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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 26, 1944

TO Mr. Gaston
FROM Mr. Shaeffer

A consensus of leading newspaper men reveals the following facts which are not pleasant:

Capitol Hill is almost unanimous in believing that Secretary Morgenthau is incompetent and knows virtually nothing about Government financing, particularly in these perilous times. They believe, according to this consensus, that he leaves policy-making to his subordinate officers who are not mature enough to advance able judgment. As a result, the Secretary is all too frequently the victim of bad advice which he, innocently, passes along to President Roosevelt.

It appears that proposed legislation to divorce the Bureau of Internal Revenue from the Treasury Department is serious. Capitol Hill regards the Bureau's technicians as reliable and competent, in contrast to their estimates of Treasury experts, and Chairman Doughton was quoted as declaring that he was unable to obtain either information or advice from the Treasury that he could use in formulating legislation.

My information is that the Hill is virtually unanimous in believing that Randolph Paul was responsible for President Roosevelt's veto message. Unhappily, it would appear that most place this blame on Secretary Morgenthau because Paul is General Counsel for the Department and its tax expert, and they cannot conceive of a schism between the Secretary of the Treasury and a subordinate.

Definitely, Paul's prestige on Capitol Hill is a thing of the past; and that of Secretary Morgenthau is fading rapidly.

There might be one solution to the situation. It is this: Could the Secretary be prevailed upon to

- 2 -

visit Chairman Doughton, flatter him a bit, and remark casually sometime during the conversation that the President had overruled the Secretary of the Treasury as well as the Chairman of the House Ways and Means Committee?

You will please believe that while Randolph Paul and I have never "clicked" always, no personal animus enters into this report. You asked me for a fair summation and I have given it to you to the best of my ability.

(Orally: None of the above applies to Stanley Surrey.)

CLASS OF SERVICE

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WESTERN UNION

1220

SYMBOLS

DL = Day Letter
NL = Night Letter
LC = Deferred Cable
NLT = Cable Night Letter
Ship Radiogram

R. B. WHITE
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

The filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

MPJ117 DL=WUX NEWYORK NY FEB 26 456P

HONORABLE HENRY MORGENTHAU JR=

BOCAGRANDE HOTEL BOCAGRANDE FLO=

FOLLOWING ARE CORRECTIONS FOR RADIO SCRIPT. IN LAST SPEECH FIRST PARAGRAPH DELET WORDS QUITE THERE WERE NO LARGE BLOCKS OF BONDS TO BE SOLD TO BANKS IN THIS DRIVE. OTHER UNQUOTE FOLLOWING THE AMERICAN PEOPLE ANSWERED THE CALL OF THE FOURTH WAR LOAN DRIVE NOT WITH FOURTEEN BILLION DOLLARS BUT WITH BLANK MILLION DOLLARS. AD FOLLOWING AND HERE IS A MOST SIGNIFICANT FACT. THAT FIGURE DOES NOT INCLUDE THE BOND SALES MADE TO BANKS DURING THE DRIVE. FOLLOWING NEXT SPECH WHICH ENDS ALL INALL THE AMERICAN PEOPLE RESPONDED TO THE FOURTH LOAN DRIVE BETTER THAN EVER BEFORE UNQUOTES ADD THIS NEW CLOSING THE CREDIT GOES TO EVERY AMERICAN WHO SOLD A BOND. TO EVERY AMERICAN WHO BOUGHT A BOND. I WOULD PERSONALLY LIKE TO THANK EVERY INDIVIDUAL WORKER. EACH COUNTY CHAIRMAN AND EACH STATE CHAIRMAN FOR THE SPLENDID JOB YOU HAVE DONE. I ALSO WISH TO THANK A MAN WHO DESERVES PARTICULAR RECOGNITION. THE NATIONAL DIRECTOR OF THE WAR FINANCE PROGRAM. MR TED R GAMBLE AMERICANS YOU ALL HAVE DONE A SPLENDID JOB. HAND IN HAND. WE HAVE WON A MAJOR BATTLE HERE ON THE HOME FRONT . NOW=

END ONE

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

WESTERN UNION

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SYMBOLS	
DL	Day Letter
NL	Night Letter
LC	Deferred Cable
NLT	Cable Night Letter
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MPJ117 2=

THAT THE OBJECTIVE OF THE FOURTH WAR LOAN DRIVE HAS BEEN REACHED. IT IS UP TO US TO CARRY ON, DOING THE SAME KIND OF GOOD WORK. WE MUST KEEP FIGHTING OVER HERE, JUST AS OUR BOYS KEEP FIGHTING OVER THERE. WE MUST KEEP BUYING WAR BONDS, MORE AND MORE WAR BONDS, BETWEEN WAR LOAN DRIVES. WE MUST CONTINUE TO BACK THE ATTACK. END OF SCRIPT. AFTER CHECKING, I SUGGEST BEST WOMAN TO APPEAR ON SHOW MRS ELEANORE HELLER VOLUNTEER WORKER OF BOSTON MASSACHUSETTS WHO HAS DONE OUTSTANDING JOB OF ORGANIZING SCHOOLS OF MASSACHUSETTS DURING DRIVE. HER SPOT WOULD FOLLOW BENNO FROM NORTH DAKOTA. I WILL CALL HER AND ARRANGE TENTATIVE DETAILS AND WIRE HER PORTION OF SCRIPT AFTER TALKING TO HER. I CAN BE REACHED THROUGH WALDORF ASTORIA NYC= STAFF SGT PAUL DUDLEY,

(535)

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

SEC. MORGENTHAU -

AMERICAN MOTHERS TOOK TIME FROM THEIR HOUSEHOLD DUTIES .. FATHERS CAME HOME FROM WORK, TOOK TIME ONLY TO EAT THEIR EVENING MEAL, AND WENT OUT TO WORK THRU THE NIGHT ON THE FOURTH WAR LOAN DRIVE .. THE BOYS AND GIRLS DID THEIR GREAT SHARE. IN EVERY STATE .. IN EVERY COUNTY .. IN EVERY CITY, TOWN, VILLAGE .. ON EVERY HIGHWAY AND ALONG EVERY BYPAT H.

THE BUTCHER, THE BAKER AND THE CANDLESTICK-MAKER BECAME SALESMEN, SELLING FREEDOM'S GREATEST BARGAIN.

THE FOURTH WAR LOAN DRIVE WAS ON ITS WAY .. THE FIVE MILLION PATRIOTS WERE AN ALL-AMERICAN TEAM .. PATRIOTS FROM ALL WALKS OF LIFE. THE WORKER ON XXXX IN THE FACTORY ... THE FARMER IN THE FIELD.

BENNO -

MY NAME IS ZXXX ARTHUR W. BENNO. I AM SPEAKING FROM MY HOME HERE IN AFTON TOWNSHIP, NORTH DAKOTA. I AM A FARMER, YES, AND A PRETTY GOOD BOND SALESMAN TOO. I HOMESTEADED OUT HERE MORE THAN FIFTY YEARS AGO. BEEN HERE EVER SINCE. WE HAVE A HUNDRED AND SEVENTY FIVE PEOPLE IN OUR TOWNSHIP .. EIGHTY-FIVE FAMILIES .. ALXXXXX EIGHTY - FIVE FAMILIES .. ALL FARMERS. AND DURING THE FOURTH WAR LOAN DRIVE, I CALLED ON 'EM ALL, TOLD 'EM ABOUT BONDS AND WHY THEY'D BETTER BE PUTTING THEIR MONEY INTO THE WAR. THEY KNEW WHAT I WAS TALKING ABOUT BECAUSE MOST OF 'EM HAVE SONS IN THE FIGHT. BOYS THAT USED TO BE AROUND HERE .. AND NOW LORD KNOWS WHERE THEY ARE. THAT'S WHY THESE PEOPLE IN MY TOWNSHIP CAME THRU WITH AN AVERAGE OF SEVENTY-SEVEN DOLLARS AND SEVENTY-ONE CENTS EACH .. THIRTEEN THOUSAND, SIX HUNDRED DOLLARS IN ALL. BUT EVERYONE OUT HERE CAME THRU. NOT JUST THE FOLKS IN AFTON TOWNSHIP. NORTH DAKOTA MADE ONE HUNDRED AND SIXTY PERCENT OF ITS "E" BOND QUOTA. AND WE,LL DO EVEN BETTER NEXT TIME.

SEC. MORGENTHAU -
- OVER MUSIC -

A DETERMINED MAN DISCOVERED AMERICA. DETERMINED MEN BUILT AMERICA. DETERMINATION IS BORN IN OUR BLOOD. AND, DURING THE FOURTEEN BILLION DOLLAR FOURTH WAR LOAN DRIVE, FIVE MILLION PATRIOTS DETERMINED TO SELL THREE AND A HALF BILLION DOLLARS WORTH OF "E" BONDS .. TO THE PEOPLE .. TO THE MAN IN THE STREET .. TO THE WORKER IN THE FACTORY, THREE AND A HALF BILLION DOLLARS WORTH .. AN AVERAGE OF THIRTY DOLLARS WORTH FOR EVERY ONE OF THE HUNDRED AND THIRTY MILLION MEN, WOMEN AND CHILDREN IN OUR LAND.

AND THOSE ARE "EXTRA" BONDS I'M TALKING ABOUT .. OVER AND ABOVE THE BONDS BOUGHT ON REGULAR SCHEDULE ..

MAETSKI

MR SECRETARY, MY NAME IS KARL MAETSKI. I LIVE HERE IN INDIANAPOLIS AND WORK IN A WAR P

ANT. I MAKE AIRPLANE PARTS FOR A LIVING. BUT SINCE PEARL HARBOR, I HAVE SPENT ALL MY SPARE TIME WORKING WITH A CREW OF ONE HUNDRED MEN ON PATROLL SAVINGS. WE HAVE SEVEN HUNDRED FIRMS THAT WE COVER. SOME OF THEM HAVE TWENTY-FIVE EMP

... SOME HAVE AS MANY AS TWENTY-FIVE THOUSAND. ALL TOLD THERE ABOUT NINETY THOUSAND PEOPLE IN THESE PLANTS. THESE PLANTS HAVE ESTABLISHED A FINE PAYROLL RECORD-- OVER TEN PERCENT. AND DURING THE FOURTH WAR LOAN DRIVE, THEY INVESTED NINE MILLION, TWO HUNDRED THOUSAND DOLLARS IN EXTRA WAR BONDS - OVER AND ABOVE THEIR REGUAXXREGULAR PAYROLL SAVINGS BONDS. PRETTY GOOD, ISNT IT.

2-26-44

THIS IS FT MYERS 188 GA PLS
NY CLG ON CONF HOLD LINE PLS

WA RDY OK WA M
RDY WITH CONF OK PLS ANN
THIS IS FT MYERS 188 GA PLS
GA WASH
THIS IS WA 195 GA PLS

5

SECRET SVCE NY MCGRATH

THIS MESSAGE TO BE DELIVERED TO SECRETARY MORGENTHAU AT BOCA GRANDE HOTEL BOCA GRANDE FLORIDA. THE WASHINGTON OFFICE WILL DELIVER THEIR COPY TO THE OFFICE OF ASST SECRETARY OF THE TREASURY FRED SMITH TOMORROW MORNING.

*.182

XXX

"FIVE MILLION PATRIOTS"

SEC. MORGENTHAU -

THIS IS HENRY MORGENTHAU, JR. YESTERDAY, IN MY OFFICE IN WASHINGTON, I SAW THE FINAL FIGURES ON THE FOURTH WAR LOAN DRIVE. WE HAVE HEARD NOW FROM ALL SIXTY THOUSAND OF OUR BOND OUTLETS. ALL THE STATE COMMITTEES AND BANKS AND FACTORIES AND RETAIL STORES AND MOVIE THEATRES HAVE REPORTED - AND I CAN TELL YOU THAT THE RESULTS ARE MOST GRATIFYING.

I WANT TO TELL YOU ABOUT THOSE FINAL FIGURES. IN THIS "REPORT TO THE PEOPLE", I WANT TO TELL YOU THE STORY OF THE GREATEST OF ALL WAR LOAN DRIVES. THE FOURTH WAR LOAN DRIVE TOLD ONE HUNDRED AND THIRTY MILLION AMERICANS THEY HAD A JOB TO DO. PEOPLE AT WORK .. PEOPLE AT HOME .. PEOPLE AT WAR .. ALL WERE CALLED UPON TO DO THEIR SHARE.

WHEN AMERICANS PICKED UP THEIR NEWSPAPERS, THEY READ ABOUT THE FOURTH WAR LOAN DRIVE. WHEN THEY TURNED ON THEIR RADIOS, THEY HEARD ABOUT IT. ON THEIR WAY TO WORK, THEY WERE REMINDED OF IT BY SIGNPOSTS AND BILLBOARDS. THE STORY CAME TO OUR DOORSTEPS, WAS TOLD AT BOND-BOOTHES AND RETAIL STORES.

AND FIVE MILLION PATRIOTS UNDERTOOK THE TREMENDOUS TASK OF SELLING FOURTEEN BILLION DOLLARS WORTH OF BONDS.

MUSIC - DRAMA HERE TELLS STORY OF VOLUNTEERS AND PICTURES THE EXCITEMENT OF THE DRIVE. THREE MINUTES.

IT CERTAINLY IS, DID THE REST OF INDIANA DO AS WELL AS YOU DID IN YOUR SEVEN HUNDRED FIRMS.

MAETSCKI-

SURE DID, MR SECRETARY, LABOR AND MANEFEMENT ALL OVER INDIANA AND ALL OVER AMERICA,

FOR THAT MATTER, BACKED THE ATTACK IN THE FOURTH WAR LOAN DRIVE WITH ALL THE ENERGY THEY COULD MUSTER. THE WORKERS IN INDIANA, S PLANTS BOUGHT A HUNDRED MILLION DOLLARS WORTH OF EXTRA BONDS DURING THE DRIVE. AND NOT ONLY THAT BUT THEY STEPPED UP THEIR PAYROLL SAVINGS ABOUT THREE PERCENT.

THE VOICE OF THE AMERICAN WORKER SAYS "ONE JOB IS NOT ENOUGH FOR ME TO DO". THE MEN AND WOMEN BEHIND THE MACHINES ARE BACKING THE ATTACK WITH GUNS AND TANKS AND PLANES AND SHIPS AND THEY'RE BACKING THE ATTACK BY BUYING THE BONDS THAT PAY FOR THOSE GUND XXXGUNS AND TANKS AND PLANES AND SHIPS. THEY'RE BACKING THEIR BOYS ON THE FIGHTING FRONTS. JUST AS THOSE BOYS ARE BACKING THEMSELVES.. WITH FIGHTING DOLLARS.

FIGHTING A WAR IS MOSTLY A WAITING GAME.. A SOLDIER HAS PLENTY OF TIME TO TIXXTHINK.. TO REASON THINGS OUT.. AND THERE YOU HAVE THE REASON WHY THE MEN IN OUR ARMED FORCES-THE MEN ACTUALLY FIGHTING THE WAR- REGULARLY INVEST MORE THAN 15 PER CENT OF THEIR PAY IN WAR BONDS. THEY KNOW WXXX THEY HAVE A TOUGH FIGHT ON THEIR HXXXHANDS.. AND, TO WIN THIS WAR THEY ARE DETERMINED TO GIVE THEMSELVES ALL THE FIGHTING DOLLAR SUPPORT THEY CAN MUSTER.

AND, DURING THE FOURTH WAR LOAN DRIVE, THEY TOO SET HIGH NEW RECORDS IN EXTRA WAR BOND SALES.

DIXON-

THIS IS STAFF SERGEANT JOHN B DIXON SPEAKING FROM WALTER RED XXX REED HOSPITAL,

I, M OUT HERE WITH A GOOD GANG OF FELLOWS.. MOST OF US HAVE BEEN OVER ON THE OTHER SIDE.. ITALY AND AFRICA.. AND, BETWEEN THE BUNCH OF US, I GUESS WE COULD TELL YOU SOME PRETTY EXCITING STORIES. MOST OF US HAVE HAD THE TOUGH LUCK TO GET MIXED UP WITH GERMAN SHELLS AND GRENADES AND THINGS.

I LOST BOTH LEGS MYSELF. DURING THE FOURTH WAR LOAN DRIVE. I TOOK MYSELF FOR A RIDE IN MY S//XXX WHEEL-CHAIR AND WENT AROUND TO SEE THE OTHER BOYS. I WANTED TO SEE HOW THEY FELT ABOUT BUYING SOME MORE WAR BONDS. XXX MOST OF US ALREADY BOY EM OUT OF OUR REGULAR PAY. WELL, HERE, S NOW THEY FELT ABOUT IT. THEY BOUGHT FORTY-NINE THOUSAND DOLLARS WORTH OF EXTRA BONDS. AND IF THEY, D HAVE HAD MORE MONEY TO SPEND.. THEY, D HAVE BOUGHT MORE.

SEC. MORGENTHAU -

- OVER MUSIC -

SOLDIERS .. AMERICAN SOLDIERS MANY OF THEM WOUNDED IN ACTION .. ARE BUYING BONDS ... THESE MEN, IN THEIR HOSPITAL COTS, ARE STILL IN THE FIGHT .. STILL FORGING AHEAD TOWARD VICTORY .. KEEPING IN THE BATTLE BY BUYING BONDS. THEY ARE AMERICANS .. SO THEY FIGHT FOR FREEDOM EVERY WAY THEY CAN FIGHT.

"FIVE MILLION PATRIOTS" .. SELLING BONDS DURING THE FOURTH WAR LOAN DRIVE .. FOUND THE AMERICAN SPIRIT AT ITS BEST .. FOUND AMERICA, S FIGHTING DOLLARS READY TO ANSWER THE CALL TO THE FIRING LINE, READY TO BACK THE ATTACK OF MEN LIKE THOSE WHO LIE AT WALTER REED HOSPITAL, TO BACK THE ATTACK OF MEN LIKE THEIR BUDDIES STILL AT THE BATTLE FRONTS. THE ARMY MEN WHO MADE THRU THE MUD OF ITALY .. DRIVING THE GERMANS SLOWLY BUT SURELY TO DEFEAT. THE NAVY MEN WHOSE GUNS BOARED FREEDOM, S MESSAGE TO THE JAPS ON THE ISLAND OF TRUK. THE MARINES, THE COAST GUARDSMEN, THE MEN OF THE MERCHANT MARINE.

"FIVE MILLION PATRIOTS" FOUND AMERICA READY TO BACK THE ATTACK OF OUR ARMED FORCES GATHERING IN THE MIGHTY INVASION STORM-CLOUD WHICH WILL ONE DAY SPEND ITS FURY ON THE AXIS AND CLEANSE THE FACE OF THIS EARTH.

THE ATTACK OF THE ARMED FORCES OF THE UNITED STATES .. IS AN ATTACK WORTH BACKING. AND, IN JUST A FEW MOMENTS, I WILL TELL YOU IN DOLLARS AND CENTS, JUST HOW WELL WE BACKED THAT ATTACK IN THE FOURTH WAR LOAN DRIVE.

HERE, ON THE HOME FRONT, WE WORK FOR ONE GREAT CAUSE. TO PRESERVE AND PROTECT OUR AMERICA.

OUT THERE, ON THE BAFXIX BATTLE FRONTS, OUR ARMED FORCES ARE FIGHTING FOR THAT SAME GREAT CAUSE.

WE MUST CONTINUE TO WORK .. AND THEY XXX AND PAY FOR AND BUILD THEIR EQUIPMENT .. AND THEY WILL CONTINUE TO FIGHT .. UNTIL THAT GREAT DAY WHEN VICTORY RE-UNITES THEM .. WITH THE THINGS WE WORK FOR .. AND THE THINGS THEY FIGHT FOR ..

NOT A MOMENT MUST BE LOST .. IN BRINGING TO THEM THE REWARD THEY WANT THE MOST .. THAT PRECIOUS MOMENT WHEN THEY SHALL KNOW .. THAT FREEDOM, S FIGHT IS OVER .. THAT THEY ARE ON THEIR WAY .. BACK HOME...

HERE WE PICK UP THE 8-MINUTE MUSICAL SPOT ABOUT AMERICA AND HOME ORIGINALLY WRITTEN FOR THE FIRST BROADCAST.

MARCH - COLD

HERE IS SECRETARY OF THE UNITED STATES TREASURY HENRY MORGENTHAU, JR., WITH THE FINAL REPORT ON THE RESULTS OF THE FOURTH WAR LOAN DRIVE.

SEC MORGENTHAU -

ON JANUARY EIGHTEENTH, "FIVE MILLION PATRIOTS" WENT FORTH, CHARGED WITH THE RESPONSIBILITY OF RAISING FOURTEEN BILLION DOLLARS FOR THE WAR THROUGH THE SALE OF BONDS.

THE JOB LAID OUT FOR THEM NOT ONLY CALLED FOR THE SALE OF FOURTEEN BILLION DOLLARS WORTH OF BONDS .. BUT ALSO REQUIRED THAT THEY BE SOLD IN THE RIGHT PLACES. THERE WERE NO LARGE BLAXX BLOCKS OF BONDS TO BE SOLD TO BANKS IN THIS DRIVE.

OTHER LARGE INVESTORS WERE LIMITED IN THEIR PURCHASES.

THIS, MORE THAN ANY OTHER DRIVE, WAS TO BE "THE PEOPLE, S DRIVE"

I CAN REPORT TONIGHT THAT THESE FIVE MILLION VOLUNTEERS SUCCEEDED IN THEIR ASSIGNMENT .. SUCCEEDED ON EVERY CONXXX COUNT.

BY THE END OF THE DRIVE, FOURTEEN BILLION ONE HUNDRED MILLION DOLLARS HAD ALREADY BEEN REPORTED.

DAY BY DAY, THE REPORTS KEPT COMING IN. DOLLAR BY DOLLAR, THE FIGURES KEPT MOUNTING. YESTERDAY, WE CLOSED TXXX THE BOOKS.

THE AMERICAN PEOPLE ANSWERED THE CALL OF THE FOURTH WAR LOAN DRIVE .. NOT WITH FOURTEEN BILLION DOLLARS .. BUT WITH 17 BILLION, 500 MILLION DOLLARS.

AND HOW ABOUT THOSE "E" BONDS, THE PEOPLE, S BONDS .. HOW DID WE DO THERE. WELL, YOU REMEMBER WE SET OUT TO SELL THREE AND A HALF BILLION DOLLARS WORTH. I AM HAPPY TO REPORT THAT WE EXCEEDED OUR QUOTA BY NEARLY A HALF BILLION DOLLARS. WE HAD SET OUR GOAL FOR INDIVIDUALS AT FIVE AND HALF BILLION DOLLARS. AND THAT GOAL, TOO, WAS PASSED BY MORE THAN A HUNDRED MILLION DOLLARS.

ALL IN ALL, THE AMERICAN PEOPLE RESPONDED TO THE FOURTH WAR LOAN DRIVE BETTER THAN EVER BEFORE.

THE CREDIT GOES TO EVERY AMERICAN WHO SOLD A BOND .. TO EVERY AMERICAN WHO BOUGHT A BOND.

AND, BECAUSE OF THE GREAT SUCCESS OF THIS DRIVE, WE WILL BE ABLE TO POSTPONE THE FIFTH WAR LOAN DRIVE, UNTIL SOMETIME IN THE MIDDLE OF THE SUMMER. THE DATE WILL DEPEND UPON ANY INCREASES WHICH MIGHT ARISE IN THE COSTS OF WAR WHICH MAY INCREASE GREATLY WITH PREPARATIONS FOR THE COMING INVASION.

*World
did
not
stop
the
war*

something about keeping up buying between drives

*Want to say: "I want to thank Ted Gambale
not Director of Sales and my state chairman
& county chairman and numerous members."*

THE END

DEAR BOSS

THERE ARE TWO OR THREE MUSICAL SPOTS THAT BREAK UP YOUR LONG TALKS, BUT ARE NOT NOTED ON SCRIPT BECAUSE THEY COMPLICATE IT. ALL THE FIGURES IN THE REPORT ARE DUMMIES AND I ONLY HOPE THE REAL ONES ARE AS GOOD. THE GUESTS ARE GENUINE. WILL WAIT YOUR CALL AND DECISION AS TO WHETHER IT WILL BE NECESSARY TO MEET YOU.

FRED

END OF MESSAGE. ANY QUESTIONS FORT MEYER GA GO AHEAD

WHAT IS "R" STAND FOR JUST AN ERROR DISREGARD AT ANY OTHER QUESTIONS GO AHEAD

I HAVE GOT THE MESSAGE ALL RIGHT SO I GUESS THAT IS ALL OK

YCMUTVV HFZ ANY QUESTIONS WASHINGTON GA

NO EVERY TGDGC THING OK HERE END DO U WANT ME TO ACK IT WITH A TIME ON IT AND R INT NO JUST ACKN OWLEDGE WSC WITH YOUR NAME PLS GA

JACK L. MORRISON 3. R 3/C USC USCC FT MYERS OK END
VA WAS WP OPE
FT MYERS FT T FT MYERS OFF OK

2-26-44 6

"FIVE MILLION PATRIOTS"

SEC. MORGENTHAU

THIS IS HENRY MORGENTHAU, JR. YESTERDAY, IN MY OFFICE IN WASHINGTON, I SAW THE FINAL FIGURES ON THE FOURTH WAR LOAN DRIVE. WE HAVE HEARD NOW FROM ALL SIXTY THOUSAND OF OUR BOND OUTLETS. ALL THE STATE COMMITTEES AND BANKS AND FACTORIES AND RETAIL STORES AND MOVIE THEATRES HAVE REPORTED - AND I CAN TELL YOU THAT THE RESULTS ARE MOST GRATIFYING. I WANT TO TELL YOU ABOUT THOSE FINAL FIGURES. IN THIS "REPORT TO THE PEOPLE", I WANT TO TELL YOU THE STORY OF THE GREATEST OF ALL WAR LOAN DRIVES. FROM THE VERY BEGINNING THE VOLUNTEER SYSTEM OF BOND BUYING .. THE AMERICAN WAY .. HAS PROVED SUCCESSFUL. IF A COMPULSORY SYSTEM HAD BEEN ADOPTED, THE GOVERNMENT WOULD HAVE BEEN FORCED TO DRAFT ALMOST PER CENT OF EVERY AMERICAN INCOME TO EQUAL THE JOB THAT THE VOLUNTEER SYSTEM IS DOING. THE RESULTS OF EVERY SUCCESSIVE BOND DRIVE STAND AS DRAMATIC PROOF OF THE FACT THAT AMERICANS ARE ANXIOUS TO DO EVERY WAR-TIME JOB THAT HAS TO BE DONE.

MUSIC

B G THEME ... SOFTLY

SECRETARY MORGENTHAU

THE FOURTH WAR LOAN DRIVE TOLD ONE HUNDRED AND THIRTY MILLION AMERICANS THEY HAD A JOB TO DO. PEOPLE AT WORK .. PEOPLE AT HOME .. PEOPLE AT WAR .. ALL WERE CALLED UPON TO DO THEIR SHARE. WHEN AMERICANS PICKED UP THEIR NEWSPAPERS, THEY READ ABOUT THE FOURTH WAR LOAN DRIVE. WHEN THEY TURNED ON THEIR RADIOS, THEY HEARD ABOUT IT. ON THEIR WAY TO WORK THEY WERE REMINDED OF IT BY SIGNPOSTS AND BILLBOARDS. THE STORY CAME TO OUR DOORSTEPS, WAS TOLD AT BOND-BOOTHES AND RETAIL STORES. AND FIVE MILLION PATRIOTS UNDERTOOK THE TREMENDOUS TASK OF SELLING FOURTEEN BILLION DOLLARS WORTH OF BONDS. THE TELLING OF THE STORY .. THE SELLING OF THE BONDS .. WAS IN THE HANDS OF THE TREASURY,S OWN VOLUNTEER ORGANIZATION AFTER THE SECOND WAR LOAN DRIVE, IT WAS MY TASK TO COMPLETELY REORGANIZE .. REBUILD .. THE WAR-BOND SELLING GROUP. STATE BY STATE .. ALMOST PERSON BY PERSON .. I ENLISTED THE AID OF PUBLIC SPIRITED AMERICANS. THOUSAND UPON THOUSANDS JOINED US TO SHARE ONE OF THE GREATEST RESPONSIBILITIES OF THE WAR .. THE RAISING OF THE MONEY WITH WHICH TO FIGHT THE WAR. I AM PROUD TO SAY THAT WHEN THE FOURTH WAR LOAN DRIVE GOT UNDER WAY, MARCHING UNDER THE BANNER OF THE TREASURY DEPARTMENT,S WAR FINANCE DIVISION, WERE MORE THAN FIVE MILLION VOLUNTEER WAR BOND SALESMEN. FIVE MILLION PATRIOTS .. WHO UNDERTOOK THE TREMENDOUS TASK OF SELLING FOURTEEN BILLION DOLLARS WORTH OF BONDS.

MUSIC

INTRODUCTION TO MUSIC-DRAMA

NOTE

THE ORCHESTRA AND CHORUS SET THE SCENE, IN SIMPLE LANGUAGE THEY TELL THE STORY OF THE PURPOSE OF THE FOURTH WAR LOAN DRIVE. FREDERIC MARCH WILL ACT AS NARRATOR. THE FOURTEEN BILLION DOLLAR GOAL IS SET.

MUSIC

CONTINUE MUSIC DRAMA

NOTE

.....
ALSO IN THIS SEGMENT OF MUSIC-DRAMA WE TELL A TWO MINUTE STORY OF THE "FIVE MILLION PATRIOTS" .. WE SHOW HOW HARD THEY WORK .. WHERE THEY COME FROM .. WHY THEY VOLUNTEERED TO DO THIS JOB.

MUSIC UP AND FADES FOR

.....
SEC. MORGENTHAU

-OVER MUSIC-

AMERICAN MOTHERS TOOK TIME FROM THEIR HOUSEHOLD DUTIES .. FATHERS CAME HOME FROM WORK, ATE THEIR EVENING MEAL, AND WENT OUT TO WORK THRU THE NIGHT ON THE FOURTH WAR LOAN DRIVE .. THE BOYS AND GIRLS DID THEIR GREAT SHARE. IN EVERY STATE .. IN EVERY COUNTY .. IN EVERY CITY, TOWN, VILLAGE .. ON EVERY HIGHWAY AND ALONG EVERY BYPATH. THE BUTCHER, THE BAKER AND THE CANDLESTICKMAKER BECAME SALESMEN, SELLING FREEDOM,S GREATEST BARGAIN.

-MUSIC OUT-

THE FOURTH WAR LOAN DRIVE WAS ON ITS WAY .. THE "FIVE MILLION PATRIOTS" WERE AN ALL-AMERICAN TEAM .. PATRIOTS FROM ALL WALKS OF LIFE. THE WORKER IN THE FACTORY - THE FARMER IN THE FIELD.

-SWITCH TO NORTH DAKOTA-

HENNO-

MY NAME IS ARTHUR W HENNO. I AM SPEAKING FROM MY HOME HERE IN AFTOM TOWNSHIP, NORTH DAKOTA. I AM A FARMER. YES, AND A PRETTY GOOD BOND SALESMAN, TOO. I HOMESTEADED OUT HERE MORE THAN FIFTY YEARS AGO. BEEN HERE EVER SINCE. WE HAVE A HUNDRED AND SEVENTY-FIVE PEOPLE IN OUR TOWNSHIP .. EIGHTY-FIVE FAMILIES .. ALL FARMERS. AND DURING THE FOURTH WAR LOAN DRIVE, I CALLED ON ,EM ALL. TOLD ,EM ABOUT BONDS AND WHY THEY,D BETTER BE PUTTING THEIR MONEY INTO THE WAR. THEY KNEW WHAT I WAS TALKING ABOUT BECAUSE MOST OF ,EM HAVE SONS IN THE FIGHT. BOYS THAT USED TO BE AROUND HERE .. AND NOW, LORD KNOWS WHERE THEY ARE. THAT,S WHY THESE PEOPLE IN MY TOWNSHIP CAME THRU WITH AN AVERAGE OF SEVENTY-SEVEN DOLLARS AND SEVENTY-ONE CENTS EACH .. THIRTEEN THOUSAND, SIX HUNDRED DOLLARS IN ALL. BUT EVERONE OUT HERE CAME THRU. NOT JUST THE POLKS IN AFTOM TOWNSHIP. NORTH DAKOTA MADE ONE HUNDRED AND SIXTY PERCENT OF ITS "E" BOND QUOTA. AND WE,LL DO EVEN BETTER NEXT TIME.

.....
MUSIC

MUSIC DRAMA CONTINUES

NOTE

.....
IN THIS SEGMENT OF MUSIC-DRAMA, THE NARRATOR, THE ORCHESTRA AND CHORUS TELL THE STORY OF THE "E" BOND .. THE PEOPLE,S BOND. THIS RUNS ABOUT ONE AND ONE HALF MINUTES.

-MUSIC UP - DOWN FOR-

.....
SEC. MORGENTHAU

-OVER MUSIC

A DETERMINED MAN DISCOVERED AMERICA. DETERMINED MEN BUILT AMERICA. DETERMINATION IS BORN IN OUR BLOOD. AND, DURING THE FOURTEEN BILLION DOLLAR FOURTH WAR LOAN DRIVE, FIVE MILLION PATRIOTS DETERMINED TO SELL THREE AND A HALF BILLION DOLLARS WORTH OF "E" BONDS .. TO THE PEOPLE .. TO THE MAN IN THE STREET .. TO THE WORKER IN THE FACTORY. THREE AND A HALF BILLION DOLLARS WORTH .. AN AVERAGE

-MUSIC OUT

OF THIRTY DOLLARS WORTH FOR EVERY ONE OF THE HUNDRED AND THIRTY MILLION MEN, WOMEN AND CHILDREN IN OUR LAND. AND THOSE ARE "EXTRA" BONDS I,M TALKING ABOUT... OVER AND ABOVE THE BONDS BOUGHT ON REGULAR SCHEDULE.

—BRING IN INDIANAPOLIS, IND. TWO-WAY CONVERSATION—

.....
MAETSCKI

MR. SECRETARY, MY NAME IS KARL MAETSCKI. I LIVE HERE IN INDIANAPOLIS AND WORK IN A WAR PLANT. I MAKE AIRPLANE PARTS FOR A LIVING. BUT, SINCE PEARL HARBOR, I HAVE SPENT ALL MY SPARE TIME WORKING WITH A CREW OF ONE HUNDRED MEN ON PAYROLL SAVINGS. WE HAVE SEVEN HUNDRED FIRMS THAT WE COVER. SOME OF THEM HAVE TWENTY-FIVE EMPLOYEES .. SOME HAVE AS MANY AS TWENTY-FIVE THOUSAND. ALL-TOLD THERE ARE ABOUT NINETY THOUSAND PEOPLE IN THESE PLANTS. THESE PLANTS HAVE ESTABLISHED A FINE PAYROLL RECORD — OVER _____ TEN PERCENT. AND DURING THE FOURTH WAR LOAN DRIVE, THEY INVESTED NINE MILLION, TWO HUNDRED THOUSAND DOLLARS IN EXTRA WAR BONDS - OVER AND ABOVE THEIR REGULAR PAYROLL SAVINGS BONDS. PRETTY GOOD, ISN,T IT.

SEC. MORCIENTHAU

IT CERTAINLY IS. DID THE REST OF INDIANA DO AS WELL AS YOU DID IN YOUR SEVEN HUNDRED FIRMS.

MAETSCKI

JUST ABOUT, MR. SECRETARY. LABOR AND MANAGEMENT ALL OVER INDIANA AND ALL OVER AMERICA, FOR THAT MATTER, BACKED THE ATTACK IN THE FOURTH WAR LOAN DRIVE WITH ALL THE ENERGY THEY COULD MUSTER. THE WORKERS IN INDIANA,S PLANTS BOUGHT A HUNDRED MILLION DOLLARS WORTH OF EXTRA BONDS DURING THE DRIVE .. AND NOT ONLY THAT BUT THEY STEPPED UP THEIR PAYROLL SAVINGS ABOUT THREE PERCENT.

-RETURN TO N.Y.-

.....
MUSIC MUSIC-DRAMA CONTINUES
.....

NOTE

THIS SEGMENT OF MUSIC-DRAMA ILLUSTRATES THE FACT THAT WHERE THERE IS HIGH MORALE THERE IS INEVITABLY HIGH PRODUCTION .. WHICH IS REFLECTED IN HIGH BOND SALE RECORDS.

MUSIC UP - DOWN FOR

.....
SEC. MORCIENTHAU -OVER MUSIC-

THE VOICE OF THE AMERICAN WORKER SAYS- "ONE JOB IS NOT ENOUGH FOR ME TO DO". THE MEN AND WOMEN BEHIND THE MACHINES ARE BACKING THE ATTACK WITH GUNS AND TANKS AND PLANES AND SHIPS. AND THEY'RE BACKING THE ATTACK BY BUYING THE BONDS THAT PAY FOR THOSE GUNS AND TANKS AND PLANES AND SHIPS. THEY'RE BACKING THEIR BOYS ON THE FIGHTING FRONTS .. JUST AS THOSE BOYS ARE BACKING THEMSELVES .. WITH FIGHTING DOLLARS.

