after that the President called McCormack.

W: Well, they're still asking us to press it.

HMJr: Well, it's -- as far as I'm concerned, it's with the President.

W: Yeah.

HMJr: I -- I've -- I sat down....

W: You don't want to appoint him do you?

HMJr: Well, I -- I don't appoint him. The President does.

W: Yeah. Oh, yeah, that's right.

HMJr: The President....

W: But on your recommendation.

HMJr: The President appoints him and I sent the record of the man in full, over to the President.

W: Yeah. It's not good, as I understand it.

HMJr: That's an understatement.

W: Yeah.

HMJr: I don't think he does you any good.

W: Oh, he doesn't the way he is. He -- but you see, I can't tell that to those fellows up there.

HMJr: Do you know anything about him?

W: Yes, and I'm inclined to your view.

HMJr: You're inclined to my view?

W: Yes. But I can't tell them that because....

HMJr: Uh....

W:they'll say, "You're a helluva a guy." I've got to get some delegates up there, don't you see?

HMJr: Yeah. Well, I told McCormack very quietly that I couldn't recommend him to the President for the appointment.

W: Uh huh.

HMJr: And I gave him some of the reasons. I couldn't give him all because their sources were judges and district attorneys and people like that who wouldn't let their names be used.

W: Yeah.

HMJr: But I did give the President the entire -- all the facts.

W: Uh.

HMJr: See?

W: Yeah. Well, if anything comes up, you'll understand why it is that I'm not going all out on the thing.

HMJr: Which way?

W: I mean -- uh....

HMJr: The Pres....

W: I'm not going to say that I'm not -- that I'm against him, because McCormack will be right on my tail. I need McCormack to help me out up there.

HMJr: I see. Well, anyway....

W: You see my -- I think I've got to adopt that attitude, don't you?

HMJr: Well, I wouldn't want to -- I wouldn't know how to advise you. I wouldn't know how to advise you.

W: But I mean -- I want you to know that -- that I have no objection is what I mean so far as you're concerned. As far as -- there's no battle between us on it is what I mean.

HMJr: Well, that's pleasing to me.

W: Because I'm not going to insist on it at all because I think you're right, but I....

HMJr: Well....

W: McCormack keeps insisting to me that we do it.

HMJr: Well....

W: Well, Curley is my National Committeeman and the Committee is going to meet on the 22nd of January and I don't want to say to Curley that I'm against him. Don't you see?

HMJr: I see. Well, I'll keep my own counsel and McCormack and Dave Niles know where I stand and so does the President.

W: All right, Henry.

HMJr: Thank you.

W: Say,...

HMJr: Yeah.

W: Some day I'd like to talk to you about another matter.

HMJr: I see.

W: Who -- who'd be the best fellow to talk -- I'm a trustee of Notre Dame....

HMJr: Yes.

W: And they've got about 90% of their stuff in bonds -- government bonds.

HMJr: Yes.

W: Some of the fellows are making -- they're trying to change the policy and I'd like to talk with somebody over there. Who'd be the best one to talk to about....

HMJr: Oh, I think Danny Bell.

W: Will he be the best one?

HMJr: I think so.

W: Yeah. All right, thanks, Henry.

HMJr: Thank you.

January 3, 1944
5:23 p.m.

Grace
Tully: Hello, Mr. Secretary. How are you?

HMJr: Very well.

T: That's good. Did you get that memo?

HMJr: You mean on -- across the....

T: Yeah.

HMJr: The Chinese?

T: Yes, sir.

HMJr: Yes.

T: You did? All right. Fine.

HMJr: Well, let me ask you a question as long as you --
Did you have a chance to tell the President about
Mr. Hull's suggestion?

T: Yeah. Well, he put that in there.

HMJr: Did he?

T: Sure. He said, "There ought to be a mission go
to Chungking."

HMJr: Well, not in what I've got here.

T: Well, certainly it is in what you've got there.

HMJr: Well, now, wait a minute. It says....

T: He suggests the mission going to Chungking. If
that isn't in yours I don't know where the carbon
copy was. I don't know where the carbon was,
because it was written.

HMJr: Oh, I didn't -- I see. I think an addition....yeah.

T: Yeah. After the end of the quote, you see, then he
puts that in.

HMJr: I see. I didn't -- I just thought it was my
message. I didn't read the other.

- 2 -

T: Uh huh. Well, it was all your message down to there and a little bit of introduction and then two little paragraphs at the end....

HMJr: Okay.

T:that were not yours.

HMJr: 1% to Hull and 99 of Morgenthau's.

T: (Laughs)

HMJr: One horse, one rabbit.

T: (Laughs) Don't you check on me as to whether I didn't give your messages either. (Laughs)

HMJr: Well, I was -- wanted to do it but I didn't have the nerve to. I'm a very modest creature.

T: (Laughs)

HMJr: But now that you've called me....

T: (Laughs)

HMJr: See?

T: And I called your attention to something that you read and it wasn't there.

HMJr: Yeah. Having called me, you sort of gave me a little nerve.

T: Well, I'll tell you, I called you to make sure that it got over. I sent it "Red Tag" and what not, and I didn't call you back because I didn't get it until late Saturday and it had to go back to the President and I couldn't see him until luncheon time today and I didn't get back here until around twenty minutes of four. So by the time I got back with it and got it "Okayed" I -- that was the first I could tell you what was going on it.

HMJr: Now, the girls here try to be as good as you are.

T: (Laughs) Thank you. I was just wondering about our messenger service -- whether it brought it to you.

- 3 -

HMJr: Oh, yeah, the messenger service worked.

T: It worked? Fine.

HMJr: Very good.

T: How is Mrs. Morgenthau, by-the-way?

HMJr: She's fine.

T: Is she?

HMJr: We had a terrible shock today.

(Remainder of conversation not recorded.)

CONFIDENTIAL

166 ✓

WAR DEPARTMENT
Headquarters, Army Service Forces
WASHINGTON, D. C.

3 January 1944

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

In further reference to the monetary problems of our armed forces in China, I am summarizing the position of the United States Army on these matters in the China, Burma, India area. Our principal concern is the exchange situation in China. While the financial activities of the military in Burma and India will necessarily be closely related to those in China, I foresee at this time no fiscal problems in the former which will be as important to the War Department as the present Chinese exchange question. The following outline may not cover all the points in which you are interested. In such event I will be pleased to furnish any further details you may desire.

INDIA

In India, rupees transferred through the Treasury Department to United States Army disbursing officers have been used principally for the payment of personnel, since procurement and construction operations in that area have been financed mainly through reverse lend-lease aid rendered by the British and the Government of India. While Chinese troops located in India are being paid by United States disbursing officers, the rupees involved have been furnished by the British under arrangements with the Chinese National Government at no cost to the United States. Prior to September 1943, Army rupee expenditures averaging about Rs 17,000,000 per month were made available through telegraphic funding transfers to the Imperial Bank of India and by the sale of Treasury checks at the rate of 3.3044 rupees to the dollar or 30.25 cents to the rupee. Since last September rupee requirements of Army finance officers in India have been largely met from rupee holdings of the Treasury Department at the Reserve Bank of India acquired through the sale of gold in India at a substantial rupee premium above the official rate of exchange. While rupees thus acquired continue to be turned over by the Treasury to Army finance officers at the official rate of exchange and Army personnel continue to be paid at the same official rate, it is recognized that the procurement of rupees through gold sales involves appreciable saving to the United

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States, irrespective of the method of accounting for the gold premium realized. It is considered desirable that the gold-selling program of the Treasury in India should continue to be conducted in close liaison with the War Department in order that the rate of rupee procurement by this method should be coordinated with United States Army requirements and that neither a long nor short rupee position should develop.

BURMA

In the impending invasion operations in Burma of combined British, Indian, United States and Chinese forces under the command of Lord Mountbatten, the use of a common invasion currency is indicated, with the matter of primary concern to the British. Since the combined forces being concentrated in India and operating on lines of communication to the Burmese border are all being paid in Indian rupees, and since rupee notes circulating in Burma prior to the Japanese invasion were issued by the Reserve Bank of India, with Indian coins also legal tender in Burma, it is understood that Indian rupee currency will be used by the United States as well as other allied forces participating in Burmese operations. This will involve additional demand for Indian rupees for United States forces in India and further emphasize the desirability of close liaison between Treasury and War Departments in the volume and timing of procurement of rupees through sale of gold.

Since the Japanese during their occupation of Burma have introduced military rupee notes to supplement and replace British rupee currency in that area, it will be necessary for the allied invasion and occupational authorities to proclaim the terms under which Japanese-issued currency in the possession of the local population may be exchanged for British rupee currency. While this is a matter of primary concern to the British, the United States Treasury and War Departments also have an interest in the determination of policy and procedure in the treatment of Japanese-issued currency of Burma, since the latter will inevitably come into possession of United States military personnel, and since American forces will presumably participate in occupation as well as invasion operations of Burma.

Since allied forces advancing through Burma into southwestern China will be using Indian rupee currency, United States Treasury and War Departments will necessarily be concerned with the determination of rates of exchange between rupee and the Chinese yuan as well as between the dollar and the yuan.

CHINA

The exchange situation in China has been of serious concern to the War Department for over a year now and is growing more serious daily. It is essential that every possible means be used to find a prompt solution to the problem. This involves a change in the rate available to the United States in financing its operations in China or in making some agreement whereby the Chinese Government will advance Chinese currency to the United States as a part of its contribution to the war effort.

The War Department is aware of the efforts the Treasury Department has been making during the past year to find some solution either by a change in the official rate, the granting of a special rate to the United States or through the sale of gold at an advantageous rate, the proceeds of such sale to be used to reduce the excessive cost to the War Department of expenditures in China at the present unrealistic rate. The action already taken by the War Department has been in cooperation with the State Department, the Treasury Department and the Lend-Lease Administration.

With the knowledge of the State and Treasury Departments, and undoubtedly with the full knowledge of the Chinese Government, the War Department has been paying its personnel in China in United States currency and permitting that personnel to go into the open or black market and purchase Chinese currency at any available rate. Recently the State and Treasury Departments requested the War Department to ship United States currency to China for use in paying personnel and operating expenses. The War Department has been reluctant to have its soldiers dealing in black market operations, but for morale purposes it could not do other than authorize such a procedure in view of its failure to find other means of giving its men in China sufficient local currency to offset the unrealistic exchange rate. In addition to the morale factor, there has been the ever-increasing expenditures by the War Department for supplies and construction necessary to our war effort in China which at the existing official rate is inflating the cost to the War Department four or five times in excess of the amount that would be proper if the exchange rate in China were more realistic. This latter phase is growing daily and the expenditures have already reached approximately fifteen million United States dollars each month.

Early in 1945 the War Department felt a need for a reciprocal lend-lease agreement with China and the Chinese Government indicated that they might be willing to enter into such an agreement. Accordingly, the War Department held conferences with representatives of the State and Treasury Departments and the Lend-Lease Administration to develop such an agreement. In view of the exchange situation and the fact that the

Treasury Department representative expressed the view that efforts up to that time to secure a better official rate of exchange had proved fruitless, it was decided to include in the reciprocal lend-lease agreement in addition to provisions for direct aid in kind a section to the effect that the Chinese Government would provide funds in Chinese currency to be used by the United States in direct purchase of supplies, materials, facilities and services in lieu of reciprocal aid in kind and to meet other essential United States governmental and military needs for Chinese currency. The understanding was that this currency received under the agreement could be used as a means of reducing the excessive cost to the various United States Departments in China of expenditures for personnel and other purposes on account of the unrealistic Chinese exchange rate. This reciprocal lend-lease agreement was submitted to Dr. Soong, Foreign Minister of the Chinese Government, by the State Department in Washington in May 1943 together with a memorandum explaining the purpose of the financial paragraph thereof. The agreement was carried to General Stilwell in China by a representative in the War Department and the terms of the financial plan were radioed to him on 28 July 1943 for his concurrence. He approved the financial provisions of the agreement in view of the apparent impossibility of securing a proper exchange rate.