-MUSIC OUT-

FIGHTING A WAR IS MOSTLY A WAITING GAME .. A SOLDIER HAS PLENTY OF TIME TO THINK .. TO REASON THINGS OUT .. AND THERE YOU HAVE THE REASON WHY THE MEN IN OUR ARMED FORCES - THE MEN ACTUALLY FIGHTING THE WAR - REGULARLY INVEST MORE THAN FIFTEEN PERCENT OF THEIR PAY IN WAR BONDS. THEY KNOW THEY HAVE A TIGHT FIGHT ON THEIR HANDS .. AND, IN THEIR DETERMINATION TO WIN THIS WAR, THEY ARE DETERMINED TO GIVE THEMSELVES ALL THE FIGHTING-DOLLAR SUPPORT THEY CAN MUSTER. AND, DURING THE FOURTH WAR LOAN DRIVE, THEY, TOO, SET HIGH NEW RECORDS IN EXTRA WAR BOND SALES.

—SWITCH TO WALTER REED HOSPITAL AT WASHINGTON, D.C.—

.....
DIXON

THIS IS STAFF SERGEANT JOHN B DIXON SPEAKING FROM WALTER REED HOSPITAL. I'M OUT HERE WITH A GOOD GANG OF FELLOWS .. MOST OF US HAVE BEEN OVER ON THE OTHER SIDE .. ITALY AND AFRICA .. AND, BETWEEN THE BUNCH OF US, I GUESS WE COULD TELL YOU SOME PRETTY EXCITING STORIES. MOST OF US HAVE HAD THE TIGHT LUCK TO GET MIXED UP WITH GERMAN SHELLS AND GRENADES AND THINGS. I LOST BOTH LEGS MYSELF. DURING THE FOURTH WAR LOAN DRIVE, I TOOK MYSELF FOR A RIDE IN MY WHEEL-CHAIR AND WENT AROUND TO SEE THE OTHER BOYS. I WANTED TO SEE HOW THEY FELT ABOUT BUYING SOME WAR BONDS. MOST OF US ALREADY BUY 'EM OUT OF OUR REGULAR PAY. WELL, HERE'S HOW THEY FELT ABOUT IT. THEY BOUGHT FORTY-NINE THOUSAND DOLLARS WORTH OF EXTRA BONDS. AND IF THEY'D HAD MORE MONEY TO SPEND .. THEY'D HAVE BOUGHT MORE.

—SWITCH TO N.Y.—

MUSIC

B G STRAIN .. FOR SECRETARY

SEC. MORGENTHAU

-OVER MUSIC-

SOLDIERS .. AMERICAN SOLDIERS MANY OF THEM WOUNDED IN ACTION... ARE BUYING BONDS .. THESE MEN, IN THEIR HOSPITAL COTS, ARE STILL IN THE FIGHT .. STILL FORGING AHEAD TOWARD VICTORY .. KEEPING IN THE BATTLE BY BUYING BONDS. THEY ARE AMERICAN .. SO THEY FIGHT FOR FREEDOM EVERY WAY THEY CAN FIGHT. "FIVE MILLION PATRIOTS" .. SELLING BONDS DURING THE FOURTH WAR LOAN DRIVE .. FOUND THE AMERICAN SPIRIT AT ITS BEST .. FOUND AMERICA'S FIGHTING DOLLARS READY TO ANSWER THE CALL TO THE FIRING-LINE. READY TO BACK THE ATTACK OF MEN LIKE THOSE WHO LIE AT WALTER REED HOSPITAL. TO BACK THE ATTACK OF MEN LIKE THEIR BUDDIES STILL AT THE BATTLE-FRONT. THE ARMY MEN WHO WADE THRU THE MUD OF ITALY .. DRIVING THE GERMANS SLOWLY BUT SURELY TO DEFEAT. THE NAVY MEN WHOSE GUNS ROARED FREEDOM'S MESSAGE TO THE JAPS ON THE ISLAND OF TRUK. THE MARINES, THE COASTGUARDSMEN AND THE MEN OF THE MERCHANT MARINE. "FIVE MILLION PATRIOTS" FOUND AMERICA READY TO BACK THE ATTACK OF OUR ARMED FORCES GATHERING IN THE MIGHTY INVASION STORM-CLOUD WHICH WILL

ONE DAY SPEND ITS FURY ON THE AXIS AND CLEANSE THE FACE OF THIS EARTH. THE ATTACK OF THE ARMED FORCES OF THE UNITED STATES .. IS AN ATTACK WORTH BACKING. AND, IN JUST A FEW MOMENTS, I WILL TELL YOU, IN DOLLARS AND CENTS, JUST HOW WELL WE BACKED THAT ATTACK IN THE FOURTH WAR LOAN DRIVE.

HERE, ON THE HOME FRONT, WE WORK FOR ONE GREAT CAUSE. TO PRESERVE AND PROTECT OUR AMERICA. OUT THERE, ON THE BATTLE FRONTS, OUR ARMED FORCES ARE FIGHTING FOR THAT SAME GREAT CAUSE. WE MUST CONTINUE TO WORK AND PAY FOR AND BUILD THEIR EQUIPMENT .. AND THEY WILL CONTINUE TO FIGHT .. UNTIL THAT GREAT DAY WHEN VICTORY RE-UNITES THEM .. WITH THE THINGS WE WORK FOR .. AND THE THINGS THEY FIGHT FOR.....

-MUSIC OUT-

NOT A MOMENT MUST BE LOST .. IN BRINGING TO THEM THE REWARD THEY WANT THE MOST .. THAT PREVIOUS MOMENT WHEN THEY SHALL KNOW .. THAT FREEDOM,S FIGHT IS WON .. THAT THEY ARE ON THEIR WAY .. BACK HOME ..

.....
MUSIC THEMATIC INTRODUCTION

.....
CHORUS----- NORTH - SOUTH - EAST WEST
 NEATH THE FLAG THAT I LOVE BEST
 EVERYTHING FROM SEA TO SEA
 IS THE U S A TO ME.

.....
MUSIC DROPS UNDER WITH HAPPY RHYTHM

.....
NARRATOR-----EVERYTHING FROM SEA TO SEA IS THE U S A TO ME.
TO US AT HOME AMERICA IS SOMETHING WE SEE EVERY DAY, WE HEAR THE
STREET CARS, SEE THE FARMLANDS, TOUCH AND FEEL THE SUBSTANCE OF
THE NATION WITHOUT A THOUGHT OF WHAT IT REALLY MEANS. BUT
WHAT DOES G. I. JOE IN ITALY, ALASKA, GREENLAND OR DEEP IN THE SOUTH
PACIFIC THINK. THERE ARE TEN MILLION JOES TO DREAM TEN MILLION
DREAMS ABOUT THE LAND FOR WHICH THEY FIGHT. THEY DREAM - THOSE
PARAWAY BOYS IN UNIFORM--THEY DREAM OF THEIR KIND OF U S A.

.....
MUSIC DREAM MUSIC

.....
CHORUS----- TEN MILLION DREAMS, ROLLED INTO ONE ARE TEN
 MILLION DREAMS OF HOME.

.....
MUSIC MUSICAL FOOTPRINTS

.....
NARRATOR..... THOSE ARE THE DREAM-DROUSY FOOTSTEPS THAT WALK EACH
NIGHT THROUGH DARKNESS INTO CITY HOMES AND COUNTRY HOMES, MOUNTAIN
CABINS FARM - - THOSE ARE THE TEN MILLION HOPES WHO ROAM THE LAND
THEY LOVE.

.....
MUSIC UP AND SET SCENE FOR NEW ENGLAND

.....
NARRATOR-----HIGH NORTHEASTWARD LIES THE WINTER THUMB AND ALL THE
BEAUTY THAT IS NEW ENGLAND. MAINE, WITH LAKES AND WATERFALLS -
RIVERS TUMBLING, FORESTS WEAVING FANTASIES OF LEAVES AND LIMBS VERMONT,
NEW HAMPSHIRE, CONNECTICUT - NEW YORK - MOTHER PLACE OF DREAMS -

FATHERLAND OF THE NATION. THESE COMPOSE THE THOUGHTS THAT MILLIONS OF BOYS IN UNIFORM ARE THINKING NOW - TONIGHT. THESE WINTER-MANTLED STATES ARE HOME FOR MEN TO DREAM ABOUT - THEY THINK OF HARBORS ALL ALONG THAT RESTLESS COAST, OF SHIPS THEIR FATHERS SAILED OF PORTS THEY VISITED AS KIDS WHEN SUMMER CAME. AND WHERE NEW ENGLAND HARBORS END THERE LIVES THE GREATEST HARBOR OF THEM ALL - CROWNED BY BUILDINGS THAT ARE MIRACLES. TEAMING, STREAMLINED CENTER OF THE WORLD - NEW YORK.

MUSIC

BEGIN RHYTHM STUFF

VOICES-----HAVE YOUR FARES READY - TAXI TAXI FOLLOW GREEN LIGHTS TO THE WEST SIDE SUBWAY 46TH FLOOR PLEASE - STEP ASIDE PLEASE RADIO CITY - TOUR FOR A DOLLAR TAXI TAXI - HEY TAXI.
I R T B M T INDEPENDENT SUBWAY - SUBWAY - -KEEP REPEATING WORD SUBWAY UNDER-

NARRATOR-----ROARING, ANGRY, SHOUTING MONSTERS, FILLED WITH SHOVING, PUSHING HUMANS, GATES THAT OPEN, LIGHTS THAT FLASH ON, PUSH YOUR WAY IN, PUSH YOUR WAY OUT, TIMES SQUARE, 23, 14, BROOKLYN - UP TOWN DOWN TOWN, MIDTOWN, CROSSTOWN - FASTER, FASTER - GOT TO GET HOME, I,M TIRED

VOICES----- -UPWITH- SUBWAY. SUBWAY - -DROWN OUT NARRATOR-
-STOP-

NARRATOR----- YES - AND THERE,RE PLENTY WHO DREAM OF THE CITY THAT MEANS THE WORLD TO THEM THAT,S HOME.

CHORUS----- TEN MILLION DREAMS FOLLED INTO ONE
ARE TEN MILLION DREAMS OF HOME.

MUSIC

SWANEE RIVER

NARRATOR----- THERE ARE DREAMERS FARAWAY WHO TIP TOE IN THE NIGHT TO TOWNS AND VILLAGES THAT STILL WEAR WOUNDS OF ANOTHER WAR. FOOTSTEPS LINGER IN THE SOUTHERN HILLS, WHERE NIGHT HAS LAID A ROBE OF SILENCE AND SMELLS OF DYING HEARTH FIRES HUG THE TURNS AND CURVES OF MOUNTAIN SIDES. CITIES, PROUDLY BUILT, AND PROUDLY LOVED ARE HOME TO MANY LONGING HEART ABROAD. WIDE PLANTATIONS, LITTLE FARMS, TINY HOUSES, SHACKS AND RIVER BOATS, RICH AND SPLENDID MODER CITIES, MANSIONS, SWAMP HUTS, BARGES,
ALL ARE HOMES - HOMES FOR G. I. DREAMS TONIGHT.

ORCHESTRA

CONCLUDE SWANEE RIVER

CHORUS-----NORTH- SOUTH- EAST- WEST NEATH THE FLAG THAT I LOVE BEST EVERYTHING FROM SEA TO SEA IS THE U.S.A. TO ME.

NARRATOR----- BETWEEN THE SEA AND THE SEA THERE FLOWS RIVER-
THE MISSISSIPPI - THE MOTHER-FATHER OF ALL WATERS

CHORUS----- O MIGHTY MISSISSIPPI

NARRATOR----- ROLLING, DRIVING PONDEROUS, HEAVY, TIMELESS, RUTHLESS MISSISSIPPI. SHE THE QUEEN, DRAWS ALL HER SUBJECT RIVERS TO HER BREST, EXACTS THE TRIBUTE OF THEIR FLOW.

CHORUS----- O MIGHTY MISSISSIPPI

NARRATOR----- GREEDY, THIRSTY, SOMETIMES ANGRY, OFTEN SOFT AND SENTIMENTAL- REACHING FROM THE DELTA FOOTSTOOL HIGH INTO

THE WHEATCROWNED NORTH THE PROVEN MISTRESS OF A LAND OF WOVEN WATERWAYS.

CHORUS—— O MIGHTY MISSISSIPPI

MUSIC UP DYNAMICALLY

NARRATOR—— AND ALL ALONG THE EDGES OF THE MISSISSIPPI ARE HOMES THAT GUYS WITH GUNS AND GUTS ARE THINKING OF TONIGHT.

CHORUS—— TEN MILLION DREAMS ROLLED INTO ONE ARE TEN MILLION DREAMS OF HOME

MUSIC SEGUE INTO CHICAGO RYTHM

CHICAGO—— I AM CHICAGO. HOG-BUTCHER- MEAT MAKER LORD OF THE RAILROADS MONARCH OF THE LAKE CITIES I AM CHICAGO. GREY STONED, SOFT HEARTED, NOISE MAKING STOCKHOLDER OF THE MIDDLE WEST. I OWN THE STOCKYARDS- ACRES OF STOCKYARDS- I AM THE MEAT PACKER- I AM THE FEEDER. I OWN PARKS AND ART MUSEUMS, I OWN THEATRES- I OWN TEMPLES- I OWN TEN THOUSAND STONE MADE BLOCKS OF CROWDED HUMAN BEINGS. I AM THE CITY THAT DARES TO BE STRONG. I AM THE MASTER I KNOW KINDNESS- I KNOW HARDNESS- I AM STOCKHOLDER OF THE MIDDLE WEST.

MUSIC FINISH

CHICAGO—— AND I AM THE HOME THAT THE KID WHO HAS WON WANTS TO COME BACK TO WHEN HIS BIG JOB IS DONE.

MUSIC CONCLUDES CHICAGO SEQUENCE

NARRATOR—— NORTH- SOUTH- EAST- WEST SOUTH WEST- SOUTH WEST- SOUTH WEST- SOUTH WEST /FADE/

NARRATOR—— AND IN THE SOUTH WEST OKLAHOMA COLORADO ARIZONA TEXAS- UTAH PLACES WHERE THE CATTLE RANCHES REACH INTO THE SETTING SUN. COWBOYS RIDE ON LONELY COW TRAILS BRINGING IN THE STRAGGLING DOGGIE. DESERTS STRETCH IN ENDLESS WONDER HOMELAND FOR THE GENTLE INDIAN THAT,S THE SOUTHWEST.

SINGER SONG- THE CURTAIN OF NIGHT

NARRATOR—— THERE IS STARLIGHT IN THE WEST TONIGHT. THOSE LITTLE TOWNS AND LONELY RANCHES ARE THE STUFF THAT DREAMS ARE MADE OF- WHEN SOLDIERS DREAM OF HOME.

CHORUS—— TEN MILLION DREAMS ROLLED INTO ONE ARE TEN MILLION DREAMS OF HOME.

MUSIC WIND THEME

NARRATOR—— NORTH, NORTH, ACROSS THE CEILING OF THE NATION LIKE THE STATES OF SINGING WHEAT, HERE THE MODERN PIONEER STILL MEETS THE WIND, HIS SONS ARE CHILDREN OF THE SUMMER SUN HIS HOME IS HARBOR IN THE WINTER STORM.

MUSIC WIND THEME CLIMAX

NARRATOR—— MINNESOTA- THE DAKOTAS- NEBRASKA AND WYOMING
IOWA- MONTANA- WIDE AND BEAUTIFUL- WIDE AND WONDERFUL-
HOME OF HOMES FOR MILLIONS THE THRESHOLD FOR A MILLION SOLDIER
DREAMS.

.....
MUSIC THE ROCKIES THEME

.....
NARRATOR—— UP FROM THE BLUE PACIFIC LIKE A BRIGHT AND FERTILE
CARPET LIFTS THE SLOPE OF CALIFORNIA- RICH IN FRUIT AND
AGRICULTURE- RICH IN LORE OF ANCIENT DAYS. UP FROM THE BLUE
PACIFIC, LIKE A STORY TOLD IN MUSIC LIFTS THE SLOPE OF OREGON
DRESSED IN FARMS AND LOVELY TOWNS JEWELS WITH SPARKLING LAUGHING
RIVERS. UP FROM THE BLUE PACIFIC LIKE A SONG OF PARADISE
LIFTS THE SLOPE OF WASHINGTON ROBED IN THE SPLENDOR OF THE FORESTS
CARVED BY THE SCULPTURE OF THE OCEAN.

.....
MUSIC ROCKIES THEME IN STRONG

.....
NARRATOR—— AND CROWNING THIS, IN AGLESS SPLENDOR-
WITH BROWS OF SUN-CARVED TIMELESS ROCK, THE MAJESTY OF ALL
OUR NATION, STAND AND WATCH- GOD OF A WESTERN WORLD. THE ROCKIES.
FASHIONED BY THE WIND AND WEATHER- THEY COUNT NOT TIME-NOR SPACE-
NOR MAN- THESE ARE THE FATHERS OF ETERNITY- THESE ARE THE SILENT
GARDENS OF THE SNOW- THESE ARE THE SOUNDLESS VOICES OF ALL TIME.
THESE ARE THE ROCKIES, BEYOND THE NAME OF BEAUTY. THESE ARE THE SYMBOLS
OF OUR STRENGTH- THE GOD MADE FORTRESS TOUCHING THE FLOOR OF HEAVEN
AS IF TO FORM A COVENANT WITH HIM AS IF TO SAY TO US-BE STRONG-BE
NOBLE-FOR YOU AND I ARE BOTH AMERICA.

.....
CHOIR MUSIC CLIMAX

.....
NARRATOR—— YOU HAVE HEARD THE DREAM OF MILLIONS-
AND NOW- UNTO THOSE DREAMERS- HERE, OR THERE IN DISTANT PLACES,
WE BRING THEM A REPORT FROM THEIR NATION. WE CALL TO THE BORDERS
OF OUR COUNTRY THE NORTH AND SOUTH, THE EAST AND WEST-

.....
MUSIC CALL THEME

.....
MARCH -COLD-

HERE IS SECRETARY OF THE UNITED STATES TREASURY HENRY MORGENTHAU, JR.,
WITH THE FINAL REPORT ON THE RESULTS OF THE FOURTH WAR LOAN DRIVE.

.....
SEC. MORGENTHAU-

ON JANUARY EIGHTEENTH, "FIVE MILLION PATRIOTS", MANY OF THEM VETERAN
SALESMEN OF THE THIRD WAR LOAN DRIVE, WENT FORTH, CHARGED WITH THE
RESPONSIBILITY OF RAISING FOURTEEN BILLION DOLLARS FOR THE WAR, THRU
THE SALE OF BONDS. THE JOB LAID OUT FOR THEM NOT ONLY CALLED FOR
THE SALE OF FOURTEEN BILLION DOLLARS WORTH OF BONDS .. BUT ALSO
REQUIRED THAT THEY BE SOLD IN THE RIGHT PLACES. LARGE INVESTORS WERE
LIMITED IN THEIR PURCHASES. THIS, MORE THAN ANY OTHER DRIVE, WAS TO
BE "THE PEOPLES DRIVE". I CAN REPORT TONIGHT, THAT THESE FIVE MILLION
VOLUNTEERS SUCCEEDED IN THEIR ASSIGNMENT.. SUCCEEDED ON EVERY COUNT.

BY THE END OF THE DRIVE, FOURTEEN BILLION ONE HUNDRED MILLION DOLLARS HAD ALREADY BEEN REPORTED. DAY BY DAY, THE REPORTS KEPT COMING IN. DOLLAR BY DOLLAR, THE FIGURES KEPT MOUNTING. YESTERDAY, WE CLOSED THE BOOKS. THE AMERICAN PEOPLE ANSWERED THE CALL OF THE FOURTH WAR LOAN DRIVE.. NOT WITH FOURTEEN BILLION DOLLARS.. BUT WITH BILLION DOLLARS.. AND HERE IS A MOST SIGNIFICANT FACT. THAT FIGURE DOES NOT INCLUDE THE BOND SALES MADE TO BANKS DURING THE DRIVE. AND HOW ABOUT THOSE "E" BONDS, THE PEOPLES BONDS .. HOW DID WE DO THERE. WELL YOU REMEMBER WE SET OUT TO SELL THREE BILLION DOLLARS WORTH. I AM HAPPY TO REPORT THAT WE EXCEEDED OUR QUOTA BY NEARLY A HALF BILLION DOLLARS. WE HAD SET OUR GOAL FOR INDIVIDUALS AT FIVE AND A HALFBILLION DOLLARS. AND THAT GOAL, TOO, WAS PASSED BY MORE THAN A HUNDRED MILLION DOLLARS. ALL IN ALL, THE AMERICAN PEOPLE RESPONDED TO THE FOURTH WAR LOAN DRIVE BETTER THAN EVER BEFORE. THEY BOUGHT THE PEOPLE,S BOND .. THE "E" BOND .. IN THAT WAY, THEY ARE FIGHTING A PEOPLE,S WAR. AND THEY BOUGHT IT AND ARE CONTINUING TO BUY IT AT ONE STABLE RATE OF INTEREST. DURING THE FIRST WORLD WAR, EVERY LOAN MADE WAS MADE AT A SUCCESSIVELY HIGHER RATE OF INTEREST. DURING THIS WAR, HOWEVER, FIGHTIN MONEY HAS BEEN THE ONE STABLE COMMODITY THIS IS A TWO PERCENT WAR. WHEN THE WAR STARTED BONDS WERE ISSUED AT TWO PER CENT. AND AMERICANS CONTINUE TO BUY THEM IN EVER INCREASING AMOUNTS AT THAT SAME RATE OF INTEREST ACCELERATED PUBLIC PARTICIPATION IN THE WAR IS ALSO REFLECTED IN THE BAROMETER OF WAR BOND SALES FIGURES. DURING THE FIRST WAR LOAN DRIVE, MILLION SEPARATE BONDS WERE SOLD. THE SECONDRIVE SOLD MILLION SEPARATE BONDS. THE THIRD DRIVE SOLD MILLION. AND DURING THE FOURTH WAR LOAN DRIVE MORE THAN MILLION SEPARATE BONDS WERE PURCHASED BY THE AMERICAN PEOPLE. THIS IS A REMARKABLY CLEAR PICTURE OF THE GROWTH OF PUBLIC INTEREST IN THE WAR .. AND IT IS A FIERY DEMONSTRATION OF THEIR DESIRE TO BACK THE ATTACK .. TO HELP TO FIGHT THE ENEMY .. TO MAKE THIS TRULY A PEOPLE,S WAR. THE FOURTH WAR LOAN DRIVE HAS BEEN HIGHLY SUCCESSFUL. BY RAISING BILLION DOLLARS IT HAS FAR EXCEEDED ITS ORIGINAL GOAL. AND HAS DONE ALL THIS AT A VERY LOW COST. NOT COUNTING THE COST OF PRINTING THE BONDS THEMSELVES, THE COST OF SELLING BILLION DOLLARS IN WAR BONDS HAS BEEN BUT DOLLARS. AMERICA HAS DONE A BIG JOB .. AND DONE IT AT A SMALL COST .. MADE POSSIBLE THROUGH THE SINCERE, UNSELFISH, PATRIOTIC COOPERATION OF THE TREASURY VOLUNTEER ORGANIZATION .. FIVE MILLION STRONG .. THROUGH THAT SAME KIND OF COOPERATION FROM AMERICAN BUSINESS .. LARGE AND SMALL. THROUGH THE ALL-OUT COOPERATION OF AMERICAN LABOR AND AMERICAN MANAGEMENT. THE CREDIT FOR THE SUCCESS OF THE FOURTH WAR LOAN DRIVE GOES TO EVERY AMERICAN WHO SOLD A BOND. AND TO EVERY AMERICAN WHO BOUGHT A BOND. I WOULD PERSONALLY LIKE TO THANK EVERY INDIVIDUAL WORKER - EACH COUNTY CHAIRMAN AND EACH STATE CHAIRMAN - FOR THE SPLENDID JOB YOU HAVE DONE. I ALSO WISH TO THANK A MAN WHO DESERVES PARTICULAR RECOGNITION - THE NATIONAL DIRECTOR OF THE WAR FINANCE PROGRAM - MR. TED R. GAMBLE. AMERICANS - YOU ALL HAVE DONE A SPLENDID JOB. HAND IN HAND - WE HAVE WON A MAJOR BATTLE HERE ON THE HOME FRONT. NOW THAT THE OBJECTIVE OF THE FOURTH WAR LOAN DRIVE HAS BEEN REACHED, IT IS UP TO US TO CARRY ON - DOING THE SAME KIND OF GOOD WORK - WE MUST KEEP FIGHTING "OVER HERE" - JUST AS OUR BOYS KEEP FIGHTIN "OVER THERE".

WE MUST KEEP BUYING WAR BONDS - MORE AND MORE WAR BONDS - BETWEEN WAR
LOAN DRIVES. WE MUST CONTINUE TO .. "BACK THE ATTACK"

.....
MUSIC CLOSING THEME .. FORTE .. FADES ON CUE FOR-
.....

CLOSING ANNOUNCEMENT

-E N D-

~~2-26-44~~ 16
2-26-44

"FIVE MILLION PATRIOTS"

SEC. MORGENTHAU:

THIS IS HENRY MORGENTHAU, JR.

YESTERDAY, IN MY OFFICE IN WASHINGTON,

I SAW THE FINAL FIGURES ON THE FOURTH

WAR LOAN DRIVE. WE HAVE HEARD NOW FROM

ALL SIXTY THOUSAND OF OUR BOND OUTLETS.

ALL THE STATE COMMITTEES AND BANKS AND

FACTORIES AND RETAIL STORES AND MOVIE

THEATRES HAVE REPORTED - AND I CAN TELL

YOU THAT THE RESULTS ARE MOST GRATIFYING.

I WANT TO TELL YOU ABOUT THOSE FINAL

FIGURES. IN THIS "REPORT TO THE

PEOPLE", I WANT TO TELL YOU THE STORY

OF THE GREATEST OF ALL WAR LOAN DRIVES.

- 2 -

MUSIC:

B. G. THEME...SOFTLY

EG. MORGENTHAU:

THE FOURTH WAR LOAN DRIVE TOLD ONE HUNDRED AND THIRTY MILLION AMERICANS THEY HAD A JOB TO DO. PEOPLE AT WORK .. PEOPLE AT HOME .. PEOPLE AT WAR .. ALL WERE CALLED UPON TO DO THEIR SHARE.

WHEN AMERICANS PICKED UP THEIR NEWSPAPERS, THEY READ ABOUT THE FOURTH WAR LOAN DRIVE. WHEN THEY TURNED ON THEIR RADIOS, THEY HEARD ABOUT IT. ON THEIR WAY TO WORK, THEY WERE REMINDED OF IT BY SIGNPOSTS AND BILLBOARDS. THE STORY CAME TO OUR DOORSTEPS, WAS TOLD AT BOND-BOOTHS AND RETAIL STORES.

AND FIVE MILLION PATRIOTS UNDERTOOK THE TREMENDOUS TASK OF SELLING FOURTEEN BILLION DOLLARS WORTH OF BONDS.

MUSICINTRODUCTION TO MUSIC-DRAMA

NOTE: THE ORCHESTRA AND CHORUS SET THE SCENE.
IN SIMPLE LANGUAGE THEY TELL THE STORY
OF THE PURPOSE OF THE FOURTH WAR LOAN
DRIVE.
FREDERIC MARCH WILL ACT AS NARRATOR.
THE FOURTEEN BILLION DOLLAR GOAL IS SET.

- 4 -

MUSIC:

CONTINUE MUSIC DRAMA

NOTE: ALSO IN THIS SEGMENT OF MUSIC-DRAMA

 WE TELL A TWO MINUTE STORY OF THE "FIVE

 MILLION PATRIOTS" ..

 WE SHOW HOW HARD THEY WORK .. WHERE THEY

 COME FROM .. WHY THEY VOLUNTEERED TO

 DO THIS JOB.

MUSIC UP AND FADES FOR:

- 5 -

SEC. MORGENTHAU:

(OVER MUSIC)

AMERICAN MOTHERS TOOK TIME FROM THEIR
HOUSEHOLD DUTIES .. FATHERS CAME HOME FROM
WORK, ATE THEIR EVENING MEAL, AND WENT OUT
FOURTH
TO WORK THRU THE NIGHT ON THE WAR LOAN DRIVE.
THE BOYS AND GIRLS DID THEIR GREAT SHARE.
IN EVERY STATE .. IN EVERY COUNTY .. IN
EVERY CITY, TOWN, VILLAGE .. ON EVERY HIGHWAY
AND ALONG EVERY BYPATH.

THE BUTCHER, THE BAKER AND THE CANDLESTICK-
MAKER BECAME SALESMEN, SELLING FREEDOM'S
GREATEST BARGAIN.

MUSIC OUT

THE FOURTH WAR LOAN DRIVE WAS ON ITS WAY ..
THE "FIVE MILLION PATRIOTS" WERE AN ALL-
AMERICAN TEAM .. PATRIOTS FROM ALL WALKS
OF LIFE. THE WORKER IN THE FACTORY - THE
FARMER IN THE FIELD.

(SWITCH TO NORTH DAKOTA)

- 5 -

SEC. MORGENTHAU:

(OVER MUSIC)

AMERICAN MOTHERS TOOK TIME FROM THEIR
HOUSEHOLD DUTIES .. FATHERS CAME HOME FROM
WORK, ATE THEIR EVENING MEAL, AND WENT OUT
FOURTH
TO WORK THRU THE NIGHT ON THE/WAR LOAN DRIVE.
THE BOYS AND GIRLS DID THEIR GREAT SHARE.
IN EVERY STATE .. IN EVERY COUNTY .. IN
EVERY CITY, TOWN, VILLAGE .. ON EVERY HIGHWAY
AND ALONG EVERY BYPATH.

THE BUTCHER, THE BAKER AND THE CANDLESTICK-
MAKER BECAME SALESMEN, SELLING FREEDOM'S
GREATEST BARGAIN.

MUSIC OUT

THE FOURTH WAR LOAN DRIVE WAS ON ITS WAY ..
THE "FIVE MILLION PATRIOTS" WERE AN ALL-
AMERICAN TEAM .. PATRIOTS FROM ALL WALKS
OF LIFE. THE WORKER IN THE FACTORY - THE
FARMER IN THE FIELD.

(SWITCH TO NORTH DAKOTA)

BENNO:

MY NAME IS ARTHUR W. BENNO. I AM SPEAKING FROM MY HOME HERE IN AFTOM TOWNSHIP, NORTH DAKOTA. I AM A FARMER. YES, AND A PRETTY GOOD BOND SALESMAN, TOO. I HOMESTEADED OUT HERE MORE THAN FIFTY YEARS AGO. BEEN HERE EVER SINCE. WE HAVE A HUNDRED AND SEVENTY-FIVE PEOPLE IN OUR TOWNSHIP .. EIGHTY-FIVE FAMILIES .. ALL FARMERS. AND DURING THE FOURTH WAR LOAN DRIVE, I CALLED ON 'EM ALL. TOLD 'EM ABOUT BONDS AND WHY THEY'D BETTER BE PUTTING THEIR MONEY INTO THE WAR. THEY KNEW WHAT I WAS TALKING ABOUT BECAUSE MOST OF 'EM HAVE SONS IN THE FIGHT. BOYS THAT USED TO BE AROUND HERE.. AND NOW, LORD KNOWS WHERE THEY ARE. THAT'S WHY THESE PEOPLE IN MY TOWNSHIP CAME THRU WITH AN AVERAGE OF SEVENTY-SEVEN DOLLARS AND SEVENTY-ONE CENTS EACH .. THIRTEEN THOUSAND, SIX HUNDRED DOLLARS IN ALL. BUT EVERYONE OUT HERE CAME THRU. NOT JUST THE FOLKS IN AFTOM TOWNSHIP. NORTH DAKOTA MADE ONE HUNDRED AND SIXTY PERCENT OF ITS "E" BOND QUOTA. AND WE'LL DO EVEN BETTER NEXT TIME.

- 7 -

MUSIC: MUSIC DRAMA CONTINUES

NOTE: IN THIS SEGMENT OF MUSIC-DRAMA, THE NARRATOR,
THE ORCHESTRA AND CHORUS TELL THE STORY OF THE
"E" BOND .. THE PEOPLE'S BOND.

THIS RUNS ABOUT ONE AND ONE HALF MINUTES.

MUSIC UP - DOWN FOR

SEC. MORGENTHAU: (OVER MUSIC)

A DETERMINED MAN DISCOVERED AMERICA. DETERMINED
 MEN BUILT AMERICA. DETERMINATION IS BORN IN OUR
 BLOOD. AND, DURING THE FOURTEEN BILLION DOLLAR
 FOURTH WAR LOAN DRIVE, FIVE MILLION PATRIOTS DETER-
 MINED TO SELL THREE AND A HALF BILLION DOLLARS
WORTH OF "E" BONDS .. TO THE PEOPLE .. TO THE MAN
 IN THE STREET .. TO THE WORKER IN THE FACTORY.
 THREE AND A HALF BILLION DOLLARS WORTH .. AN AVER-
 AGE OF THIRTY DOLLARS WORTH FOR EVERY ONE OF THE
 HUNDRED AND THIRTY MILLION MEN, WOMEN AND
 CHILDREN IN OUR LAND.
 AND THOSE ARE "EXTRA" BONDS I'M TALKING ABOUT ..
 OVER AND ABOVE THE BONDS BOUGHT ON REGULAR
 SCHEDULE.

MUSIC OUT

(BRING IN INDIANAPOLIS, IND.)
 (TWO-WAY CONVERSATION)

MAETSCKI: MR. SECRETARY, MY NAME IS KARL MAETSCKI. I LIVE HERE IN INDIANAPOLIS AND WORK IN A WAR PLANT. I MAKE AIRPLANE PARTS FOR A LIVING. BUT, SINCE PEARL HARBOR, I HAVE SPENT ALL MY SPARE TIME WORKING WITH A CREW OF ONE HUNDRED MEN ON PAYROLL SAVINGS. WE HAVE SEVEN HUNDRED FIRMS THAT WE COVER. SOME OF THEM HAVE TWENTY-FIVE EMPLOYEES . . . SOME HAVE AS MANY AS TWENTY-FIVE THOUSAND. ALL-TOLD THERE ARE ABOUT NINETY THOUSAND PEOPLE IN THESE PLANTS. THESE PLANTS HAVE ESTABLISHED A FINE PAYROLL RECORD -- OVER TEN PERCENT. AND DURING THE FOURTH WAR LOAN DRIVE, THEY INVESTED NINE MILLION, TWO HUNDRED THOUSAND DOLLARS IN EXTRA WAR BONDS -- OVER AND ABOVE THEIR REGULAR PAYROLL SAVINGS BONDS. PRETTY GOOD, ISN'T IT?

SEC. MORGENTHAU: IT CERTAINLY IS. DID THE REST OF INDIANA DO AS WELL AS YOU DID IN YOUR SEVEN HUNDRED FIRMS?

MAETSCKI: JUST ABOUT, MR. SECRETARY. LABOR AND MANAGEMENT ALL OVER INDIANA AND ALL OVER AMERICA, FOR THAT MATTER, BACKED THE ATTACK IN THE FOURTH WAR LOAN DRIVE WITH ALL THE ENERGY THEY COULD MUSTER. THE WORKERS IN INDIANA'S PLANTS BOUGHT A HUNDRED MILLION DOLLARS WORTH OF EXTRA BONDS DURING THE DRIVE .. AND NOT ONLY THAT BUT THEY STEPPED UP THEIR PAYROLL SAVINGS ABOUT THREE PERCENT!
(RETURN TO N.Y.)

MUSIC: MUSIC-DRAMA CONTINUES

NOTE: THIS SEGMENT OF MUSIC-DRAMA ILLUSTRATES
THE FACT THAT WHERE THERE IS HIGH MORALE PRODUC-
TION THERE IS INEVITABLY HIGH PRODUCTION ..
WHICH IS REFLECTED IN HIGH BOND SALE RECORDS.

MUSIC UP - DOWN FOR

SEC. MORGENTHAU:

(OVER MUSIC)

THE VOICE OF THE AMERICAN WORKER SAYS: "ONE JOB IS NOT ENOUGH FOR ME TO DO". THE MEN AND WOMEN BEHIND THE MACHINES ARE BACKING THE ATTACK WITH GUNS AND TANKS AND PLANES AND SHIPS! AND THEY'RE BACKING THE ATTACK BY BUYING THE BONDS THAT PAY FOR THOSE GUNS AND TANKS AND PLANES AND SHIPS! THEY'RE BACKING THEIR BOYS ON THE FIGHTING FRONTS .. JUST AS THOSE BOYS ARE BACKING THEMSELVES .. WITH FIGHTING DOLLARS.

MUSIC OUT

FIGHTING A WAR IS MOSTLY A WAITING GAME .. A SOLDIER HAS PLENTY OF TIME TO THINK .. TO REASON THINGS OUT .. AND THERE YOU HAVE THE REASON WHY THE MEN IN OUR ARMED FORCES - THE MEN ACTUALLY FIGHTING THE WAR -

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SEC. MORGENTHAU: (CONT'D)

REGULARLY INVEST MORE THAN FIFTEEN PERCENT OF
THEIR PAY IN WAR BONDS. THEY KNOW THEY HAVE A
TOUGH FIGHT ON THEIR HANDS .. AND, IN THEIR
DETERMINATION TO WIN THIS WAR, THEY ARE
DETERMINED TO GIVE THEMSELVES ALL THE FIGHTING-
DOLLAR SUPPORT THEY CAN MUSTER !
AND, DURING THE FOURTH WAR LOAN DRIVE, THEY,
TOO, SET HIGH NEW RECORDS IN EXTRA WAR BOND
SALES !

(SWITCH TO WALTER REED HOSPITAL)
AT WASHINGTON, D.C.

DIXON:

THIS IS STAFF SERGEANT JOHN B. DIXON SPEAKING FROM
WALTER REED HOSPITAL.

I'M OUT HERE WITH A GOOD GANG OF FELLOWS .. MOST OF
US HAVE BEEN OVER ON THE OTHER SIDE .. ITALY AND AFRI-
CA .. AND, BETWEEN THE BUNCH OF US, I GUESS WE COULD
TELL YOU SOME PRETTY EXCITING STORIES. MOST OF US
HAVE HAD THE TOUGH LUCK TO GET MIXED UP WITH GERMAN
SHELLS AND GRENADES AND THINGS. I LOST BOTH LEGS
MYSELF. DURING THE FOURT WAR LOAN DRIVE, I TOOK
MYSELF FOR A RIDE IN MY WHEEL-CHAIR AND WENT AROUND
TO SEE THE OTHER BOYS. I WANTED TO SEE HOW THEY FELT
ABOUT BUYING SOME WAR BONDS. MOST OF US ALREADY BUY
'EM OUT OF OUR REGULAR PAY. WELL, HERE'S HOW THEY
FELT ABOUT IT. THEY BOUGHT FORTY-NINE THOUSAND
DOLLARS WORTH OF EXTRA BONDS. AND IF THEY'D HAVE HAD
MORE MONEY TO SPEND .. THEY'D HAVE BOUGHT MORE.

(SWITCH TO N.Y.)

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MUSIC: B. G. STRAIN .. FOR SECRETARY

SEC. MORGENTHAU: (OVER MUSIC)

SOLDIERS .. AMERICAN SOLDIERS MANY OF THEM WOUNDED
IN ACTION .. ARE BUYING BONDS ..

THESE MEN, IN THEIR HOSPITAL COTS, ARE STILL IN THE
FIGHT .. STILL FORGING AHEAD TOWARD VICTORY .. KEEP-
ING IN THE BATTLE BY BUYING BONDS.

THEY ARE AMERICAN .. SO THEY FIGHT FOR FREEDOM EVERY
WAY THEY CAN FIGHT.

"FIVE MILLION PATRIOTS" .. SELLING BONDS DURING THE
FOURTH WAR LOAN DRIVE .. FOUND THE AMERICAN SPIRIT
AT ITS BEST .. FOUND AMERICA'S FIGHTING DOLLARS READY
TO ANSWER THE CALL TO THE FIRING-LINE.

READY TO BACK THE ATTACK OF MEN LIKE THOSE WHO LIE
AT WALTER REED HOSPITAL. TO BACK THE ATTACK OF MEN
LIKE THEIR BUDDIES STILL AT THE BATTLE-FRONT.

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SEC. MORGENTHAU: (CONT'D)

THE ARMY MEN WHO WADE THRU THE MUD OF ITALY ..
DRIVING THE GERMANS SLOWLY BUT SURELY TO DEFEAT.
THE NAVY MEN WHOSE GUNS ROARED FREEDOM'S MESSAGE
TO THE JAPS ON THE ISLAND OF TRUK. THE MARINES,
THE COASTGUARDSMEN AND THE MEN OF THE MERCHANT
MARINE.

"FIVE MILLION PATRIOTS" FOUND AMERICA READY TO BACK
THE ATTACK OF OUR ARMED FORCES GATHERING IN THE
MIGHTY INVASION STORM-CLOUD WHICH WILL ONE DAY
SPEND ITS FURY ON THE AXIS AND CLEANSE THE FACE OF
THIS EARTH.

THE ATTACK OF THE ARMED FORCES OF THE UNITED STATES.
IS AN ATTACK WORTH BACKING. AND, IN JUST A FEW
MOMENTS, I WILL TELL YOU, IN DOLLARS AND CENTS,
JUST HOW WELL WE BACKED THAT ATTACK IN THE FOURTH
WAR LOAN DRIVE.

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SEC. MORGENTHAU: (CONT'D)

HERE, ON THE HOME FRONT, WE WORK FOR ONE GREAT
CAUSE. TO PRESERVE AND PROTECT OUR AMERICA.

OUT THERE, ON THE BATTLE FRONTS, OUR ARMED FORCES
ARE FIGHTING FOR THAT SAME GREAT CAUSE.

WE MUST CONTINUE TO WORK AND PAY FOR AND BUILD THEIR
EQUIPMENT .. AND THEY WILL CONTINUE TO FIGHT ..
UNTIL THAT GREAT DAY WHEN VICTORY RE-UNITES THEM ..
WITH THE THINGS WE WORK FOR .. AND THE THINGS THEY
FIGHT FOR.....

MUSIC OUT

NOT A MOMENT MUST BE LOST .. IN BRINGING TO THEM
THE REWARD THEY WANT THE MOST .. THAT PRECIOUS
MOMENT WHEN THEY SHALL KNOW .. THAT FREEDOM'S FIGHT
IS WON .. THAT THEY ARE ON THEIR WAY .. BACK HOME...

MUSIC THEMATIC INTRODUCTION
 CHORUS NORTH - SOUTH - EAST WEST
 NEATH THE FLAG THAT I LOVE BEST
 EVERYTHING FROM SEA TO SEA
 IS THE U S A TO ME.

MUSIC: DROPS UNDER WITH HAPPY RHYTHM

NARRATOR: EVERYTHING FROM SEA TO SEA
 IS THE U.S.A. TO ME.
 TO US AT HOME AMERICA IS SOMETHING WE SEE EVERY DAY,
 WE HEAR THE STREET CARS,
 SEE THE FARMLANDS,
 TOUCH AND FEEL THE SUBSTANCE OF THE NATION
 WITHOUT A THOUGHT OF WHAT IT REALLY MEANS.
 BUT WHAT DOES G. I. JOE
 IN ITALY, ALASKA, GREENLAND
 OR DEEP IN THE SOUTH PACIFIC THINK?
 THERE ARE TEN MILLION JOES
 TO DREAM TEN MILLION DREAMS
 ABOUT THE LAND FOR WHICH THEY FIGHT.
 THEY DREAM - THOSE FARAWAY BOYS IN UNIFORM:-
 THEY DREAM OF THEIR KIND OF U. S. A.

MUSIC: DREAM MUSIC

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CHORUS: TEN MILLION DREAMS, ROLLED INTO ONE
ARE TEN MILLION DREAMS OF HOME.

MUSIC: MUSICAL FOOTPRINTS

NARRATOR THOSE ARE THE DREAM-DROUSY FOOTSTEPS
THAT WALK EACH NIGHT THROUGH DARKNESS
INTO CITY HOMES AND COUNTRY HOMES,
MOUNTAIN CABINS, FARM - -
THOSE ARE THE TEN MILLION HOPES
WHO ROAM THE LAND THEY LOVE.

MUSIC: UP AND SET SCENE FOR NEW ENGLAND

NARRATOR: HIGH NORTHEASTWARD LIES THE WINTER THUMB
AND ALL THE BEAUTY THAT IS NEW ENGLAND.
MAINE, WITH LAKES AND WATERFALLS -
RIVERS TUMBLING, FORESTS WEAVING FANTASIES
OF LEAVES AND LIMBS
VERMONT, NEW HAMPSHIRE,
CONNECTICUT, NEW YORK -
MOTHER PLACE OF DREAMS - FATHERLAND OF THE NATION.
THESE COMPOSE THE THOUGHTS
THAT MILLIONS OF BOYS IN UNIFORM
ARE THINKING NOW - TONIGHT.
THESE WINTER-MANTLED STATES ARE HOME
FOR MEN TO DREAM ABOUT -
THEY THINK OF HARBORS ALL ALONG THAT RESTLESS COAST
OF SHIPS THEIR FATHERS SAILED
OF PORTS THEY VISITED AS KIDS WHEN SUMMER CAME.

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NARRATOR: AND WHERE NEW ENGLAND HARBORS END
 THERE LIVES THE GREATEST HARBOR OF THEM ALL -
 CROWNED BY BUILDINGS THAT ARE MIRACLES.
 TEAMING, STREAMLINED CENTER OF THE WORLD -
 NEW YORK.

MUSIC: BEGIN RHYTHM STUFF

VOICES: HAVE YOUR FARES READY - TAXI TAXI
 FOLLOW GREEN LIGHTS TO THE WEST SIDE SUBWAY
 46TH FLOOR PLEASE - STEP ASIDE PLEASE
 RADIO CITY - TOUR FOR A DOLLAR
 TAXI TAXI - HEY TAXI!
 I R T B M T INDEPENDENT
 SUBWAY - SUBWAY - (KEEP REPEATING WORD SUBWAY UNDER:)

NARRATOR: ROARING, ANGRY, SHOUTING MONSTERS,
 FILLED WITH SHOVING, PUSHING HUMANS,
 GATES THAT OPEN, LIGHTS THAT FLASH ON,
 PUSH YOUR WAY IN, PUSH YOUR WAY OUT,
 TIMES SQUARE, 23, 14, BROOKLYN -
 UP TOWN DOWN TOWN, MIDTOWN, CROSSTOWN -
 FASTER, FASTER -
 GOT TO GET HOME, I'M TIRED

VOICES (UP WITH) SUBWAY. SUBWAY - (DROWN OUT NARRATOR)
 (STOP)

NARRATOR: YES - AND THERE'RE PLENTY WHO DREAM
 OF THE CITY THAT MEANS THE WORLD TO THEM
 THAT'S HOME.

CHORUS: TEN MILLION DREAMS ROLLED INTO ONE
ARE TEN MILLION DREAMS OF HOME.

MUSIC: SWANEE RIVER

NARRATOR: THERE ARE DREAMERS FARAWAY WHO TIP TOE IN THE NIGHT
 TO TOWNS AND VILLAGES THAT STILL WEAR WOUNDS
 OF ANOTHER WAR. FOOTSTEPS LINGER IN THE SOUTHERN
 HILLS,
 WHERE NIGHT HAS LAID A ROBE OF SILENCE
 AND SMELLS OF DYING HEARTH FIRES
 HUG THE TURNS AND CURVES OF MOUNTAIN SIDES.
 CITIES, PROUDLY BUILT, AND PROUDLY LOVED
 ARE HOME TO MANY LONGING HEART ABROAD.
 WIDE PLANTATIONS, LITTLE FARMS, TINY HOUSES,
 SHACKS AND RIVER BOATS,
 RICH AND SPLENDID MODERN CITIES,
 MANSIONS, SWAMP HUTS, BARGES,
 ALL ARE HOMES - HOMES FOR G. I. DREAMS TONIGHT.

ORCHESTRA: CONCLUDE SWANEE RIVER

CHORUS: NORTH - SOUTH - EAST - WEST
 NEATH THE FLAG THAT I LOVE BEST
 EVERYTHING FROM SEA TO SEA
 IS THE U. S. A. TO ME.

NARRATOR: BETWEEN THE SEA AND THE SEA
 THERE FLOWS RIVER -
 THE MISSISSIPPI - THE MOTHER-FATHER OF ALL WATERS

CHORUS: O MIGHTY MISSISSIPPI

NARRATOR: ROLLING, DRIVING,
 PONDEROUS, HEAVY, TIMELESS, RUTHLESS
 MISSISSIPPI.

SHE THE QUEEN, DRAWS ALL HER SUBJECT RIVERS
 TO HER BREAST, EXACTS THE TRIBUTE OF THEIR FLOW

CHORUS: O MIGHTY MISSISSIPPI

NARRATOR: GREEDY, THIRSTY, SOMETIMES ANGRY,
 OFTEN SOFT AND SENTIMENTAL -
 REACHING FROM THE DELTA FOOTSTOOL
 HIGH INTO THE WHEATCROWNED NORTH
 THE PROVEN MISTRESS OF A LAND
 OF WOVEN WATERWAYS.

CHORUS: O MIGHTY MISSISSIPPI

MUSIC: UP DYNAMICALLY

NARRATOR: AND ALL ALONG THE EDGES OF THE MISSISSIPPI ARE HOMES
 THAT GUYS WITH GUNS AND GUTS
 ARE THINKING OF TONIGHT.

CHORUS: TEN MILLION DREAMS ROLLED INTO ONE
ARE TEN MILLION DREAMS OF HOME

MUSIC: SEGUE INTO CHICAGO RHYTHM

CHICAGO: I AM CHICAGO.
HOG-BUTCHER - MEAT MAKER
LORD OF THE RAIROADS
MONARCH OF THE LAKE CITIES
I AM CHICAGO.
GREY STONED, SOFT HEARTED,
NOISE MAKING STOCKHOLDER OF THE MIDDLE WEST.
I OWN THE STOCKYARDS -
ACRES OF STOCKYARDS --
I AM THE MEAT PACKER - I AM THE FEEDER.
I OWN PARKS AND ART MUSEUMS,
I OWN THEATRES - I OWN TEMPLES -
I OWN TEN THOUSAND STONE MADE BLOCKS
OF CROWDED HUMAN BEINGS.
I AM THE CITY THAT DARES TO BE STRONG.
I AM THE MASTER
I KNOW KINDNESS - I KNOW HARDNESS -
I AM STOCKHOLDER OF THE MIDDLE WEST.

MUSIC: FINISH

CHICAGO: AND I AM THE HOME THAT THE KID WHO HAS WON
WANTS TO COME BACK TO WHEN HIS BIG JOB IS DONE.

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MUSIC: CONCLUDES CHICAGO SEQUENCE

CHORUS: NORTH - SOUTH - EAST - WEST
SOUTH WEST - SOUTH WEST - SOUTH WEST - SOUTH WEST
(FADE)

NARRATOR: AND IN THE SOUTH WEST
OKLAHOMA
COLORADO
ARIZONA
TEXAS - UTAH
PLACES WHERE THE
CATTLE RANCHES
REACH INTO
THE SETTING SUN.
COWBOYS RIDE ON
LONELY COW TRAILS
BRINGING IN THE
STRAGGLING DOGGIE.
DESERTS STRETCH IN
ENDLESS WONDER
HOMELAND FOR THE
GENTLE INDIAN.
THAT'S THE SOUTHWEST.

SINGER: SONG - THE CURTAIN OF NIGHT

NARRATOR: THERE IS STARLIGHT IN THE WEST TONIGHT.
 THOSE LITTLE TOWNS AND LONELY RANCHES
 ARE THE STUFF THAT DREAMS ARE MADE OF -
 WHEN SOLDIERS DREAM OF HOME.

CHORUS: TEN MILLION DREAMS ROLLED INTO ONE
 ARE TEN MILLION DREAMS OF HOME.

MUSIC: WIND THEME

NARRATOR: NORTH, NORTH, ACROSS THE CEILING OF THE NATION
LIKE THE STATES OF SINGING WHEAT,
HERE THE MODERN PIONEER STILL MEETS THE WIND,
HIS SONS ARE CHILDREN OF THE SUMMER SUN
HIS HOME IS HARBOR IN THE WINTER STORM.

MUSIC: WIND THEME CLIMAX

NARRATOR: MINNESOTA - THE DAKOTAS -
NEBRASKA AND WYOMING
IOWA - MONTANA -

WIDE AND BEAUTIFUL - WIDE AND WONDERFUL -
HOME OF HOMES FOR MILLIONS
THE THRESHOLD FOR A MILLION SOLDIER DREAMS.

MUSIC: THE ROCKIES THEME

NARRATOR: UP FROM THE BLUE PACIFIC
LIKE A BRIGHT AND FERTILE CARPET
LIFTS THE SLOPE OF CALIFORNIA -
RICH IN FRUIT AND AGRICULTURE -
RICH IN LORE OF ANCIENT DAYS.
UP FROM THE BLUE PACIFIC,
LIKE A STORY TOLD IN MUSIC
LIFTS THE SLOPE OF OREGON
DRESSED IN FARMS AND LOVELY TOWNS
JEWELS WITH SPARKLING LAUGHING RIVERS.
UP FROM THE BLUE PACIFIC
LIKE A SONG OF PARADISE
LIFTS THE SLOPE OF WASHINGTON
ROBED IN THE SPLENDOR OF THE FORESTS
CARVED BY THE SCULPTURE OF THE OCEAN.

MUSIC: ROCKIES THEME IN STRONG

NARRATOR: AND CROWNING THIS, IN AGELESS SPLendor -
 WITH BROWS OF SUN-CARVED TIMELESS ROCK,
 THE MAJESTY OF ALL OUR NATION,
 STAND AND WATCH -
 GOD OF A WESTERN WORLD !
 THE ROCKIES ! FASHIONED BY THE WIND AND WEATHER -

 THEY COUNT NOT TIME - NOR SPACE - NOR MAN -
 THESE ARE THE FATHERS OF ETERNITY -
 THESE ARE THE SILENT GARDENS OF THE SNOW -
 THESE ARE THE SOUNDLESS VOICES OF ALL TIME.
 THESE ARE THE ROCKIES,
 BEYOND THE NAME OF BEAUTY.
 THESE ARE THE SYMBOLS OF OUR STRENGTH -
 THE GOD MADE FORTRESS
 TOUCHING THE FLOOR OF HEAVEN
 AS IF TO FORM A COVENANT WITH HIM
 AS IF TO SAY TO US - BE STRONG - BE NOBLE -
 FOR YOU AND I ARE BOTH
 AMERICA.

CHOIR: MUSIC CLIMAX

NARRATOR: YOU HAVE HEARD THE DREAM OF MILLIONS -
AND NOW - UNTO THOSE DREAMERS - HERE,
OR THERE IN DISTANT PLACES,
WE BRING THEM A REPORT FROM THEIR NATION.
WE CALL TO THE BORDERS OF OUR COUNTRY
THE NORTH AND SOUTH, THE EAST AND WEST -

MUSIC: CALL THEME

MARCH: (GOLD)
 HERE IS SECRETARY OF THE UNITED STATES TREASURY
 HENRY MORGENTHAU, JR., WITH THE FINAL REPORT ON THE
 RESULTS OF THE FOURTH WAR LOAN DRIVE.

SEC. MORGENTHAU: ON JANUARY EIGHTEENTH, "FIVE MILLION PATRIOTS", MANY OF
 THEM VETERAN SALESMEN OF THE THIRD WAR LOAN DRIVE, WENT
 FORTH, CHARGED WITH THE RESPONSIBILITY OF RAISING FOUR-
 TEEN BILLION DOLLARS FOR THE WAR, THRU THE SALE OF BONDS
 THE JOB LAID OUT FOR THEM NOT ONLY CALLED FOR THE SALE
 OF FOURTEEN BILLION DOLLARS WORTH OF BONDS .. BUT ALSO
 REQUIRED THAT THEY BE SOLD IN THE RIGHT PLACES. THERE
~~WERE NO LARGE BLOCKS OF BONDS TO BE SOLD TO BANKS IN~~
~~THIS DRIVE.~~
SMALL LARGE INVESTORS WERE LIMITED IN THEIR PURCHASES.
THIS, MORE THAN ANY OTHER DRIVE, WAS TO BE
 "THE PEOPLE'S DRIVE".

SEC. MORGENTHAU: (CONT'D)

I CAN REPORT TONIGHT, THAT THESE FIVE MILLION VOLUNTEERS SUCCEEDED IN THEIR ASSIGNMENT .. SUCCEEDED ON EVERY COUNT.

BY THE END OF THE DRIVE, FOURTEEN BILLION ONE HUNDRED MILLION DOLLARS HAD ALREADY BEEN REPORTED.

DAY BY DAY, THE REPORTS KEPT COMING IN.

DOLLAR BY DOLLAR, THE FIGURES KEPT MOUNTING.

YESTERDAY, WE CLOSED THE BOOKS.

THE AMERICAN PEOPLE ANSWERED THE CALL OF THE

FOURTH WAR LOAN DRIVE .. NOT WITH FOURTEEN

BILLION DOLLARS .. BUT WITH _____

BILLION, _____ MILLION DOLLARS.

AND HERE IS A MOST SIGNIFICANT FACT. THAT FIGURE DOES NOT INCLUDE THE BOND SALES MADE TO BANKS DURING THE DRIVE!

340. MORGENTHAU: (CONT'D)

AND HOW ABOUT THOSE "E" BONDS, THE PEOPLE'S
BONDS .. HOW DID WE DO THERE?

WELL, YOU REMEMBER WE SET OUT TO SELL THREE
AND A HALF BILLION DOLLARS WORTH. I AM
HAPPY TO REPORT THAT WE EXCEEDED OUR QUOTA BY
NEARLY A HALF BILLION DOLLARS.

WE HAD SET OUR GOAL FOR INDIVIDUALS AT FIVE AND
A HALF BILLION DOLLARS. AND THAT GOAL, TOO,
WAS PASSED BY MORE THAN A HUNDRED MILLION DOLLARS.

ALL IN ALL, THE AMERICAN PEOPLE RESPONDED TO
THE FOURTH WAR LOAN DRIVE BETTER THAN EVER BEFORE.

SEC. MORGENTHAU:

THE CREDIT GOES TO EVERY AMERICAN WHO SOLD
 A BOND .. TO EVERY AMERICAN WHO BOUGHT A
 BOND.

I WOULD PERSONALLY LIKE TO THANK EVERY INDIVIDUAL
 WORKER - EACH COUNTY CHAIRMAN AND EACH STATE
 CHAIRMAN - FOR THE SPLENDID JOB YOU HAVE DONE.

I ALSO WISH TO THANK A MAN WHO DESERVES PARTICULAR
 RECOGNITION - THE NATIONAL DIRECTOR OF THE WAR
 FINANCE PROGRAM - MR. TED R. GAMBLE.

AMERICANS - YOU ALL HAVE DONE A SPLENDID JOB.
 HAND IN HAND - WE HAVE WON A MAJOR BATTLE HERE
 ON THE HOME FRONT.

NOW THAT THE OBJECTIVE OF THE FOURTH WAR LOAN DRIVE
 HAS BEEN REACHED, IT IS UP TO US TO CARRY - DOING
 THE SAME KIND OF GOOD WORK - WE MUST KEEP FIGHTING
 "OVER HERE" - JUST AS OUR BOYS KEEP FIGHTING "OVER THERE".
 WE MUST KEEP BUYING WAR BONDS - MORE AND MORE
 WAR BONDS - BETWEEN WAR LOAN DRIVES. WE MUST
 CONTINUE TO .. "BACK THE ATTACK"

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MUSIC: CLOSING THEME .. FORTE .. FADES ON CUE FOR:

CLOSING ANNOUNCEMENT

- E N D -

War Record On Exhibit At Gallery

Painting a war record from the fighting fronts has been the commission of such artists as Aaron Bohrod of Chicago, George Biddle, Howard Cook, Joe Jones, Edward Laning, Reginald Marsh, Ogden Pleissner and Henry Varnum Poor of New York, whose works are on exhibit in the National Gallery of Art in "The Army at War" display. The War Department loaned the art record to the Treasury Department, which arranged for the promotion of the sale of stamps and bonds.

Exciting war experiences were the topic of conversation when Ted R. Gamble, national director of the Treasury's War Finance Division, and Mrs. Gamble recently gave a buffet supper in the ballroom of the Hotel 2400, honoring the artists.

Among the guests were the Assistant Secretary of War and Mrs. John J. McCloy, Undersecretary of the Treasury and Mrs. Daniel W. Bell, Mrs. Dorothea Greenbaum, nationally known sculptor and wife of Gen. Edward S. Greenbaum; Mr. and Mrs. David Finley, Col. Douglas Parmentier, Miss Jafe Watson, Charles Skuras, S. A. Nicketson, Jr., B. V. Sturdivant, Mr. and Mrs. Forbes Watson, Edward Rosenfeld and Miss Maria Esland.

MJB-938

This telegram must be paraphrased before being communicated to anyone other than a Government agency. (BR).

Chungking

Dated February 26, 1944

Rec'd 8:05 a.m.

Secretary of State,

Washington.

384, February 26, 10 a.m.



Department's circular telegram dated February 22.

Text of declaration and note of transmittal were handed February 25 to the Political Vice Foreign Minister by the Counselor who orally informed Dr. Wu in the sense of the final paragraph of reference telegram.

Dr. Wu stated he felt sure his government would be able to take parallel action but perhaps not for a week as matter would have to go before the Executive Yuan.

G.USS

Property control re Axis

WSB

TELEGRAM SENT

50

AMJ

This telegram must be paraphrased before being communicated to anyone other than a government agency. (SC-00)

February 26, 1944

9 p.m.

(SC-00)

CONFIDENTIAL

For security reasons the text of this message must be closely guarded.

AMEMBASSY,

CHUNGKING.

271

FOR ADLER FROM THE SECRETARY OF THE TREASURY

Reference is made to your cable No. 367 dated February 23, 1944.

Treasury agrees to your proposal that in discussions between Dr. Kung, the Ambassador and yourself, reference should be made to Kung's message transmitted in your 166 and 169.

STETTINIUS
Acting
(JSH)

FMA:JSH:HG

2/26/44

FL

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD
WASHINGTON 25, D. C.

OFFICE OF THE
EXECUTIVE DIRECTOR

FEB 26 1944

My dear Mr. Secretary:

I am sending you herewith our report of developments for the week of February 21-26.

We are particularly proud of what we were able to do on Ira Hirschman's request for help on the shipping situation in Turkey. Late Tuesday we received Hirschman's cable informing us that a 3,700 ton vessel, the "SS Vatan", might be chartered to bring 800 to 1,000 refugees out to Istanbul, provided a guarantee were given the Turkish Government that the vessel, if lost, would be replaced by one of comparable tonnage. That same day we arranged to have Stettinius call Admiral Land to "pave the way" and the next day at 10 a.m. DuBois and I talked with Land. Before the day was over, we had a letter from Land authorizing us to commit the War Shipping Administration to the replacement desired by the Turkish Government, subject to clearance with Lend Lease. We obtained clearance from Lend Lease the same day and drafted a cable to Hirschman which was sent to State the following morning. We regard this as a most significant precedent in so far as our shipping problems are concerned. It should also operate to facilitate Hirschman's dealings with the Turks and help an actual evacuation get under way at once.

Very truly yours,


J. W. Fehle
Acting Executive Director

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

DEVELOPMENTS DURING THE WEEK OF
February 21-26, 1944

1. DECLARATION ON NAZI ATROCITIES TO THE JEWS

The proposed declaration was approved by Secretary Morgenthau and shown to Mr. Stettinius whose reaction was favorable. It was then cleared with McCloy and Bundy of War and we are now pushing forward for final clearance. It is felt that a declaration of this kind would be a tremendous starter for our psychological warfare program.

2. COOPERATION WITH OTHER GOVERNMENTS

a. British

We conferred with Mr. Hayter of the British Embassy in Washington concerning the British position with respect to the availability of Palestine certificates for refugees escaping from Nazi Europe to Turkey and other neutral areas. A copy of the British statement to Secretary Hull of September, 1943, on this question was made available to us by Mr. Hayter. We have cabled the text of this letter to Hirschman for his information. Since the British statement is somewhat ambiguous we are working on a request to the British for a clarification of their position.

b. Russia

We are presently working on a draft of a cable to Russia, asking for her cooperation. In particular, it is felt that her assistance would be of considerable value (1) in bringing pressure on the satellites, (2) in the problem of transportation in the Black Sea area, and (3) in joining with us on a declaration concerning the Nazi atrocities against the Jews.

Hirschman has talked with the Russian Ambassador in Turkey concerning Russia's help in breaking the Bulgarian bottleneck. The Russian Ambassador has agreed to discuss the problem with the Bulgarian Ambassador in Turkey. In connection with the problem of getting Russian support for our request to the Turks for permission to use a ship for evacuating refugees, the Russian Ambassador has suggested to Hirschman that a cable be sent from Washington to Harriman asking him to take up the matter in Moscow.

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c. Neutrals.(1) Turkey

Steinhardt cabled that his detailed report on the refugee situation in Turkey was necessarily delayed by his present discussion with the Turkish authorities. His report is expected to go forward on February 21st.

As a follow-up to the Hirschman appointment, a cable was sent to Steinhardt along the lines of our cable to Spain requesting Steinhardt to obtain from the Turkish Government effective measures to encourage the entry of more refugees by relaxing border and other controls to facilitate entry of refugees from Bulgaria and Rumania and to make an announcement that the entry of refugees into Turkey is permitted. It was indicated that the War Refugee Board would take all measures, financial and otherwise, to aid in the evacuation to Turkey and to maintain refugees in Turkey and to arrange for their removal to other places, if such action became desirable. It was suggested that Steinhardt might wish to discuss the possibility of setting up camps in Turkey. Since one of the basic difficulties of evacuation is transportation, Steinhardt was asked to advise us of any measures which can be taken by the United States to see that shipping is available.

Before the above cable was dispatched to Steinhardt, a cable was received from Hirschman pointing out the desperate need for a boat to immediately evacuate refugees from Constanza to Istanbul. He stated that a 3700 ton vessel, the "SS Vatan" could be chartered to bring out to Istanbul 800 to 1,000 refugees, in dire danger of starvation and death. The International Red Cross had agreed to procure safe conduct for this ship from all belligerent powers concerned. However, since the Turkish Government fully controls all private shipping, it had refused to permit the owners to enter into a

- 3 -

charter agreement unless the Turkish Government were assured that the vessel, if lost, would be replaced with one of comparable tonnage. The same day that this cable was received, the matter was discussed with Stettinius who called Admiral Land. After conferring with Land, we obtained a letter from the War Shipping Administration committing the United States to replace the "SS Vatan", if sunk, subject to clearance by Lend-Lease. We immediately obtained the necessary clearance from Lend-Lease and a cable was dispatched to Hirschman setting forth that he could give the Turkish Government the assurance it had requested with respect to the replacement of the "SS Vatan". We have also asked Hirschman and Steinhardt to advise us as to the possibilities of obtaining other Turkish vessels if similar guarantees were given to replace those vessels.

There have been reports that some 10,000 Jews in France may be subject to deportation because they were divested of their Turkish nationality by operation of Turkish law. Our Embassy is discussing this with the Turkish authorities in the hope that the latter will interest themselves in protecting these Jews from deportation. In addition, Ambassador Steinhardt has talked with the British Ambassador in Turkey who agreed to send a note to the Turkish Foreign Office concerning the plight of these Jews. The British will indicate their support of Steinhardt's previous requests to the Turkish Government to make the necessary representations to the Vichy Government that these Jews not be deported from France.

(2) Switzerland

We received a report from Harrison that the Swiss Department of Justice and Police is forming a consulting committee of Swiss interested in refugee problems which will advise the Swiss Government on proposals from various sources concerning refugee matters.

A preliminary report has been received from Harrison

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concerning the refugee situation in Switzerland and the willingness of the Swiss federal authorities to be of help on this problem. More than 70,000 refugees have already been admitted to Switzerland and it is reported that they are presently arriving in Switzerland at the rate of 90 to 100 a night. One of the most important problems relative to refugees in Switzerland is that of providing food and clothing. We are pressing for assurances to be made to the Swiss that larger trans-blockade quotas of these supplies be allocated to Switzerland in proportion to the increase in the number of refugees received by her.

(3) Spain.

The cable to Hayes on the Spanish refugee situation finally cleared State and was dispatched this week.

(4) Eire.

A report was received from Minister Gray in reply to the circular instructions of January 26th, stating that it would be possible to obtain permission for the entry of about 500 Jewish children into Eire, pointing out however, that the main problem in gaining entry was the difficulty of getting the children to Eire. He stated that the War Refugee Board would have to arrange for the necessary transportation.

(5) Sweden.

In reporting on transportation problems in Turkey, Hirschman suggested the possible use in the Black Sea of Swedish ships now carrying food from Canada to Greece. We discussed this matter with the Swedish Minister in Washington and he is cabling his government immediately requesting that consideration be given to this matter. We advised Hirschman of this action.

(6) Latin American Countries.

Reports were received this week from our Missions in Panama, the Dominican Republic, El Salvador and Haiti. The report from Panama expresses little hope for co-

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operation from the Panamanian Government, in view of the fact that that Government has prohibited the immigration of war refugees and is actively engaged in discriminating against those already there. The report from the Dominican Republic states that the latter's offer to receive as many as 100,000 political refugees is still technically open, but only a few hundred refugees have been admitted to date. A later report will be submitted concerning the official reaction of the Dominican Republic to this Government's new program. The report from Haiti states that there are no restrictions upon the entry of Jews into that country, but that the Haitian Government was not in a position to support any refugees. The report from El Salvador indicated that, while El Salvador had restricted the number of immigrants to that country, it would give sympathetic consideration to our program and the matter will probably be discussed soon at a cabinet meeting. A wealthy and well-organized Jewish community in El Salvador is willing to maintain any refugees who might enter El Salvador.

3. PROPAGANDA

After further consultation with O.W.I., we are now preparing to go through with an intensive propaganda program, particularly with respect to the satellites. A memorandum outlining our desires in this matter was presented to Lt. Col. Thompson and O.W.I. has cleared the program with the military and has issued a policy directive based on our request. In order to make this policy directive effective it will be necessary for us to supply O.W.I. with news pegs on which they can base their propaganda. We are working on this.

4. APPROACH TO THE SATELLITES.

This matter is still pending at State where it has not yet been cleared because of the political aspects involved.

5. SHIPPING

It now appears that shipping facilities may not be the tremendous problem we originally anticipated. The problem seems to

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be mainly one of replacing tonnage or offering to replace it and we have now established, in the Turkish situation, a precedent for this Government's assuring such replacements. In view of the large production of ships and our small losses in recent months, it is believed that with a little pressure we should not encounter much difficulty in obtaining the necessary tonnage or guarantees of replacement for evacuation projects.

Admiral Land was extremely cooperative in the Turkish matter and the indications are that we will have no difficulties in working with War Shipping. We are also trying to get a shipping man to work on our staff.

6. USE OF GOLD COIN BY WAR REFUGEE BOARD REPRESENTATIVES ABROAD

In order to facilitate the carrying out of their instructions and the policy of this Government to immediately rescue the victims of enemy oppression, arrangements are being made to supply our representatives with gold coin in the event that cash payments in gold become necessary. We have already arranged to have 2,000 gold sovereigns flown from Cairo to Ankara for Hirschman's use.

7. SPECIAL PROJECTS.

a. Evacuation of refugees from Spain to North Africa.

A cable has been sent to Blickenstaff in Madrid, to be repeated to Ackerman in Algiers, impressing upon him the urgency of making arrangements to move refugees from Spain to North Africa, even on a compulsory basis, if necessary. We were unsuccessful in getting UNRRA to send a similar cable to Beckleman, their man in Spain, because of the involuntary aspects of our cable. However, we asked Blickenstaff to show our cable to Beckleman.

b. Polish refugees interned at Vittel and elsewhere in France who have South American passports.

Reports have been received that the Germans will no longer recognize the South American passports issued to Polish

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Jews in France and will deport the holders to Poland. It is also reported that the Swiss Government may take punitive action against the people in Switzerland who enabled the internees to procure such passports. A cable to Bern has been prepared and sent to State asking Minister Harrison to take appropriate action to induce the Swiss Government to take active steps to avoid the seizure or other non-recognition by the Germans of these Latin American passports and to induce the Swiss Government itself to desist prosecuting those who assisted in the procurement of these passports.

c. Feeding of internees in Thereisenstadt.

We approved the issuance of a license to the JDC to remit \$12,000 monthly for the purchase of food in Switzerland for distribution by the International Red Cross to internees in Thereisenstadt.

d. Evacuation of Jews from Poland and Slovakia into Hungary

The operations of the Union of Orthodox Rabbis of the United States and Canada on this program are now under way. A report was received from Bern this week to the effect that the Union's representative in Switzerland has purchased 100,000 Hungarian pengoes for 23,077 Swiss francs, the latter remaining in Switzerland. The pengoes were turned over to three persons in Hungary prepared to undertake the rescue work. Through a similar arrangement, funds will also be made available for rescue work in Slovakia.

8. FUNDS FOR WAR REFUGEE BOARD PROJECTS

We are now working with the President's War Relief Control Board and the National War Fund on the problem of making funds available for war refugee purposes.

9. CENSORSHIP

We have arranged to have all censorship intercepts on refugee matters referred to us and we are working with O.S.S. to be furnished their reports on the question.

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10. DESIGNATION OF SPECIAL REPRESENTATIVE IN NORTH AFRICA

A cable has been sent appointing Leonard Ackerman, Treasury representative now in Algiers, as special representative of the War Refugee Board in North Africa. He has been instructed to work on the Camp Lyauty matter.

11. PRESS RELATIONS

As a direct result of the dinner given last week by Morris Ernst for Pehle, Quincy Howe, one of the columnists present at the dinner, devoted most of his CBS broadcast, at noon on February 21st, to the program of the War Refugee Board.

12. PERSONNEL

Anne Laughlin has reported to our staff. She came to us on our terms. Mrs. Mannon of the Treasury Public Relations Office has been assigned to work part time on public relations problems.