In October when I was in China, I discussed with Dr. Soong and with Dr. Kung the matter of giving the War Department some relief from the existing official rate. Both of these officials of the Chinese Government indicated informally that their government might be willing to supply the United States Army with Chinese currency to meet its needs and that one-fifth of the amount advanced would be purchased by the United States at the current official rate of exchange and the balance would be considered as China's contribution to the war effort. The War Department has sent to China Dr. Edward C. Acheson as financial adviser to General Stilwell with a view to pressing for a settlement on this basis of the exchange problem. However, in view of advice that the Treasury Department is in hopes of finding some solution to the problem in the very near future, Dr. Acheson was instructed not to present the agreement to the Chinese until further instructions are sent to General Stilwell by the War Department authorizing such action.

Advice has just been received from the State Department that the Chinese Government has advised our State Department representative in China, Mr. Gauss, that it is willing to sign the reciprocal lend-lease agreement heretofore referred to. It appears extremely desirable to the State Department and the War Department that we present to the Chinese at the time the reciprocal lend-lease agreement is submitted for signature a supplemental agreement to implement the financial paragraph of the basic agreement referred to, a request for currency on the basis of

CONFIDENTIAL

170

the informal discussion previously had with the Chinese Government by the State Department and by me as mentioned above.

It is pointed out, however, that a solution that will permit a better exchange rate, either direct or through the sale of gold, is a better solution to the problem than one such as the reciprocal agreement. In the latter case the Chinese may in the future advance the claim that they have paid United States personnel or paid the major cost of construction projects undertaken by us in China. However, in the absence of any proper change in the rate or a similar financial comparable adjustment, there appears no other alternative to relieve the serious excessive outlay of War Department funds in China because of the exchange situation.

The solution of the monetary problems outlined above will undoubtedly involve the development of comprehensive fiscal and accounting procedures in which the War Department will have a special interest. It appears desirable that the Treasury and War Departments maintain close liaison in the formulation of these procedures.

Your deep interest and the assistance which has been given by the Treasury Department to the War Department is appreciated.

Sincerely yours,



BREHON SOMERVELL
Lieutenant General
Commanding

CONFIDENTIAL

Treasury Department

171 ✓
[Handwritten signature]

TELEGRAPH OFFICE

72

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CHUNGKING 1940 JAN 1/44

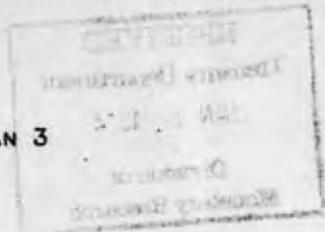
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SECRETARY HENRY MORGENTHAU JR
U S TREASURY WASHINGTON

MY WARMEST PERSONAL WISHES FOR HAPPY AND VICTORIOUS NEW YEAR MAY I
TAKE THIS OPPORTUNITY TO CONGRATULATE YOU FOR THE SUCCESSFUL ACCOM-
PLISHMENT OF THE IMMENSE TASK OF FINANCING THE WAR EFFORT OF THE
UNITED STATES AND AT THE SAME TIME RENDERING SUBSTANTIAL ASSISTANCE
TO HER ALLIES FOR THE COMMON CAUSE

H S KUNG

853A JAN 3



TED R. GAMBLE
WAR FINANCE DIVISION
EXPENSES OF LOANS

JANUARY 3, 1945

TO THE ATTACHED LIST:

I AM TODAY WIRING YOUR EDITOR REQUESTING THAT YOU BE MADE AVAILABLE BEGINNING JANUARY SEVENTH TO ASSIST IN HANDLING NEWS OF THE FOURTH WAR LOAN. I HOPE YOU ARE AGREEABLE. YOUR SPLENDID WORK IN THE LAST DRIVE PROMPTED THIS INVITATION. OUR 4TH WAR LOAN NEWS DESK WILL BE HEADED BY ARTHUR SYLVESTER OF THE NEWARK NEWS AND WILL INCLUDE MANY OF YOUR THIRD WAR LOAN ASSOCIATES. TED R. GAMBLE, NATIONAL DIRECTOR OF THE WAR FINANCE DIVISION, IS LOOKING FORWARD TO SEEING YOU AGAIN AT HIS OFFICE IN THE WASHINGTON BUILDING, 7th FLOOR, FRIDAY, AT 10 A.M. ALL ACCOMMODATIONS AND ARRANGEMENTS WILL BE CARED FOR AS BEFORE.

HENRY MORGENTHAU, JR.,
SECRETARY OF THE TREASURY.

HM:dft

LIST OF REPORTERS

AL SEGAL,
CINCINNATI POST,
CINCINNATI, OHIO.

LUCIE GREENBAUM,
NEW YORK TIMES,
NEW YORK, NEW YORK.

HAROLD FLEMING,
CHRISTIAN SCIENCE MONITOR,
BOSTON, MASSACHUSETTS.

CARL CEFOLA,
NEW YORK HERALD TRIBUNE,
NEW YORK, NEW YORK.

TED R. GAMBLE

174

WAR FINANCE DIVISION

EXPENSES OF LOANS

~~SECRET~~ JANUARY 3, 1945

CHARLES MERZ, EDITOR,
NEW YORK TIMES,
NEW YORK, NEW YORK.

THE TREASURY DEPARTMENT IS AGAIN ORGANIZING A STAFF OF SPECIAL WRITERS TO SERVICE THE NATION WITH NEWS OF THE FOURTH WAR LOAN DRIVE. THE FINE WORK DONE BY LUCIE GREENBAUM OF YOUR STAFF IN THE THIRD WAR LOAN WAS OF GREAT VALUE TO US, AND I WISH TO ASK YOUR GENEROUS COOPERATION IN ONCE MORE MAKING HIM AVAILABLE FOR SPECIAL ASSIGNMENT HERE. WE WOULD ASK THAT HE REPORT FOR WORK ON JANUARY SEVENTH AND REMAIN IN ALL LIKELIHOOD THROUGH THE END OF THE MONTH. FINANCIAL ARRANGEMENTS WOULD BE COVERED BY THE DEPARTMENT AS BEFORE. I AM FULLY AWARE OF THE SACRIFICE INVOLVED IN SPARING MANPOWER FROM YOUR PLANT TODAY, AND WISH TO THANK YOU SINCERELY FOR YOUR PATRIOTIC RECOGNITION OF THE NEEDS OF THE WAR FINANCING PROGRAM.

HENRY MORGENTHAU, JR.,
SECRETARY OF THE TREASURY.

HM: DFT

T.R. GAMBLE

175

WAR FINANCE DIVISION

EXPENSES OF LOANS

JANUARY 3, 1946.

OGDEN REID, EDITOR,
NEW YORK HERALD TRIBUNE,
NEW YORK, NEW YORK.

THE TREASURY DEPARTMENT IS AGAIN ORGANIZING A STAFF OF SPECIAL WRITERS TO SERVICE THE NATION WITH NEWS OF THE FOURTH WAR LOAN DRIVE. THE FINE WORK DONE BY ~~MR~~ CARL CEFOLA OF YOUR STAFF IN THE THIRD WAR LOAN WAS OF GREAT VALUE TO US, AND I WISH TO ASK YOUR GENEROUS COOPERATION IN ONCE MORE MAKING HIM AVAILABLE FOR SPECIAL ASSIGNMENT HERE. WE WOULD ASK THAT HE REPORT FOR WORK ON JANUARY SEVENTH AND REMAIN IN ALL LIKELIHOOD THROUGH THE END OF THE MONTH. FINANCIAL ARRANGEMENTS WOULD BE COVERED BY THE DEPARTMENT AS BEFORE. I AM FULLY AWARE OF THE SACRIFICE INVOLVED IN SPARING MANPOWER FROM YOUR PLANT TODAY, AND WISH TO THANK YOU SINCERELY FOR YOUR PATRIOTIC RECOGNITION OF THE NEEDS OF THE WAR FINANCING PROGRAM.

HENRY MORGENTHAU, JR.,
SECRETARY OF THE TREASURY.

HM art

TED R. GAMBLE

176

NATIONAL DIRECTOR

EXPENSES OF LOANS

JANUARY 3, 194⁴.

CARL D. GROAT, EDITOR,
CINCINNATI POST,
CINCINNATI, OHIO.

THE TREASURY DEPARTMENT IS AGAIN ORGANIZING A STAFF OF SPECIAL WRITERS TO SERVICE THE NATION WITH NEWS OF THE FOURTH WAR LOAN DRIVE. THE FINE WORK DONE BY AL SEGAL OF YOUR STAFF IN THE THIRD WAR LOAN WAS OF GREAT VALUE TO US, AND I WISH TO ASK YOUR GENEROUS COOPERATION IN ONCE MORE MAKING HIM AVAILABLE FOR SPECIAL ASSIGNMENT HERE. WE WOULD ASK THAT HE REPORT FOR WORK ON JANUARY SEVENTH AND REMAIN IN ALL LIKELIHOOD THROUGH THE END OF THE MONTH. FINANCIAL ARRANGEMENTS WOULD BE COVERED BY THE DEPARTMENT AS BEFORE. I AM FULLY AWARE OF THE SACRIFICE INVOLVED IN SPARING MANPOWER FROM YOUR PLANT TODAY, AND WISH TO THANK YOU SINCERELY FOR YOUR PATRIOTIC RECOGNITION OF THE NEEDS OF THE WAR FINANCING PROGRAM.

HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY.

TRG:DFT

TED R. GAMBLE

177

WAR FINANCE DIVISION

EXPENSES OF LOANS

JANUARY 3, 1944.

MAT WILLIAMS, EDITOR
MEMPHIS WORLD, 390 1/2 BEALE AVENUE,
MEMPHIS, TENNESSEE

THE TREASURY DEPARTMENT IS AGAIN ORGANIZING A STAFF OF SPECIAL WRITERS TO SERVICE THE NATION WITH NEWS OF THE FOURTH WAR LOAN DRIVE. YOUR FINE WORK IN THE THIRD WAR LOAN WAS OF GREAT VALUE TO US AND I WISH TO ASK YOUR GENEROUS COOPERATION IN ONCE MORE MAKING YOURSELF AVAILABLE FOR SPECIAL ASSIGNMENT HERE. WE WOULD ASK THAT YOU REPORT FOR WORK ON JANUARY SEVENTH AND REMAIN IN ALL LIKENHOOD THROUGH THE END OF THE MONTH. FINANCIAL ARRANGEMENTS WOULD BE COVERED BY THE DEPARTMENT AS BEFORE. I AM FULLY AWARE OF THE SACRIFICE INVOLVED IN SPARING MANPOWER FROM YOUR PLANT TODAY AND WISH TO THANK YOU SINCERELY FOR YOUR PATRIOTIC RECOGNITION OF THE NEEDS OF THE WAR FINANCING PROGRAM.

HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY

HM/ceb

TED R. GAMBLE
WAR FINANCE DIVISION
EXPENSES OF LOANS
JANUARY 3, 1945

ERWIN D. CANHAM, MANAGING EDITOR,
CHRISTIAN SCIENCE MONITOR,
BOSTON, MASSACHUSETTS.

THE TREASURY DEPARTMENT IS AGAIN ORGANIZING A STAFF OF SPECIAL WRITERS TO SERVICE THE NATION WITH NEWS OF THE FOURTH WAR LOAN DRIVE. THE FINE WORK DONE BY HAROLD FLEMING OF YOUR STAFF IN THE THIRD WAR LOAN WAS OF GREAT VALUE TO US, AND I WISH TO ASK YOUR GENEROUS COOPERATION IN ONCE MORE MAKING HIM AVAILABLE FOR SPECIAL ASSIGNMENT HERE. WE WOULD ASK THAT HE REPORT FOR WORK ON JANUARY SEVENTH AND REMAIN IN ALL LIKELIHOOD THROUGH THE END OF THE MONTH. FINANCIAL ARRANGEMENTS WOULD BE COVERED BY THE DEPARTMENT AS BEFORE. I AM FULLY AWARE OF THE SACRIFICE INVOLVED IN SPARING MANPOWER FROM YOUR PLANT TODAY, AND WISH TO THANK YOU SINCERELY FOR YOUR PATRIOTIC RECOGNITION OF THE NEEDS OF THE WAR FINANCING PROGRAM.

HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY.

HM: DFT

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 3, 1944.

TO SECRETARY MORGENTHAU
FROM MRS. FORBUSH

After receiving a copy of Mr. Smith's memorandum of December 13, together with your request that I give you a recommendation on the subject of following up outstanding letters of complaint, I talked with Mr. Smith, and have now received a copy of his memorandum dated January 1.

I shall only say, therefore, that I am entirely in accord with this second memorandum. As you know, Mr. Thompson, in the past, has been most helpful in following through and tracing the course of various cases. Recently Mr. D. W. Bell has kept track of the destination of those which bear upon fiscal matters. I think that it is well to have a "trouble shooter" who can follow through on a letter, no matter what bureau or office may ultimately receive it, but I do not think it would pay to have one person who did nothing else but this follow up work. According to Mr. Smith's present suggestion, I will send anything which seems to deserve special handling to Mr. Shaeffer, who, in turn, will see that some one person takes the letter and follows through on the problem, rendering a report when the case is settled. I believe that Mr. Smith has talked with Mr. Thompson, to whom I have similarly referred selected letters in the past, and that this arrangement is agreeable with him.

I entirely agree with Mr. Smith that it may often be possible to clear up a bad situation by giving some sort of intensive attention to outstanding letters.

Gabriel E. Forbush

180
Photostats to Smith,
TREASURY DEPARTMENT

Thompson + Forbush.
INTER OFFICE COMMUNICATION

DATE

January 1, 1944 *1/3/44*

TO Secretary Morgenthau

FROM Fred Smith *FS*

Mr. Shaeffer and I talked to Mr. Thompson and Mrs. Forbush concerning the handling of explosive letters.

We have decided to try the following:

When a particularly explosive letter comes along which indicates that the writer may not have received a complete or satisfactory answer to a request previously made, or where the situation has possibilities of developing into something serious, Mrs. Forbush will route the letter directly to Mr. Shaeffer. Mr. Shaeffer has appointed a member of his department to be responsible for seeing that the writer's problem is properly disposed of, or at least, that the writer gets an intelligent and satisfactory reply.

Having secured the data from the proper parties, whoever or wherever they might be, Shaeffer's department will prepare an answer which will then go through regular channels for proper signatures.

At the end of the month, Shaeffer's department will supply us with a report on their handling of these letters.

The decision as to what constitutes an explosive letter will be left up to Mrs. Forbush and the Public Relations Department.

Copies to: Mr. Thompson *Thompson*
Mr. Shaeffer
Mrs. Forbush

OK
Forbush

TREASURY DEPARTMENT

181

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

December 13, 1943

FROM Fred Smith

Please note the attached, from this week's mail report.

It seems to me that we ought to have some one individual assigned to running down such complaints as these, and seeing that they are promptly taken care of.

As I understand it, Mrs. Forbush's responsibilities end with seeing that letters get proper responses; she doesn't have the responsibility of finding out why a problem must go fifteen months unsolved.

It seems to me that we could well afford to have one person assigned to following up special cases like the ones attached and making sure that the customer is satisfied.

As a rule, there are a great many cases like these -- mostly having to do with Bonds, but often having to do with Customs, Taxes, etc. Last week a man with a young fortune in Bonds threatened to strike against any more Bond buying until his wife received some explanation as to why she was not refunded ten dollars on over-paid taxes. This is a little thing, but it is typical of the kind of things that make people mad, and make them cuss out Bureaucracies.

FS

General Comments

Emma J. Amorose, R. N., Richmond, Virginia.
 I regret I must trouble you about this matter, but I have written to your subordinates repeatedly and failed to secure results, so I feel I am left little recourse but to write to you. * * *
 A Government nurse's salary check was stolen from me in 1942 while serving as nurse in the U. S. Veterans' Hospital in Columbia, South Carolina, about the end of September, 1942. * * * Secret Service men were sent down there to work on the case while I was there. Shortly afterwards, these men succeeded in their work, full restitution was made to the Government for the amount of the check and the case was marked closed. Since then, I have tried repeatedly to secure the amount of this check that is due me by your office, but all to no avail. I have written often to your Department, but nothing ever happened. It has been almost fifteen months since the check was taken from me, and almost as long since the case was closed. * * * I am badly in need of the sum that is due me. I have been off duty for the past seven months because of illness. * * * I am appealing therefore to your humanitarian side -- will you be kind enough to do something for me?

Pfc. David H. Shepard, U. S. Army, University of Michigan, Ann Arbor, Michigan. Please find enclosed a check for my November pay of \$40.25, which I received today. I feel that I should voluntarily do my part in paying for the war while we are fighting it, since your plans for paying for the war and preventing inflation aren't getting enough support. Therefore please add my \$40.25 to the credit side of the War budget.

- 3 -

Anna Press Smith, Philadelphia, Pennsylvania.
During the month of July the Commissioner of Documents sent a letter to my husband Lieut. Raymond R. Smith, USN (Ret.) to the effect that books entitled MERCHANT VESSELS OF THE UNITED STATES were available, enclosing form, for him to fill out in the event he desired a copy of this issue sent to him. I forwarded a Postal Money Order of three dollars (\$3.00) to the Commissioner of Documents in reply, requesting that the book be forwarded, as I have done heretofore. About three weeks ago a man called at our house in Philadelphia and informed me he had been sent from the Customs House to investigate Lieut. Smith, and I informed him that Lieut. Smith had been attached to the UNITED STATES NAVY a little more than forty-one (41) years. This man said it was about a book that had confidential information about Government vessels in it. * * * His loyalty to his country was openly questioned by civilian slackers, sent out by your Department. Well, that is a fine state of affairs for the men in the armed forces of his country to look forward to.

Rex S. Roudebush, Attorney at Law, Tacoma, Washington.
* * * For a long time American investors have been patiently waiting for South American Republics to meet their obligations. With war prosperity existing in most of these countries, there should be no legitimate reason for these continuing defaults as to both principal and interest. While in this state of mind, lo and behold, we have read during the past week of the foolish and stupid spending of this vast sum of the taxpayer's money in South America without even a proviso that these countries would immediately proceed to meet their bond obligations! If all of this isn't stupidity in monumental form, I would like to have the word adequately defined. I am very much

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

January 3, 1944

Dear Henry:

With further reference to my letter of December 18 concerning the cooperation on the part of the Navy with the Treasury Department in the conduct of the Fourth War Loan Drive, I find that Lieutenant Commander Frank Courtney is much better qualified as Liaison Officer for the Navy, and I have so appointed Commander Courtney in lieu of Commander Wakefield.

Yours sincerely,

Frank Knox

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE Jan. 3, 1944

TO Secretary Morgenthau
 FROM Mr. [Signature]
 Subject: The Business Situation,
 Week ending January 1, 1944.

Summary

General situation: The beginning of 1944 finds industrial production at a record level, with the supply situations of a number of basic materials becoming definitely easier. Price indexes have levelled out since last summer, in contrast to sharp price increases during the same relative period in the First World War, but the stability in the indexes is partly fictitious. Stock prices begin the year at higher levels than a year ago.

Retail trade: Despite some slackening in the sales pace in December, the dollar volume of department store sales in the recent Christmas shopping season rose to the highest level on record. After rising 9 percent above 1942 levels in October and 10 percent in November, the department store sales gain in the 4 weeks ended December 25 narrowed to 5 percent.

Commodity prices: Featured by a rise in wheat prices, the ELS index of basic commodity prices rose 0.2 percent in the last 2 weeks to a new high 79.2 percent above the August 1939 average. However, the all-commodity index in the week ended December 25 was again unchanged at 102.9 (1926=100). This is slightly more than 1 percent below the war-time peak.

Industrial production: Aggregate industrial output declined slightly in November but the drop was purely seasonal and the FRB adjusted index of production was unchanged from the previous month's record high of 247. Output of all major munitions groups except ammunition increased in November, and the WPB index of munitions production rose 3 percent to 655 (November 1941=100).

Steel operations: Steel ingot output in November dropped to 98.4 percent of capacity from 101.3 percent in the previous month. Reflecting an improvement in the steel supply situation, a number of steel companies observed the Christmas holiday this year for the first time since 1940, and steel operations during Christmas week were scheduled to drop 6.3 percent to 95.0 percent of capacity.

- 2 -

The general picture

The beginning of the year 1944 finds industrial production at or near the record level reached in October, and with many basic materials now being produced in such volume that the supply situations for various products such as aluminum, copper, zinc, lead and steel have definitely eased. In the case of aluminum, once in critically short supply, the WPB is reportedly considering a cutback in production in 1944. Indicative of the improved steel outlook, a number of steel companies (including U. S. Steel) observed the Christmas holiday this year for the first time since 1940.

On the commodity price front, the official indexes show a levelling-out since last summer in both the all-commodity index and the cost of living, contrasting sharply with the steep rises which occurred during the same relative period in the First World War. In part, the stability reflects food subsidies that were put in effect during 1943. To a considerable degree, however, the stability in the official indexes is unreal, since the indexes do not take adequately into account such factors as hidden price increases, as in quality deterioration, nor black market sales, unavailability of many items, and prices of war materials. The current issue of the Economic Outlook, a CIO publication, shows in detail an example of deterioration in quality of a pair of shoes sold by a manufacturer under an identical style number and price, which is said to give 30 percent less wear than the same shoe in 1941. In the all-commodity index for November, no quotations were available for 22 percent of the commodities, and many other quotations were doubtless nominal. Since in these cases the last-available prices are held unchanged, they tend to give a fictitious stability to the index.

Food prices currently are being held down to some extent by seasonal surpluses of such products as meats and eggs that are being forced on the markets by a shortage of storage space, and perhaps also by recent releases of substantial quantities of various canned goods by the War Food Administration. The surplus of meats and eggs, however, will doubtless be only temporary, and further upward pressure on food prices is likely to be seen in the spring when supplies of many foods will become seasonally short.

The stock market begins the year at an appreciably higher level than a year ago. The Dow-Jones averages as of December 31 show a gain of 14 percent for industrial stocks, 23 percent for rails, and 50 percent for utilities. On the London market, the industrial stock average is 9 percent higher.

- 3 -

Uncertainties generated by labor troubles in the steel and railroad industries may have contributed somewhat to the failure of stock prices to make further year-end gains last week. At the close on Friday the Dow-Jones averages were virtually unchanged from the levels prevailing at the end of the 2 previous weeks. (See Chart 1.) Some observers had believed that the "year-end rally" in stock prices would occur earlier than usual in 1943, due to the desire of many investors to conclude tax selling before the December 15 deadline for filing revised income tax estimates.