BAD NEWS: WAR REFUGEE BOARD HAS INSUFFICIENT FUNDS FOR LARGE-SCALE RESCUE WORK

by a reporter of the Forward

Mr. John Pehle, director of the War Refugee Board, created to rescue Jews and other victims of the Hitler Gehena, declared before a Jewish delegation that the Board so far has insufficient funds to conduct rescue work on a large scale. This was reported at a meeting of a large Jewish organization which had sent the delegation to the rescue-director in Washington.

The Jewish delegation went to Washington under the following circumstances:

The director of the War Refugee Board has turned to many Jewish organizations asking them for information about their relief activity on behalf of the needy Jews in Europe and the measures taken to alleviate their plight. Since this particular organization has many other organizations affiliated with it and it occupies itself a great deal with rescuing Jews of Europe, it responded immediately to the director's request and worked out detailed plans for conducting rescue work. A delegation from this organization was then sent to Washington to submit the plans to director Pehle and to discuss certain instances where relief is of immediate necessity.

The delegation had an audience with the director but when the members pointed out certain instances where immediate aid is necessary, the director stated that aid immediately cannot be given because so far there is no money. The government has made no appropriation as yet for this purpose and opinion has it that Jews will be turned to to finance the rescue work.

Immediately the delegation visited a number of Congressmen and Senators informing them about it. Those gentlemen were perplexed but promised to look into the matter and prevail upon the three members of the Board that the government should finance the activity.

The delegates made it clear to the Congressmen and Senators that it is virtually impossible to impose the burden of such relief work upon the Jews. Several hundred million dollars is required for such work. It is a task which only the government can undertake. Besides, the U.J.A. has just decided on a program for a 32 million dollar relief fund which cannot incorporate even part of the rescue work. No larger fund can now be created by Jews. A few Senators immediately went to see Secretary of State, Cordell Hull, about the new situation.

At the meeting, where this problem was taken up, various plans were discussed now to effect the government's financing the rescue work. There was a divergence of opinion in connection with publicizing the news. The opinion prevailed that the news should not be published as yet but a few representatives declared that they will publicize it. The question aroused a heated discussion particularly because of the Palestine Resolution now under consideration. Some pointed out that since one cannot approach the State Department with many problems at the same time, the question of financing the rescue work should be postponed. On the other hand, there were others who argued that the Jewish people is of greater importance than the Jewish homeland and that if postponement should lead, G-d forbid, to the annihilation of a certain number of Jews, then it is more important to consider first the problem of financing the rescue work rather than talk about the Palestine Resolution.

EXHIBIT C

No. 2516 (R-2337).

AMERICAN CONSULATE GENERAL
Istanbul, Turkey, February 26, 1944.

SUBJECT: An Account of Conditions in Bulgaria as
Given by Two Emigrants Recently Arrived
in Istanbul.

THE HONORABLE
THE SECRETARY OF STATE
WASHINGTON

SIR:

I have the honor to present below statements made by two Jewish emigrants recently arrived in Istanbul from Bulgaria. While information given by them is more exact in connection with the Jewish situation the general information which they were able to give helps to fill in the picture of conditions prevailing in Bulgaria today.

Conditions Among Bulgarian Jews: A Jewish tobacco merchant from the Bulgarian town of Haskovo arrived with his family in Istanbul on February 23. He stated that the condition of the Jews in Haskovo, including both the Jews who are natives of that town and those who were evacuated there from Sofia in May, 1943, is much better than conditions prevailing in many other towns. The difference is due to a considerate official who represents the Commissariat for Jewish Affairs in Haskovo, a man who is described as being naturally considerate and also opposed to the present policies of the government. This man believes that the Allies will win the war and that Bulgaria should direct her course accordingly. In Haskovo three hundred and fifty Jewish people are being fed in a public kitchen at the expense of the Commissariat for Jewish Affairs. These are people all of whose resources have been exhausted since Jews were forbidden to work.

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Anti-Semitism
Is Not General:

The condition of Jews is worse in the towns of Vildin, Lom, Vratsa, Peridnand, Plovdiv and Berkovitsa, and worst of all the last named place. Wherever the Commissar and other officials are hostile, conditions for the Jews are bad, but where the Commissars are lenient or considerate, conditions, though difficult, are still bearable. In general, the ordinary people do not appear to harbor any anti-Semitic sentiments. Many Bulgarians help the Jews in one way or another. The emigrant said that he had deposited money with Bulgarian friends and in this way was able to support his family reasonably well.

Food Con- With regard to food conditions, he said
ditions: that the general situation is much better than last year. Food, with the exception of fats, is reasonably abundant in the country districts but the peasants are unwilling to sell at the prices fixed by the government. He said, for example, that the price of cooking fat was fixed at thirty-two leva a kilogram, whereas the black market rate was three hundred leva, and that at this latter rate those who had money could supply themselves with cooking fat. Meat is scarce even on the black market. Bread is abundant and good. For some time white bread of a quality quite equal to that preceding the war has been on sale. As the supply of bread is now sufficient, the sale of bread on the black market has ceased. The black market has got quite beyond the control of the authorities although arrests are still occasionally made and fines or other penalties imposed.

Difficultly in The emigrant has not been in Sofia since
Obtaining Visas: the bombardment, as it is almost impossible for Jews to get permission to visit the capital. Those emigrating employ Bulgarian agents to obtain the permits and visas necessary. Now that so many of the public offices have been distributed about the country it is difficult to complete any business requiring official certificates. In his case the most difficult visa to obtain was the Turkish which he finally obtained by the payment of 10,000 leva at the Turkish Consulate, and this notwithstanding the fact that the visa had been granted months before. He said that he believed all emigrant Jews were required to pay exorbitant fees in order to obtain the Turkish visa.

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Evacuation of Towns: The population of Bloudiv has been almost entirely evacuated to the surrounding towns and villages with the exception of the Jewish population. The population of Burgas has also been evacuated to the surrounding villages. Some business is still carried on in Bloudiv and the factories are working. The local government offices are also open.

The Dispersal of Government Offices: In connection with the dispersal of the government offices, the emigrant said that the Swiss Consulate has an office in the suburban town of Kayashevo and that the Turkish Consulate is supposed to have an office in a private house about four kilometers from Sofia on the Samokov highway. The Ministry of Education has been moved to the village of Belovo near the railway station of Para Belovo, which is fifth-eight miles from Sofia on the railway between Sofia and Bloudiv. The Ministry of Public Works has been removed to Vratsa.

The Political Outlook: With regard to political affairs the emigrant said that he was not in a position to make a general survey of the political outlook at the present time. He referred to the great activity of the Minister of the Interior, Decho Hristov, in making speeches about the country and organising for the purpose of maintaining internal order and checking the movements working in opposition to the government. He described Mr. Hristov as a man without much originality of thought and said that it was understood his ideas were derived mainly from a lawyer friend, Dosi Breganov, of Sofia.

The Communists: The Communist movement is reported to be growing. The communist and pro-Soviet element, he thinks, comprise at least ninety per cent of the population. To the present time, however, this movement remains more or less amorphous through lack of decided leadership, although he understands that an organisation exists which has its branches in all parts of the country both among working people and the peasants. He thinks that communism is widespread in the army and that this is giving the government considerable worry. He thinks the Bulgarian communists plan to wait until the Soviet armies have taken Odessa and

approach the Balkans, meanwhile completing their organization, and then, at a favorable moment, attempt to seize power. While he was en route to Svilengrad at one of the railway stations his train passed another train coming from Svilengrad on which fifty soldiers, arrested for communism at some frontier post, were being taken away for trial. He learned this last fact from a fellow Bulgarian traveller.

In spite of this widespread communism, conditions in the country for the present remain calm, although there is deep anxiety regarding the immediate future. The new military police force - an evidence of such anxiety - which is being organized under the Ministry of the Interior, has as its primary purpose the work of combating communism and the illegal elements in the country. He thinks that this will be a benefit from the standpoint of public order because it will relieve the local police of these two responsibilities allowing them to devote their attention to ordinary local police activities.

A young woman, twenty-three years of age, who is a native of Bloudiv, arrived in Istanbul on February 24 en route for Palestine. She is a graduate of the American College of Sofia, class of 1941. Her father is a practising physician in Bloudiv and was the head of the Zionist organization in Bloudiv until it was disbanded by the authorities. He also served as the official head of the Jewish community of Bloudiv which normally numbers about five thousand people. Because he had received the Order of Valor for meritorious service in the Bulgarian army in the First World War, he was one of the few Jewish doctors in Bulgaria allowed to continue practice. This young woman gave a very vivid account of her own experiences and of other matters which came to her personal attention.

Reference In connection with the opposition in
to Speech by Parliament to the policies of the present
Prof. Stainov: government she said that she had read a
typewritten copy of a report of a speech
made in Parliament on January 25 or 26, 1944, by Petko
Stainov, who is regarded as the most outspoken opponent
of the government in Parliament. In this statement
Professor Stainov, who is accused by the patriots of

being a Bulgarian traitor and is called the Bulgarian Badoglio, charged the government itself with responsibility for the calamities which have overtaken Bulgaria. "If there are traitors," he declared, "they are the leaders of the government, who without a cause declared war on the United States and Great Britain and thus brought calamity upon their own country." Professor Stainov was not allowed to complete his speech.

Personal This young woman, together with her family, Treatment: was arrested in March, 1943, with the first group of Jewish families scheduled to be sent to Poland. The first group included all the leading families in the Jewish community in Bloudiv. She said they were aroused by the police at two o'clock in the morning and ordered to prepare immediately to travel. The police remained in their rooms while they were packing their bags and preparing to leave. They were not told what was to happen to them. At four o'clock in the morning they were assembled in the Jewish school in Bloudiv where they remained about six hours. During this time outraged Bulgarians raised a great protest against the proceedings as was recorded at that time (refer to despatch No. 297, dated March 22, 1943). About ten o'clock in the morning the men in the party were taken aside and given back the keys to their houses and told that they might go home. They had not previously been told where they were going and now were not told why they had been released, so they did not know whether their release was temporary or permanent. As soon as it was realized that they were to return to their houses, all fell into a state of hysteria and all sang the Bulgarian national anthem, "Shumai Maritza".

This young woman, while acknowledging the great help the Jews received from certain leading Bulgarians and from the people generally, believes that the final reason why deportation at that time did not succeed was the lack of organization and previous preparation. She believes that at present there is no danger of deportation. The treatment of the Jews under the present Minister of the Interior, Docho Briztov, is much better than under the previous regime but they are still subject to all the rigors of the law.

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House Arrest of Jews in Bloudiv: The Jews in Bloudiv were free to go about the city from 6 a.m. to 6 p.m. until the bombing of Sofia. After that event they were confined to their houses, with the exception that the head of the family could go out two hours every day to transact the necessary family business, but for any other relaxation of the regulations special permission had to be obtained. The Jews were accused of rejoicing at the bombing of Sofia and hence were punished by losing their liberty. The police are usually brutal toward the Jews and when searching their houses take away valuables for their own profit. Most of the Bulgarian people, however, do not appear hostile to the Jews and do them many kindnesses. She especially mentioned in this connection the Reserve Colonel Akrabov of Bloudiv, who publicly and incessantly protested against the treatment of the Jews. Colonel Akrabov has a nephew in the United States, recently a student in van Rensselaer Polytechnic Institute. In leaving Bulgaria the young woman said the train officials and the frontier officials, including the German passport men, all treated her courteously. A ticket collector said: "You are leaving the country and your troubles will soon be over, but ours will never be over."

Complete Impoverishment: In referring to living conditions of the Jews at the present time, particularly in Bloudiv, she said that their condition is continually growing worse. In the earlier months of their persecution large numbers of Jews had managed to secrete some money or valuables which they could use to help eke out their support. They also had the funds which they had been compelled to deposit in the Bulgarian National Bank. Most of these funds have now been used up, as have also secret supplies of money and valuables. After Docho Hristov became Minister of the Interior, Jews were allowed to sell their furniture, which they have done, but most families have not much furniture left. Also the demand for furniture has almost ceased because of the evacuation of the town populations to the villages. People no longer want furniture. Hence, if present conditions continue through next winter, it is likely that large numbers of Jews will be reduced to starvation.

An Instance of Harshness: In this connection she referred to a young Jewish woman dentist from Sofia, who is assigned with her husband and

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mother-in-law to live in one room of the house belonging to the informant's father. The dentist was allowed to stay in Sofia and work there, because her father had been killed while serving with the Bulgarian army in the First World War. When all Jews, including those with privileges, were compelled to leave Sofia, the authorities confiscated her dental equipment and gave it to the Dental School of the University of Sofia. Her piano was likewise confiscated. Other articles of furniture she was allowed to sell.

Blovdiv Evacuated: In connection with the evacuation of Blovdiv, she said that it was reported among the people that about seventy thousand, out of the population of a little more than one hundred thousand, had left the city. The factory workers are mobilized and compelled to stay. The Jewish population of at least seven thousand, including Jewish refugees from Sofia, is also in the city and some other people have stayed voluntarily. The city hospital has not been evacuated and is still carrying on its work. She said that a great air raid shelter is being prepared under the hills which dominate Blovdiv, particularly under the hill called Sahat Tepe, which has a clock tower on top and a station from which watch is kept for planes. Work on these shelters, which are in the form of tunnels under the hills, is being rushed to completion as rapidly as possible. Some parts of the tunnels are already in use.

Respectfully yours,

Burton Y. Berry
American Consul General

To Department in original and
hectograph.

FHB:sa

File No. 620.02.

Enclosure no. 1 to despatch no. 1621 of February 26, 1944
from the American Legation at Cairo, Egypt.

MERRA REFUGEES

JEWS

Full facilities, including accomodation, medical attention and transport, have been provided by MERRA and the British Army to Jewish refugees in transit through Egypt. Such refugees, numbering approximately 2000 during 1943, originated from the Yemen, Persia (Polish Jews) and North Africa.

2. Arrangements are being made for the reception of a certain number of Jewish refugees from Italy who have immigration visas to Palestine or who are Yugoslav nationals. Negotiations are also understood to be proceeding for the transfer to Palestine via Turkey of a certain number of Jews from the Balkans.

POLES

MERRA has been responsible for the reception in Persia of Polish refugees from Russia.

There are 1500 Polish refugees in Mexico, 4000 in Rhodesia and 500 in South Africa. In addition 10,000 are now being maintained in Persia, 4500 in India, and 12,000 in the East African territories.

GREEKS AND DODECANESIANS

SYRIA. Accomodation is provided at Aleppo for a maximum of 2000 and at Beirut for a maximum of 800.

PALESTINE. Approximately 8750 Dodecanesians and Greeks are being maintained in refugee camps.

EGYPT. Approximately 2000 refugees are at present being maintained in Moses Wells camp. The Egyptian Government's objections to admission of refugees on the grounds of an increase of the alien population has been overcome by the British Government's guarantee that all refugees will

- 2 -

be repatriated after cessation of hostilities and that the British Government will be responsible for their maintenance and control in refugee camps while in the country.

Approximate numbers of Greek refugees in other countries are given below:

Cyprus	5000
Abyssinia	750
Belgian Congo	2,450
East Africa	500

YUGOSLAVS

Approximately 11,500 are being maintained at the El-Shatt Camp in Egypt. A total number of 25,000 in the near future is envisaged. The British Government have given a similar undertaking regarding Yugoslav refugees as was given in the case of the Greeks.

In addition MERRA have dealt with many small pockets of refugees, e.g. Libyan Jews, but the numbers are too exiguous to warrant special mention.

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

AMERICAN LEGATION

Cairo, February 26, 1944.

No. 1621.

Subject: War Refugee Board--Middle East
Refugees.

The Honorable
The Secretary of State,
Washington.

Sir:

At the end of my airgram no. A-84, February 11, 11 a.m. reporting on the possibility of Egyptian assistance in the work of the War Refugee Board it was stated that the Middle East Relief and Refugee Administration had been asked for certain figures on this subject. I now have the honor to report that the promised material has been received and copies of the communication are enclosed.

As will be noted, the information provided confirms the substance of my earlier report and shows that the Government of Egypt has been relatively cooperative in the difficult task of dealing with displaced populations. When it is considered that the population density of Egypt is one of the highest in the world (around 1200 per square kilometer is quoted by Rosa El-Youssef,

cc: Chauncey, Abrahamson, Akzin, Bernstein, Cohn, DuBois, Friedman, Gaston, Hodel, Laughlin, Lesser, Luxford, Mann, Marks, McCormack, Murphy, Paul, Pollak, Rains, Smith, Standish, Stewart, H. D. White, Fehle, Sargoy, Mannon, Weinstein, Files

- 2 -

an Arabic weekly) and that every square meter of arable land is utilized, the limitation under which the government is placed becomes readily understandable.

Respectfully yours,

/s/ A. Kirk

Alexander Kirk

Enclosure as stated.

Sent to the Department in ozalid.
file no. 848
HAD/rq

TELEGRAM SENT

PLAIN

For security reasons the
text of this message must
be closely guarded.

February 26, 1944

AMREP,

ALGIERS.
013, Twenty-sixth
FOR HOFFMAN FROM SECRETARY MORGENTHAU

Reference is made to Telegram No. 320 of January 29,
your No. 432 of February 10, and Department's airgram of
January 26. State Department's cable of today's date
designates Leonard E. Ackermann, United States Treasury
representative in French Africa as Special Representative
of the War Refugee Board. This designation has my full
approval. It is understood that Ackermann may continue
his duties as United States Treasury representative in
French North Africa in so far as they will not interfere
with his work as representative of the Board.

As Senior Treasury Representative you will of course
cooperate fully with Ackermann in the important task which
has been assigned to him.

STETTINIUS
(Acting)
(GLW)

ACTING

WRB/GLM/KG
2/23/44

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A-S/Z

TELEGRAM SENT

73

PLAIN

February 26, 1944

Y
AMREP.

ALGIERS.

612, Twenty-sixth

Please refer to Department's airgram of January 26 in regard to the establishment of the War Refugee Board.

The Acting Director of the Board, John W. Pehle, and the Treasury Department have worked out an arrangement whereby Leonard E. Ackermann, United States Treasury representative in French Africa, has been designated as Special Representative of the Board. It is understood that he will continue with his duties as United States Treasury representative in so far as they do not interfere with his work as Special Representative of the Board.

You should advise Ackermann that as representative of the War Refugee Board -

- (a) he is charged with the duty and responsibility of carrying out the Board's policies and progress in French North Africa;
- (b) he is responsible to you and should discuss his activities and problems with you regularly and fully;
- (c) you should provide him with the necessary communication facilities in carrying on his official duties;
- (d) he shall extend all possible assistance to you in carrying out the instructions contained in the Department's reference communications;
- (e) he shall work with and give all possible assistance to public

-2- #612, February 26, to Algiers

to public and private agencies operating in French Africa in this field regardless of whether such organizations are American foreign, or international;

(f) he shall develop and assist in the development of programs and implementation of measures for the rescue, transportation, maintenance and relief of refugees;

(g) he shall forward to the Board recommendations and frequent reports of progress of work and difficulties encountered;

(H) in so far as the Trading with the enemy Act is concerned, the Secretary of the Treasury has vested in the War Refugee Board and its representatives in the field full authority to communicate with enemy territory to carry out the purposes of the Order. The Secretary of the Treasury has also delegated to the War Refugee Board and its representatives the power to authorize any public or private agencies, who may be subject to the provisions of our Trading with the enemy Act, to communicate with enemy territory for the purpose of carrying out the Order. Ackermann is authorized to act accordingly.

Further instructions will follow from time to time.

Meanwhile it is suggested that Ackermann immediately contact the UNRRA representative in the North African area with a view toward familiarizing himself thoroughly with the program under which it is contemplated that certain refugees in Spain will be transported to Camp Marechal Lyautey near Casablanca.

Cost

-3- #612, February 26, to Algiers

Cost of telegrams despatched in Ackermann's behalf
should be charged through your accounts for reimbursement
by War Refugee Board.

STETTINIUS
(ACTING)
(GLW)

MRE/GLW/KG
2/23/44

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TELEGRAM SENT

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (SQ-00)

PLAIN

February 26, 1944

Midnight

AMREP,

ALGIERS.

608

Please repeat to Department your reply to Madrid's 61, February 18, concerning security screening of refugees for camp at Fedhala.

STETTINIUS

ACTING
(GHK)

WEB:MCC:KG
2/22/44

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TELEGRAM SENT

PLAIN

War Refugee Board

February 26, 1944

AMEMBASSY

MEXICO, D.F.

404, twenty-sixth

Please advise Department regarding present status of proposal to move Spanish-Republican refugees from North Africa to Mexico which is subject of Department's instruction no. 5011 December 30, 1943.

STETTINIUS

(ACTING)
(GIW)

WRB:MCC:KG
2/22/44

EH SWP

TO: Mr. Pehle

For your information.

I also sent Mr. Pinkus a copy of your statement for "The Answer."

Mr. Pinkus telephoned me today to tell me how pleased he was with the material he was getting from us and I believe you will be pleased to know that he said he wished they could get anything like the same cooperation from other agencies.

V. M. Mannon

February 26, 1944

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Dear Mr. Pinkus:

Our reports on extermination of the Jews are substantiated by the following which has just come to us from Jerusalem:

"Among Polish Jews arrived here recently one left Poland last May. They report uninterrupted extermination. Only hundreds of thousands remaining of millions of Polish Jews and others exiled to Poland. Survivors in Labor Camps or hiding. Both categories under constant threat of extermination. In camps weak or sick being killed. Same fate awaits hidiers caught. Gestapo offering rewards. As front approaches Balkans danger of German domination of Hungary, Rumania, and Bulgaria where there are over a million Jews. The Governments of these countries officially forbid Jewish emigration but in practice don't interfere."

Sincerely yours,

(Mrs.) Virginia M. Mannon
Public Relations Division

Mr. Leo Pinkus
Foreign News Division, Office of War Information
Room 3540, Social Security Building,
Washington, D. C.

CC -

FEB 26 1944

To: Mr. Stettinius
From: J. W. Pehle

Attached is the text of a cable which I strongly urge be sent to Minister Harrison at Bern will all possible dispatch.

It has been reliably reported that there are many thousands of Jewish children, stateless and of a variety of nationalities, in hiding in France who are subject to deportation to Poland. The parents of these children have already been deported or are being detained pending deportation. This Government has already assured the Swiss Government, through the Intergovernmental Committee, that it is prepared to receive five thousand of these children if the Swiss Government can arrange with Vichy for their release from France. (Airgram #13285 from London, January 14, 1944, and enclosures). It would seem, however, that the Intergovernmental Committee considers the question of asylum in Switzerland for these children as "complementary to the main issue," i.e., an approach by the Swiss to Vichy. It would further appear that no action is contemplated pending a determination by the Swiss whether to make such an approach, and if such an approach should be made, its outcome. Past experience with approaches of this kind would indicate the probability of interminable delays while Vichy consults with Berlin.

In the meantime, a number of these children are arriving in Switzerland by their own efforts and without the aid of Vichy exit-permits. It is our understanding that although the Swiss are not turning back any refugee children that reach their borders, no organized effort to bring these children into Switzerland in large numbers is feasible unless the Swiss have some assurance that the children will be evacuated after the war. The intention of the attached cable is to extend such an assurance, at least with respect to not more than five thousand children entering Switzerland from France between January 1, 1944 and four months after the cable is sent.

As matters now stand, visas may be issued to children arriving in Switzerland from France (No. 107 to London, January 5, 1944) but in view of Switzerland's geographical position, the issuance of such visas would not constitute the assurance that Switzerland requires, unless

- 2 -

there is also some commitment to renew or replace such visas as they expire until at least such time as egress from Switzerland is possible and practicable. Of course, the commitment contained in the attached cable is subject to the applicable immigration laws of the United States and any amendments thereto that the Congress may enact. I have no doubt that the Swiss will so understand it, and I am nevertheless confident that this will not detract from its adequacy.

The attached cable would make the advisory opinion procedures unnecessary in connection with the issuance of these visas. It is our view that this would go a long way toward expediting their issuance and consequently toward saving the lives of a large number of children.

In view of the imminence of the forthcoming economic negotiations with the Swiss at which the reception of child-refugees by Switzerland will be discussed (No. 327 from London, January 13, 1944), I urge that the annexed cable be transmitted immediately.

(Signed) J.W. Pehle

LSLesser:als 2/24/44

PROPOSED CABLE TO MINISTER HARRISON AT BERN

The following special instructions are issued pursuant to Part 58.55(16) of the Regulations of November 19, 1941, as amended, regarding aliens entering, and shall remain in full force and effect unless specifically revoked: You and all other permit-issuing authorities in Switzerland are hereby instructed to issue in the aggregate, without regard to the availability of means of transportation to the United States, up to five thousand immigration visas to refugee children from France who have arrived in Switzerland since January 1, 1944 or who shall arrive in Switzerland within four months after the date of these instructions. Such children may be of any nationality or stateless, but no such child shall have reached his or her seventeenth birthday. You are further instructed at appropriate times to renew each immigration visa issued pursuant to these instructions and to issue new immigration visas to all aliens to whom immigration visas have been issued pursuant to these instructions, it being the intention of these instructions that each alien to whom an immigration visa is issued pursuant to these instructions shall hold an unexpired immigration visa at all times until at least six months after the termination of the present hostilities between the United States and Germany. New immigration visas shall be issued to aliens to whom immigration visas have been issued pursuant to these instructions and immigration visas issued pursuant to these instructions shall be renewed without regard to the age of the alien at the time of such renewal or the issuance of the new visa.

Please advise the appropriate Swiss authorities of the contents of these instructions and inform them that it is this Government's earnest hope that the Swiss government will promptly take such action, direct and indirect, as will facilitate and expedite the movement of children from France to Switzerland. You may also inform the Swiss government that the War Refugee Board will undertake to arrange for any financing that may be necessary to provide maintenance for refugees from enemy oppression arriving in Switzerland. Please report Swiss reaction and any developments that may be of interest.

LSLesser:als 2/25/44

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: February 26, 1944
NUMBER: 1160

CONFIDENTIAL

Reference is made herewith to Department's telegram of January 20, 1944, No. 197.

It is reported by Dr. Riegner that arrangements have been completed for turning over to WJC representative in France one million French francs which were purchased from a wealthy French Jew refugee, who has been in Switzerland since total occupation of France, at 1.75 Swiss francs per one hundred French francs. The documents shown to Dr. Riegner attest that this person was formerly an owner of textile factories in France and it is stated by Riegner that he is favorably known to several Swiss who were believed to be reliable by Riegner. It is stated by Riegner that he was reasonably sure from the documents presented that this money was either acquired in a way not benefiting the enemy or belonged to the seller before the fall of France.

HARRISON

TELEGRAM SENT

RA-
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

February 26, 1944

11 p.m.

ALLEGATION,

BERN.

659

Please refer to Department's No. 251, January 25,
in regard to the establishment of the War Refugee Board.
The Acting Executive Director of the Board, John W. Pehle,
has informed the Department that in conformity with the
President's Order of January 22, the Board proposes to
appoint Mr. Roswell McClelland, representative of the
American Friends Service Committee in Switzerland, as the
Special Representative of the Board with the designation
by the Department as Special Attache to the Legation on
war refugee matters. The President's Order provides that
the State Department shall appoint such Special Attaches
on the recommendation of the Board, that they shall have
diplomatic status, and that their duties and responsi-
bilities shall be defined by the Board in consultation with
the State Department.

The American Friends Service Committee has indicated
that it has no objection to Mr. McClelland's accepting this
appointment.

If, after discussing the matter with Mr. McClelland,
the appointment meets with your approval, you should advise

him

-2- 659, February 26, 11 p.m. to Bern

him that he is so designated and that he is to have diplomatic status. It is assumed that there will be no objection on the part of the Swiss Government to this designation, although you may in your discretion approach the Swiss authorities informally if you consider it necessary or advisable to do so. You are requested to confirm by telegram McClelland's designation or to advise us promptly if there is any reason why the designation should not be effective at once.

You should advise McClelland that:

(a) He is charged with the duty and responsibility of carrying out the Board's policies and programs in Switzerland;

(b) He is responsible to the Minister and should discuss his activities and problems with him regularly and fully;

(c) The Legation will provide him with the necessary communications facilities in carrying on his official duties;

(d) He shall extend all possible assistance to the Minister in carrying out the instructions contained in the Department's reference telegram;

(e) He

-3- 659, February 26, 11 p.m. to Bern

(e) He shall work with and give all possible assistance to public and private agencies operating in Switzerland in this field regardless of whether such organizations are American, foreign or international;

(f) He shall develop and assist in the development of programs and implementation of measures for the rescue, transportation, maintenance and relief of refugees;

(g) He shall forward to the Board recommendations and frequent reports on progress of work and difficulties encountered;

(h) In so far as the Trading with the enemy Act is concerned, the Secretary of the Treasury has vested in the War Refugee Board and its representatives in the field full authority to communicate with enemy territory to carry out the purposes of the Order. The Secretary of the Treasury has also delegated to the War Refugee Board and its representatives the power to authorize any public or private agencies, who may be subject to the provisions of our Trading with the enemy Act, to communicate with enemy territory for the purpose of carrying out the Order. McClelland is authorized to act accordingly.

After

-4- 659, February 26, 11 p.m. to Bern

After receipt of confirmation of McClelland's designation further detailed instructions will follow from time to time.

STETTINIUS
Acting

WRB:GLW:EG
2/17/44

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KH

SWP

A-S/3

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Copy

EXHIBIT E

While the war rages with ever increasing violence it is not always easy to recall that allied efforts to ameliorate the terrible conditions of the Jews in Central Europe and the Balkans continue and increase.

There has recently arrived here, at the invitation of Ambassador Steinhardt to assist him in this work, a representative, with diplomatic status, of the United States War Refugees Board; and he has already got down to work, less than a month after the Presidential order creating the board was signed. His job is to do what he can to increase the thin, pitifully thin, trickle of refugees whom the Germans allow to pass across the frontiers of Europe into a world of free men.

At present the Turkish Government is prepared to grant visas to nine families every week and to one hundred and fifty children, on condition that, as soon as they cross the frontier into Turkey, they shall become the charge of the Jewish Agency, who shall be responsible for transporting them as soon as possible into Palestine.

It is true that at present even that small number of human souls is in excess of what the Germans allow out of their so-called fortress; but Mr. Dr. Hirschmann, who is the new representative of the War Refugees Board here, has hopes that if only it should prove possible to provide adequate transport for these unfortunate people then the trickle might be increased to a stream.

While he is not inordinately optimistic that a great deal can be achieved in a short while, he believes that once it is known throughout the satellite countries that when victory comes they will in some measure be judged by their attitude towards this question they may resist German pressure with greater courage than they have hitherto shown, and may well permit a greater and fuller stream of unfortunate homeless people to take refuge in Palestine.

I have his authority for saying that, in fact, the treatment of minorities in the satellite countries will be taken into account when the final settlement comes to be made.

From Broadcast by Mr. Philip Jordan, representative of B.B.C. in Ankara, February 26, 1944.

PARAPHRASE OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Embassy, Ankara
DATED: February 26, 1944
NUMBER: 147

CONFIDENTIAL

The following, for your information and guidance, is the substance of a letter sent to the Secretary of State on September 9, 1943 by the British Embassy in Washington. The British Embassy has recently transmitted a copy of this letter to me.

Recently it was decided by the Government of Great Britain that all Jews, in the future, whether children or adults, who managed to leave Axis dominated territories and entered Turkey since the border between Bulgaria and Turkey was closed last Spring, will be permitted (after a check for security purposes in Turkey) to go to Palestine where camps will be provided for them and where for security reasons, they will be checked further. If found satisfactory, they will be gradually released as legal immigrants and will be permitted to enter Palestine against the half-yearly current immigration quotas. The method of transporting these Jewish persons will be either by sea or rail as may be decided upon by cooperation between the diplomatic mission involved and the Government of Great Britain.

Jews who are able to enter other countries which are neutral will also be in this category, but those persons who escape to territories where they find a refuge of safety will, under normal circumstances, not leave there. Under these arrangements, Jews who are, at the present time, in Spain, Mauritius or Cyprus will not leave there (excepting if, in the case of Spain, plans may be made to transport them to Allied Government

- 2 -

territory in North Africa, as is hoped, for such time as hostilities shall continue) and onward passage to Palestine would be considered only in cases deserving special consideration and for more particular reasons.

It is not intended that the number of persons, for the period ending March 31, 1944, admitted to Palestine under the proposals outlined above shall increase the total number of immigrants allowable for that period.

It is most essential that secrecy be maintained concerning these proposals and His Majesty's Government contemplates no public announcement of them. However, in strict confidence, the Palestinian Jewish Agency will be advised of the plans.

To Mr. Myron C. Taylor at Washington, D.C., a letter similar to this one is being written.

It is assumed in view of the policy indicated in the letter, that the Turkish Government now has sufficient assurances that refugees entering Turkey will have an ultimate destination open to them and will be willing therefore to lend full cooperation in measures designed to increase the flow of refugees through Turkey. However, if such is not the case you should immediately advise the Board.

In the interest of the refugees themselves, you should respect the British request that this policy be kept confidential.

This message from Pehle for Hirschmann.

STETTINIUS
(Acting)

TELEGRAM SENT

GAR

This telegram must be paraphrased before being communicated to anyone other than a Government Agency. (BR)

February 26, 1944

7 p.m.

U.S. URGENT

To: AMEMBASSY,

ANKARA.

148

FOR HIRSCHMANN FROM THE WAR REFUGEE BOARD.

We recognize fully the importance and urgency of the shipping problem and are doing what we can here to solve it.

We have discussed with the Swedish Minister here the possibility of using Swedish vessels to evacuate refugees from Black Sea ports. The Swedish Minister is cabling his Government immediately requesting that consideration be given to this matter.

With respect to the guarantee which this Government has now given to replace the S.S. Yatan if lost, we would like immediate advice from you as to the possibilities of obtaining other Turkish vessels if similar guarantees were given to replace those vessels.

STETTINIUS

Acting

(GLW)

WRB: GLW:VHJ

NOE NEA SWP

CM-202

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

Ankara

Dated February 26, 1944

Rec'd 8:30 p.m.

Secretary of State,

Washington.

344, February 26, 5 p.m.

FOR THE WAR REFUGEE BOARD FROM HIRSCHMANN

Since telegraphing you last we have broken the bottleneck for the land transport of Jewish refugee children from Bulgaria to Palestine via Turkey.

The Turkish authorities have today given assurances that Jewish refugee children will be transmitted through Turkey at the rate of 150 every ten days beginning next week.

STEINHARDT

NPL

GM-376

This telegram must be paraphrased before being communicated to anyone other than a Government agency. (S000)

Ankara

Dated February 26, 1944

Rec'd 3:47 a.m., 28th

Secretary of State,

Washington.

345, February 26, 6 p.m. (SECTION ONE)

Department's 142, February 24.

FOR THE WAR REFUGEE BOARD FROM HIRSCHMANN.

I arrived in Ankara on February 14. In the intervening eleven days I have sent five telegrams Nos. 282, 286, 295, 306 and 314 which set forth "full information on the present position of the Turkish Government" and have kept the board currently informed of all developments in Turkey relating to its activities. Those telegrams not only informed the board fully but contained detailed suggestions of action that should be taken by the board to support our efforts here. Thus far I have had no reply to these telegrams.

As to the press report published in United States concerning which the board has been awaiting advice from me as to its accuracy, may I remind the board that press reports sent to the United States from Ankara are not shown to Embassy or myself and that American newspapers

arrive

-2- #345, February 26, 6 p.m. (SECTION ONE) from Ankara.

arrive here several months after publication. Your telegram was therefore my first knowledge of any such press report. The correspondent of the Associated Press with whom I have talked today states that the press despatch sent by him on February 13 was based on an interview with Dr. Herdog (sic), chief Rabbi of Palestine who had previously talked with an official of the Turkish Government who among other things reviewed the situation in Nazi controlled Balkans and urged the need for a ship to leave Constanza under safe conduct of the Red Cross to transport thousands of Jewish children to Palestine.

In connection with the foregoing it seems desirable that the board await my reports and those of the Embassy rather than be influenced by newspaper stories. Even had the interview been with "a high government official in Turkey" it would be unwise to attach too much importance to the casual remarks of an individual government official.

STEINHARDT

WSB

NJB-354

This telegram must be paraphrased before being communicated to anyone other than a Government agency. (SCOO).

Ankara

Dated February 26, 1944

Rec'd 10:19 p.m., 27th

Secretary of State,
Washington.

345, February 26, 6 p.m. (SECTION TWO).

to a newspaper correspondent, in that any Turkish official speaking to an American newspaper correspondent would obviously assure him of the intention of Turkish Government to do everything within its power to facilitate Boards objectives. Such assurances intended to obtain favourable publicity for Turkish Government in the United States are meaningless until they have been implemented by specific action by Turkish Government.