Christmas retail trade at record levels

Although the final Christmas buying rush did not reach the proportions which some observers expected, sales for the season (in dollar totals) undoubtedly attained the highest level on record. Deadlines on shipments of Christmas packages to men in the armed services which went into effect as early as mid-October, and other factors, including fears of goods shortages, caused much heavier than usual gift buying in October and November. After showing gains over 1942 levels of 9 percent and 10 percent in October and November, respectively, department store sales in the 4 weeks ended December 25 revealed a gain of only 5 percent. In the last full week before Christmas, sales dropped 4 percent under the corresponding week in 1942, but in the following week sales ran 22 percent ahead. However, the gain in the latter week was due in part to the fact that Christmas week this year had 5 pre-Christmas shopping days as compared with only 4 last year. (See Chart 2.)

Trade reports indicate that this year's Christmas buying was featured by a heavy volume of business in luxury goods items. In addition to the stimulating effect of the abnormally high level of national income payments, the shortage of suitable lower-priced merchandise in many lines resulted in increased buying of higher quality items. Moreover, prospective excise tax increases probably caused some advance buying of furs and jewelry.

Despite the unusually heavy sales volume in November, department store stocks (in dollar value) at the end of the month in the New York district were only 14 percent below the 1942 level while stocks of apparel stores were actually 7 percent higher. Although shortages exist in many lines, department store stocks in the aggregate seem to have held up somewhat better than many observers believed likely earlier in the year. In some lines, such as toys, where many war-time substitutes

- 4 -

were introduced, consumer response apparently has not been up to expectations, as some large department stores advertised clearance sales before the end of the Christmas shopping season.

Commodity prices move higher

While commodity prices were steady during Christmas week, they moved higher last week as trading became more active. At the end of the two-week period, the BLS index of 28 basic commodities had gained 0.2 percent and stood at a war-time high, 79.2 percent above the August 1939 average. Although the index has shown an advance of 3.6 percent during 1943, the extension of price control measures has considerably slowed the rise in the index, which rose 8.9 percent during 1942. (See Chart 3.)

Wheat prices, rising more than 3 cents a bushel, registered the largest gain of any commodity during the past two weeks. The announcement of an increase in the subsidy to millers from 5½ cents a bushel to 6 cents, together with an upturn of 1 cent in the parity price of wheat, caused a noticeable rise in wheat futures at the end of last week. Spot wheat prices have now risen 25 cents in the past four months. Prices of barley and cotton were up somewhat, and rosin and cottonseed oil prices made noticeable gains.

The BLS all-commodity index was unchanged in the two weeks ended December 25 at 102.9 percent of the 1926 average. In fact, for the past six months the index has shown very little change. It is now 1.7 percent above the corresponding date of last year, although it is 37.2 percent above the pre-war level of August 1939.

Farm prices rise sharply

In contrast to the relative stability of wholesale prices in recent weeks, farm prices rose sharply last month to a new war-time high. The index of prices received by farmers, following a levelling tendency from August to November, rose 2.6 percent in December to 197 percent of the 1909-1914 average. (See Chart 4, upper section.) The index is now almost 11 percent above that of a year ago, and is at the highest level for any December on record with the exception of the war years 1918 and 1919. Higher prices for apples, lemons, and grains, together with increased sales of higher-priced tobacco, were largely responsible for the upturn in the index.

Since the index of prices paid by farmers (including interest and taxes) rose only slightly last month, farm prices

- 5 -

averaged 117 percent of parity, which is 2 percent higher than in November and is equal to the peak reached in August. (See Chart 4, lower section.) In the pre-war month of August 1939, farm prices averaged only 71 percent of parity. Prices of all groups of farm products are now above parity.

While farm prices during the past year have shown a considerable rise, although somewhat less than in 1942, prices of the individual groups of farm products have shown diverse trends. (See Chart 5.) With a very poor deciduous fruit crop this year, the index of fruit prices showed a greater increase in 1943 than in 1942, due largely to an 85 percent rise in the average farm price of apples. Fruit prices have made a larger advance for the war period than any other group of farm products. Reflecting the tightening feed situation, grain prices, which showed the smallest increase of any group in 1942, registered next to the largest increase in 1943.

On the other hand, although prices of livestock and truck crops reached new high levels in 1943, both groups have declined in the past several months, and at the end of the year they stand below the December 1942 level. The lower meat animal prices are largely the result of heavier marketings from the record breaking 1943 livestock crop. The decline in truck crop prices chiefly reflects lower prices for snap beans, lettuce, spinach, celery and tomatoes.

Corn marketings continue light

The upward revision in the corn price ceiling does not appear to have been successful as yet in inducing sufficient corn marketings to satisfy the demand. While corn moved freely during a few days immediately following the ceiling revision, marketings then fell off. Two factors that apparently are contributing to the relatively light corn marketings are: (1) Some farmers have been holding their corn to avoid incurring additional income tax liability for 1943, and (2) the heavy discount on corn with a moisture content above 20 percent encourages farmers to hold corn until it dries out and will not be subject to the discount. At this time there is much high-moisture corn in the country.

Although the acreage seeded to winter wheat this fall is estimated to be almost 25 percent larger than last year, the production indicated for 1944 will be slightly less than that for 1943, according to the first seasonal report released by the Department of Agriculture recently. The forecast of about 527 million bushels is 4 percent below the 1932-41 average. The sharp decline in the estimated yield per acre was attributed

- 6 -

to unfavorable weather. In much of the Great Plains areas rainfall has been so scanty that there will probably be heavy abandonment and low yields.

Improvement in hog marketing situation noted

Greater stability in the hog marketing situation was evident last week following the severe congestion in the markets during the preceding week. While hogs continued to be held over at many markets, the situation was much improved from a week earlier, when on December 20 approximately 50 percent of the 200,000 hogs received at the twelve leading mid-western markets were held over. This was the largest holdover of hogs on record.

Two important developments which have contributed to the more orderly marketing of hogs in recent days have been: (1) extension of the price support program to include good and choice butcher hogs of heavier weights, 270 to 300 pounds, as a temporary measure, and (2) adoption by various markets of marketing control programs. With the price support program covering only weights of 200 to 270 pounds, heavy discounts had developed for hogs weighing over 270 pounds. Consequently, many farmers were anxious to move their hogs for fear they would go beyond the support weight. Among the marketing control programs is that of the South St. Paul market, which now requires a permit to market hogs there.

In connection with the heavy hog marketings, the December Pig Crop Report of the Department of Agriculture estimates 1943 pig production at 121,847 thousand head. This was 17 percent larger than in 1942. A decline in pig production, however, is indicated for next year, with farmers reporting intentions to farrow 16 percent less sows in the Spring season of 1944 than the record number farrowed in 1943.

Cold storage facilities inadequate

Although hog marketings are extremely heavy, the lack of adequate commercial freezer space makes impossible the storing of any substantial amount of meat for use next spring when supplies are expected to be substantially less, Price Administrator Bowles indicated recently. Freezer space in public cold storage warehouses on December 1 was 89 percent occupied, as compared with only 76 percent on the corresponding date last year. This lack of storage facilities was partly responsible for the OPA's granting of 2 extra ration stamps, each worth 5 points, in the purchase of pork during the period December 21 to January 15.

Several measures have been taken, however, to increase storage facilities for the increased pork supplies. The WFA

- 7 -

has barred many items from cold storage, including evaporated, condensed, dried, and whole milk; canned fruits and vegetables; flour and cereals; and beer, wine and liquor. Moreover, effective last week, specified types of meat by-products and miscellaneous parts were excluded, or limited to 10 days occupancy in public freezer space, unless specific authorization was given. It was indicated that other action is being taken to accelerate the out-of-storage movement of butter, frozen eggs, fruits and vegetables. The ration point value of most frozen foods, it was announced last week, will be either reduced or eliminated during January. The WFA estimates that all these steps together will free approximately 10 percent of public freezer space (that held below 30 degrees).

Egg prices show noticeable weakness

With egg supplies becoming excessively heavy, noticeable weakness in egg prices was evident in the New York market last week. Sharp declines in egg prices have also been reported in several other markets in the past two weeks, although egg prices have been moving lower since the early part of November.

A sharp seasonal decline in egg prices is normal at this time, but the decline this year has been accelerated by certain abnormal factors: (1) A marked increase in egg production due to favorable weather conditions, from poultry flocks that had been sharply expanded in 1943; (2) a shortage of cold storage space, which may be more urgently needed to take care of the present surplus of fresh pork; (3) a probable disinclination of dealers to buy eggs for storage this early in the season, since prices can usually be expected to decline until early spring; (4) a cutback several months ago in the Government's dried egg program. (Statistical data on the egg situation are being assembled, to be submitted in a separate memorandum).

Industrial production maintained around peak levels

Although industrial output declined slightly in November, the drop was purely seasonal and the FRB adjusted index of production was unchanged from the record October figure of 247. (See Chart 6.) The important transportation equipment component (including aircraft and shipbuilding) continued its long upward swing to new peak levels during the month. With the exception of ammunition all major munitions groups showed gains over October and the WPB index of munitions production rose 3 percent to a new high at 665. (November 1941=100).

Counterbalancing the rise in munitions output in November, the production of steel, coal and various other products declined.

- 8 -

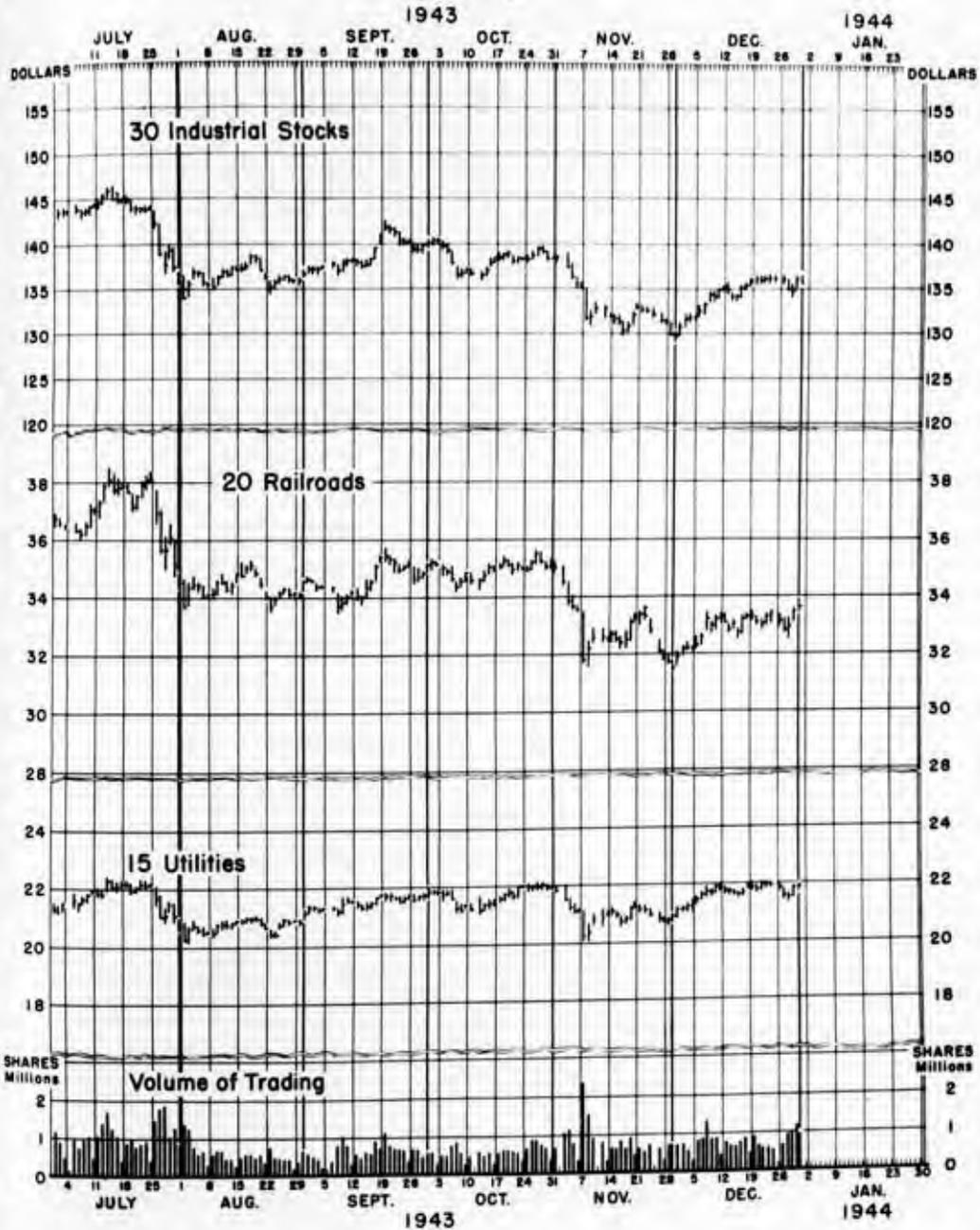
Steel operations in November dropped to 98.4 percent of capacity from 101.3 percent in October, which was the highest month on record. As a result of the Christmas holiday observance in many plants for the first time since we entered the war, steel ingot output during Christmas week was scheduled to drop 6.3 percent to 93.0 percent of capacity, although no interruption was scheduled in the capacity output of plates and sheets, which are still in heavy demand for war production. Due to the effects of the CIO steel workers' strike in the early part of last week a further drop in steel operations to 86.3 percent of capacity was scheduled for the week. The American Iron and Steel Institute has estimated that 170,000 net tons of steel were lost by last week's strike.