Referring to Boards desire to "publicize at once the attitude of Turkey". Ambassador and I urgently recommend no (repeat no) publicity of any kind be given at this time to possible Turkish cooperation. Any such publicity may cause the Turkish Government to feel that it has already sufficiently placated American public opinion and therefore to lose interest in continued cooperation. Furthermore, it is important to note that negotiations
are going

-2-#345, February 26, 6 p.m., (SECTION TWO), from Ankara

are going on from day to day with Turkish officials and that as they are none too enthusiastic to do anything for Balkan refugees they must constantly be prodded and reminded that the possibility of adverse publicity in the United States hangs over their heads. It seems to us much more important at this time to get Jewish refugees out of the Balkans into Turkey and Palestine than to praise the Turkish Government which has thus far contributed little to our efforts. Premature publicity on this subject in the United States favorable to Turkey is more likely to be harmful than helpful to our efforts.

STEINHARDT

RR

U.S. SECRET
BRITISH MOST SECRET

OPTTEL NO. 65

OFFICE
SECRETARY OF TREASURY

COPY NO. 12

Information received up to 10 AM, 10¹² 26th February 1944.
1944 FEB 281. NAVAL.

Night 25th one of H.M. ^{TREASURY DEPARTMENT} Destroyers escorting convoy to North Russia was torpedoed and sunk by U-boat.

On 24th/25th. A Southbound convoy off Great Yarmouth was attacked by about 12 E-boats which were driven off by two of H.M. Destroyers; 2 E-boats damaged. Same night our coastal forces after being engaged by German trawler patrol off the Dutch coast attacked two groups of E-boats two of which were damaged.

At Anzio 24th, unfavourable weather somewhat hampered unloading: Accurate shelling of harbour obliged Liberty ships to move out.

Morning 25th. A Catalina sank a U-boat near the convoy to North Russia.

2. MILITARY.

ITALY. To noon 25th. On 5th Army Front, German attack on French positions North of Monte Cairo during night 24th/25th was repulsed. Reliefs carried out on main front and in bridgehead.

BURMA. Convoys have now passed through Ngakyedauk Pass without incident although small parties of Japanese are still in vicinity. In Kaladan Valley, our troops are in contact with Japanese North West and South East of Kyauktaw whence Japanese held Kaladan River for four miles Northwards: An attempt by us to cross river from East failed.

3. AIR OPERATIONS.

24th/25th. Schweinfurt. 1186 tons H.E., 966 tons incendiaries dropped including 417 4,000 pound bombs.

First attack. Lancasters and Halifaxes. Quick concentration of markers achieved. Bombing accurate and incendiaries well spread over marked area, good fires started. Fair opposition from heavy A/A many fighters en route.

Second attack. Lancasters. No cloud but visibility much hampered by smoke. Conflagration extended to cover wide area. A/A moderate and diminishing, fighter opposition weak.

25th. Out of 725 U.S. heavy bombers despatched:-

194	attacked	Augsburg (Messerschmitt Assembly Factories)	481 tons
52	"	Stuttgart (Ball Bearing Factory)	97 tons
266	"	Regensburg (Aircraft Assembly Plant)	527 tons
161	"	Furth (Aircraft Components Factory)	293 tons

at Regensburg excellent bombing results reported, at Augsburg fair to excellent. Enemy casualties reported by bombers and supporting fighters 49;11;23. Our 30 bombers, 3 fighters missing. Total 184 escorted Marauders bombed airfields at Venlo and Strond while total 137 medium, light and fighter bombers attacked military constructions Northern France: 6 bombers, 1 fighter missing.

25th/26th. 796 aircraft despatched:-

Augsburg 596 (21 missing) objectives in Germany, airfields and intruders 64 Mosquitoes (1 missing 3 enemy aircraft destroyed). Seafaring 131 (3 missing, 1 in sea). Leaflets 5. Two attacks on Augsburg: first in clear weather, good bombing concentration achieved; 2nd attack found town well alight.

4. HOME SECURITY.

London 23rd/24th. Casualties occurred mainly in block of flats where 40 reported killed, 111 seriously wounded and 117 missing.
24th/25th. Killed 44, seriously wounded 227.

NOT TO BE RE-TRANSMITTED

COPY NO. 12

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 66

Information received up to 10 A.M., 27th February, 1944.

1. NAVAL

MEDITERRANEAN. 25th. Unloading continued at ANZIO at reduced rate owing to heavy weather. Three landing ships, two supply ships and a landing craft went ashore in GULF OF NAPLES. One of H.M. Destroyers sunk by glider bomb off ANZIO. Casualties probably not heavy.

EAST INDIES. 18th. One of H. M. Submarines sank an escorted 3,000 ton ship off NICOBAR ISLANDS.

ANTI-SUBMARINE OPERATIONS. 25th/26th. Two of H.M. Frigates sank a U-boat in southwest approaches. Some of crew rescued.

2. MILITARY

BURMA. On ARAKAN Front the NGAKYEDAUK PASS has been opened and all wounded successfully evacuated from positions previously isolated. There are signs that Japanese east of MAYU RANGE are withdrawing. In KALADAN VALLEY KYAUKTAW occupied by our forward troops.

3. AIR OPERATIONS

WESTERN FRONT. 25th/26th. 1,726 tons were dropped on AUGSBURG. 79 R.C.A.F. (3 missing) and 50 R.A.A.F. aircraft took part in attack on AUGSBURG and 50 R.C.A.F. aircraft (3 missing) in sea-mining.

26th. In offensive patrols over FRANCE and BELGIUM, Typhoons and Mosquitoes destroyed 9 enemy aircraft without loss.

MEDITERRANEAN. 25th. 132 escorted Fortresses bombed Naval Yards and other targets at POLA and docks at ZARA. 26 escorted Liberators attacked aircraft factory at REGENSBURG, and airfield at GRAZ and docks and railway centre at FIUME. 39 bombers and four fighters missing. Enemy casualties reported: 17, 15.

OFFICE
SECRETARY OF THE TREASURY
1944 FEB 27 PM 3 35
TREASURY DEPARTMENT

February 28, 1944
9:40 a.m.

Herbert
Gaston: Anyhow, there's a very strongly, critical sentiment
 among people up on the Hill, they say.

HMJr: Critical sentiment?

G: Yeah.

HMJr: Of us?

G: Yes.

HMJr: I see.

G: Yeah. He found that quite strong.

HMJr: Anything special?

G: Well, no. No, nothing -- nothing very definite, but
 the general attitude of attack on -- on our tax
 policies and the manner of presentation and so on.

HMJr: Well, I have an idea and I'd like to talk to John
 a minute.

G: John?

HMJr: Is Sullivan there?

G: Yes, he's right here.

John
Sullivan: Good morning, Mr. Secretary.

HMJr: Hello, John. John, this idea may not be any good,
 but I wondered if Hannegan might do what a National
 Democratic Chairman is supposed to do. Hello?

S: Yes.

HMJr: Hello?

S: Yes.

HMJr: And let him do a little missionary work on this
 thing.

S: I see.

HMJr: And, after all, you take this statement of Willkie's this morning -- the normal thing would be for us to answer him, but with the President having so many tax advisors, I -- I just don't feel like taking it on.

S: Yes.

HMJr: But from Hannegan's standpoint, I think they could -- the Administration could back the Treasury so that when we are attacked by a Republican Presidential Candidate like Willkie, we are in a position that we can feel sure of ourselves and don't feel as though we're on roller skates.

S: Right.

HMJr: And then we can hit back.

S: Yes.

HMJr: But everytime I hit I feel as though I'm on roller skates and the other fellow has spiked shoes.

S: That's right.

HMJr: And so if you think well of it, why not have a talk with him?

S: I'll be glad to. He's out of town until March 7th, but I can get him.

HMJr: Well, that doesn't help us much. Hello?

S: Hello.

HMJr: I was wondering if it would do any good if you went on the Hill.

S: Well, I could go up there.

HMJr: You could?

S: Sure.

HMJr: Well, why don't you do it and sort of talk to them and let them talk themselves out a little bit.

S: All right, I will.

HMJr: What?

S: I will. Now, Hannegan is somewhere between Texas and St. Louis. Do you want me to try to find him?

HMJr: No.

S: No?

HMJr: This is something that has to be done face to face.

S: Yeah.

HMJr: Well, if you'd be willing, then supposing you go up.

S: Sure, I'll see what I can do.

HMJr: Right. And that's about all. Now, the only thing I want to caution everybody....

S: I can't hear you, sir.

HMJr: The thing that I want to caution everybody is that -- that they let no statements out of the Treasury.

S: No statements out of the Treasury?

HMJr: Yeah, on taxes.

S: On taxes?

HMJr: Is Gaston there?

S: Yes, he is.

HMJr: Let me talk to him a minute, please.

Herbert
Gaston: Hello.

HMJr: Herbert, I thought the statement on taxes in the Annual Report was very good.

G: Yeah, I thought so.

HMJr: But I don't know whether Paul or Blough have any more speeches scheduled.

G: Well, Paul has a speech scheduled for Wednesday before the National Management Association. It's on a quite technical matter. They -- they have -- a

G:
Cont'd.

Chairman of their tax group is going to make a speech on a plea for post-war reserves -- Tax-Free Post-war Reserves. And they asked him a couple of months ago -- three months ago, if he would, as a part of that program, present the idea that he presented at the Ways and Means Committee, or rather it's the -- it's the -- what is in the law, a defense of the carry-back provisions as being adequate and reserves as not being necessary, and so what he has got is a paraphrase of the statement that he made before the Ways and Means Committee explaining what the carry-back provisions are and stating the view that tax-free reserves for reconversion purposes are not necessary.

HMJr: I know I -- he'll say something -- I think it's awfully unfortunate that he has to talk now.

G: Of course, this is -- this is a defense of something that is in the law. It isn't an attack on anything that Congress has done at all.

HMJr: Is it written?

G: It is written, yes.

HMJr: Have you seen it?

G: What?

HMJr: Have you seen it?

G: Yes. Now, we talked -- on Saturday I talked to Joe O'Connell, or rather he raised the subject with me about letting somebody else read that for Randolph and -- so that Randolph could be here on Wednesday, and I don't know what decision he has made.

HMJr: I think Randolph should be here.

G: Yeah.

HMJr: And when the hell is Smith coming back anyway?

G: You know, I suppose, that their -- their son was born Saturday morning.

HMJr: Yes, I know that.

G: And he told me he would be back today.

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HMJr: Well, make sure he gets back today, will you, Herbert?

G: I talked to him on the phone last night and he said -- I -- I got him around, oh, ten o'clock last night and he said he would be in today.

HMJr: Well, he should be back now.

G: Yeah. Mark Childs called Charlie Shaeffer yesterday and told him that a report was in circulation that you had actually resigned and he wanted an authoritative denial.

HMJr: Yes.

G: I told Charlie to tell him that he could deny it authoritatively. I told him that we knew nothing about any such reports; that we would certainly have been advised if anything of the kind were in your mind.

HMJr: Well, somebody -- you know -- you -- I don't think you -- did you give Smith my suggestion about trying to find out who is feeding it to the networks?

G: Well, I told him to talk to -- to the Blue Network people and see what he could do with them to stop it.

HMJr: Yeah.

G: Of course, it's being fed not merely to the networks, but to all the newspaper men.

HMJr: Yeah, but it's coming from somewhere and you people haven't yet been able to find out where it's originating.

G: Well....

Mrs. Klotz: Mr. Morgenthau, I spoke to someone last night....

HMJr: Yes.

K:who happened to be at my house after Walter Winchell spoke....

HMJr: Yes.

K:and he called New York -- the man who feeds the stuff to Winchell....

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HMJr: Talk a little louder.

K: I say, he spoke to the man who feeds the stuff to Winchell.

HMJr: Yes.

K: And he said that they've been getting it at cocktail parties here in Washington.

HMJr: Uh huh.

Herbert Gaston: That man's name is Cuneo.

Mrs. Klotz: That's right.

HMJr: His name is what?

G: Cuneo. C-u-n-e-o.

HMJr: Mrs. Klotz' friend?

K: No. No. The man who gets the information for Walter Winchell.

HMJr: Well, it's just one of those things.

K: And it's -- it's -- it's going hot. I mean, he said that it's just going around and everybody has got it now.

HMJr: Yes.

G: Well, it started -- it started with Drew Pearson, then it accentuated by the -- it was sparked by the -- the veto and by the Walter Lippmann article.

HMJr: Well, as Mark Twain said when it was reported that he was dead, "It was grossly exaggerated."

G: Yes. Yes.

HMJr: And having had a good rest, it's not going to bother me.

G: I think you may want to think, after you've come back, about the possibility of accepting engagements on proper platforms -- one or two or three -- to talk

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G:
Cont'd. about major matters of policy before the Treasury Department.

HMJr: Well, we can talk about that.

G: It's a little more difficult because it's a political year.

HMJr: Yes.

G: But I think it's worth considering.

HMJr: Well, will you pass one suggestion along to the boys to put in my speech? Hello?

G: Yes.

HMJr: You'd better get it to Paul Dudley because he, at least, is functioning now.

G: Yes.

HMJr: And Smith will get back on it, I judge, when he gets back. But you get Dudley up there -- and when I've made suggestions to him the last couple of days, they've come -- they've snapped right back.

G: Yeah. Yeah.

HMJr: Now, the one that I want to talk about is that I want to say something about the volunteer bond buying program is the American way and it's been successful. See?

G: Uh huh.

HMJr: And if we had had compulsory savings, we would have had to get "X%" of compulsory savings to equal the amount we've had in the volunteer way.

G: We would have had to what?

HMJr: We would have had to get thirty or forty percent of compulsory savings....

G: Yes.

HMJr:to equal....

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G: Yes.

HMJr:what we've had in the volunteer....

G: Yes. Yes. Yes.

HMJr: Get it?

G: Yes. I understand.

HMJr: And I want to say something about the volunteer plan being the American way.

G: Yes. Yes.

HMJr: See?

G: Yes.

HMJr: I just want to rub their noses in it a little bit.

G: Yes. Yes. Yes.

HMJr: Now, will you get that to Dudley right away?

G: I'll get that to Dudley, yes.

HMJr: And you will see that Smith is back?

G: Yeah, I'll find out about that. Yeah. Yeah. Yep.

HMJr: And Mrs. Klotz?

Mrs. Klotz: Yes.

HMJr: Would you send Mrs. Smith, tomorrow, some flowers to the hospital from Mrs. Morgenthau and me?

K: Yeah. I'll do that.

HMJr: She's over there at....

K: I'll find....

HMJr:Margaret Hague Hospital.

K: I'll find out where she is.

HMJr: Right. Well, I'll have to throw a cocktail party. That's the only way we can overcome that gossip.

K: That's true.

HMJr: Right.

G: Yeah. Yeah.

HMJr: All right. And then -- oh, Herbert?

G: Yes.

HMJr: I find there's a commercial plane leaves here tomorrow morning at 10:00 o'clock.

G: Oh. Oh. So, you're going to get that, are you?

HMJr: Yeah.

G: All right. Well, I -- I -- I didn't get anywhere with the Coast Guard.

HMJr: There's one here leaves at ten o'clock -- Eastern Airlines from Orlando -- fifteen minutes from here.

G: Uh huh. Oh, fine.

HMJr: Yeah.

G: Fine. So, well, I'll drop that then. I -- I was going to try to get somebody else this morning. Waesche is out of town. He's in Indiana getting an honorary degree.

HMJr: All right.

G: Yeah.

HMJr: Anybody else?

Mrs. Klotz: Nope. Nothing else, thank you.

HMJr: Thank you.

G: All right.

K: Bye.

HMJr: Bye.

February 28, 1944.

(Dictated by Mr. Bell)

The Secretary had wired Mr. Gaston this morning asking what he thought about getting the four life insurance companies that insured the Secretary's life to have their doctors examine him to determine whether he is in good health. He told Herbert that he would call him this afternoon at 4 o'clock.

He called him and at this time the Secretary asked Herbert what he thought of his suggestion and Herbert said he did not think that it was a good one. It was his opinion that the talk about resignation had now shifted to other grounds than health and even if he had the life insurance companies certify as to his good health, it would not stop the rumors as to his resignation.

He then asked if Sullivan had gone on the Hill, as he had suggested in the morning, to try to ascertain the feeling up there. He said that Mr. Sullivan had not gone. We thought it would be a mistake at this time. Sullivan then picked up the phone and talked to the Secretary at which time the recording was turned on.

February 28, 1944
4:02 p.m.

John
Sullivan: We all thought it would be just as well to wait until you get back here.

HMJr: Yeah.

S: The situation with Doughton appears to be one that can best be solved by you and him directly.

HMJr: Uh huh.

S: And there is so much interest in the situation that we felt that if I went up around there and was seen talking to this fellow and that fellow, it might add a little fuel to the flames.

HMJr: What mood is Doughton in?

S: I beg your pardon?

HMJr: Do they know -- does say what mood Doughton is in?

S: Not very good but not as bad as George's.

HMJr: Well, I mean is it all directed against me personally?

S: No, sir. No, sir. They don't -- I'm quite sure that they don't know what recommend -- that you made the recommendation that you did make, but they think that Randolph had a more forceful position than you did. George is even more bitter about the Alvord story that Drew Pearson ran than he is about the veto, apparently.

HMJr: What -- what -- you mean the one about the group getting together?

S: No, the one about Alvord supposedly having George's vote in his pocket.

HMJr: Well, how did that affect me.

S: He's -- George is convinced that the Treasury gave him that story.

HMJr: What?

S: George is convinced that the Treasury gave Drew Pearson that story.

HMJr: I see. Well, did they?

S: I don't know, sir. I never knew anything about that.

HMJr: Well, why doesn't Gaston ask Paul whether he gave it to him?

S: Well, Randolph isn't here right now. He will be in late this eve -- this afternoon.

HMJr: Herbert?

Herbert Gaston: Yes.

HMJr: Are we on the loud speaker?

G: Yes.

HMJr: Why don't you ask Paul the question?

G: Well, it could be but it seems to me that the thing is so obvious -- everybody knows about Alvord's close relation to the Committee up there. We don't need to suspect anybody at the Treasury of telling Drew Pearson. He could pick that out of the air. He could have said that with truth any time within the last four or five years.

HMJr: Yeah.

G: He doesn't need to be told that by anybody.

HMJr: Well, the whole thing gets down to what the President wants.

G: Precisely.

S: Exactly.

HMJr: And -- but what the hell?

G: Yes.

HMJr: I hear Pearson said last night that I had urged the President to sign the bill.

G: He said that you had recommended signing the bill, yeah.

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HMJr: Did Pearson say anything more about my health?

G: No, he did not. As I recall it, his speech last night was a very strong defense of the Administration's position on taxes, the Treasury and the President's veto -- was a defense of the President's veto, and he said that the President would never have written this apologetic letter to Barkley if he had known what Barkley had actually said. It wasn't fully and faithfully reported to him.

HMJr: Uh huh.

G: Uh....

HMJr: I see. Well, I'll wait now and I'll be back -- I'll be back soon.

G: Yeah. Well, there's nothing very stirring happening today. There were those couple of broadcasts yesterday that repeated these old rumors that you were going to get out.

HMJr: Yeah.

G: Yeah. I talked to Fred Smith and I guess you learned Fred is driving down.

HMJr: My God, when is he going to get back?

G: (Laughs) I should say about six o'clock tonight.

HMJr: Yeah. Well, that won't do me any good. All right.

G: And I passed on your message to Dudley. He said he'd do....

HMJr: All right.

G: Yeah. Right.

HMJr: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Mrs. Klotz
FROM Mr. Shaeffer

*by
C.P.D.*

February 28, 1944

Requested material attached.

Drew Pearson said:

* * * * * In addition to Bailey's needling, Barkley has his suspicion that Assistant President, Justice Byrnes, wrote the veto message and Barkley does not like Byrnes. That was what he meant when he referred to the clever hand that wrote the message. Most people have blamed Henry Morgenthau for the veto but actually Morgenthau wanted the President to approve. Others have thought that Randolph Paul or Ben Cohen wrote the message but I can reveal that the President himself, though he got the first draft from Byrnes, wrote most of it.

WHALEY-EATON SERVICE

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THE ORIGINAL AMERICAN LETTER

LETTER NO. 1330

Dear Sir:

February 26, 1944.

1. Paragraph 4 of the Oct. 9, 1943 issue of this LETTER said: "Nowhere but in the United States would the chief fiscal officer of the Government propose a tax measure knowing in advance that it would not be acceptable even to the members of his own political party without changes so basic as to constitute repudiation." There were those who, that far back, suspected that certain Administration elements had determined to sabotage any tax legislation. In his sensational address to the Senate, Senator Barkley speaks of the President's effort "to belittle and discredit Congress" and he adds that it "is a calculated and deliberate assault" upon the legislative integrity of Congress.
2. SECRETARY MORGENTHAU, it is understood, recommended that the President permit the bill to become law either by signing it or doing nothing. It is believed in Congressional circles that General Counsel Paul, on the other hand, encouraged the veto.
3. THE VETO: When important Congressional leaders read in this LETTER, Feb. 12, that the President might veto the tax bill they would not believe it. They established contact with the White House and were soon disillusioned. They found it difficult to accept our accompanying statement that the President would be content "to appeal from Congress to the electorate" and "to capitalize most of the great legislative battles as campaign issues". Not until the veto actually came through could they find any reasonability in the statement in last week's LETTER that "the real strategy is to make the issue clear as between the President and Congress, and hope to carry the (next) House in a Roosevelt sweep".
4. METHOD: Neither Doughton, Chairman of the Ways and Means Committee, nor George, Chairman of the Finance Committee, was invited to the White House to explain features of the bill to which exception might be taken. The Army and Navy were well pleased with the renegotiation sections. Administration elements were dumbfounded by Barkley's revolt, declaring that he had shown no such deep feeling at the final White House deliberations, last Monday. But as he has since explained, he had not then seen the text of the veto.
5. UNTIL THE Barkley revolt, there was a good chance that the veto would be sustained in the House. Labor elements were about to send telegrams throughout the country to mobilize political support for the veto. After Barkley's speech, they called the campaign off, saying "it's no use, we're licked".
6. BASIC CONSIDERATIONS: It was the tone quite as much as the substance of the veto message that brought Congress to a keen realization that a fundamental Constitutional question had been raised. On the other

critical occasion when a veto had intervened (the anti-strike bill) the President had said he would sign if it were reenacted in a form he suggested. Again, as to the tax bill, he was proposing the terms of his acceptance. But a money bill is a sacred measure under the Anglo-Saxon tradition. On nothing is the Constitution more exact than that, and so is the unwritten Constitution of the British. A bill for revenue must come straight from the people who are to bear the burden of taxation. The purse has been accepted as the citadel of free institutions.

7. PREPAREDNESS: Nevertheless, it has long been the accepted practice for the Executive to prepare for the Lower House of Congress an estimate of required revenue and suggestions as to the method of raising it. It would be difficult otherwise to conduct fiscal affairs in an orderly manner.
8. IT IS in just this area that indictment of the Administration must run very strongly. With the advent of the war it was apparent that prodigious sums of money must be spent, that the public debt, under the most favorable conditions, would mount to above \$200 billion. It was just as clear that such vast spending, over the short period of critical production for war, was certain to imperil the value of every dollar of investment in the country and the worth, in purchasing power, of every insurance policy; in a word, that the battle for the safety of money and the avoidance of calamitous inflation was sure to be of parallel importance with the blood battle on the war front.
9. INFLATION: In the face of that situation, while the Administration asked for and obtained spending appropriations in unlimited amounts, it did not, and has not yet, at any time formulated or proposed to Congress a carefully conceived and intelligent master program for national financing. It has advocated and put into effect class taxation that, in some cases, is more than 100% of the income on which the levies are made, but it has declined to drive for effective taxation of excess individual income in the area of war wages. Secretary Morgenthau has stated that 80% of the national income goes to those earning \$5,000 a year, or less.
10. THAT IS irresponsible government, in the fiscal field. Yet, despite the confusion and in the midst of muddle, the actual revenue, running ahead of Treasury estimates, can be made to total a good half of the total running war costs under reasonably economic management. In addition, the nation has met every demand for bond purchases, as well as contributions for all the non-Government special funds, such as for the Red Cross, the various Community Chests, etc., etc. It is a remarkable demonstration of the strength of the American people.
11. POLITICS: It is a common political assumption that the President, by his veto, has committed a political error of the first magnitude. Possibly so, but Senator Barkley points out that the move was "calculated and deliberate", which is another way of saying that the veto was intended to be a political document. The President has not avoided a conflict with Congress; he has sought it. The issue, as he has drawn it, can carry a strong appeal to proletarian elements with voting strength. Those House Members voting to sustain the veto came mainly from the great centers of population. These elements are not primarily interested in Constitutional questions. In terms of votes, the President may be more astute than his critics.
12. HIS GREAT risk would come from the deflection of local party leaders.

But they have no other candidate for the Presidency. They would draft him, it is felt, even if he withdrew as an active candidate and left the nominating Convention to make a free choice. They dare not weaken him too much.

13. EFFECTS ABROAD: The conflict between the President and the Congress is particularly deplorable as it affects American prestige abroad. One difficulty the State Department has encountered has been foreign distrust as to the validity of American commitments made by an Administration that might be voted out of office. An underlying purpose of Secretary Hull's program has been to obtain bipartisan agreement on foreign policy, so that its continuance could be assured no matter who was President. A major partisan battle on the American homefront does not tend to help the situation.
14. POLICY: Policies advocated in the Baruch reports are not self-policing, except in certain limited areas. Assignment of over-all supervision and coordination to the Office of War Mobilization (Byrnes) is, therefore, recommended. A new Office of Demobilization, such as is provided for in the George-Murray bill, introduced in the Senate this week, would, it is pointed out, cut across existing war agencies and by the nature of its assignment hinder the prosecution of the war. Major problems confront OWM, however, in issuing the necessary directives and creating the new staff required to provide proper liaison with the Services and civilian agencies. A particular problem is that of "sweating down" the Service programs to prevent waste of materials and manpower.
15. THE SERVICES will continue, as heretofore, to have full responsibility for actual termination settlements. Terminations will be handled as "procurement in reverse", applying the same safeguards in settling contracts as in making them. On broader questions of policy, notably those involved in permitting and facilitating the resumption of civilian-goods production, full responsibility rests with WPB. To assure that the ceiling prices for the new civilian goods are set at levels which will encourage industry to produce, the Baruch report directs attention to the need for closer cooperation between WPB and OPA.
16. THE SERVICES are warned that they must give the civilian agencies full information as to changes in their programs dictated by strategy or war events. "Confusion and indecisions in demobilization can be more costly than they were in mobilization."
17. INDUSTRY COMMITTEES: Integration of the various industry committees now functioning under WPB, OPA and other civilian agencies is sought by the Baruch staff as an essential aid in orderly industrial demobilization. Such committees, the report states, provide the best means for assuring orderly resumption of civilian production while maintaining the war program. This will require, however, an extension "for the full transition period" of the present protection of these committees under the Anti-Trust law.
18. FEDERAL BANKING: Legislation will be required to implement the Baruch proposals. Immediate need is for authorization by Congress of the proposed new T-loans, which have been designed to provide quick working cash to contractors and sub-contractors, and of direct loans by the procurement agencies, or by the Smaller War Plants Corporation, to contractors who are unable to obtain bank loans within 30 days. A broad extension of Federal operations in the banking field is indicated. Not only is an expansion of

Smaller-War-Plants-Corporation loan activities likely, but the procurement agencies will also undertake important banking functions in making direct loans. In addition, RFC has already instructed its regional offices to extend liberal credit to those converting from war production.

19. RFC will make loans to veterans to finance business ventures. Veterans unable to obtain bank loans will be given recourse to RFC facilities, the size of each loan depending on the equity interest.
20. IMPLEMENTATION: Most important, Byrnes has indicated virtually complete agreement with the policy recommendations of the Baruch-Hancock report and proposes to issue immediately the required orders implementing them. He will formally ask Congress for enabling legislation.
21. BYRNES' JOB of policing the determined policies will not be easy because he will be hampered by some powerful opposition, within the Administration, to their conservative nature. For example, it is contemplated that WPB, as it authorizes resumption of civilian production, will have to carry the ball through OPA in order to get price ceilings which will stimulate rather than chill industry's willingness to produce. If prompt and appropriate decisions are to be had, appeals by WPB or industry direct to the Office of War Mobilization must be authorized, and it is so planned.
22. CIVILIAN PRODUCTION: The Truman Committee will issue a report declaring that threatened unemployment is not permissible and that there must be a resumption of production in civilian goods to take up the slack. Nelson, for WPB, is understood to have made a commitment to go along so far as he has Committee backing. But no positive decision has been made and the chances are that no general policy of resumption will be operative, but that each proposal will be considered on its own merits. In some categories surpluses of raw materials have grown beyond all bounds and industries have been advised that excess inventories of semi-fabricated goods must be worked off.
23. IT IS NOW generally agreed that the top in war production, in terms of volume, has been reached. This means that demobilization, to a degree, is a present rather than a postwar problem.
24. SURPLUS DISPOSAL: Clayton, as Surplus Property Administrator, will make the policy, but the actual handling of the complex problems involved in the sale of the various categories of war surpluses will be in the hands of three existing agencies (Treasury, Maritime Commission and War Food), plus a new RFC subsidiary. Clayton's first problem is to determine his "inventory". This involves decisions as to stand-by facilities for the Army and Navy, facilities for storage and warehousing, stockpiles, and probable peacetime requirements of the Services.
25. The President is selecting the personnel for two commissions which will negotiate with two similar British commissions on postwar (a) petroleum and (b) aviation. "Everybody is interested in postwar trade", but Washington is filled with conflicting opinions as to the probabilities. Reports that Kaiser may get a \$2-billion Government loan for the development of China appear to be, say, premature. It is accepted that great masses of people will try to get out of postwar Europe, reducing its importance as a market.

WHALEY-EATON SERVICE.

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February 28, 1944
4:10 p.m.

Operator: There you are.

John Pehle: Hello.

HMJr: John?

P: Yes, sir.

HMJr: How did you get to my office?

P: I was still here.

HMJr: Pehle?

P: Yes.

HMJr: Is this John Pehle?

P: That's right. I was in there with the rest of them when you were....

HMJr: Oh, I didn't know that.

P: Yeah.

HMJr: How are things going?

P: They're going along. Did you get my report?

HMJr: No, that's what I want to ask you.

P: Oh, I see. Well, it was sent off Monday -- Saturday, air mail.

HMJr: Yes.

P: So, you should have it.

HMJr: All right. Are things going pretty well?

P: Yes, they are.

HMJr: They are?

P: I've been in New York about the matters I don't want to talk about over the telephone.

HMJr: Okay.

P: But, things are moving and Morris Ernst has been very helpful.

HMJr: Has he?

P: Yes, he has.

HMJr: Good. Good.

P: I think you'll be pleased.

HMJr: All right, John.

P: I'll see you then.

HMJr: Bye.

P: Bye.

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CARE HENRY MORGENTHAU SR HOTEL ALAMBA WINTERPARK FLO=

IN FIRST SPEECH, DELETE WORDS AND FIVE MILLION PATRIOTS UNDERTOOK THE TREMENDOUS TASK OF SELLING FOURTEEN BILLION DOLLARS WORTH OF BONDS. "INSERT THE FOLLOWING." THE TELLING OF THE STORY. THE SELLING OF THE BONDS. WAS IN THE HANDS OF THE TREASURY'S OWN, VOLUNTEER ORGANIZATION. AFTER THE SECOND WAR LOAN DRIVE, IT WAS MY TASK TO COMPLETELY REORGANIZE REBUILD. THE WAR- BOND SELLING GROUP. STATE BY STATE, AND ALMOST PERSON BY PERSON. I ENLISTED THE AID OF PUBLIC- SPIRITED AMERICANS. THOUSAND UPON THOUSANDS JOINED US TO SHARE ONE OF THE GREATEST RESPONSIBILITIES OF THE WAR. THE RAISING OF THE MONEY WITH WHICH TO FIGHT THE WAR. I AM PROUD TO SAY THAT, WHEN THE FOURTH WAR LOAN DRIVE GOT UNDER WAY, MARCHING UNDER THE BANNER OF THE TREASURY DEPARTMENTS WAR FINANCE DIVISION, WERE MORE THAN FIVE MILLION VOLUNTEER WAR BOND SALESMEN. "FIVE MILLION PATROITS" WHO UNDERSTOOD THE TREMENDOUS TASK.

=END 1.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

WESTERN UNION

1220

118

CLASS OF SERVICE

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A. N. WILLIAMS
PRESIDENTNEWCOMB CARLTON
CHAIRMAN OF THE BOARDJ. C. WILLEVER
FIRST VICE-PRESIDENT**SYMBOLS**

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MPA1 2/150/149=

944 FEB 28 AM 9 13

OF SELLING FOURTEEN BILLION DOLLARS WORTH OF BONDS. IN
LAST SPEECH, FOLLOWING THE WORDS " ALL IN ALL THE
AMERICAN PEOPLE RESPONDED TO THE FOURTH WAR LOAN DRIVE
BETTER THAN EVER BEFORE" INSERT THE FOLLOWING: "THEY
BOUGHT THE" PEOPLES BOND" THE "E" BOND. IN THAT WAY
THEY'RE FIGHTING A "PEOPLES WAR". AND THEY BOUGHT IT AND
ARE CONTINUING TO BUY IT AT ONE STABLE RATE OF INTEREST.
DURING THE FIRST WORLD WAR, EVERY LOAN MADE WAS MADE AT
A SUCCESSIVELY HIGHER RATE OF INTEREST. DURING THIS WAR,
HOWEVER, FIGHTING MONEY HAS BEEN THE ONE STABLE
COMMODITY. THIS IS A TWO PERCENT WAR. WHEN THE WAR
STARTED, BONDS WERE ISSUED AT TWO PERCENT. AND, THRU
EACH LOAN, AND AMERICANS CONTINUE TO BUY THEM IN
EVER-INCREASING AMOUNTS, AT THAT SAME RATE OF INTEREST.
ACCELERATE. PUBLIC INTEREST IN THE WAR IS ALSO REFLECTED
IN THE BAROMETER OF WAR BOND SALES FIGURES DURING=

END 2.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

WESTERN UNION

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H. WILLIAMS
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

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.MPA1 3/149=

1944 FEB 28 AM 9 13

THE FIRST WAR LOAN DRIVE, BLANK MILLION SEPARATE BONDS WERE SOLD. THE SECOND DRIVE SOLD BLANK MILLION SPERATE BONDS. THE THIRD DRIVE SOLD BLANK MILLION. AND DURING THE FOURTH WAR LOAN DRIVE, MORE THAN BLANK MILLION SEPARATE WAR BONDS WERE PURCHASED BY THE AMERICAN PEOPLE THIS IS A REMARKABLE CLEAR PICTURE OF THE GROWTH OF PUBLIC INTEREST IN THE WAR AN INSPIRING DEMONSTRATION OF THEIR DESIRE TO BACK THE ATTACK TO HELP TO FIGHT THE ENEMY. TO MAKE THIS TRULY A "PEOPLES LOAN DRIVE HAS BEEN HIGHLY SUCCESSFUL. BY RAISING BLANK BILLION DOLLARS, IT HAS FAR EXCEEDED ITS ORIGINAL GOAL. AND HAS DONE ALL THIS AT A VERY LOW COST. NOT COUNTING THE COST OF PRINTING THE BONDS THEMSELVES, THE COST OF SELLING BLANK BILLION DOLLARS IN WAR BONDS HAS BEEN BUT BLANK DOLLARS. THIS LOW FIGURE AMERICAN HAS DONE A BIG JOB AND DONE=

END 3.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

120

WESTERN UNION

1220

SYMBOLS

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A. N. WILLIAMS
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

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044 FEB 28 AM 9 13

IT A SMALL COST, MADE POSSIBLE THRU THE SINCERE,
UNSELFISH, PATROITIC COOPERATION OF THE TREASURYS
VOLUNTEER ORGANIZATION, FIVE MILLION STRONG, THRU THAT
SAME KING OF COOPERATION FROM AMERICAN BUSINESS, LARGE
AND SMALL, THRU THE "ALL-OUT" COOPERATION OF AMERICAN
LABOR AND AMERICAN MANAGEMENT=

:STAFF SERGEANT PAUL DUDLY,:

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

Regraded Unclassified

WAR CONTRACTS PRICE ADJUSTMENT BOARD

WASHINGTON, D. C.

February 28, 1944

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

Dear Mr. Secretary:

Enclosed is a photostat of the original delegation of authority by the War Contracts Price Adjustment Board to the Secretary of the Treasury of powers, functions and duties under the Renegotiation Act. The delegation is signed by the Chairman, Joseph M. Dodge, and is dated February 26, 1944.

The powers, functions and duties delegated pursuant to this delegation are effective as of the date of the delegation and are retroactive to the effective date of the Revenue Act of 1943, which is 12:49 P.M., February 25, 1944.

Very truly yours,

James S. Feight
James S. Feight
Secretary

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DELEGATION
by
THE WAR CONTRACTS PRICE ADJUSTMENT BOARD
OF POWERS, FUNCTIONS AND DUTIES UNDER
THE RENEGOTIATION ACT

February 26, 1944

1. For the purpose of this delegation, the terms "Board," "Department" and "Secretary" shall have the same meaning as when used in the Renegotiation Act (hereinafter referred to as "the Act").