Further decline in construction forecast

With the great bulk of the war construction program concluded, construction contract awards continue to run far below the previous year's levels. Thus in November, total construction awards as reported by the F. W. Dodge Corporation were 72 percent below the corresponding month last year, while contracts for manufacturing buildings were 73 percent lower. (See Chart 7.) With the exception of last May, awards for factory construction last month dropped to the lowest level since June 1940. Contract awards for residential construction, as well as for public works and utilities, also showed drastic declines in November as compared with the 1942 levels.

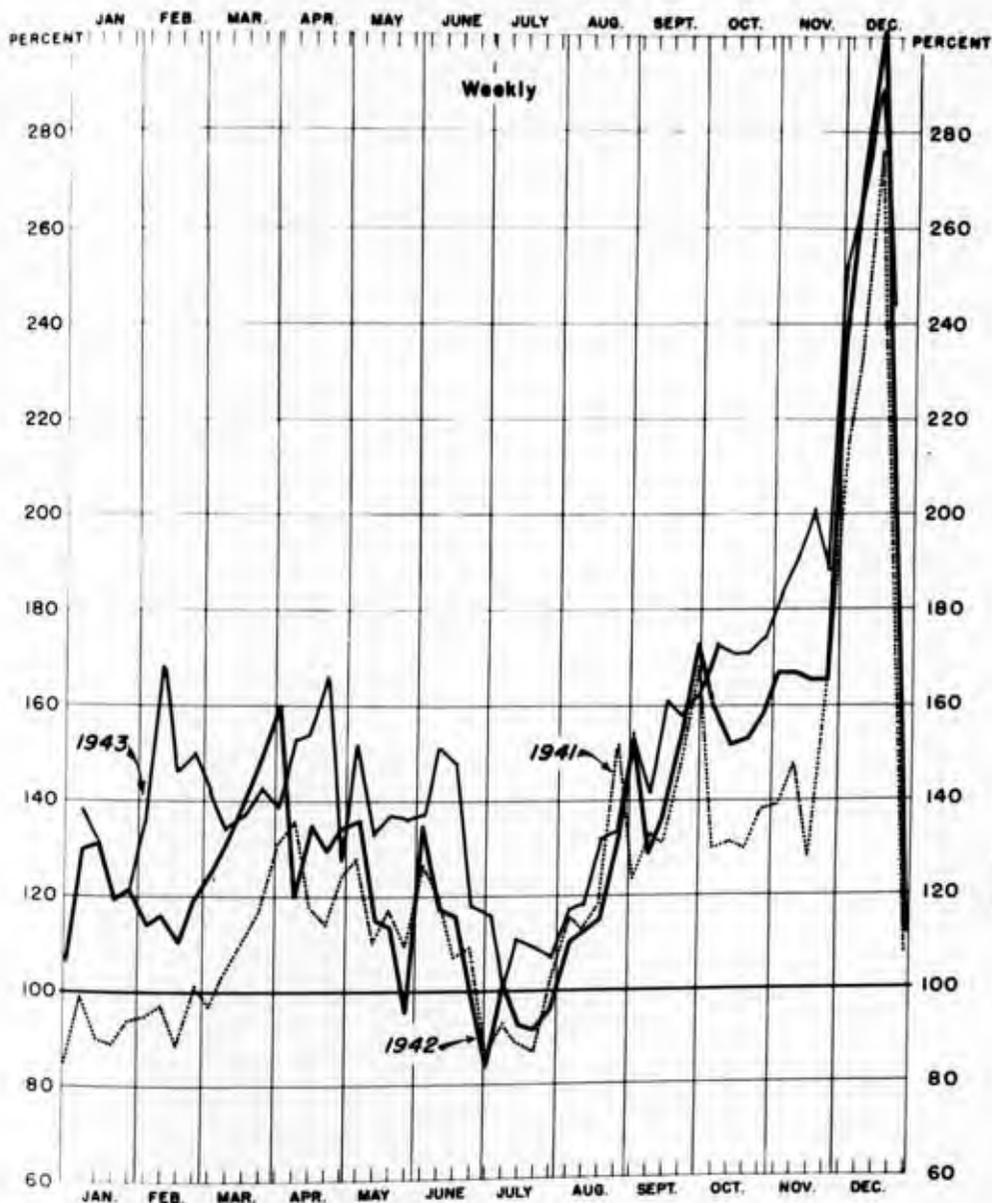
STOCK PRICES, DOW-JONES AVERAGES

Daily

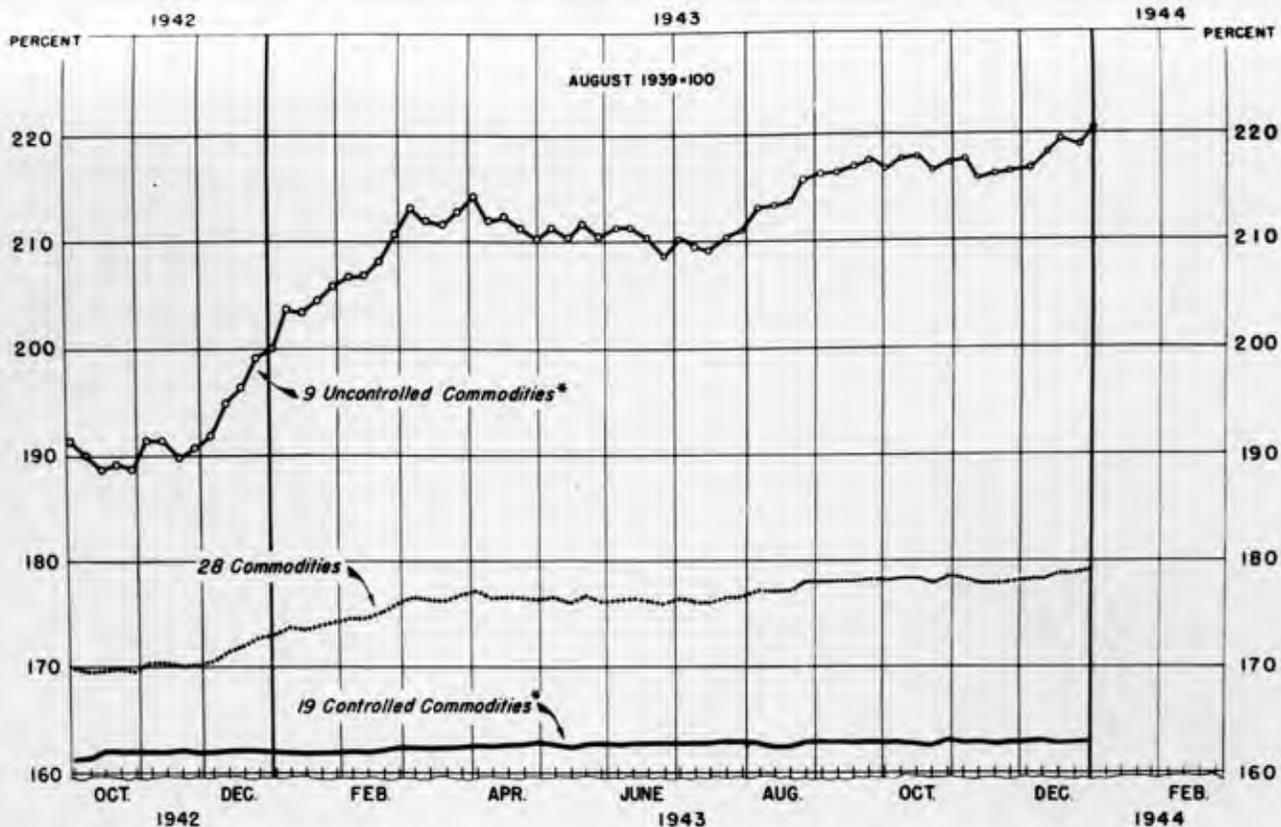


DEPARTMENT STORE SALES

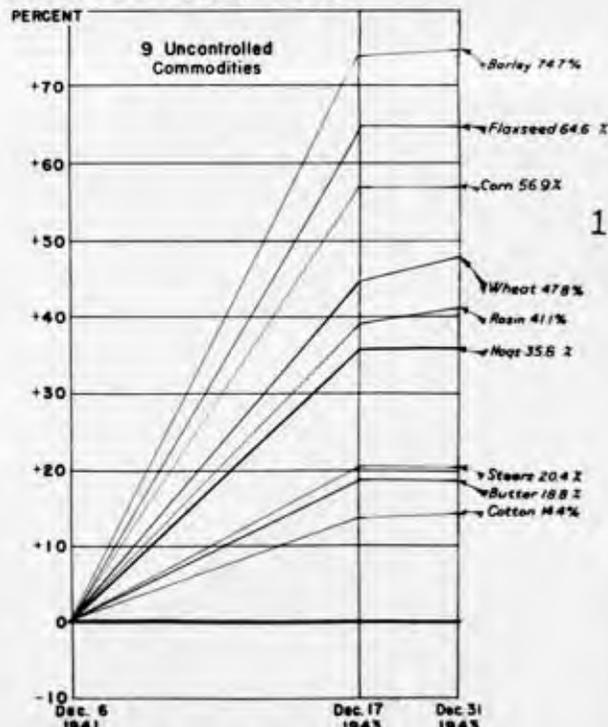
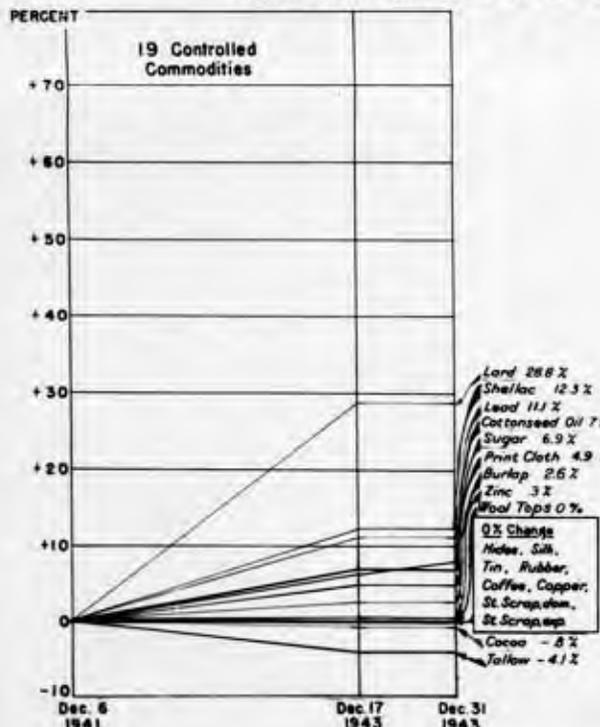
1935 - '39 = 100, Unadjusted



MOVEMENT OF BASIC COMMODITY PRICES



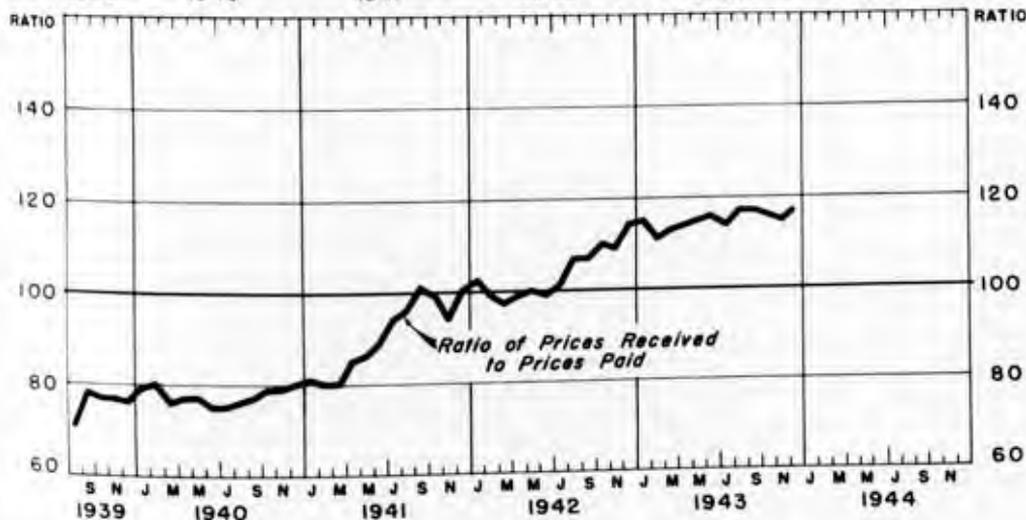
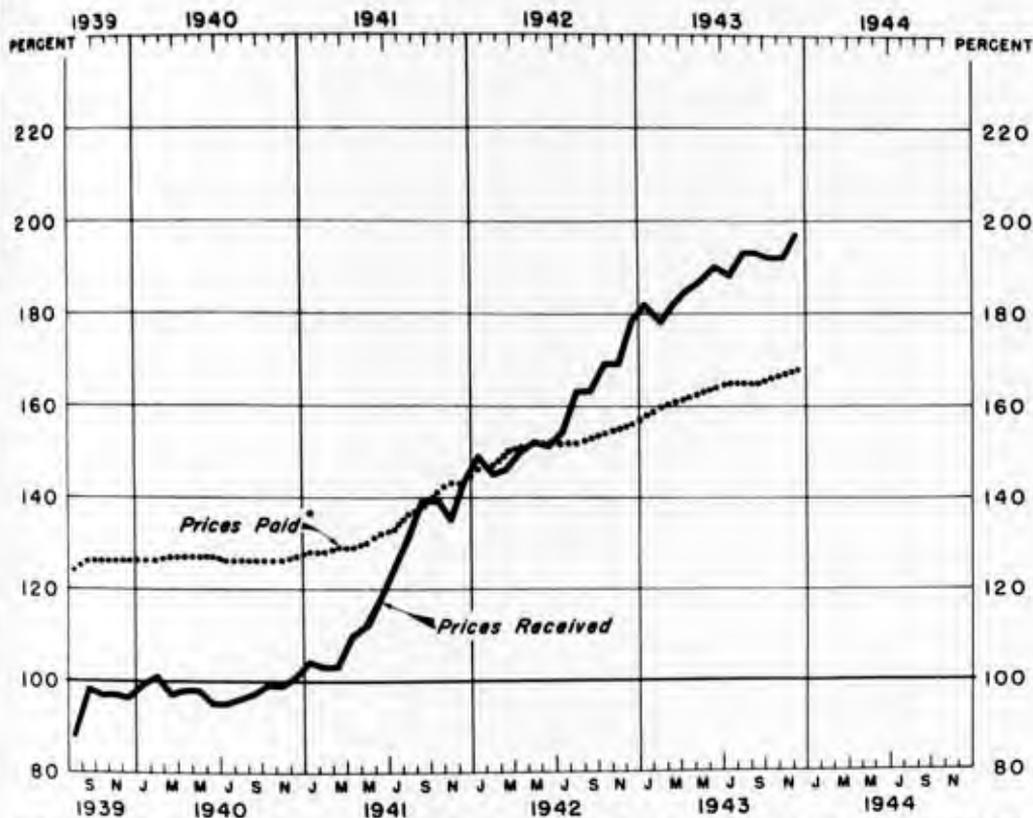
PERCENTAGE CHANGE DEC. 6, 1941 TO DEC. 17, AND DEC. 31, 1943



* 20 Controlled & Uncontrolled previous to June 26, 1942

PRICES RECEIVED AND PAID BY FARMERS*

1909-'14=100



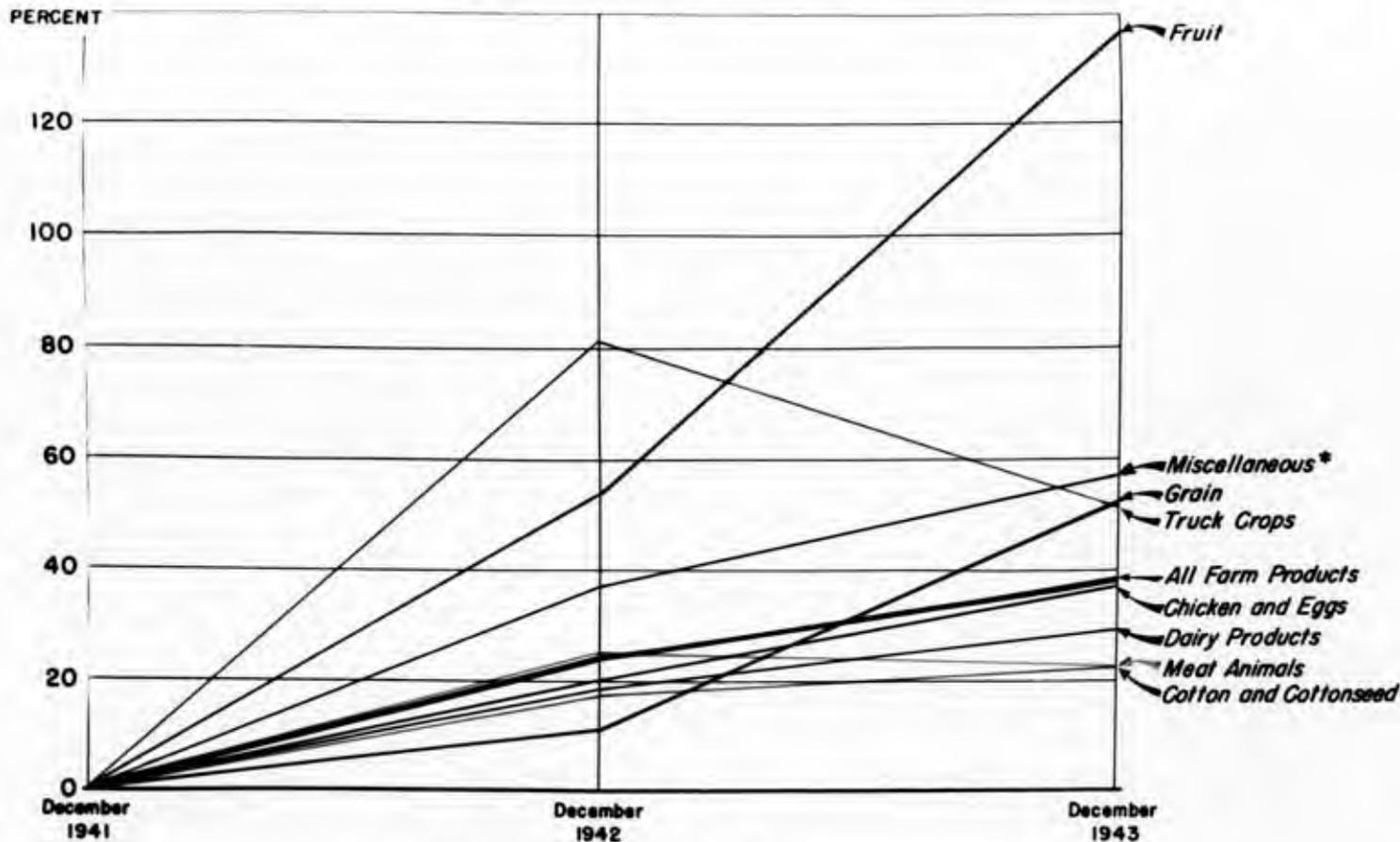
*Prices Paid, Including Interest and Taxes

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

P-252-A

FARM PRICES BY GROUPS OF PRODUCTS

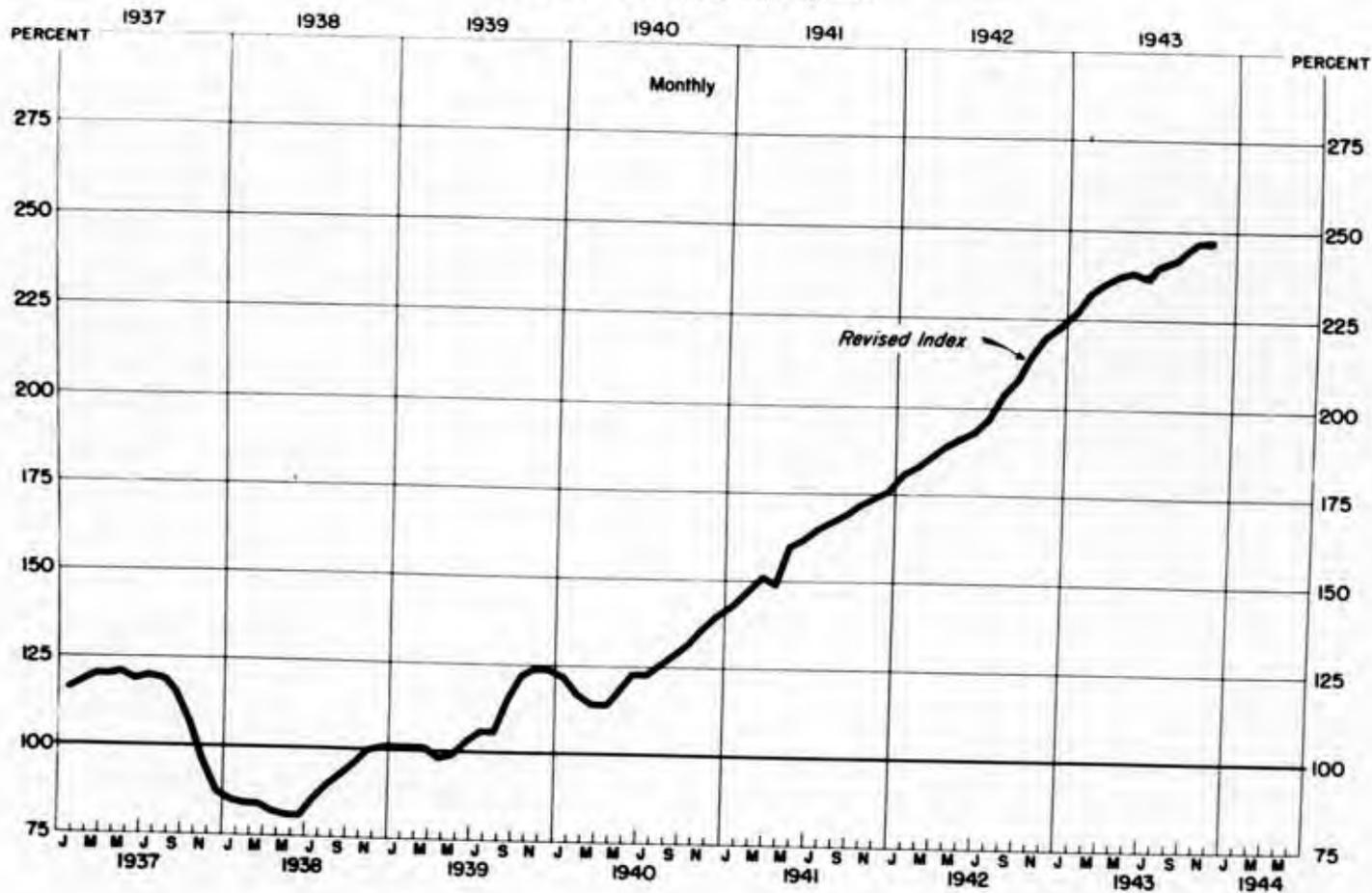
Percentage changes December 1941 to December 1942 and December 1943