2. Pursuant to the provisions of subsection (d)(4) of the Act, the Board hereby delegates to each Secretary:

(a) All of the powers, functions and duties conferred upon the Board by subsections (a)(4)(B); (a)(4)(C); (a)(4)(D); (a)(5)(B); (c)(1); (c)(2); (c)(3); (c)(4); (c)(5)(E) and (h)(1) of the Act;

(b) All of the powers, functions and duties conferred upon the Board to require the furnishing of information, records and data pursuant to the provisions of subsection (c)(5)(A) of the Act, except the financial statement provided for in the first sentence of said subsection; and

(c) All of the powers, functions and duties conferred upon the Board to interpret and apply the exemptions provided for in subsection (1)(1)(A), (A), (C), (E) and (F), the definition contained in subsection (a)(7) and the provisions of subsection (1)(3) pursuant to such interpretations thereof and regulations relating thereto as may be prescribed by the Board from time to time.

The foregoing delegation of powers, functions and duties, however, shall be effective, as to each Secretary, only as to contractors and subcontractors assigned by the Board, or pursuant to its authority, to such Secretary or his Department for renegotiation.

3. Pursuant to the provisions of subsection (d)(4) of the Act, the Board hereby delegates to each Secretary the power conferred upon the Board by subsection (1)(4) of the Act to exempt, in his discretion, from some or all of the provisions of the Act, individual contracts entered into pursuant to his authority or the authority of his Department; excepting from this delegation, however, any power to exempt from any of the provisions of the Act any such contracts or subcontracts by general classes or types.

4. The powers, functions and duties hereby delegated to each Secretary may be delegated in whole or in part by him to such officers or

of Powers, Functions and Duties
Renegotiation Act
1944

of the United States as he may designate, and he may authorize successive redelegations of such powers, functions or duties.

5. Without intending to limit the powers, functions and duties hereby delegated, nevertheless, each Secretary and each officer or agency of the United States to whom any power, function or duty is delegated or redelegated hereunder, shall exercise such power, function and duty, and all authority and discretion thereunder, in accordance with such interpretations of the act and such regulations relating thereto as are issued or adopted by the Board and in accordance with the principles, policies and procedures established by the Board. Where a determination with respect to the amount of excessive profits of a contractor or subcontractor is embodied in an agreement between the contractor or subcontractor and a duly authorized representative of the Board such agreement shall be conclusive according to its terms and shall not be subject to review by the Board or any representative of the board. Nothing herein contained, however, shall be construed to limit the right of the Board to review determinations with respect to the amount of excessive profits made by order and not embodied in an agreement with the contractor or subcontractor concerned.

6. This delegation is subject to revocation or modification in whole or in part at any time.

7. The powers, functions and duties delegated hereby shall be effective immediately and shall be retroactive to the effective date of the Revenue Act of 1943.

By direction of the Board:


Chairman,
War Contracts Price Adjustment Board.

25

February 26, 1944

Dear Mr. Hancock:

The Secretary of the Treasury is away from Washington and, therefore, I am acknowledging in his absence the copy of the "Report on War and Post-War Adjustment Policies" as transmitted by your letter.

As soon as Mr. Morgenthau is back at his desk I shall be very glad to bring this to his attention.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz
Private Secretary

Mr. John N. Hancock
Office of War Mobilization
323 Washington Building
Washington, D. C.

GEF:egh

OFFICE OF WAR MOBILIZATION

ADVISORY UNIT FOR WAR AND POSTWAR
ADJUSTMENT POLICIES
323 Washington Building
Washington, D.C. 25

Bernard M. Baruch
John M. Hancock

James F. Byrnes
Director

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

Dear Henry:

May I pass along to you, and through you to your organization, the thanks of Mr. Baruch and myself for the reports and the work done by you and your staff, which alone made possible the report we submitted to Mr. Byrnes last week.

A copy of the printed report, which we have just received, is enclosed for your use.

Sincerely yours,

John M. Hancock
John M. Hancock

Enclosure



Report On
WAR AND POST-WAR
ADJUSTMENT
POLICIES

FEBRUARY 15, 1944

Bernard M. Baruch

John M. Hancock

Report On
WAR AND POST-WAR
ADJUSTMENT
POLICIES

FEBRUARY 15, 1944

Bernard M. Baruch

John M. Hancock

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IV

PART I

Letter of Transmittal.

The Honorable JAMES F. BYRNES,
Director, Office of War Mobilization,
The White House, Washington, D. C.

DEAR MR. BYRNES: Pursuant to the instructions you gave us to inquire into war and post-war adjustment policies, we submit herewith our report. It is divided into three parts: (1) This letter, which is a rough synopsis of our major suggestions; (2) the report itself, and (3) additions giving a more extensive treatment of three subjects—contract termination, surplus property, and tightening the industrial war machine.

Victory is our first and only duty, but just as we prepare for war in time of peace, so we should prepare for peace in time of war. Through preparation we visualize a prosperity, sound and lasting. We see not merely civilian needs crying to be filled, but a world requiring the things we can supply—an unlimited market for our products.

Our specific assignment was to study the immediate demobilization policies which have to do, necessarily, with the stimulation of the war effort, since victory is the first essential, and with the preparation for peace to follow victory—to win the war and to prepare for peace.

In the development of this theme we find certain considerations to be of first importance. They include:

1. Getting us all back to work in peacetime enterprises. This may require a special authority under the Director of War Mobilization to give its entire attention to the problem of bringing jobs to all workers, with emphasis laid upon the returning service men and service women who are our first concern.
2. Taking the Government out of business by—
 - (a) Payments for work done and work under way. In connection with this phase of the problem, we have assembled a complete “Financial Kit” that should prove effective. The Government must pay its debts, and pay them quickly and fully, so that Business will have its working capital freed for pay rolls and purchase of materials.
 - (b) These payments can be made with ample protection to the Government against fraud.
 - (c) Move out and store war materials from plants so as to make room for equipment and materials for civilian production.

(d) Centralize the control and disposal of surpluses of all types in such a way as to bring them into ready and effective use and insure orderly markets. This, too, may require a special administrator in the Office of War Mobilization.

3. A general tightening up of the industrial war front so as to finish the bloody business with finality, and thus be ready for peace.
4. Spreading acceptance by war contractors of the "Uniform Contract Article," as recommended by us and approved by you.
5. Place all war agencies under running review to cut them down as their work dwindles; also review of all war industrial controls.
6. Immediate extension of laws governing Price Control, Priorities and Requisitioning, all three expiring this year.
7. Early engineering on public works to be ready if needed to fill in the valley of unemployment.
8. Provide credit means for those requiring it during the adjustment period, particularly for the smaller business groups and returning servicemen.
9. Prepare now for future action reducing taxes from war to peacetime levels, thereby providing necessary incentive for initiative and enterprise and stimulating employment.
10. Prepare an Emergency "X Day" Reconversion Plan to be used in the event of a sudden collapse of Germany so as to enable us to go on with our crusade against Japan and at the same time to prevent the dislocation resulting from lack of preparation. This phase of the broader plan is to be worked out by the Armed Services with the War Production Board.

Transition from a war economy to that of peace is not easy; nothing worth while is. In our reconversion we shall try, as this country always does, to cure the things that caused us worry and to strengthen the good; to hold to the proven but be ready to test the new. That is progress.

The frame of our operation shows the gigantic nature of the change-over. It affects every part of our economic life. Nothing comparable ever has been known before.

As one indication of the size of the job, about 50 billion dollars of the current annual production represents strictly war goods—that is, things which, when peace comes, we will stop making. This gap must be filled in large part by civilian production and services, if we are to keep the needed volume of employment. The demobilization of the Armed Forces will come gradually. Their absorption by industry will

2

be aided materially by several factors, the weight of which is not now clear, such as: the giving up of war jobs by many women; the retirement of older workers; the increase of travel and recreation time; the return of many younger workers to school; the resumption of college and professional training by many now in the Services or in war industry; the renewal of many professional and service businesses that have stopped during the war; the starting of new enterprises; the business involved in meeting the needs of the world; reduction in the work-week; the normal enforcement of child labor laws.

The net increase in employment in industry from 1937 to 1944 is estimated at 7,000,000 people. Considering factors mentioned above, the problem of demobilization, though difficult, is soluble—if we create the atmosphere in which private initiative and resourcefulness—the traditional American spirit—can again take hold.

It is an easier task to convert from peace to war than from war to peace. With the coming of war a sort of totalitarianism is asserted. The Government tells each business what it is to contribute to the war program—just what it is to make and where it is to get the stuff out of which to make it. The planning and execution rest upon one overall purpose and a single control. Patriotism exercises a strong compulsion.

With peace, the opposite becomes true. Each has the right to make what he pleases. Governmental direction and aid disappear. The markets become free and each individual is dependent upon his vision, his courage, his resourcefulness, and his energy.

Everyone has the privilege of building up, but no one has the right to pull down. That is democracy at its best.

In the reconversion and readjustment will come improvements in our standards of life—better houses, better clothes, better food, better safeguards for children, better health protection, and wider educational opportunities. These bring hope for the future instead of fear; they give security instead of unrest.

There is no need for a post-war depression. Handled with competence, our adjustment, after the war is won, should be an adventure in prosperity. Our soldiers will not be let down. They are our chief concern. No pressure groups of self-seekers will take our thoughts from the duty we owe them.

Finally, while the producers should be restrained from excessive profits during the war, the workers as long as hostilities are on should refrain from strikes. No grievance, however just, should be permitted to slow our march to victory.

Sincerely yours,

BERNARD M. BARUCH,

JOHN M. HANCOCK,

*Advisory Unit for War and Post-war
Adjustment Policies, Office of War Mobilization.*

FEBRUARY 16, 1944.

3

OFFICE

PART II

Report on War and Post-War Adjustment Policies.

When the war will end either in Europe or Japan is not for us to speculate. Our military leaders have warned that the bloodiest, costliest fighting in Europe still lies ahead. The Germans with a superbly trained General Staff have been withdrawing behind interior lines awaiting our attack, prepared to strike back wherever they can, hoping to catch the United Nations either off guard or, through a suddenly amassed superior force, temporarily driving us off. Then there are the Japanese to finish off.

Regardless of how long it takes we must carry on so that absolutely nothing is permitted to hinder the quickest clinching of victory over both Japan and Germany. With that never out of our minds, we should proceed immediately to develop the organizations, policies, and methods for returning to peace with work for all.

No one colossal plan covering every aspect of the problem that crowded for settlement was possible. We have taken up first those things that had to be done first, bringing them to decision, then moving on to the next problems.

Finding Right Path.

The Uniform Termination Article, approved by you recently, was the "first step." This report seeks to carry that work further *to finding the right path* out of the maze and to getting started down that path.

Nor was it enough to say simply what should be done; but also how it should be done—that is, to develop workable plans which could be put into effect with a minimum of delay. In this, of course, we have taken things as we found them, not as they might or should have been.

Unwinding Difficult.

Unwinding our war economy can be expected to be more difficult than was the mobilization. It will be made more so by pressure groups organized for their selfish purposes. As victory comes nearer, we can expect the "but" patriots—those who profess themselves loudly all-out for war but fight any sacrifice or risk of their own—to grow ever louder in their protests, to become ever bolder in "positioning" themselves for the return to peace.

All-Important Question.

The question everyone asks, be he a civilian or in uniform, is: "How am I going to make a living for myself and for those dear to me when the war is over in a manner of my own choosing?"

Our entire inquiry has been directed toward that question. In particular, we have been concerned with the demobilization problems of the returning service-man and service-woman and civilian workers now engaged in war industries. The returning soldier should not be forced to look to charity or community help. He has rights that rise above that. When he returns to his home community, *there should be one place to which he can go in dignity and where he can be told of his rights and how he can get them.*

Legislation Needed.

Effective handling of the human problems of demobilization will require the closest kind of cooperative action on the part of both Congress and the Executive branch of Government. Many of the proposals that the American people will want adopted require legislation. At the same time, the first demobilizations of workers and those in Service are likely to take place while the war still is going on and will have to be knitted intimately with wartime manpower controls, with the draft, and other war controls.

Centralize the Forces.

There is no scarcity of plans and suggestions for dealing with these problems. In fact, we have found their consideration scattered loosely in both the Executive agencies of the Government and among the various committees of Congress. In their preoccupation with the war, the various operating agencies have been able to give these problems only part-time attention. Yet they must be planned for in the light of established administrative mechanisms, tied to the whole program.

We recommend unifying the Government forces dealing with the human problems of demobilization on two fronts—the Executive and Congress.

Everything being done by the Executive branch of the Government should be brought together *under a single, forgetful mind*; the Congress to merge the activities of its many committees into a *single committee in the Senate and in the House* or, if it can be effected, into a joint committee of both Houses. *The unified Executive and Congressional groups should then work together on a combined program of legislation and operations that will carry out the objectives that all of us share.*

"Work Director."

When problems are undertaken in many different places, diffusion of energy results. Much talking is done, much political pressure generated, with little action and small results to those involved.

We recommend the creation in the Office of War Mobilization of a new, most important post which, for want of a better title, we would call a "Work Director" to unify the forces of the Executive branch and to work with Congress on the whole human side of demobilization.

War Veterans.

This Work Director, who should be *of such outstanding caliber as to command the immediate confidence of the country*, should have full and adequate authority for developing integrated programs, working with the Armed Forces on their plans for personnel demobilization, when such plans are drawn up, studying the demobilization programs of other nations, developing adequate machinery for assisting in job placement and counsel for both veterans and demobilized war workers, integrating these programs with all wartime manpower controls.

Care for Disabled.

He should develop effective programs in such fields as adequate care for returning veterans, physical and occupational therapy for wounded and disabled; the resumption of education for those whose schooling has been broken by the war; vocational training for all workers.

War Workers.

He should also study the special employment problems involved in the great war industries where it is known peace will bring mass displacement of workers. He would work with Congress on all these matters.

Of course, there is no separating these things from the seemingly impersonal measures that will have to be taken to keep our economy production-strong. Being a part of the Office of War Mobilization, the Work Director will be best situated to keep his own activities linked with the many other aspects of the program we are recommending.

To summarize our concept of his job, it is to see that the human side of demobilization is not forgotten.

Great Opportunities.

It is our conviction that we will emerge from the war with the greatest opportunities any people ever had. A post-war depression is not inevitable. One-half of the world will need rebuilding. Enormous demands, put aside during the war, and added to pre-war demands, await satisfaction. Much depends on the settlement of the peace.

If it be one under which men and women can look forward with hope—not fear—there will not be enough hands to do what needs to be done.

Much will also depend on the measures taken now to prepare for peace—and, as important as the measures, on the men who will carry them out.

The mistakes and delays made in the mobilization must not be repeated in the demobilization.

No Better System.

There has been too much loose parroting of the slogan, that if individual enterprise fails to provide jobs for everyone, it must be replaced by some one of the other systems that are around. The war has been a crucible for all of the economic systems of the world, for our own, for Communism, Fascism, Nazi-ism—all the others. And the American system has outproduced the world.

America's productive capacity can perform still another miracle in a fine and lasting peace. It will not do so if pressure groups are permitted to turn that productive capacity into a battleground for their own selfish interests or inflate ourselves out of the world market.

Speed Essential.

Speed in shifting this productive capacity from war to peace is our most effective attack against the two enemies which threaten in the transition and post-war period—*unemployment and inflation*.

The First Questions.

What are the things that need to be done to insure this speed, to set our feet on the right path toward work—not alone for those here at home but for the men and women who will be returning from foreign shores?

The very first problem to be solved was how to get Government work out of the plants so civilian work could come back in. This raises three questions: How are war contractors going to get the money owed them? How is Government property to be moved out physically from their plants? And, while doing that, how is the public interest to be protected?

If plants are choked with Government property, equipment, inventories, and work in process, manufacturers will not have room for the new equipment and new materials to produce peacetime goods. Or, if their working capital remains frozen in unpaid-for Government work, they will lack the money to start up their businesses afresh; to buy new materials and new equipment, to pay their workers.

Business Frozen.

Business would be at a standstill; workers and returning service men would walk the streets, while the Government was figuring how to pay what it owed.

Our country's position today is such that if the war terminated suddenly most of the factories in this country would be shut and there would be unemployment of the worst kind. Of course, the war will not end tomorrow, but "peace jitters" already are cutting into war production. Removing all uncertainties as to the Government's policy on settling terminated contracts is needed for the immediate conduct of the war.

Unemployment by Audit.

We recommend quick, fair, and final settlement of terminated war contracts through negotiations by the contractors and the procurement agencies.

Any course, such as that proposed recently by the Comptroller General, would quibble the Nation into a panic.

The Comptroller's suggestion, as we understand it, was that he review every settlement before payment and that no payment be final until approved by him. Pending this audit, the Comptroller proposed that advances and loans be made; but the amounts would be entirely inadequate to keep business and jobs going. If such an audit before payment were decreed, no war contractor would know where he stood, prime contractors would be unable to pay subcontractors, banks would be reluctant to make adequate loans, billions in working capital would be frozen. The delays in settlement could force many concerns into bankruptcy. It would mean unemployment by audit.

Fairness the Thing.

The essential point to remember about these contract settlements is that they be fair—fair both to the Government and to the contractor. What is fair can be determined just as well in a matter of weeks as in years.

Full Review for Fraud.

The review powers of the Comptroller General should be limited to fraud, with every administrative aid of all the agencies in the detection of fraud.

This is in addition to his determining whether settlement payments are made in accordance with the settlement agreement.

To aid in the detection of fraud, we are recommending:

That written reports and full records be kept by the Government negotiators of the bases of settlement; also the contractors to keep their records for at least 3 years.

Settlement Teams.

In all sizable settlements, Government negotiations will be conducted not by one man but by a *team*. These teams in general will include a Legal Officer, a Termination Officer, an Accounting or Auditing Officer, a Technical Officer, and a Property Disposal Officer, each with his own experts, the whole team working under the direction of the contracting officer who finally makes the settlement. The team idea has been developed to prevent any possible collusion in these settlements and also to encourage the individual team members to exercise their independent courage and judgment in making these settlements.

In the final analysis, the Comptroller General would have to delegate his reviewing to many thousands of investigators. By and large he could not recruit a more honest or more capable force than present procurement officers, and it would certainly be less experienced. The men who made the contracts or who have administered them are the best persons to unmake them.

Joint Board.

The Comptroller's vigilance and experience can be a most valuable contribution.

We recommend that both he and the Attorney General be added to the Joint Contract Termination Board.

This board has been established in the Office of War Mobilization, under a chairman *independent of any of the procurement agencies*, to unify and simplify the procedures of all the agencies, and it will control the regulations, instructions, and interpretations for the negotiators.

We recommend also that the War Production Board be represented on the Board.

Additional Safeguards

The administrative procedures of all the procurement agencies are now under review to see where additional safeguards can be wisely introduced.

All these safeguards—the Comptroller General's full review power for fraud, the presence on the Joint Board of the Comptroller and the Attorney General, settlements being made by teams with written reports from these teams, the requirement that contractors keep their records for a least 3 years—plus the additional administrative safeguards that will be developed, add up to **a more effective protection**

of the public interest than any audit before payment that the Comptroller General would find administratively practicable.

Immediate Cash.

Even with the best of good will by both Government and contractors, delays in settling are inevitable. An appreciable portion of every claim will be subject to human judgment of values, over which competent men may honestly differ. That is why these settlements do not lend themselves entirely to determination by mathematical formulas, but can be handled best through negotiations.

Complete Kit.

The importance to the whole economy of freeing the working capital of manufacturers so there will be jobs is such that interim financing which will provide quick cash pending final settlement is essential. Attempts at some one magic formula which could be applied to all alike—prime contractors, subcontractors, suppliers, etc.—result either in something rigid and inadequate or so loose as to be a blank check on the Treasury.

We have brought together every workable tool we could find into a financial kit, complete enough to meet the varying needs of all war contractors while fully protecting the Government.

This complete financial kit which we recommend includes:

1. Immediate payment—*the full 100 percent*—for all *completed* articles.
2. On the uncompleted portion of the contract, immediate payment—*the full 100 percent*—of the Government's estimate of "factual" items, where proof ordinarily is simple, such as direct labor or materials, and of other items on which the Government is able to satisfy itself, *up to 90 percent of the contractor's total estimated costs*.
3. Immediate payment—*the full 100 percent*—of settlements with subcontractors as soon as approved.
4. Payment by the Government of *interest on termination claims*, until settled.
5. As insurance against delays in validating claims, *a new, simplified system of T (Termination) loans by local banks*, with Government guarantees, to be available to all war contractors, primes and subs.
6. For those unable to obtain such loans from their local banks in 30 days, *the Government to make the loans directly*.
7. Until the new T loans are authorized by Congress, *extension of V and VT loans* to all eligible borrowers.
8. Finally, for hardship cases, unable to use any of the tools outlined above, *expedited settlements*.

A Community Plan.

The T loans will be made in the man's own community, by his own bank, the banks in general to take a minimum of 10 percent of the risk and the Government to guarantee the remainder. Representative bankers have assured us the banks of the country will make loans on this basis.

The loans will be based on an estimate of the applicant's receivables, inventory, work in process, amounts paid or to be paid to subcontractors or suppliers in the tiers below.

Subcontractors Eligible.

While designed for all war contractors, these new T loans are of particular importance to the tens of thousands of subcontractors of every type scattered around the country. A more extensive discussion of the staggering problems of settling subcontractor claims and of the measures developed to date will be found in the addendum chapter on *Settlement of Terminated War Contracts*. Sketchily summarizing the more important recommendations:

1. That the procurement agencies be authorized to protect the subcontractors in the event of insolvency or default of their customers.
2. A standard termination article for subcontractors to supplement the Uniform Termination Article for prime contractors already recommended to you—this is in the final drafting stage.
3. That the Director of War Mobilization set a minimum figure below which nuisance-size claims, great in number but small in value, can be immediately validated with suitable safeguards.
4. That the procurement agencies launch a vigorous experiment with the so-called company-wide type of settlement, seeking to develop a workable plan, if possible.
5. That Congress enact appropriate legislation to permit such settlements to the extent that they are found practicable and helpful by the procurement agencies.

Push Program.

If a workable plan for company-wide settlements can be developed, adjustments naturally will have to be made in this program for settlement. In the meantime, however, the program outlined here should be pressed without delay.

Legislation Ready.

The contract termination policies recommended in this report were worked out through the instrumentality of the Joint Contract Termination Board—and no finer working spirit could have been hoped for. Represented on the Board, are the War, Navy, and Treasury Departments, the Maritime Commission, Reconstruction Finance Corporation Subsidiaries, and the Foreign Economic Administration.

The program has the unanimous approval of these agencies and they are prepared to put most of it into effect immediately. To become completely effective, legislation will be needed.

Our major objectives requiring legislation in connection with contract termination are met by the bill prepared by the Committees of Senators George and Murray. Their staffs have been kept currently informed of the work being done under the Joint Contract Termination Board and the procurement agencies represented on the Board. As a result the program for contract termination legislation is now remarkably far advanced.

At an early date we will be prepared to advise with the Committees handling this legislation as we expect to complete our termination study very soon.

One Purpose.

Perhaps this should be noted. The only purpose of contract settlement is to pay what the Government owes. Contract settlement should not be used for punishment or reward, for making better or worse the position of manufacturers, workers, or the public. Attempts to turn the settlement legislation into a band wagon for special interests should be fought off. To the extent that the simple purpose of settlement becomes involved with other issues, passage of the legislation will be delayed. The result, should Germany collapse suddenly, might be calamitous.

Training Schools.

Schools are to be set up in various parts of the country for training both the Government's negotiators and representatives of contractors and other interested groups.

The fact that Government and industry men will sit side by side in learning about the complete plans should prove of mutual advantage. Industry will know what the Government expects of it. The Government negotiators will have the advantage, in their training, of contact with men who know the realistic problems of specific plants, at first-hand.

Contractors Delay.

It is reported to us that in the past an average of 4 months has been required to get contractors to submit claims. Only a part of this slowness can be laid to preoccupation with the war or to inadequacies of Government policy. Contractors will have only themselves to blame if they do not get set to handle the problems of termination.

Sixty-Day Clearance.

On the clearance of Government property from private plants, we recommend:

A deadline of not later than 60 days after the filing of inventory lists, with manufacturers having the right to remove and store the property earlier at their own risk.

Considerable quantities of raw materials, equipment, semifinished parts and inventories will come into the possession of the Government as a result of the termination of contracts. Prompt, effective, orderly handling of these and other Government surpluses in excess of war needs will have a most important effect on *quickening war production, combatting inflation, speeding the resumption of civilian employment* as that becomes possible, and *reducing the national debt*, with a consequent *lowering of post-war taxes*. The months to come, while the war is still on, are *the most precious months for disposal*. Market conditions will never be better. Effective action now could reduce enormously the likely surpluses that will be left for after the war.

Central Administrator.

We recommend:

1. *Immediate creation of a Surplus Property Administrator in the Office of War Mobilization to be appointed by the Director, with full responsibility and adequate authority for dealing with all aspects of surplus disposal.*
2. This Administrator to be Chairman, with full and final authority, of a *Surplus Property Policy Board* representing these agencies: *War, Navy, Treasury, Reconstruction Finance Corporation, Maritime Commission, War Production Board, Bureau of the Budget, the Food Administrator, Attorney General, Federal Works Agency, State Department, and Foreign Economic Administration.*
3. *The work of actual disposal to be assigned to four major outlets; each operating in a clearly defined field, with no overlappings and following policies to be laid down by the Surplus Administrator.*

- (a) *Consumer Goods*—other than food—to the *Procurement Division of the Treasury*;
- (b) *Capital and Producer Goods* in general—all types of industrial property, including plants, equipment, materials and scrap—to a *single corporation within the Reconstruction Finance Corporation, consolidating the present Reconstruction Finance Corporation subsidiaries dealing with Government properties*;
- (c) *Ships and Maritime Properties* to the *Maritime Commission*;
- (d) *Food* to the *Food Administrator*.

The Surplus Administrator may use any other Government agency for the disposal of special properties or invite any other agency to sit with the Policy Board on special problems.

Goldfish Bowl.

The business of all of the disposal agencies should be conducted in a goldfish bowl, with the facts on all sales open to public inspection at the point of sale and each agency submitting reports, summarizing these sales regularly to Congress through the Surplus Administrator.

Firm Control.

This organization assures a firm hand at the helm to unify the policies and procedures for all the agencies and to prevent haphazard disposition or competition between the agencies. Buyers will not be able to beat down the Government's prices by playing one agency off against another. The task of actual disposition assigned to any one agency is kept of a manageable size.

Each of these broad types of surpluses involves different types of customers and different market conditions. Each agency is assigned to the field of its own experience so operations can begin without delay. To create one central disposal agency, as was proposed, would be to risk long delay in building an effective organization with the likelihood that the agency would bog down in the morass of attempting to deal with thousands of unrelated items. The precious months for disposal would be lost.

Civilian Shortages.

In this connection, the Armed Services have made an excellent suggestion to us which we recommend to the Surplus Administrator as one of his first tasks:

That a list of the most critical civilian items be drawn up and the Army and Navy examine their inventories, stocks and

stores of these items to see what can be safely released for the civilian economy without hurting the war.

This suggestion is made possible largely by the fact that our proven productive capacity is as good as inventory in reserve, allowing for the time required to produce and deliver the goods.

Legislation Later.

We are recommending that these steps be taken by executive order *for the time being* because of the urgency for quick handling of immediate surpluses, and because additional experience gained in actual administration is needed before legislation can be definitely drawn.

We recommend:

That the Surplus Administrator report to Congress as soon as possible on legislation that is needed, basing his recommendations on actual experience with the problems.

Nor should our recommendations be interpreted as ruling out a still further centralization of the handling of surpluses if experience indicates such a change desirable. Bringing the problem under a firm, managing hand *now* will facilitate smooth transition to any set-up that Congress ultimately legislates.

War Comes First.

The best single preparation for returning to peace lies in a more efficient conduct of the war. It means quicker victory, fewer casualties. Greater war efficiency also means a steadily improving utilization of our resources in constant adjustment to changing war conditions—meeting new war demands swiftly, promptly cutting out the production of unneeded things, shifting any resources that are freed to get more of the things needed for civilians.

No Separate Agency.

The agencies that did the mobilizing will have to carry out their comparable tasks in the demobilizing. At the present stage of the war, preparations for demobilization are inseparable from the actual conduct of the war, from the constant adjustments required by the war. **For this chief reason, we are opposed to the creation of a new, separate Office of Demobilization.**

Such an agency could hardly avoid coming in conflict with every other war agency and would hinder the prosecution of the war. By the nature of its assignment, we fear it would tend to become a pressure agency seeking to quicken demobilization for its own sake, forgetting war needs.

Neither among our people, in the country, nor in the Government, can there be any compromise with the fact that war needs come first.

Congress Can Set Policy.

We do believe *Congress should lay down whatever policies it feels wise and desirable to guide the existing agencies* in their handling of demobilization problems. This view was expressed before the Special Committee of the Senate on Post-war Economic Policy and Planning on December 21, 1943. The weeks of intensive work on these problems that have passed confirms that judgment.

Eliminate Overlappings.

Later, it may be advantageous to create a new, *clearly post-war agency* to liquidate present war agencies. Right now, there already is too much overlapping Government machinery for the most efficient functioning of Government. Economies can be effected and manpower released.

We recommend that the Bureau of the Budget maintain a running study of the functions of all war agencies reporting regularly to the Director of War Mobilization with recommendations for eliminating overlappings, for discontinuing unnecessary functions, for merging or transferring units for greater efficiency, preparing ultimately to liquidate what is left.

As the tides of war ebb, little pools of Government functions will be left behind in various agencies, and they should be cleared up promptly.

Tightening Needed.

The existing agencies have the basic organizations, the experience and know-how, the feel and touch with these problems. What is needed is not the loosening up that would be the inevitable result of a new super-agency cutting across every other agency, but *a general tightening up* of the entire Government machine—both for mobilization and demobilization. The two go hand in hand.

Among the specific tightening up measures we recommend in addition to the running survey or war functions are:

A running conspectus by the Office of War Mobilization of the progress of all the agencies on the tasks assigned;

An intensification of the fine work done in the past seven months by the review boards, organized through your office by which billions have been cut out of the Services' programs by the elimination of requirements beyond actual needs;

Strengthening of the Industry Advisory Committees in the War Production Board;

Tightened handling and advance planning of new contracts and contract cancellations;

Closer working together of the War Production Board and the Office of Price Administration to permit prompt adjustment of pricing methods or controls, where needed to avoid delaying the resumption of civilian employment;

Arrangements for the Armed Services to furnish all of the civilian agencies full information in adequate time so these agencies can do the preparing expected of them;

Organization of the civilian agencies to use this information effectively.

Some fine advance planning is under way, particularly in the War Department, and this information can be most helpful in preparing for adjustments to come. *But we emphasize, the civilian agencies must organize themselves to use the information effectively.*

Planning Cancellations.

To assure that cancellations will be planned in advance as far as is practicable and to remedy the inadequacies we found, *we are recommending this tightening up of the cancellation procedures:*

1. The procurement agencies, in acting on the decisions of the Chiefs of Staff, to inform the War Production Board of possible cancellations *as soon as they begin to think of them*—this so the War Production Board and other civilian agencies can become properly attuned for swift action when decisions are made;
2. That the policies governing the choices as to which producers are to be cancelled and which left in production be worked out in advance by the War Production Board;
3. That the actual choices, in general, be made by the procurement agencies after full consultation (except in the case of minor or routine adjustments of programs) with the War Production Board or such unit of it as is set up to integrate its work with that of the War Manpower Commission and other interested agencies.

Criteria For War.

In general, choices as to which producers are to be cancelled should be guided:

First, by what will make for a more efficient carrying on of the war;

Second, once these war considerations are satisfied, by what will contribute most to a quick, balanced resumption of civilian employment and to an orderly changeover from war to peace.

In considering, *first* what will improve war efficiency, such factors as these enter: easing manpower shortages; minimizing unemployment or the leaving of facilities idle; eliminating the least efficient or most wasteful producers; how much fuel, transportation, and other critical resources the various plants drain.

To Aid Reconversion.

As to the *second* broad criterion, preferences would be given to such factors as releasing plants which can be converted most readily to desirable peacetime production; giving smaller enterprises an opportunity to return to civilian production earlier, easing their termination problems; balancing cancellations in the various communities; reducing overswollen war communities so as to ease their ultimate return to an inevitably slimmer peacetime level.

Reduce "Bloat" Now.

Where there have been war expansions, far beyond any possible post-war future, it will be better to cancel war contracts earlier, and begin reducing the "bloat," than to wait until it has to be done all at once.

Local United States Employment Service offices should be promptly informed of decisions to cancel contracts; also, the National Housing Agency, Federal Works Agency, and other agencies who may be constructing homes, nurseries, or other projects in war communities. Large-scale cancellations might make these projects unnecessary.

Shifting Contracts.

Planning of cancellations must be integrated both with war procurement and the program for civilian production. Plants and manpower released from one type of war work should be promptly utilized for new war work, but, if not needed for war, as far as practicable for expanding output of the more essential civilian items.

Some contracts likely to be cancelled because they no longer are needed for war may be for goods that other agencies can use, as for foreign relief and rehabilitation. Such contracts can be transferred or run out, avoiding the problems of termination and settlement.

This is not to be taken as an excuse, however, for continuing the production of goods no longer needed simply to provide employment or profit. Contracts should be cancelled promptly as soon as *it is seen* that production is running beyond actual needs.

If current cancellations are brought in hand, the skill will be acquired and the organization created for the much larger job to come.

Public Informed.

There will be the greatest interest in communities regarding local contracts being cancelled; other production cut-backs; how local products are to fare as the reconversion pattern unfolds.

We recommend that the Office of War Information, War Production Board, and the Procurement Agencies work out the necessary machinery for informing the public fully and frankly as to the problems involved and the actions taken.

To the extent that this is done, it will be an important defense against selfish interests.

"X Day" Reconversion.

To avoid being caught unprepared by a sudden collapse of Germany, we recommend that the Armed Services and the War Production Board cooperate in the immediate preparation of an "X Day Reconversion Plan" based on the assumed defeat of Germany on "X Day."

In recent weeks the War Department has put together a tentative supply program, assuming the end of hostilities in Europe on a hypothetical date. These estimates have been furnished to the War Production Board, which is now translating them into terms of manpower, materials, and manufacturing facilities likely to be released. While these estimates—necessarily a military secret—will certainly be changed, since no man can guess how much will be expended in Europe, they do provide a beginning basis for the "X Day" plan recommended.

Getting a Head Start.

As far as is practicable, this "X Day" plan should seek to estimate cancellations in advance, the industries affected and the resources likely to be released, make tentative selections of the industries and plants to be freed, weighing how these selections can be guided so as to contribute first, to greater war efficiency; and second, with war needs satisfied, to the speediest resumption of civilian production and to an orderly changeover from war to peace.

This "X Day" planning can help greatly in removing hindrances to the speediest shifting of our productive capacity, providing jobs for returning soldiers and other workers; also in increasing the volume of civilian goods which will be a protection against inflation. We visualize it as giving all of the agencies a head start on their demobilization problems, on termination settlements, surplus disposal, the prompt clearance of plants, the reduction and redistribution of excessive inventories; also in speeding the resumption of civilian produc-

tion, conferring with the industries affected in advance on their problems of physical changeover; and generally lessening the shock of a large, sudden change in the war program.

No Let Up.

With the hardest and bloodiest fighting ahead, some will object to such planning, in the fear that talk of resuming civilian production will divert people from the war; and perhaps, even precipitate a scramble by some to get back into peacetime production. We have weighed this view most carefully. It is an argument not without basis. But we conclude that the American people will face the facts courageously *if the Government deals frankly* with them.

An early or sudden collapse of the Nazis in Europe, finding us unprepared for handling the transition problems, could result in such chaos and confusion as to seriously obstruct the most effective prosecution of the war against Japan—and the last few weeks have given every American a special reason for not wanting to lose a minute in getting on with *that* job.

Plan for peace? Yes. Let up on the war? No.

Extend War Powers.

During 1944 the price control law will expire; also, the priorities and allocations powers on which the functioning of the War Production Board rests; also, the requisitioning power of the President.

We recommend the prompt extension of these war powers.

They are vital both for the continued prosecution of the war and for transition to peace.

Balance the Program.

Intensification of the review of the Service's requirements is stressed because of the great potential benefits in avoiding the waste of materials, manpower, and facilities in the production of unneeded goods and in the use of these resources to expand needed production; in lessening the dangers of inflation; reducing the dollar cost of the war; reducing the likely surpluses after the war. These great benefits hold with equal force to the total war program.

We recommend an early, equally effective review of the programs for the production of raw materials, for stockpiling, for imports, for subsidies, and premiums to marginal producers.

To continue any of these programs beyond their need is to prevent the production of more of what is needed. Where materials are in excess of military needs, civilian uses should be expanded or, if that

cannot be done, because of manpower, the production or import of these materials should be cut back.

This will release resources for a new balance of the program at a higher level. *Always the program must be kept in balance.*

Review of Controls.

All wartime material controls and limitation measures should be brought under early review to determine under what conditions these orders can or should be modified. Early review is stressed because, owing to a natural inertia, the adjustment of these controls is likely to lag behind actual conditions.

Civilian Priorities.

As a further aid to the swiftest resumption of balanced civilian production, when and to the extent that the war is not interfered with, an advance listing should be made of the priorities to be given different civilian needs in any opening up of civilian supply. This preference list naturally will give the highest priority to what will contribute directly or indirectly to improved military efficiency, such as vital repairs, transportation, improved maintenance.