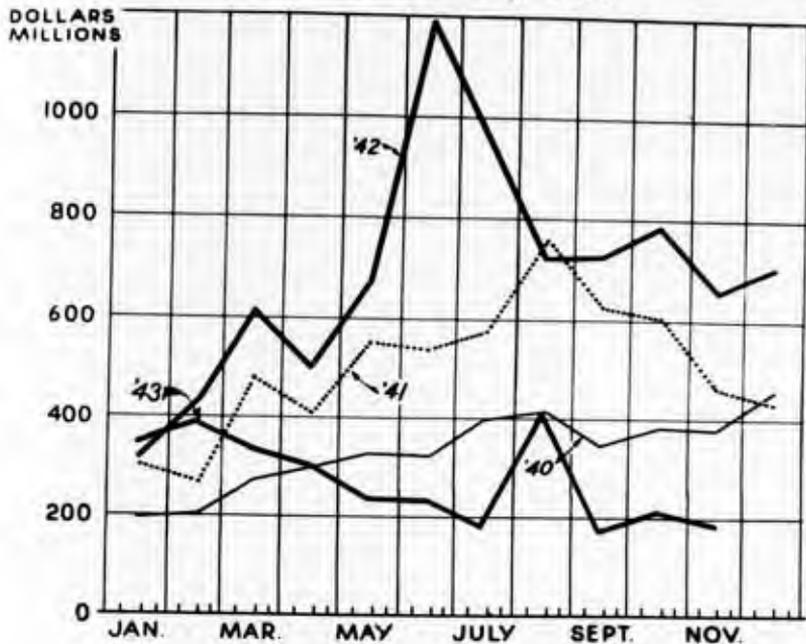
*Includes tobacco, potatoes and other products
 Source: Department of Agriculture

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

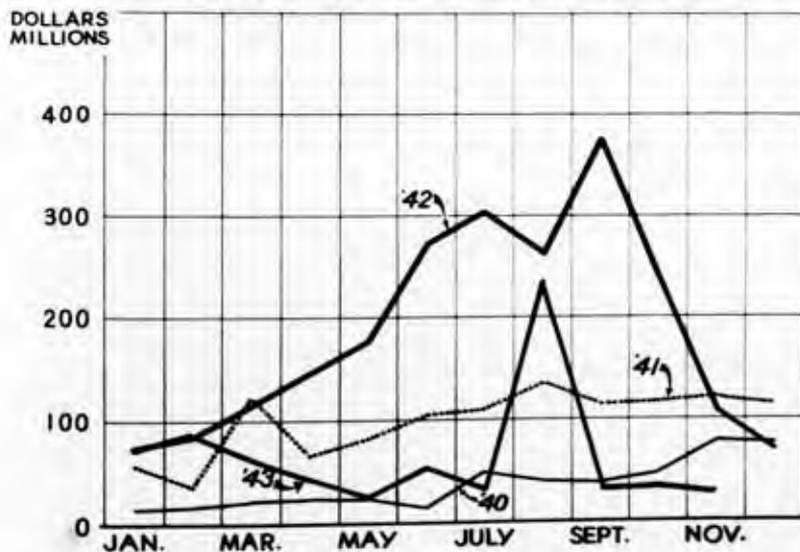
1935-'39=100, Seasonally Adjusted



TOTAL CONSTRUCTION CONTRACT AWARDS (37 States, F. W. Dodge Corp.)



MANUFACTURING BUILDINGS CONSTRUCTION CONTRACTS AWARDED



Harry White
The Secretary

January 3, 1944

I think, in view of Cordell Hull's memorandum to the President, we should make it perfectly clear in our memorandum to the President, that after he has cleared our memo on principle, we will continue to do as we have in the past, namely, discuss with the English each item that we propose to discontinue. If my memory serves me correctly, I don't think that that has been made clear in our memorandum to the President; and it should be. I should think he would be satisfied with that and wouldn't insist that we continue to keep discussing this whole question with the English and get nowhere in the future as we have during the past twelve months of continuous discussion. I spoke to Mr. Oscar Cox late yesterday afternoon and mentioned that to him. *Oscar Cox*

הסוכנות היהודית לארץ ישראל

THE JEWISH AGENCY FOR PALESTINE.

TELEPHONE: MUSEUM 3815 (4 LINES)

TELEGRAMS: "ZIONIBURO, LONDON"

CODES: BENTLEY'S AND MOSSES.

77. GREAT RUSSELL STREET.

LONDON. W.C.1

3rd January, 1944.

In reply please address the Secretary:

and quote the following Reference No.:

*Private.*Miss Henrietta Klotz,
U.S. Treasury,
WASHINGTON, D.C.

My dear Henrietta,

I attach a copy of a longish letter which I have just written to Rosenman, ^{at his request} and which I hope you and Mr. Morgenthau will read. It speaks for itself, and needs no further elaboration from me.

I would only like to add that we are trying our best under very difficult circumstances, and any help would be most welcome.

Please give Mr. Morgenthau our very best regards, and accept the same for yourself,

Yours affectionately,

A. Weizmann

Enclosures.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

JAN 3 1944

TO Secretary Morgenthau
 FROM Randolph Paul

In connection with the license recently issued to the World Jewish Congress concerning the evacuation of Jews from France and Rumania, you will be interested to know that Foreign Funds Control has just issued a license with appropriate safeguards to the American Jewish Joint Distribution Committee authorizing its representative in Switzerland to undertake the transactions necessary to arrange for the evacuation of persons in France whose lives are in imminent danger and to sustain and safeguard their lives pending possible evacuation. Some of these transactions had already been authorized by the Treasury but no formal license had been issued. Following the precedent of the license issued at State's direction in the World Jewish Congress case, the financial transactions under the license are to be checked with the Legation only to the extent "feasible."

We have been advised that the license will be used immediately to bring relief to several thousand homeless and abandoned children in France. Recent reports received by the JDC indicate that the plight of these children is extremely serious and that funds are needed at once if they are to be saved. In view of this, we have authorized the JDC to make an initial remittance of \$200,000 to Switzerland, in order to commence operations under the program. It is contemplated, however, that at least \$200,000 will be needed during the next six months.

In view of the urgency of the situation and in order to avoid undue delays, the necessary licenses were issued here in Washington without clearance with State and the British. State, has of course, been requested to cable the text of the basic license to Bern for the information of our Legation and Saly Mayer, the JDC representative in Switzerland. We have also suggested that the Legation in Bern be requested to take reasonable steps to facilitate operations under the license and to report promptly the progress being made and any difficulties encountered.

AIRGRAM

CONFIDENTIAL

No. A-12

Time: 6:40 p.m.

EMBASSY,

January 3, 1944

LONDON.

With reference assistance to refugees on Island of Rab your 7682 November 4 following is quoted from letter received from Joint Chiefs of Staff dated December 15, 1943 quote:

The Commanding General, North African Theater of Operations, has been consulted with regard to this matter and, pursuant to his recommendation, it has been determined that the military situation does not permit the military authorities to render any direct assistance to these refugees at this time.

The Theater Commander has reported that supplies and facilities for displaced persons in Italy are already overstrained, and that demands for these items should, if possible, be reduced. Aside from the fact that operational needs do not permit the rendition of assistance to these refugees, it is considered that to take such action might create a precedent which would lead to other demands and an influx

-2- No. A-12 to London, Jan. 3, 1944.

an influx of additional refugees for the care of whom the military authorities would be unable to provide facilities and supplies. Although recommending that no direct assistance or funds be provided, the Theater Commander states that he will continue, as in the past, to care for any refugees who should be able to reach Italy as a result of their own efforts.

Our latest information is that the refugees on the Island of Rab, together with those at Otocac in Northwest Croatia, total approximately 1,500, and that the majority of these refugees are Jews unquote.

Since receipt of letter in reference Department has official information Germans now hold Rab.

Please transmit such portions of the above communication as you may deem appropriate to the Directorate of the Intergovernmental Committee and if the present information of the Committee suggests means of aiding these refugees Department should be informed.

IRLL

GMB

040.48 Refugees/4735

VD:EV:PDGM:HWG:RUC:RG:amn
12/27/43

Eu

CI/L
Ir. Fell

A-L

A-1/L

BJR

COPY

PLAIN

London

Dated November 4, 1943

Rec'd 11:38 p.m.

Secretary of State,
Washington.

7682, Fourth

Upon receipt of Department's airgram A-1391, October 12th regarding refugees on the Adriatic island of Rab, the Embassy communicated its contents to the Director of the Intergovernmental Committee on Refugees for the executive committee and has received from him under date of November 2nd the following communication in which he suggests certain action by the Department; "Would you kindly refer to your letter of the 22nd October 1943 in which you transmitted a telegram which the Department of State had received from Dr. Goldman of the World Jewish Congress regarding the situation of certain Jewish refugees on the island of Rab off the Dalmatian coast. We at once got into touch with the World Jewish Congress here, and ascertained that the information on which Dr. Goldman's telegram was based related to the position several months ago. They promised to supply us with further information.

Meantime, I have received this morning from Professor Brodetsky of the Jewish Board of Deputies a copy of a letter sent to him by an Army Chaplain now in Italy who has been in touch with Yugoslavian refugees in the Bari camp. The letter of the Chaplain is dated 8th October 1943. At that time, according to his information, nearly 3,000 Yugoslavian Jews were on the island, their position being precarious since the island has changed hands several times, but he suggested that their safety could be ensured by their evacuation and concentration in the existing refugee camp at Bari. He further suggested that failing direct help the refugees might be able to hire Italian boats to bring them to safety if they had the necessary funds.

Although the situation may have materially changed since the Army Chaplain wrote his letter, there does seem

- 2 -

some chance that the military authorities in Italy might be able to afford some assistance. Malin and I have considered very carefully what action is possible and we suggest that a cable should be sent to the State Department on the following lines: (One) if there are refugees still on the island, the appropriate military authorities in North Africa or Italy be invited to consider whether there are any practical means of helping them. (Two) We recognize that direct supply of transport would involve military considerations about which we are not in a position to express any opinion. (Three) Failing direct assistance, however, it might be practicable to convey money to the refugees, leaving it to them to make the best arrangements they could for their escape. (Four) Those who did reach the mainland could be kept in the Bari or some other camp pending security and other arrangements. (Five) The cost of transport or the money to be advanced is likely to be comparatively small. If the Intergovernmental Committee had to provide it, this would involve previous consultation with the Governments of the United Kingdom and the United States of America. This, however, might not be necessary as the joint distribution committee or other Jewish organizations might, and probably would be willing to supply the necessary funds. In any case, Malin and I consider that the question of ultimate finance should not delay any immediate action that may be possible.

On the same ground of urgency, we are putting forward our suggestions in anticipation of the approval of the executive committee.

We suggest that the Department of State be asked to make the necessary approach to the appropriate military authorities.

I may add that I have mentioned to Randall that we proposed to make suggestions contained in this letter, and that he saw no objection.

I shall be seeing Lord Winterton this afternoon, and shall report the matter to him also".

WINANT

EMB

COPYAIRGRAMNo. A 1391

Clear

Time 6:00 p.m.

October 12, 1943

AMEMBASSY,
LONDON.

Department has received following telegram from Dr. Goldman, World Jewish Congress:

QUOTE Am being informed from London that 4000 Jewish refugees and Yugoslavs recently in internments camps Yugoslavia have been freed by Yugoslav partisans and removed to Adriatic island of Rab. Understand food and medical supplies urgently needed as island suffers serious shortage. In view of possibility island being recaptured by Germans most desirable remove refugees soon as possible to safer area. Southern Italy Sicily or North Africa. May I respectfully request to bring this matter to the attention of authorities North Africa and Sicily asking them to take necessary steps. UNQUOTE.

Please refer to Executive Committee of the Intergovernmental Committee and if you deem it advisable transmit it to Murphy for Eisenhower.

HULL

840.48 Refugees/

VD:RWG:OMA:RS 10/9/43 Eu CI/L A-L
Mr. Pell

Treasury Department 208
Division of Monetary Research

Date Jan. 3, 1944 19

To: Secretary Morgenthau

How do you like this one?

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Representative, Algiers, Algeria

DATE: December 23, 1945, 10 p.m.

NO.: 242

The Commissioner for Foreign Affairs informs me, in a note of December 20, that the French Committee of National Liberation has designated Couve de Murville, formerly Commissioner for Finance and Inspector of Finance, to undertake international negotiations with regard to financial and monetary matters in connection both with the conduct of the war and with the postwar settlement. He will soon proceed via London to Washington to assist Monnet and the French Delegation, although there is no alteration in the character of Monnet's mission.

WILSON

TREASURY DEPARTMENT
DIVISION OF MONETARY RESEARCH
JAN 9 1946
RECEIVED

PARAPHRASE OF TELEGRAM SENT
TO: AMERICAN EMBASSY, CHUNGKING, CHINA
DATE: January 3, 1944, 11 p.m.
NO.: 15

FOR ADLER FROM THE SECRETARY OF THE TREASURY.

1. Dr. Kung, in cable dated November 25, 1943, addressed to Secretary Morgenthau and left by Ambassador Wei with Secretary Morgenthau on November 30, regarding termination of 1941 Agreement, requested, QUOTE that, if agreeable to the U. S. Government, the Treasury's General Licenses such as No. 75, be amended appropriately. END QUOTE.

2. Treasury is giving consideration to necessary changes in Foreign Funds Control documents resulting from dissolution of Stabilization Board. Treasury suggests that:

(a) functions of Stabilization Board under General Licenses Nos. 58 and 75 be assumed by Central Bank of China, or Commission for Control of Foreign Exchange Assets, or other appropriate Chinese institution and that Foreign Funds documents be amended accordingly;

-2-

(b) in those cases wherein Treasury would have consulted with Stabilization Board before granting licenses, it will now consult with appropriate Chinese institution through Treasury representative in China;

(c) in its licensing policy here, Treasury would follow a more liberal policy in cases where special arrangements to overcome difficulties arising out of exchange rate have been made by private Americans for relief, charitable, and religious organizations, news correspondents, and other individuals or groups.

3. Treasury would be pleased to receive your comments and views on above proposals, including answer to the following questions:

If appropriate Chinese institution is consulted by the Treasury as was the Stabilization Board, is it likely to take a stiff attitude against approving transactions which involve Americans making special arrangements to overcome official exchange rate?

HULL
(FL)

January 3, 1948 ✓

My dear Cordell:

This is to acknowledge receipt of your letter of January 1st enclosing a paraphrased copy of Ambassador Harriman's comments on developments in the Soviet Union as interpreted through articles appearing in the Soviet press. I have read this with a great deal of interest, and wish to thank you very much for sending it to me. I shall look forward to receiving future copies.

Sincerely yours,

(Signed) Henry

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



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EU 861.9111/457

January 1, 1944

Confidential

My dear Mr. Secretary:

I am enclosing for your information a paraphrased copy of Ambassador Harriman's comments dated December 14 on developments in and respecting the Soviet Union as interpreted through articles appearing in the Soviet press.

Ambassador Harriman is inaugurating with this cable a monthly report interpreting and commenting on the more important developments in Soviet policy as reflected by editorials and leading articles in the Soviet press. As the Ambassador remarks, Government opinions and policies in the Soviet Union are developed and explained to the people principally through the medium of the press.

I believe that these monthly reports will provide valuable confidential information on the Soviet Union. In the future I will send them to you periodically under cover of a simple memorandum.

Sincerely yours,

Cordell Hull

Enclosure:

Paraphrase of telegram
no. 2214, December 14,
1943, from Moscow.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



Department of State

214

BUREAU
DIVISION

EU

ENCLOSURE

TO

Letter drafted 12-27-43

ADDRESSED TO

Mr. Henry Morgenthau,
Jr.

U. S. GOVERNMENT PRINTING OFFICE 1-1953

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, MOSCOW.
TO: Secretary of State, Washington.
DATED: December 14, 1 p.m., 1943.
NO. 2214

Paraphrase of Telegram From Moscow Containing Ambassador Harriman's Interpretative Comment Upon Developments In and Respecting the Soviet Union as Reflected in the Soviet Press

The revolutionary change in attitude of the Soviet Government toward the United States and Great Britain is revealed in the Soviet press.

The favorite headline on Tehran was "Historic decisions". Stalin, in effect, has proclaimed that the Soviet Union has strong fast allies; that the three nations accept one another in war and in the peace to follow as equal partners.

Although this was not put in so many words, it was clear by implication.

General satisfaction, even enthusiasm, followed the Moscow Conference. However, there was also a note of caution. The authoritative "War and the Working Class" of November 15 stated in blunt words that the significance of the conference would depend on the speed and tempo with which Russia's allies carried out the military decisions. The allied air offensive against Germany and the allied military effort in general were given unusual credit, but the fact was well stressed that Russia was bearing the brunt of the war.

However, the press reaction to the Tehran Conference contained no reservations and no note of caution.

The fact that steps had been taken to shorten the war was taken for granted. After the Moscow Conference this was a hope. It has become a certainty now.

Editorial

-2-

Editorial approval, which was wholehearted, was embroidered with accounts of meetings at collective farms and in factories at which Stalin was hailed as the one who, having left the country for the first time since the revolution, had brought home to the people great benefits—recognition of the Soviet Union as a world power of first importance, the new understanding with the United States and Great Britain to end the war quickly, and above all assurance of a secure future in a world friendly to the Soviet Union. Party members, in return, exhorted workers and peasants at organized meetings to give Stalin more production from factory and farm. The new association with the United States and Great Britain has thus been woven into the fabric of people's consciousness as one of the Soviet Government's basic policies.

As evidence of the importance the Soviet Government attaches to the job of selling its people this policy is the fact that these meetings were organized. The highest official seal of approval is given this policy by the fact that Stalin is hailed publicly as the father of it. The Soviet attitude towards individual European problems, on the other hand, has not up to the present been modified by the genuine enthusiasm for the new unity between the Allies.

Other principal points of Soviet Government policy stressed in the press during the month of November are as follows:

One. "Izvestia" bluntly stated the Soviet opposition to federations in eastern Europe.

Two. The frontiers of 1941 continue to be regarded by the Soviet Government as a closed issue which the Red Army alone guarantees.

Three. Emphasis was placed on the implementation of the Moscow Declaration on Italy as the most important immediate political task, thus justifying the appointment on the Advisory Council on Italy of Vyshinski, senior Vice Commissar for Foreign Affairs, as the Soviet representative. The fact that the Soviet Government considers the right of the communist parties to function freely an integral part of the establishment of democracy in postwar Europe was shown by articles in the press.

Four.

-3-

Four. Neutral states were reminded by the press of the service their neutrality was rendering to the enemy, but during the latter part of November the strong emphasis which had been placed on Turkey's entry into the war after the Moscow Conference was not followed up.

Five. In the press and in special lectures Finland was treated as a full fledged vassal of Germany whose rulers should share equally with the Nazis the fate which was impending.

Six. The Polish divisions operating with the Red Army received much favorable publicity, but the criticism of the Polish Government in exile continued.

Seven. As a follow up to the inclusion of China in the Four Nation Declaration, events in the Far East have been given more attention by the press than in previous months and the conviction that Japan was doomed to overwhelming defeat has been revealed more clearly than heretofore with thinly disguised satisfaction.

Eight. Evidences of German atrocities against inhabitants of liberated areas were widely publicized in the Soviet press, but no comment was given to the Free German Committee.

Nine. Greater attention was given than previously to the role of the party in the war effort. The press revealed that of the total 4,600,000 members 1,200,000 members had been added to the party since 1940.

Ten. The intention of the Soviet Government to recognize religion as a factor in national life is demonstrated further by the publicity given to letters to Stalin on his anniversary speech from leaders of all religions.

Eleven. Patriotism and the development of national spirit in which socialism has become merely one aspect of Soviet life continued to be the dominating theme on the home front. In his November six speech on the anniversary of the revolution Stalin warned that despite victories, complacency or slackening of effort would be a crime against the country. This warning was used to arouse all people to greater effort and as a spur to production in industry and agriculture.

HARRIMAN

NOT TO BE RE-TRANSMITTEDCOPY NO. 12BRITISH MOST SECRET
U.S. SECRETOPTEL No. 3

Information received up to 10 a.m., 3rd January, 1944.

1. MILITARY

ITALY. 8th Army. Intense cold and bad weather continue to hamper operations. Fighting continues northwest of ORTONA.

5th Army. Snow and high winds restricted operations to patrolling.

2. AIR OPERATIONS

WESTERN FRONT. 1st/2nd. BERLIN. 704 tons H.E. and 553 tons incendiaries dropped including 338 4,000 pound bombs. Owing to cloud ground marker bombs could not be seen and crews used sky marker flares for bombing. No assessment of results possible but glow of fires seen. Strong heavy A/A but fighters not particularly active.

2nd. 44 escorted Mosquitoes and 14 Typhoons attacked military constructions in Northern FRANCE with good results. 1 fighter missing. Other Typhoons scored 4, 0, 1, without loss over FRANCE and BELGIUM.

2nd/3rd. 452 aircraft despatched: BERLIN 383, DOISBURG 8 Mosquitoes, Military constructions, CHERBOURG area 3 Mosquitoes, Mine-laying 26, Leaflets 30, Intruders 2. Owing to late landings no details BERLIN raid yet available.

20 enemy aircraft operated over S.E. ENGLAND, 6 of them penetrating LONDON area. Night fighters destroyed 3 and A/A claim a 4th. Some bombs in outer suburbs South LONDON caused some damage. Only one fatal casualty reported.

TREASURY DEPARTMENT

Regraded Unclassified