In recommending an early review of war controls and a running survey of war functions along with the prompt extension of needed war powers we have had in mind this fact:

Basic wartime controls must be retained as long as necessary, but all controls and the war agencies administering these controls should be liquidated when no longer necessary.

Price Inflation.

Prices run through the web and woof of our entire economic system and hardly anything would be worse than an uncontrolled rise in prices. If unjustly fixed, they will cause unrest and a sense of wrong. We have not felt it within our province to go into this matter now, but this much we will say—that most of the pressure groups have brought about the conditions of which they complain. Those who do the least complaining, the great body of white-collar workers—the policemen, firemen, school teachers, members of professions—they have suffered most.

No Strikes.

Without going into the merits of the controversies or the grievances or wrongs complained of, what lies in front of us will not permit of any strikes or any lessening of the efforts to place in the hands of our men and women in the front lines the things they need with which to

defend themselves and defeat their enemy. It is unthinkable that at a time like this a manufacturer would for a moment cease his efforts in order to make greater profits or that a laborer would stop his efforts in order to receive a few cents more per hour.

The people have it in their own power to prevent further price rises—by refusing to pay present high charges for inferior quality, by saving their money until civilian production returns in volume and quality. If all of the people do this, inflation surely will be halted.

Important Choices.

As we have stressed the selection of the best man available for the post of "Work Director," so we now emphasize the importance of the choice of a man for the post of Surplus Property Administrator. He should be a man of proven executive capacity and business sagacity to deal with the multitude of problems that will arise in the sale of an endless variety of products and in meeting changing market conditions. He should be a man of character, unquestioned integrity and great courage to fight off the selfish interests that will be seeking to exploit these surpluses.

Board Functions.

The broadest functions are being entrusted to the Surplus Property Policy Board, acting through the Administrator. The more important of these functions can be summarized:

To lay down policies for all agencies;

To press for early sales;

To enlist the aid of the Services in exploring the more critical civilian needs so as to determine what can safely be released;

To develop with the Armed Services for the ultimate approval of the President and Congress a stand-by program of reserve plants, equipment, and other properties for future security;

To devise effective inventory controls;

To organize the demand for surpluses in advance, including the possible needs for foreign relief and rehabilitation, for states, counties, and municipalities, educational and similar institutions, the Smaller War Plants Corporation, or other possible claimants;

To develop the possibilities of selling surpluses abroad;

To determine how property coming into the possession of the Government can be reprocessed or completed before disposition.

Whatever legislation is finally enacted, the greatest administrative flexibility will have to be provided for.

No Monopoly.

We suggest the Attorney General be placed on the Surplus Property Policy Board in recognition of the importance of disposing of Government surpluses so as to lessen rather than increase monopoly.

Real Property.

How best to centralize the handling of surplus real property holdings will be studied by the Surplus Administrator; also, how to begin liquidating properties no longer needed. Real property disposition is complicated by both administrative and legislative overlappings.

Good Housekeeping.

War housing is being left to the National Housing Agency. The Surplus Administrator may similarly use any other Government agency for disposal of any special type of properties. The Bureau of the Budget is on the board to develop continuity between war surpluses and the permanent good housekeeping of Government properties.

Short-Sighted Extremes.

Some would dump Government surpluses at any price, simply to get rid of them, no matter how disruptive the effects. At the opposite extreme, some would sell nothing, proposing either to freeze the goods in warehouses, destroy them, or sink them into the sea.

We urge upon the Surplus Administrator a middle course of wise and carefully timed disposal. These surpluses represent a great wealth of usable resources to ourselves and to others.

American industry will want to purchase much of this modern, efficient equipment to replace obsolete equipment, so as to improve our national industrial efficiency upon which our high wage and living standards rest. *Before selling this equipment abroad, these possibilities should be fully explored.*

Leasing Desirable.

In general, outright sales are preferable. The disposal agencies, though, should *exchange properties and lease* as well as sell; also *sell on credit*, not solely for cash. This will assure smaller enterprises opportunities that would otherwise be denied them.

A Warning.

This red flag of warning is raised: *Leasing must not become a hidden device for the Government to compete with private plants; it must not become a hidden device for subsidies—by any name—to anyone.* Once plants leave the Government's hands they must stand on their own feet competitively.

Local Ownership.

As long as fair selling prices or fair rentals are paid—with sales preferable to rentals—local ownership should be encouraged. But *it will not serve the national interest to sell or rent any one plant at such low prices as to destroy the invested values and displace workers in whole established industries.* Were such transactions permitted as a matter of policy, a community might gain a new plant in one deal, only to lose an established industry through a similar deal favoring some other part of the country.

In all surplus disposal, the national interest must govern. Local or particular trade interests, while receiving full hearing and full consideration, must be subordinated.

Take Losses.

Heavy losses will have to be taken on some types of property since inflated wartime costs will have little relation to peacetime values. Expensive tools for highly specialized war uses may have value only as scrap or as stand-by reserves for future security.

Ten Rules.

Our suggestions to the Surplus Administrator can be summed up in these ten basic principles:

1. Sell as much as he can as early as he can without unduly disrupting normal trade.
2. Listen to pressure groups but act in the national interest.
3. No sales, no rentals to speculators; none to promoters.
4. Get fair market prices for the *values* with proceeds of all sales going to reduce the national debt.
5. Sell as in a goldfish bowl, with records always open to public inspection.
6. As far as practicable, use the same regular channels of trade that private business would in disposing of the particular properties.
7. No Government operation of surplus war plants in competition with private industry.
8. No monopoly; equal access to surpluses for all businesses; preference to local ownership, but no subsidizing of one part of the country against another.
9. Scrap what must be scrapped, but no deliberate destruction of *useful* property.
10. Before selling surplus equipment abroad, assure America's own productive efficiency on which our high wages and high living standards rest.

Strong Defense.

The great importance of reducing the national debt is to return to a position of strong national defense for future emergencies.

Surpluses should be offered in lots of such size as to permit small business, as well as large ones, to participate.

Small Business.

The particular problems of small business have been constantly on our mind. By small business we think of the broad backbone of enterprises, scattered throughout the country, which rely largely on the initiative and resourcefulness of their individual proprietors.

These businesses must be effectively represented on the Industry Advisory Committees which will be playing so important a role in the demobilization. The advice and counsel of the Smaller War Plants Corporation and the Attorney General should be drawn upon in seeing that these committees are representative of small business. The Smaller War Plants Corporation will be represented on both the Surplus Property Policy Board and the Joint Contract Termination Board through the War Production Board, of which it is a part.

As production controls are relaxed, particular care should be taken to protect the competitive positions of small business, as far as practicable within the needs of the war. Cancellations of war contracts can be guided to permit the earliest releasing of small concerns which can convert back to peacetime production. Also certain "nuisance" production controls, involving only a limited amount of resources and which press heavily on small concerns, can be relaxed sooner than broader production controls.

In all of this, we have felt it the responsibility of *all* the Government agencies to protect the interests of *all* business and of the workers employed by those businesses, regardless of their size.

Changeover Credit.

Many small businesses, severely curtailed during the war, will want to come back. Others will have to change over plants physically to reconvert from war to peace. Still other businesses will want to expand. Many persons will desire to start up new enterprises.

We are recommending:

- (1) That the lending authority of the Smaller War Plants Corporation, at present restricted to purposes of war production, be extended to permit short-term loans to assist small business in the "change-over" from war to peace.

Particular attention should be given to credit needs for physical reconversion, or to businesses, curtailed during the war, which seek

revival with sound prospects and under sound management. The unexpended lending balance of the Smaller War Plants Corporation is roughly 80 million dollars.

Permanent Risk Capital.

- (2) As a permanent source of credit for small and medium-sized enterprises on a basis of broader risks than banks can be expected to assume, that the Federal Reserve System's authority to make industrial loans or commitments be expanded and liberalized.

These loans should be made in such a way as to supplement, not compete with, private investment, for which enormous funds are available.

The Chairman of the Federal Reserve Board advises us that no new appropriation would be necessary to provide the funds for guaranteeing such loans. There already has been appropriated under Section 13-B of the Federal Reserve Act the sum of \$139,299,557 which represents the subscriptions made by the twelve Federal Reserve banks towards the initial capital stock of the Federal Deposit Insurance Corporation. This sum, less approximately \$26,000,000 already advanced for 13-B loans, is on hand in the Treasury, but the Reserve banks have been unable to make effective use of the funds because of restrictions in the present law.

As a support for loans, it is estimated this sum should permit aggregate loans outstanding at any one time of *at least one-half billion dollars*. A detailed explanation of this plan is available for the consideration of Congress.

Ample Credit.

Careful study of the availability of credit shows further:

An enormous volume of personal savings in the hands of individuals and in the banks, many tens of billions, which should be tapped.

The profit position of business during the war has been generally good.

The Reconstruction Finance Corporation has a broad lending authority even to buying the capital stock of industrial concerns.

All of these available sources, plus the provisions we have made for prompt payment of terminated war contracts, should remove any doubt as to the existence of an adequate pool of credit for the financing of new enterprises or for the changeover.

Loans Not Enough.

Let us not provide credit to the returning soldier or small businessman which will only chain him like a galley slave to a loan he can

never repay. We must also make it possible for a man to repay what he borrows.

At current tax rates, few new enterprises or individuals could repay their borrowings out of earnings less taxes in any reasonable period of time. There will be general agreement that tax rates should be reduced after the war. However, until it is definitely known that post-war taxes are to be reduced, the launching of new enterprises and the expansion of existing ones will be deferred. We recommend, therefore:

That a post-war tax law be drafted now, during the war, and put on the shelf to go into effect at the end of the war.

This recommendation should lead no one to think we believe present tax rates too high for wartime—if anything, they are too low—or that we believe there should be an upward revision of our standards of fair wartime profits. All through the years before the outbreak of war we urged that measures be enacted to "take the profit out of war." We have never swerved from that position.

Reduce the Debt.

This post-war tax bill should aim at reduction in the national debt. In fact, it ought to be possible to begin the orderly retirement of that debt before the war itself ends. After the war, if the proper policies can be followed, tax rates can be reduced and the debt still cut. Lower rates, which stimulate a high volume of business and a high national income, will yield greater total tax receipts than would high rates, which depress business volume, employment, and income.

Prevent Monopoly.

Nothing will do more to make for monopoly or to deter the creation of new enterprise than excessively high taxes.

To repeat, our principal reason for wanting a lowered national debt is to return to a position of strong national defense for future emergencies.

Public Works.

Planning, designing, and engineering of worth-while projects—not simply make-work schemes—should be pressed immediately and put on the shelf for use if needed.

We believe this shelf of projects should be put together now, even though we see no likelihood that the materials or manpower for a Nation-wide program of public works can be available during the war or even after the defeat of Japan. When war needs slacken there still will be a great backlog of deferred housing and industrial construction, repair, and maintenance that must be satisfied first. Still, much

excellent advance planning has been done—as the work done for New York State and New York City. Other States and cities should do likewise.

Public works, it must be remembered, can have only a limited function and their greatest usefulness lies in helping to fill the valleys of depression. If public works *are* to be a reserve of employment, they should not be carried on in a period of full employment, but should be kept on the shelf until needed.

Engineering Funds.

Congress may want to establish a fund in the Federal Works Agency with which to assist local bodies in the preparatory planning.

If such a fund is created, it should be administered with full recognition of the fact that the debt burden of many communities, cities, and States is far lower than that of the Government.

Population Problem.

We appreciate that the public works planning of some communities will have to be incomplete because of the great population shifts the war has brought and the need to wait until the population has settled down. Will the workers who have moved North return to their homes in the South? What profound changes will the displacement of the Japanese on the Pacific Coast bring? What of the great aircraft, shipbuilding, and munitions centers—where will the workers now there go?

Deferred Projects.

Separate from these longer-time public works, many worth-while community projects such as schools, hospitals, waterworks, and others, have had to be deferred through the war because there were other more essential needs for the same manpower and materials. Many of these projects *are* completely engineered and the funds for their construction set aside. As war needs slacken the War Production Board has the mechanism for reconsidering any of these projects in the light of the rules of relative essentiality then prevailing.

Such projects, along with the backlog of normal construction and housing that has been deferred, **can be made immediately available in any localized areas of unemployment** that may develop in the transition period.

Good Administration.

No plan can be better than its administration. No formula or law can supplant—or supply—good judgment and ability. In such a vol-

ume of business, thinking of both the settlement of terminated contracts and the disposal of property, there will be errors of fact, errors of judgment, and even some cases of fraud. It is the by-and-large result that the American people must look for and use in judging how well these jobs are done.

Pressure Groups.

Again and again, we have warned of the dangers of groups organized for selfish interests. When we speak of pressure groups, we are not thinking only of the individuals who lead them, but of the men and women who make up their following. Present leaders may go but others will arise in their places. The greatest danger that our Nation faces, not only in the transition period but also in the long-time future, is the tendency for people to become broken up into blocs and segments, each organized for some narrow interest of the moment.

The kind of peace we build will depend, as much as any one thing, on the personal choice every American makes—whether he or she is pulled into such blocs or unites with the Nation as a whole in organized self-restraint, which is the highest form of civilization.

Our concern over pressure groups is another reason why we have guided our recommendations so that once victory is won we can **close the books on the war as quickly as possible.**

We have not wanted to leave the government after the war a jackpot of controls which invites every pressure group to hit it.

Peace Settlement.

In all that we have recommended, we have had in mind the need of keeping America production-strong so as to retain our high standards of living. The fact that our recommendations deal chiefly with domestic problems should not be misinterpreted as indicating we underestimate the importance of foreign trade or the kind of peace that is written. Such problems as an international currency, international Reconstruction Finance Corporation, the future of synthetic rubber, what is to happen with air bases and international airlines, ocean shipping, international communications—such problems have not been taken up because there now is no adequate basis of fact or knowledge of conditions on which definitive policies can yet be framed. The formulation of these policies in large measure must await the end of the war and the terms of the settlement of peace. Many of these problems, in fact, will be part of the making of the peace and should be prepared for in this light.

Education.

Many domestic problems have not been touched upon, again not because we are unaware of them, but because it would be futile to try to cover every phase of the many problems that presented themselves. Agriculture, while of enormous importance, is not touched upon because it has a special agency which is brought into contact with the others under your direction in the Office of War Mobilization.

Higher education has been converted from peace to war and consideration will have to be given to its quick conversion back to peace. Trained people are an inestimable asset to every community. The war's interruptions may leave the future devoid of many of the educated, trained, and thoughtful people so necessary in every field of human endeavor. We would urge that those whose courses have been interrupted be encouraged to resume their training.

Research.

A closer connection between scientific research and its practical application is needed, particularly in view of the great number of products which we must import from abroad. Especially do we have in mind greater research regarding agricultural by-products and the finding of new sources of minerals through better processes that will permit the using of lower grades of ore. The distillation of coal and the extraction of oil from shales are only two instances worthy of pursuit.

Precious Surpluses.

The problems that lie before us are difficult but soluble. Let no one feel that precious surpluses will bear down upon us and destroy us; that vast amounts of metals, raw materials, ships and airplanes will smother us and engulf us. These are assets of tremendous value. They will be real forces not alone in making the peace but in opening to the whole world, and therefore to us, vast opportunities. As soon as our Government obtains possession of cotton, or gold, or silver, or ships, or planes, or other evidences of power or wealth, these possessions suddenly seem to become less valuable in the eyes of others. Remember the fox in Aesop's fable, who, when he lost his tail, wanted the other foxes to cut off theirs.

America's Strength.

All of the nations of the world, after the war, will be striving to raise their living standards. Without drawing upon America's productive capacity, no nation in the world will be able to do so.

Winston Churchill has said he did not accept his portfolio in order to liquidate His Majesty's empire. No American should accept a portfolio to liquidate American living standards.

Our great wealth can be used or abused. We have no fear that it will not be used for the advantage of America and the world in the most rational and enlightened manner. The living standards of the world must be lifted—and ours go higher—not our standards be dragged down to those of others.

Win the War.

This final word:

We have pledged our faith and honor on great offensives. The blood and suffering of our soldiers and of hundreds of millions of trampled peoples demand that we go on and finish the job of defeating our enemies in the shortest time, with nothing, no thoughts, no actions, interfering.

BERNARD M. BARUCH,
JOHN M. HANCOCK,
*Advisory Unit for War and Post-war
Adjustment Policies, Office of War Mobilization.*

FEBRUARY 15, 1944.

PART III

Summary Index of Recommendations.

A. Human Side of Demobilization.

1. That the Government forces dealing with the human problems of demobilization be unified on two fronts—the Executive and Congress.

2. On the Executive side, creation in the Office of War Mobilization of the new post of "Work Director" to "see that the human side of demobilization is not forgotten."

3. This "Work Director" to be a man of such outstanding caliber as to command the immediate confidence of the country."

4. This "Work Director" to work with Congress in the development of a combined program of legislation and operations "to carry out the objectives that all of us share."

5. Among the fields to be covered by this "Work Director"—personnel demobilization of the Armed Forces, developing adequate machinery for job placement of veterans and demobilized war workers, adequate care for returning veterans, physical and occupational therapy for wounded and disabled, resumption of education interrupted by war, vocational training, the special employment problems of the great war industries, and others.

6. That there be in each community, only one place to which returning service men and service women need to go to learn *all* their rights and how to get them.

B. Settlement of Terminated War Contracts.

1. To assure quick cash pending settlement, a complete "financial kit" is assembled, including:

(a) Immediate payment—the full 100 percent—for all completed articles.

(b) On the uncompleted portion of the contract, immediate payment—the full 100 percent—of the Government's estimate of "factual" items, where proof ordinarily is simple, such as direct labor or materials, and of other items on which the Government is able to satisfy itself, up to 90 percent of the contractor's total estimated costs.

(c) Immediate payment—the full 100 percent—of settlements with subcontractors as soon as approved.

(d) Payment by the Government of interest on termination claims, until settled.

(e) As insurance against delays in validating claims, a new, simplified system of T (Termination) loans by local banks,

with Government guarantees, to be available to all war contractors, primes and subs.

(f) For those unable to obtain such loans from their local banks in 30 days, *the Government to make the loans directly.*

(g) Until the new T loans are authorized by Congress, *extension of V and VT loans* to all eligible borrowers.

(h) Finally, for hardship cases, unable to use any of the tools outlined above, *expedited settlements.*

2. Quick, fair, and final settlement through negotiation by contractors and procurement agencies.

3. As a more effective safeguard of the public interest than the kind of review suggested by the Comptroller General:

(a) Review powers of Comptroller General limited to fraud with every administrative aid for detecting fraud.

(b) That all sizable settlements be made by Teams of negotiators.

(c) These Teams to file written reports and keep full records of the bases of settlement.

(d) Contractors to keep records for three years.

(e) That the Comptroller General and the Attorney General be added to the Joint Contract Termination Board.

(f) Further administrative safeguards now under study.

4. Establishment on an operating basis of a Joint Contract Termination Board within the Office of War Mobilization, to unify procedures and policies of all agencies:

(a) The Board Chairman to be a civilian, independent of any of the procurement agencies, answerable to the Director of War Mobilization.

(b) This Chairman to require progress reports from all agencies and to report regularly to Congress.

(c) Also to maintain a running survey of the extent to which V and VT loans and the new T loans are taken out.

(d) To keep a constant eye on all aspects of contract settlement recommending any changes that become necessary.

(e) The War Production Board be added to the Joint Contract Board.

5. Spread acceptance by war contractors of the Uniform Termination Article for fixed-price contracts.

6. Speed the handling of subcontractor claims:

(a) The procurement agencies to be authorized by Legislation to protect subcontractors in event of insolvency or default of their customers.

(b) A standard termination article for subcontractors to be completed soon to supplement the Uniform Termination Article for prime contractors.

(c) A minimum figure to be set by the Director of War Mobilization below which "nuisance-sized" claims can be immediately validated with suitable safeguards.

(d) Vigorous experiment with the so-called "company-sized" type of settlement, seeking a workable plan.

7. Schools to be set up around the country for training Government negotiators and contractor representatives in the same classrooms.

8. Prompt clearance of Government property from private plants not later than 60 days after the filing of inventory lists, the manufacturers having the right to remove and store the property earlier at their own risks.

9. This entire termination program to be put into effect by the agencies at once to the extent administratively possible.

10. Prompt enactment of legislation to make this program fully effective, including appropriate authority to permit company-wide settlements, to the extent found practicable.

C. Surplus Property.

1. The Director of War Mobilization to name a *Surplus Property Administrator* in the Office of War Mobilization with full authority for handling every aspect of surplus disposal.

2. A *Surplus Property Policy Board*, the Administrator as Chairman with full and final authority, and with these agencies represented: War, Navy, Treasury, Reconstruction Finance Corporation, Maritime Commission, War Production Board, Bureau of the Budget, the Food Administrator, the Attorney General, Federal Works Agency, State Department, and Foreign Economic Administration.

3. Four major outlets to handle actual disposal, each in a clearly defined field, with no overlappings:

(a) *Consumer Goods* to the *Treasury Procurement Division*.

(b) *Capital and Producer Goods*, all types of industrial property, to a *single corporation within the Reconstruction Finance Corporation*, consolidating present R. F. C. subsidiaries.

(c) *Ships and Maritime Property* to the *Maritime Commission*.

(d) *Food* to the *Food Administrator*.

4. All of these agencies, as well as any other agencies called upon to handle special disposal problems, to follow policies laid down by the Administrator in consultation with the Policy Board.

5. The Surplus Administrator to report to Congress as soon as possible on legislation needed, basing his recommendations on actual experience with the problem.

6. Our own suggestions as to the broad policies that the Surplus Administrator may wish to follow are summed up in ten basic principles:

1. Sell as much as he can as early as he can without unduly disrupting normal trade.

2. Listen to pressure groups but act in the national interest.

3. No sales, no rentals to speculators; none to promoters.

4. Get fair market prices for the values with proceeds of all sales going to reduce the national debt.

5. Sell as in a goldfish bowl, with records always open to public inspection.

6. As far as practicable, use the same regular channels of trade that private business would in disposing of the particular properties.

7. No Government operation of surplus war plants in competition with private industry.

8. No monopoly; equal access to surpluses for all businesses; preference to local ownership, but no subsidizing of one part of the country against another.

9. Scrap what must be scrapped but no deliberate destruction of useful property.

10. Before selling surplus equipment abroad, assure America's own productive efficiency on which our high wages and high living standards rest.

7. The Surplus Administrator to be a man of proven executive capacity, business sagacity, unquestioned integrity, and great courage to fight off the selfish interests who will be seeking to exploit these surpluses.

8. The facts on all sales to be open to public inspection, with regular reports from each disposal agency to Congress.

9. All of the disposal agencies to make effective use of Industry Advisory Committees.

10. The disposal agencies to lease as well as sell, to exchange properties, to sell on credit—but leasing must not become a hidden device for Government ownership or subsidies.

11. The Army and the Navy to examine their inventories of the most critical civilian items to see what can be safely released during the war for the civilian economy without hurting the war.

12. Surplus Administrator to study how to centralize the handling of real property, also, to explore the possibilities of beginning to liquidate Government holdings.

13. The closest cooperation between the War Production Board and the Surplus Administrator so that controls do not necessarily hinder disposition by unduly limiting potential buyers, particularly in ascertaining prompt disposal of small quantities of surplus materials.

14. The Surplus Administrator and the disposal agencies to have available to them in carrying out their policies the entire field force of all of the various agencies, including the Services.

15. Surpluses to be offered in lots of such size as to permit businesses of all sizes to participate.

16. The Attorney General is placed on the Policy Board because of the importance of preventing monopoly in disposal.

17. The Bureau of the Budget is on the Board to develop policy for permanent good housekeeping of Government properties.

18. The membership of the Surplus Property Board to be made up of men who will carry out the decisions that are made.

19. The broad functions of the Surplus Property Board are summarized in the chapter on Surplus in the addendum.

D. A general tightening of the entire Government war machine for both mobilization and demobilization—the two going hand in hand.

1. A running view of the functions of all war agencies by the Bureau of the Budget, reporting regularly to the Director of War Mobilization with recommendations for cutting down the agencies as their work dwindles.

2. Intensification of the fine work already being done in sweating out unnecessary requirements in the Services' programs.

3. An early, equally effective review of the programs for raw material production, stockpiling, imports, subsidies, and premiums to marginal producers so as not to continue any of these programs beyond being needed.

4. Early review of all wartime materials controls and limitation measures to determine under what conditions these orders can or should be modified.

5. Strengthening of the Industry Advisory Committees in the War Production Board.

6. Tightened handling and advance planning of new contracts and contract cancellation.

7. Closer working together of the WPB and the OPA to avoid pricing delays in the resumption of civilian production.

8. The Armed Services to furnish all civilian agencies full information in adequate time for these agencies to do their planning.

9. The civilian agencies to organize themselves to use this information effectively.

10. A running conspectus by the Office of War Mobilization of the tasks assigned each agency.

11. No new demobilization agency needed at this time.

E. Advance Planning for "X Day."

1. To be prepared in event of a sudden collapse of Germany, the Armed Services and the War Production Board to cooperate in the immediate preparation of an "X Day" Reconversion Plan based on the assumed defeat of Germany on a hypothetical "X Day."

2. This plan to seek to estimate cancellations in advance, to make tentative selections of the industries and plants to be freed, to be used to get a head start on all demobilization problems.

3. Advance listing of the priorities to be given different civilian needs in any opening up of civilian supply.

4. The highest priority to go to those things which contribute directly or indirectly to improved military efficiency, such as vital repairs, transportation.

5. As far as possible, all competitors to be treated alike in the resumption of civilian production but not so as to interfere with war requirements or to hold back production of needed items.

6. While this advance planning is being done, no let-up on the war.

F. Prompt Extension of Needed War Powers.

1. The price-control law.

2. Priorities and allocations power on which functioning of War Production Board rests.

3. Requisitioning power of President.

4. Attorney General to study other war powers of agencies to determine when they will expire, which can be allowed to elapse, and which should be extended.

G. Tightened Handling of Cancellations.

1. Prompt cancellation of war contracts as soon as it is seen goods are no longer needed.

2. Procurement agencies to inform the War Production Board of possible cancellations or cut-backs as soon as they begin to think of them.

3. The War Production Board to work out in advance the policies governing the choices as to which producers should be cancelled and which left in production.

4. The actual choices to be made after full consultation with the War Production Board, War Manpower Commission, and other interested agencies.

5. That contract cancellations be guided *first* by what will contribute to a more efficient prosecution of the war.

6. With war needs satisfied, *second* by what will contribute to the quick balanced resumption of civilian production and to an orderly changeover from war to peace.

7. Contract cancellation to be integrated with procurement and expansion of civilian production so that facilities and manpower which are released are shifted to new war work or, as far as practicable, to expanded civilian production.

8. A full, frank information policy on all cut-backs and cancellations.

H. Small Business.

1. That Surpluses be disposed of in small lots to permit small as well as large business to participate.
2. Similarly, the disposal agencies to be able to lease and to sell on credit, expanding opportunities for small business.
3. Effective representation of small business on Industry Advisory Committees.
4. Protection of small business in the resumption of civilian production, as far as is practicable without interfering with war.
 - (a). Earlier cancellations where small business can be converted.
 - (b). Care to protect competitive position of small business.
 - (c). Possible relaxation of "nuisance" type production control sooner than broader controls.
5. Provision for special credit to assist small business in the change-over and to encourage new enterprises.
 - (a). Extension of the lending authority of the Smaller War Plants Corporation, at present restricted to purposes of war production, to cover financial assistance for change-over problems.
 - (b). Expansion and liberalization of the Federal Reserve System's authority to make industrial loans permitting one-half billion dollars of such loans outstanding at any one time.
 - (c). These two additional sources of credit to supplement—not compete with—the enormous volume of savings in the hand of individuals and banks which await tapping.

I. So that the loans made available can be repaid and to encourage new enterprises, a post-war tax law be drafted now, during the war, and put on a shelf for use at the end of the war.

1. This tax law to make known in advance the reductions in tax rates from the present wartime levels to normal peacetime levels.
2. That this tax law provide for reduction of the national debt—the importance of reducing the debt being "to return to a strong position of national defense."
3. That this recommendation not be interpreted as meaning that present tax rates are too high for war—if anything they are too low—or that there should be an upward revision of our standards of fair wartime profits. "We have never swerved from the position that the profit be taken out of war."

J. Public Works.

1. Early engineering, planning, and designing of public works to be put on the shelf for use if needed.
2. Any fund created to assist local bodies in such planning be administered with full recognition that the debt burden of many communities, cities, and states is far lower than the Federal Government's.
3. Immediately needed projects which have been deferred during the war to be kept under review by the War Production Board for possible clearance as war needs slacken, with due regard to the competing demands of other essential production and employment.

PART IV

Addendum.

1. Settlement of Terminated War Contracts.

In developing a uniform plan for settling terminated contracts, we have sought a workable plan, as simple as possible and likely to lend itself to good operations. The complete plan will be built around the Uniform Termination Article for Fixed-Price Supply Contracts recently approved by the Director of War Mobilization.¹ While the present report covers the bulk of contract termination settlement policies, some aspects of these policies still need further working. As each portion is completed in a way to fit into the whole plan, it will be brought to the Director of War Mobilization for approval and for release to the public.

The instrumentality for putting together the program being recommended by us has been the *Joint Contract Termination Board*, established by agreement within the six major procurement agencies on November 12, 1943. The Board's workings have been a fine example of the best kind of interagency cooperation—no finer working spirit could have been hoped for. Represented on this Board are the War, Navy, and Treasury Departments, the Maritime Commission, the Reconstruction Finance Corporation Subsidiaries, and the Foreign Economic Administration. Mr. Hancock has been acting as chairman, representing the Director of War Mobilization.

The program is as much the work of these agencies as ours and it carries their unanimous approval.

A Workable Plan.

The thoroughness with which the Board has been working is worth special mention. From the outset it was clear that the broad objectives of policy could be easily formulated. If we had been content simply to say in general terms *what* should be done, the report could have been made long ago. That was not enough.

Workable plans also had to be developed for carrying out these objectives. The various subcommittees of the Board have been in constant discussion with businessmen, bankers, accountants and others specially interested in different segments of the program. On some of the unfinished aspects of the program, tests are being made in representative plants around the country to determine how different plans will work.

¹ See part V for text of article.

Three Basic Principles.

The program we are recommending balances three basic principles: *speed, finality, and protection of the Government.*

Delay seemed the chief enemy—delay in making the settlements, delay in paying what the Government owes, delay in clearing the plants of Government-owned property. Even if the settlements were speedy, it would not help much if they were not final, for then the advantages of speed would not be felt through the entire, complicated industrial structure. Prime contractors would still hesitate to pay their subcontractors; and these subs, in turn, would hesitate at paying their subcontractors and suppliers, for fear that the settlement might be changed and they be held liable for sums paid.

At the same time, the public interest had to be protected and no waste of public funds permitted through loose methods of settlement.

Comptroller General.

We weighed most carefully the suggestion that the Comptroller General be permitted to make an independent audit of every settlement and that no payment be final until approved by him. With the purpose of the suggestion—to guard the public's interest—we agree entirely. But it is no real protection of the public's interest to prescribe as a safeguard something which is administratively impractical or which would quibble the Nation into a panic.

By their very nature, the settlements of terminated war contracts must rest in large part on judgments of values, matters on which competent men could honestly differ. It is a field where auditing procedures can be only a limited tool.

What Is Fair.

It is for this reason that settlements by negotiation are recommended, so that weeks and months will not be spent in futile efforts to determine the last penny of cost on work in various stages of completion.

The essential thing about termination settlements is to determine what is fair to the Government and contractor alike. What is fair can be determined upon in several weeks as well as in several years.

Inviting Depression.

An independent review, as suggested by the Comptroller General, could only be for the purpose of having a second negotiation. A contractor would negotiate a settlement with one group of Government representatives. Some time later he would discover that the Comptroller General objected to this or that item, and he would have to negotiate and settle anew. Quick agreement would be discouraged, many contractors wanting to preserve some bargaining position against

this second negotiation. The net result might be a looser settlement than if responsibility were left fully and finally with the procurement agencies.

Capital Frozen.

The Comptroller did propose loans and advances pending his audit but the amounts are inadequate to keep business going. Until the Comptroller General had made his audit no war contractor would know where he stood. Prime contractors would be unable to pay subcontractors for fear that the Comptroller General might later scale down the settlement and demand the return of funds they had paid out. Banks would be reluctant to make adequate loans. Billions in working capital would be frozen. Workers and returning soldiers would walk the streets.

It is up to Congress, of course, to decide whether it wants an audit by the Comptroller General prior to payment and to prescribe its scope. It is our responsibility to make clear that in our judgment if such a law, as has been proposed, were to be enacted, Congress would be legislating a depression.

Vigilance Against Fraud.

No restriction should be imposed either by law or administratively on the Comptroller General in his auditing of payments to see that they correspond mathematically to the settlements, or in his reopening of any settlement for fraud. Every administrative aid of all the agencies should be given him.

To aid in the detection of fraud, contractors are being required to keep their records for at least three years and Government negotiators will file written reports of the bases on which settlements are made.

As a further safeguard, we are recommending *that the Comptroller General and Attorney General, both, be invited to become members of the Joint Contract Termination Board*, which will control the regulations, interpretations, and instructions for the negotiating officers in their settlement work.

Settlement Teams.

Worthy of special mention are the *teams* of Government negotiators who will be making these settlements. It is often popularly supposed that the Government's part of contract settlement is handled by one person, the Contracting Officer. Actually, in all sizable settlements, this Contracting Officer will be heading a Settlement Team which generally includes a Termination Officer, a Legal Officer, an Accounting Officer, a Technical Officer, and a Property Disposal Officer, each of whom may have his own staff assistants. We are recommending that written reports be filed by these Settlement Teams. As part of these

records, the Contracting Officer, who makes the final decision, is to file a written report of his conclusion and reasons, also where his decision disagrees with those of other members of the Team.

The Team idea has been developed to prevent any possible collusion in these settlements and also to encourage the individual Team members to exercise their independent courage and judgment in making these settlements.

No Better Men.

In the main, the members of these Settlement Teams will be the men who either took part in the letting of the original contract or who have been administering them. *They are the best ones to unmake the contracts.* They will have a familiarity with the companies with which they are dealing that no set of vouchers, no matter how detailed, could reveal.

In the final analysis, the Comptroller General would have to delegate his reviewing to many thousands of investigators. By and large he could not recruit a more honest or more capable force than present procurement officers, and it would certainly be less experienced. Through his position on the Joint Contract Termination Board, the Comptroller can employ his vigilance and experience in assisting these Settlement Teams.

Termination will be handled by the agencies as procurement in reverse and the same safeguards that held for making contracts will be there in the settling of these contracts. A subcommittee of the Joint Contract Termination Board has been conducting a review of administrative procedures of all the procurement agencies to see what additional safeguards can be wisely introduced. This subcommittee will report to us shortly.

Greater Safeguards.

These additional safeguards, plus those already provided for in this report—the Comptroller General's full review power for fraud, the presence on the Joint Board of the Comptroller and the Attorney General, the requirement that contractors keep their records for at least three years, the settlements being made by Teams, with written reports by these Teams—*total a more effective safeguarding of the public's interest than the audit before payment proposed by the Comptroller.*

Training Schools.

No plan can be better than its administration. The contract settlement program will depend on the judgment and understanding not only of the Government negotiators but of contractors as well.

An intensified and expanded training program for both Government negotiators and men from war contracting concerns and others in business dealing with these problems, is being drawn up to be placed into effect on a national scale. Schools will be established in various parts of the country *with Government and industry men attending the same classes*. This training program is the best insurance of good administration in the field—attaining the twin objective of fast, fair settlements and the protection of the Government.

Getting Contractors Paid.

Even with the best of good will on the part of the Government to make payments promptly, and of contractors to speed their submission of accurate claims, settlements will take time. If manufacturers are to provide continued employment, it is essential that there be developed and put into operation on a nation-wide scale, a plan of interim financing that will release the working cash of manufacturers, while they await settlement.

No one financial device has been found which could be applied to all alike, prime, sub, suppliers, etc. Attempts at such a magic formula result either in something so rigid as to be unworkable or inadequate or so loose as to be a blank check on the Government.

A Complete Financial Kit.

We, therefore, have painstakingly assembled every working tool that could be found into what might be called a *"complete kit" of financing tools*, to meet the great variety of cases and conditions of the thousands of war contractors, while still protecting the Government.

No One Tool.

A universal formula does have an offhand simplicity. But every craftsman knows it is simpler to have a kit of tools designed for different jobs than to attempt to do every job with the same tool.

Major items in this complete financial tool kit are:

1. Immediate payment—*the full 100 percent*—for all *completed* articles.
2. On the uncompleted portion of the contract, immediate payment—*the full 100 percent*—of the Government's estimate of "factual" items, where proof ordinarily is simple, such as direct labor or materials, and of other items on which the Government is able to satisfy itself, *up to 90 percent of the contractor's total estimated costs*.
3. Immediate payment—*the full 100 percent*—of settlements with subcontractors as soon as approved.

4. Payment by the Government of *interest on termination claims*, until settled. This will require legislation.
5. As insurance against delays in validating claims, a *new, simplified system of T (for termination) loans by local banks*, with Government guarantees, to be available to all who have been producing for war contracts. This also will need legislation.
6. For those unable to obtain such loans from their local banks in 30 days, *the Government—through the procuring agencies—to make such loans directly or to make partial payments as a loan against the settlement*.
7. Until the new T loans are authorized by Congress, war contractors to be urged to arrange *VT loans*.
8. For hardship cases, those not adequately covered by any of the plans for loans and advances outlined above, *expedited settlements*.

T Loans.

The new T loans are designed as a simplified type of such loan and to remedy the inadequacies of present V and VT loans. They are a part of the plan developed by the Federal Reserve System. Under existing law, V loans can only be taken out and used to aid war production. They cannot be made once a contract is terminated. VT loans can be used for termination needs, but they, too, must be arranged for *before* contracts are cancelled, limiting their applicability. The T loans proposed here would be available *before or after* termination.

All contractors, subcontractors, or others who have been engaged in the performance of a war contract would be eligible. The individual T loans would be based on an estimate of the applicant's receivables, inventory, work in process, amounts paid or to be paid to subcontractors or suppliers in the tier below.

A Community Plan.

These T loans are to be made by local banks, who will assume, in general, at least 10 percent of the risk, the procurement agency guaranteeing the remainder. This participation by banks in the same communities as the contractors or subcontractors provides both reasonable protection to the Government, and, through the banks' trained staffs, the most convenient and effective means for reaching the many thousands of prime and subcontractors quickly.

The plan has been discussed with representative bankers from various parts of the country who have assured us that commercial bankers will actively support the plan. It would be not only a definite contribution to the whole economy but also good community banking,

as these loans could be made in the contractor's own community and not become involved in extended negotiations with the central authorities in Washington. The administrative machinery for arranging Governmental guarantees should be as nearly automatic as possible and as decentralized as feasible.

More VT Loans.

V and VT loans, in the main, are long and involved documents which deter many banks from handling them. *The new T loan will be a short, simple document.*

Until new T loans are authorized by law, war contractors would be well advised to take out V and VT loans as an inexpensive form of insurance. Otherwise, they run the risk of cancellation before legislation is enacted. It will be possible to merge V and VT loans readily with the T loans, when these latter loans are available, giving present V and VT borrowers all the advantages of the T loans.

As of December 31, 1943, applications for 5,217 V loans had been approved and only 130 VT loans, by little more than 1,000 out of 14,000 banks in the country. These figures leave little doubt that there are many eligible borrowers who still should get these loans. The T loan plan will utilize all member banks in the Federal Reserve System.

Needs Vary.

Happily, many war contractors are already adequately financed, and will not need any kind of loan. Many have the credit standing which will permit them to borrow through commercial channels without any Government guarantee. Many others will be able to borrow from commercial banks with the aid of a Government guarantee and the T loans will meet this need.

Smaller War Plants Corporation.

In the cases of smaller war plants who find themselves unable to obtain loans from their local banks, *Congress may want to authorize the Smaller War Plants Corporation to step in and assume the equivalent minimum 10 percent risk* that the local banks find themselves unable to assume. The Smaller War Plants Corporation, however, should supplement—not compete with—normal financial channels.

Direct Government Loans.

Some war contractors will not be able to arrange T loans with their banks. For them the "tool" in the "kit" is the provision for direct loans or partial payments by the Government. Any eligible borrower may apply directly to the Government if unable to obtain a loan from a private bank in 30 days.

90 Percent Advance.

In event of failure to agree on the final settlement, the contractor will be paid 90 percent of what the Government is willing to pay, leaving the contractor free to submit a claim for the remainder under the appeals procedure which will be established.

This kit of financial tools, including loans, immediate payment in full, on agreed upon items, and a 90 percent payment in event of disagreement, *plus expedited settlement where financing is inadequate*, will meet the working capital needs of concerns whose war contracts are terminated.

Pre-termination Preparedness.

Reinforcing this financing plan will be a number of administrative improvements, particularly in the way of pre-termination preparedness, that are being pushed. As an example, the procurement agencies now are surveying their disbursing and inspecting organizations to bring them up to date on current work so as to prevent their being swamped by a suddenly increased volume.

This much must be kept in focus. No plan of interim financing can be as good as final settlement itself. This financial kit has been assembled as *insurance against delays* in settlement that inevitably must arise—but which, we hope, will be minimized by other recommendations in this report. Interim financing arrangements should not be an excuse for delaying settlement on the part of either Government or contractor.

No Blank Checks.

That is one of the reasons why we are opposed to the suggestions that payments or loans to contractors be made on the basis of a fixed percentage of the *claims submitted by manufacturers*. It is an invitation to padding. Some manufacturers would submit claims not in expectation of their being settled immediately but as a basis for bargaining and for receiving large advance payments or loans. Entirely new claims would have to be submitted, delaying the settlements proportionately. The litigation would be endless.

Moreover, no one would ever suggest that a businessman pay his bills without checking them. Why should the Government do so?

Subcontractors.

Settling the claims of subcontractors raises truly staggering questions, made all the more complicated by the fact that their problems vary. In discussions of the questions, it is often assumed that the aggregate of *all* of the problems of *all* of the subcontractors is the individual burden of *each* subcontractor.

There also is a tendency to think of subcontracts as always involving only small sums. This is not true in a great mass of cases.

Intricate Pattern.

Subcontractors have no direct contractual relationship with the Government, although Government men often press them to take subcontracts for urgently needed tools of war. It is the prime contractor who receives the contract from the procurement agency, and under present practice, it is he with whom the Government settles on termination.

When he gets his contract, this prime lets out bits and pieces of the work to scores and often hundreds of different concerns. These subcontracts spread downward, through successive layers or tiers of producers. Often there are six or seven tiers, each supplying a producer in a tier above, the final product being the finished weapon delivered by the prime at the top. Nor is it unusual for a manufacturer to be at the same time a prime contractor and someone else's subcontractor. The web of interrelationships crisscrosses in as intricate a fabric as the integration of American industry itself. It is the result of the efforts to widen subcontracting to increase war output.

Currently, the normal movement is for cancellations, to go down from the prime at the top through the tiers below; for claims to be sent up; then for payments to come back down again. If many tiers of producers are involved, the process is likely to be slow at best, with risks of serious stoppages in the flow.

Complex Difficulties.

It has been proposed that the Government settle with all subcontractors directly. Apart from other problems discussed later, the Government has had no direct dealings with most of these subcontractors—their names and addresses are not even known—and it would be a tremendous administrative task to settle this multitude of claims. The contractual relationships of these many subcontractors, suppliers and primes, each with one another, are as intimate and complex as the commercial life of the Nation.

Offsetting Claims.

The personnel problem involved in having the Government check each of these claims would be gigantic.

Another difficulty of having the Government step in and attempt to settle directly with the subcontractor is that the prime contractor may have an offsetting claim against the subcontractor. In such situations, the Government would have to get a release from all such claims or would need the consent of the prime before making payment to a subcontractor.

Again, it often is difficult to identify a subcontract with the particular contract of the Government which is being terminated.

Normal Business.

Under the plan recommended here for the existing procedure of settling by individual contracts, prime contractors are left free to make their own settlements with subcontractors as they would in normal business practice. These settlements, on validation by the Government, will be paid in full. The contractor has the best knowledge of the companies with whom he has been doing business. Through his purchasing and engineering staffs he ordinarily is in the best position to know quite quickly whether the claims from his subcontractors are sound and reasonable.

For this reason, imposition of a requirement of Government approval as a prerequisite before paying a subcontractor has been avoided. *The contractor is left free to exercise his own business judgment.* If a contractor wishes to, he may obtain Government approval in advance of making the payment. Where such approval is given, the Government will be bound in the final settlement not to dispute the payment.

Preventing Delays.

This still leaves a field for some hesitation on the part of the contractor against paying those in the tiers below. We have endeavored systematically to speed the settlement of claims and the flow of payments and are seeking still further improvements. One of the chief causes of hesitation currently has been the fear that settlements negotiated with the procurement agencies could be upset at some later date by the Comptroller General, not for fraud, but on the basis of a differing judgment.

Under existing law, the settlements negotiated by the procurement agencies are final, except for fraud. The fact that the Comptroller General requested legislation to give him the power to make an independent review has left a great deal of uncertainty among contractors and Government procurement officers as well. We are recommending that this uncertainty be eliminated.

Loans Available.

The T loans, it might be emphasized, have been designed with particular regard to providing quick working cash to the many thousands of subcontractors scattered around the country, pending settlement.

Immediate Payments.

The provisions for immediate payment in full for completed articles, for so-called factual items, and for any other items where agree-

ment is reached, should permit *similar payments to subcontractors down the line*. These payments will be quickened by the Administrative action of bringing the disbursing and inspecting offices of the procurement agencies up to date for deliveries already made.

Another major contribution, reducing the hesitation on the part of the contractor against making payments down the line, is the recently announced Uniform Termination Article which defines clearly the mutual rights and obligations of the Government and contractor on termination. In the absence of such a Uniform Termination Article, confusion and conflict could easily have arisen in the settling of different contracts, particularly between the different agencies.

A Policy of Certainty.

Wherever there has been uncertainty as to the Government's position, we have sought to formulate a policy of certainty. That will continue to be our aim through the remainder of the problem and the development of complete regulations.

Uniform Article for Subs.

To supplement the Uniform Termination Article for prime contractors, already in effect, a shorter, standard termination article for subcontractors is being drafted.

The clarification of the rights and obligations of subcontractors provided for in this article will be a major contribution towards helping prime contractors settle promptly with their subs.

Nuisance Claims.

To further narrow the field of possible hesitation, we recommend that a *minimum figure* be set, below which contractors could settle claims with complete assurance that the claim would be paid in full by the Government. The purpose is to provide a means of quick validation for the multitude of "nuisance" claims, which are great in number but small in aggregate value. As safeguards in using this device, we would require:

- (a) Those receiving such payments to certify against fraud, this certification to be not only by the corporation receiving the money, but also by its officers, making them personally responsible;
- (b) That the contractors, who are given this minimum validating right, satisfy the procurement agencies of the adequacy and fairness of their general methods for making such settlements.

An Adjustable Figure.

Because no one now knows exactly how one minimum figure would work out as against another, we do not believe that Congress should now attempt to set such a figure by legislation. It is recommended, instead, that *authority to establish such a figure be granted by legislation to the Director of War Mobilization*, who in turn would delegate it to the Chairman of the Joint Contract Termination Board. It may develop that this figure will have to be adjusted from time to time on the basis of experience. With this figure properly adjusted, immediate settlement could be provided for a very large percentage of the claims in number, yet involve only a small percentage of the value. Field samplings are being made to get the facts as a basis for a specific recommendation as to what this figure should be.

Direct Settlement.

We recommend that the termination legislation enacted by Congress contain *appropriate authority to permit the procurement agencies to settle subcontracts directly at their discretion*. This is a further insurance of speed in settlement. It will also meet situations where subcontractors, who so frequently have undertaken work at Government request, are threatened with loss through default or insolvency of a contractor in the higher tier. Such direct settlement must be made with the consent of producers in the tiers above, who may have offsetting claims.

A variety of administrative measures are under study in the way of advance planning and pre-termination preparation, simplification, and unification of procedures, personnel training, education and other assistance which will clarify termination settlement and further speed payments to subcontractors.

Company-Wide Settlements.

One proposed solution of the subcontractor's problem deserves particular mention, the so-called company-wide or merged claim settlement. At present, settlements are conducted contract by contract, each contract being handled separately. Under the company-wide plan, the claims of a company would be merged together in one claim, regardless of the number of contracts involved or the agencies of Government holding these contracts and regardless of whether the company is prime or subcontractor.

This approach to the problem has great appeal. All who have studied the idea are agreed that if a workable plan could be found it would have considerable advantages. The difficulty lies in the "if". There has been no administrative experience with this type of settlement and thus far no complete plan for such settlements has been

brought forward. Legislation will be needed on some points before it could be put into operation.

Experiment With Idea.

However, it is not proposed that the idea be dropped. To the contrary, *we recommend that the contracting agencies launch immediately a vigorous experiment, fully exploring its possibilities* and searching for a workable means of employing it wherever settlement would be expedited without impeding war procurement. These tests are likely to develop improvements in the present procedure.

It is also recommended that *Congress be asked to pass appropriate legislation which will permit the use of such a plan*, if it is found sound, and to the extent deemed desirable.

Prompt Clearance.

Next in importance to freeing the working capital of manufacturers is the clearing of plants of Government-owned raw materials, work in process, equipment, component parts, and completed articles, so producers are physically able to take on new war work, or to move in their equipment and materials for producing peace goods. We are recommending prompt clearance of Government property from plants not later than 60 days after the filing of the inventory lists. Manufacturers, further, will be given the right to remove and store this property earlier at their own risk.

This 60-day deadline applies equally to prime contractors and subcontractors. Subcontractors will have to submit their inventory lists to their prime contractors and the 60-day deadline will become effective after these lists are received by the Government.

What to Keep.

These lists will include any property that is allowed for as part of the termination settlement or otherwise owned by the Government. Along with the inventory lists, contractors and subcontractors should indicate what things they would be willing to buy and at what price. Where contracts provide for options, contractors should indicate promptly whether the options will be exercised.

The procurement agencies will decide what is to be sold to the contractor for war or other appropriate uses, what should be taken and sold to other war producers so as to quicken war production. Prices to be paid will be agreed upon between the contractor and the procurement agency, the agency following such broad pricing policies as may be laid down by the Surplus Administrator.

Detailed regulations on clearance will be issued soon. Also it should be noted that the policy on how to handle facilities held by contractors under contracts containing special provisions for disposition other

than those recommended is still under study by a subcommittee of the joint board. The Statement of Policy on Removal and Disposition in Appendix 2 is not intended to cover these.

The goal of 60-day clearance, however, will hold for special facilities and special equipment still under study.

Pre-Termination Planning.

Settlement will be speeded by two broad programs of administrative action being recommended—pre-planning and the simplifying and unifying of procedures.

Pre-planning termination for "X day"—that unknown day of termination of contracts—should permit an advance decision as to what articles are to be finished and what articles are to be stopped immediately with a view to saving every cent possible. The fact that war is essentially wasteful should not be used as an excuse for further waste.

Another part of pre-planning would include the training of contractors' personnel, the assignment of competent men, and the development of methods for the preparation of the claims in such form as to permit prompt payment. Whatever could be done in advance to lessen the job of disposal of facilities would be helpful. Whatever plans could be made for handling of Government material in the contractors' plan would likewise contribute to speed in settlement and to the opening up of civilian jobs for workers and returning soldiers.

Simplify Procedures.

The essential function of the Joint Contract Termination Board will be to simplify and unify the procedures and policies of the several procurement agencies, while fully protecting the public interest; also to bridge any gaps in policy or administration between the agencies.

Board Chairman.

At present Mr. John M. Hancock has been acting as Chairman of the Joint Contract Termination Board in order to expedite the formulation of all of these policies. Still to be worked out are policies and plans for other aspects of the termination problem including the possibility of company-wide settlement procedure; settling obligations of Government to the contractor for special facilities; a standard termination article for subcontracts; a similar article for cost-plus-fixed-fee contracts; the possibilities of direct settlement of subcontractors' claims; administrative safeguards against fraud; the establishment of appeals and review procedure; also the issuance of cost interpretations and manuals of instruction.

Independent Civilian.

When this policy-formulating job is done and the Board becomes an operating organization, a permanent Chairman should be named.

He should be an independent civilian, not representing any of the procurement agencies, and answerable to the Director of War Mobilization.

Among other things, we would recommend that the Chairman of the Board:

1. Receive from all the procurement agencies, current *reports on the progress of termination settlements*, the numbers of contracts cancelled, amounts of claims submitted, amounts of settlements, volume of claims unsettled, and submit appropriate reports to Congress through the Director of War Mobilization.

These reports, it is hoped, will keep the American people and Congress currently informed on the status and progress of contract settlement.

2. Maintain a running survey of *the extent to which V and VT loans and the new T loans, when authorized, are being taken out* by eligible borrowers.
3. Keep *a constant eye on all aspects of contract settlement* with a view to recommending any necessary changes to the Director of War Mobilization. This, however, should not be interpreted to relieve the procurement agencies themselves of primary responsibility for initiating changes and improving their procedures as they gain experience.

Field Studies.

If it becomes necessary, the Board Chairman should have a sufficient staff to make field inspections to test the working out of these plans, and he should initiate any suggestions for needed legislation.

Gain Experience.

The current stage of contract termination should be thought of as a period of experience for all of us. Government and industry should prepare to handle the heavy cancellations that will come. Out of this experience will come important procedures, shortcuts. There is no way of replacing confidence and ability by a formula, or instructions.

Contractors' Part.

Speed in settlement is not something that the Government alone can provide. Contractors and their subcontractors must contribute as well in getting themselves organized to handle the problems of termination. They must familiarize themselves with the procedures, get their records in shape, prepare promptly the necessary lists of inventory and work in process, and promptly submit their claims. In the

past an average of four months has been required to get contractors to submit claims.

Contractors should also analyze their own financial positions and see which tools in the financial kit that has been assembled will serve them best and they should promptly utilize those tools. Prime contractors, in addition, must get acquainted with the problems of their subcontractors to get the claims from them as quickly as possible.

Right Approach.

In summary, too much stress cannot be placed upon the importance of the spirit and the attitude in which termination settlements are approached by Government officials as well as war contractors. There is the ever-present need of protecting the interests of the Government. There is also the responsibility of all Government officials to discharge the obligations of the Government with every determination to be fair and reasonable. These rights and obligations of the Government will be covered as fully as practicable and in time the detailed instructions should narrow the field for differences of opinion. Settlements should not be approached by Government or industry except with the purpose of determining what the Government owes the war contractor. The determination should be made with this basis alone in mind.

No Claim Padding.

While no Government officer can be allowed to approve excessive settlements, he is also under definite responsibility *not to pay less than is due*. The obligation is *equally upon industry not to file claim for amounts beyond those genuinely due* nor to approach the problem of settlement as a trading proposition.

If industry and Government approach this problem in this way, a feeling of cooperation will result which will be a material aid in securing prompt and fair settlement. There should be no occasion for the use of the blackjack by any Government official, nor for resort to refusing to pay what is clearly owed, to force a contractor to accept less than is fairly due him.

In many cases the need of the contractor for the money owed him by the Government will be such that he will have to get the money promptly or close up his business. That will be a factor which ought to encourage the contractor in preparing his claims completely, accurately, and promptly. It likewise is entitled to consideration on the part of Government officials. After all, the net fact is that the Government is holding money which it owes the contractor. Its delay in payment should be only as long as is needed to determine how much is owed, with full protection of the Government's interest.

In this way, the account books on the war can be closed fairly and quickly and the country can go back to its peacetime pursuits.

2. Surplus Property.

In developing our recommendations for the handling of surplus Government property—that is, property in excess of war needs—we were confronted with many complexities. The variety of Government properties to be disposed of during and after the war ranged literally from ships to sealing wax, each with its own problems. No exact determination of the size of these surpluses was possible, nor of the policies to guide the disposition of certain categories of surplus until such questions as these could be answered:

What plants and machinery will the Army and the Navy need to keep as a stand-by reserve for future security?

What plants and camps will be needed for storage and warehousing?

What, if any, non-perishable raw materials produced outside of the United States will we keep as a strategic stockpile—

How large an Army and a Fleet will we maintain after the war?

Will there be universal military service after the war?

These and other questions can be finally determined only by Congress and the President, by the Armed Forces, and in many instances by the terms of the peace settlement.

Surpluses Immediate.

Yet, immediate surpluses are developing which as the war goes on will gain in volume. With the cancellation of contracts, considerable quantities of materials, equipment, partly finished goods, and other inventories will be coming into the possession of the Government. Some of these things will be useful only as scrap. Some will deteriorate if not used soon; others would gain in value if their manufacture were completed. Some things will be needed by other war plants. Sooner or later many can be used to expand civilian production.

Speedy Action Needed.

An organization was needed to take over these surpluses as they were developing, putting them to their best uses, and obtaining a fair return for the Government. The need was all the more acute in view of the importance of prompt clearance of Government property from private plants as part of our program of contract termination.

We also are keenly aware that the next months to come will be the best months for disposal in that they will be the easiest during

which to dispose of things that are needed. An immediate start on the problem could reduce enormously the likely surpluses that would be left for the more difficult months after the war.

Present Inadequacies.

The existing machinery of Government, as now functioning, clearly was inadequate to handle with dispatch these immediate problems, let alone the much heavier accumulation in the future. Yet any attempt to set up a wholly new disposal agency could defeat its purpose. Time would be taken in organizing such an agency. When set up it might find itself bogged down in efforts to deal with thousands of unrelated items. Inevitably, it seemed that such an action would lose the previous months to come.

After weighing the various alternatives, what was needed was this kind of an organization: one capable of dealing with the immediate disposal problems without delay and in doing so gain the experience for handling the greater post-war surpluses; one capable of adequate fact-finding, bringing decision between the agencies on many problems, and formulating recommendations to Congress; one which would have a firm hand, centralizing the control over a widely scattered, decentralized operating personnel to achieve the necessary unified, orderly policy, eliminating competition between Government agencies and to be able to bring to policy considerations the all-important element of timing; yet an organization sufficiently flexible for dealing with the bewildering variety of items and with the different jobs of disposition organized into manageable size.

These needs are met by the new organization we are recommending:

1. A **Surplus Property Administrator** in the Office of War Mobilization, named by the Director, with full responsibility and adequate authority for dealing with all of the many aspects of war surpluses.
2. To advise and assist him in developing unified policies for all Government agencies, a **Surplus Property Policy Board**, representing these agencies: War, Navy, Treasury, Reconstruction Finance Corporation, Maritime Commission, War Production Board, Bureau of the Budget, Food Administrator, Attorney General, Federal Works Agency, State Department, and Foreign Economic Administration. The Surplus Property Administrator would be Chairman with full and final authority. He could call on any other agency, as he wished, in dealing with special problems.
3. The actual disposal of surpluses to be handled by these **four major disposal outlets**:
 - (a) **Consumer Goods**, other than food, to be handled by the **Procurement Division of the Treasury.**

- (b) **Capital and Producers' Goods**—every type of industrial property including plants, equipment, raw materials, scrap, semifinished parts—to a **central corporation within the RFC**, consolidating existing RFC subsidiaries dealing with Government properties.
- (c) **Ships and Maritime Properties** to the **Maritime Commission**.
- (d) Food to the **Food Administrator**.

Each of these broad types of surpluses involve dealing with different outlets and different market conditions. The agencies have been assigned to the fields of their own experience, where they could proceed to operation with a minimum of delay. In event of questions arising as to which agency is to handle what type of surplus, the Surplus Administrator will make the decision. There should be no overlappings or conflicts in jurisdiction.

4. All of these outlets, as well as any other Government agencies assigned special surplus problems, to follow broad policies to be laid down by the Surplus Administrator in consultation with the Surplus Property Policy Board.
5. All of the disposal outlets should make effective use of **Industry Advisory Committees** so that regular channels of trade can be used to the fullest extent practicable, with small and large concerns alike participating.

No Liaison Men.

The Surplus Property Policy Board must be made up of men who can see that the policies agreed upon by the Board are carried out in their own agencies.

Board's Functions.

Among the functions to be exercised by this Surplus Property Policy Board, through its Chairman, are:

1. To lay down **surplus disposal policies** to be followed by all agencies of the Government.
2. To **press for the early disposal** of surpluses in as great a quantity as possible, while the war still is going on.
3. To see that complete plans are developed for handling the disposal problems that grow out of contract termination, including
 - (a) utilization of existing agencies to the limit in establishing the necessary field organizations;
 - (b) setting of methods, practices, and policies to govern all transactions by all agencies on as nearly a uniform basis as possible;

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- (c) development of the necessary warehousing and storage facilities to implement the prompt clearance of war plants; and
- (d) development of instructions regarding the preservation, packing, shipping, storage and protection of surplus goods.

4. To develop an effective **redistribution of surplus materials**, equipment, etc., both to improve war production and to speed the program for the resumption of civilian production that is established by the War Production Board.
5. During the remainder of the war, in cooperation with the W. P. B., to explore the more **critical civilian needs** and enlist the support of the Services in declaring as surplus such items as can be safely released.
6. To encourage the agencies to **report surpluses promptly**, but at the termination of the war to **dig persistently** so that hidden surpluses will not accumulate in the agencies.
7. To develop with the Armed Services for the ultimate approval of the President and Congress, a **stand-by program** of plants, equipment, and other properties needed to be held in reserve for future security.
8. To arrange for **transferring of Government property** from one agency to another where necessary to carry out the policies that are laid down, so that the shifts are made with a minimum of interagency negotiation and bookkeeping.
9. To explore the uses of these surpluses within the agencies of the Government, arranging for **an effective coordination of surpluses and purchases** so that new purchases will not be made where they can be satisfied from existing surpluses.
10. As far as is reasonably possible without diverting from the prosecution of the war, to devise such effective methods of **inventory controls** within the various agencies as to
 - (a) develop the possibilities of early declarations of surplus, and
 - (b) insure that inventories on hand are not swelled except where needed.
11. To plan for the handling of future surpluses; as far as possible **organizing the demand for such surpluses in advance**, as for **foreign relief and rehabilitation; for states, counties, and municipalities; educational and other institutions; and other claimants.**
12. In cooperation with the State Department and Foreign Economic Administration, to develop the possibilities of **disposing of surpluses abroad**, balancing this with the need of

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improving the efficiency of our own productive plants and with other domestic needs.

13. So as to realize the greatest possible yield from this property, to determine how property coming into the possession of the Government can be *reprocessed and completed* before disposition.
14. To develop in cooperation with the War Production Board, a *policy for stockpiling* both for the rest of the war and after, having in mind the problems of later disposal.

Surpluses for Use.

The membership of the War Production Board on the Surplus Property Policy Board deserves particular notice. Since the uses of surpluses and new production will often be interchangeable, there must be the closest cooperation between the Surplus Administrator and the War Production Board. The Surplus Administrator should guide disposition so as to quicken war production and speed the resumption of civilian production in the pattern laid down by the WPB. The WPB, through its control of requirements and other aspects of the production program, must prevent the unnecessary accumulation of surpluses. WPB must also keep the various production limitation orders under constant review to see that they do not necessarily hinder disposition by unduly limiting the use by potential buyers.

Adjust Controls.

Unless these control orders are relaxed promptly when they should be, much of this surplus property will move into warehouses and may not be brought out until too late to help in war production or in speeding the resumption of civilian employment.

We recommend, in particular, that the WPB and Surplus Administrator, between them, work out a means by which small quantities of surplus materials can be promptly disposed of so as not to get involved in rehandling or storage problems or tight priority interpretations. Otherwise the clearance of private plants will be hindered and unemployment will result.

Existing Field Force.

There is now in existence an efficient field force of the various agencies, including Army and Navy representatives in individual plants, salvage officers, field redistribution officers, procurement officers, etc. All of this personnel and machinery should be available for the carrying out of the disposal policies that are developed. No new enormous field organization needs to be or should be created.

Legislation Later.

We are recommending that this organization be established by **Executive order for the time being**, only because of the need for speed in handling the immediate problem and of gaining experience in the actual administration of the problem; also for developing the machinery through which the various agencies will have to work together on these problems. Ultimately Congress will have to lay down the basic policies for the disposal of these properties. Accordingly, we are recommending:

That the Surplus Administrator maintain a continuing study of the surplus problem and report to Congress on needed legislation as soon as possible.

Further Centralization.

We would not want our recommendations for handling the immediate disposal problems to seem to rule out a still further centralization of the handling of disposal if experience with the problem in the coming months indicates such a centralization desirable. By bringing the problem under a firm, managing hand, our recommendations should facilitate a smooth transition, without loss of efficiency or time, to any set-up that Congress ultimately decides is best. If any such action comes under consideration, we would stress again the importance of keeping the disposal job to a manageable size.

Most Important Choice.

The question was asked by one member of the Senate Post-War Planning Committee whether there could possibly be a more important post, affecting not only the well-being of America but also of the civilized world, than that of this Surplus Administrator? The answer was "No." It should be added that few Government posts are more difficult.

Prevent Unemployment.

Proper handling of surpluses will be a most significant factor in preventing inflation, speeding reconversion and avoiding serious unemployment. It could make a difference of billions in the size of the national debt.

Boldness will be needed in disposing of surpluses promptly while civilian shortages are acute; **caution** to obtain the full value and to slow sales when they threaten to disrupt normal trade; **wisdom** to give proper balance to long-time security factors.

Courage Vital.

The Surplus Administrator should be a man of proven executive capacity and business sagacity to deal with the multitude of problems that will arise in the sale of an endless variety of products and changing market conditions. He should be a man of character, unquestioned integrity, and great courage to fight off all the selfish interests that will be seeking to exploit these surpluses.

No Formula Possible.

Whatever policies are laid down by Congress, no formula or statute can be adequate in this situation. In the final analysis we will have to depend upon the judgment and ability of the best men who can be gotten for the job.

We are recommending placing the Surplus Administrator in the Office of War Mobilization, to insure the best use of surpluses for the war and so that the Administrator will have the immense authority of the Director of War Mobilization behind him in doing his difficult job.

Leasing Needed.

In general, outright sale will be preferable. The disposal agencies, however, should have authority to exchange properties and to lease as well as sell; also to sell on credit and not simply for cash. The authority to make exchanges will be important in replacing obsolescent equipment with the most efficient, modern tools, and in unscrambling cases of mixed Government and private ownership. Leasing and credit arrangements will assure smaller enterprises opportunities that would otherwise be denied them. Leasing will have the further advantage of providing a means of bringing plants and equipment into immediate use, pending the determination of the value and completing the selling arrangements.

A Warning.

This red flag of warning is raised. ***Leasing must not become a hidden device for the Government to compete with private plants; it must not become a hidden device for subsidies—by any name—to anyone.*** Once plants leave the Government's hands they must stand on their own feet competitively.

Small Lots.

Surpluses should be offered in lots of such size as to permit small businesses, as well as large ones, to participate. Membership of the advisory committees helping the disposal agencies should be balanced

both as to size of business represented and the different regions of the country.

The advice and aid of the Smaller War Plants Corporation should be drawn upon to make certain that small business is effectively represented on the Industry Advisory Committees. Should the Smaller War Plants Corporation desire to do so it can further assist in acquainting small businesses with the surpluses that will be available and in aiding small enterprises to acquire such properties.

Shortsighted Extremes.

Discussion of surplus policy generally has swung between two extremes. At one extreme have been those who would dispose of surpluses at any price, simply to get rid of them, no matter how disruptive the effects. The opposite extreme would sell nothing, proposing either to hold the goods off the market indefinitely in warehouses or to destroy them by sinking them into the sea.

We would urge upon the Surplus Administrator a middle course between these two extremes of dumping or freezing—the middle course of wise and carefully timed disposal. Let us keep in mind that these surpluses, properly utilized, represent tremendous wealth to ourselves and to others.

Keep America Strong.

American industry will want to purchase much of this surplus equipment which is modern and efficient, to replace older, obsolete equipment so as to improve our national industrial efficiency up to which our high wage and living standards rest. Before selling this equipment abroad, these possibilities certainly should be fully explored and plans developed early for the sale of the equipment to such users when fair values can be realized.

Timing Vital.

Timing will be of the essence in the disposal. While the war is going on and, in many instances, even until civilian industries are restored to volume production, it will be comparatively easy to dispose of things at good prices and little disturbance to the trade. The Surplus Administrator should sell all he can as early as he can, reducing proportionately the quantities of surpluses which will be left for the more difficult post-war period and saving handling and storage charges.

Wartime costs for many Government properties will bear little relation to peacetime values. Expensive tools or equipment for highly specialized war uses may be valuable only as scrap. Plants have been erected at inflated cost levels. We must face squarely the fact that heavy dollar losses will have to be taken on some properties as part of

the necessary cost of war. In this connection we have asked that a study be made comparing war construction costs with more normal peacetime construction costs and this information may help the Surplus Administrator in developing fair appraisal methods.

Lower Debt.

All of the war surpluses will have been paid for by the American public either through war taxes or the increase in the national debt. Therefore, the proceeds of all sales should go to reduce that debt, lowering the post-war carrying charges which will have to be met through taxation. Certainly no agency should be permitted to sell surpluses and use the proceeds for other purposes.

The fact that surplus sales will lower the debt dramatizes an important point which some business groups are inclined to forget. The net result of an effective disposal program will aid *all* business; which is an important consideration to be balanced against the possible short-term effects of individual sales.

Local Ownership.

Local groups can be expected to offer to take over Government properties in order to stimulate community industries. As long as fair selling prices or fair rentals are paid—with sales preferable to rentals—local ownership should be encouraged. To repeat—no wind-fall subsidies should be given anyone.

It will not serve the national interest to sell any one plant at such low prices as to destroy the invested values and displace workers in whole established industries. Were such transactions to be permitted as a matter of policy, a community might gain a new industry in one deal, only to lose an established industry through a similar deal favoring some other part of the country.

The national interest must govern in all surplus disposal. Local or particular trade interests, while receiving full hearing and full consideration, must be subordinated.

Goldfish Bowl.

A "goldfish bowl" policy should be followed in all sales. The facts on all sales should be made a matter of record open to public inspection at the point of sale. Each of the disposal agencies should submit reports, summarizing these sales regularly to Congress, through the Surplus Administrator.

No Speculation.

The billions of surpluses can be expected to bring out speculators, promoters, and others of the ballyhoo craft. Sales or rentals to speculators or promoters should be barred. The American people would be

well-advised not to invest any of their hard-earned savings in any schemes, syndicates, etc., which will seek to exploit and make huge profits out of the traffic in Government properties. The Government should be its own selling agent. In all disposal, preference should be given to those who will use the property, whether plants, machinery, or consumer goods, for the greatest good. Cooperative buying by legitimate distributors should be encouraged.

Much property will have to be disposed of locally to avoid the expense and trouble of rehandling and shipping. This fact points to the danger that priority and other control orders, too rigidly applied, may prevent effective disposal. Some means will have to be developed to permit quick local disposition of those things that must be disposed of on the spot.

Flexibility Vital.

All of this emphasizes anew the indispensability of administrative flexibility.

Our own suggestions to the Surplus Administrator are summed up in the ten basic rules put forth in our report. (See p. 24.)

Real Property.

Real property holdings of the Government present a peculiarly tangled disposal problem both in the variety of properties embraced, from agricultural lands and plant sites to cantonments and hotels, and in the overlappings of both the administrative agencies and existing legislation. We are recommending:

That the Surplus Administrator have a study made of the question to determine how best to centralize the handling of real property—if possible in one agency—including the appraising, acquisitioning, recording, and abstracting functions.

The possibilities of beginning to liquidate holdings no longer needed for war should also be explored. The Surplus Administrator should report to Congress and the President with recommendations as to the administrative and legislative changes desired.

War Housing.

War housing, for the present, should be left with the National Housing Agency which has been given the specific power of disposal by Congress and is best suited to balance the disposition with the construction of new housing. Should the real-property study reveal overlappings they can be handled later either administratively or by legislation. The Surplus Administrator should use any Government agency for disposal of any special type of surplus.

Good Housekeeping.

The Bureau of the Budget is placed on the Surplus Property Policy Board because it was the logical agency to provide for a continuity between the disposition of war surpluses and the longer-time, permanent problem of good housekeeping and improved management of all Government property.

No Monopoly.

The Attorney General is placed on the Surplus Property Policy Board in recognition of the importance of disposing of Government surpluses so as to lessen rather than increase monopoly.

Surpluses Abroad.

The program recommended here has been developed for handling surpluses within the United States only. In addition American properties abroad will have to be disposed of, including installations of various kinds, equipment that may not be desirable for shipment back to this country, lend-lease surpluses, etc. Further study is needed both of the kind and value of such property likely to be surplus; the policy problems involved; the best organizational procedures. The membership of the Surplus Property Policy Board is such that it seems an ideal body to make such a study and develop the necessary recommendations on policy.

Inflation Bulwark.

Possession of all these surpluses at the end of the war will be a most important defense against inflation, not simply in their balancing effect on prices but in that they represent vast usable resources which can be brought into the market quickly to stimulate production and trade.

Improve Arsenal.

As one aspect of developing the stand-by program for the Armed Services, Government arsenals and shipyards should be brought to the highest technical level through the replacement of any obsolete machinery with the new and more efficient equipment that has been produced during the war.

Special Plants.

There is one group of newly built war plants such as those for aircraft, aluminum, magnesium, and synthetic rubber, where special considerations are all-important. These are industries where the Government investments are so huge that the disposition of Gov-

ernment-owned facilities could decide the fate of the entire industry; or where questions of military security are paramount; or which may be part of the settlement of the peace.

Sales in these fields will not involve a matter of selling so many single plants but require the formulation of public policy on an industry-wide basis.

Plant Breakdown.

While on the subject of plants, it might be helpful to bring into sharper focus the dimensions and nature of these Government-owned plants. The Government's wartime investment in new plants and new machinery amounts to roughly \$15.5 billions. Nowhere near all of this, however, represents a disposal problem.

Between \$4 billion and \$5 billion is invested in plants specially designed for the manufacture of munitions and which would have little or no peacetime prospects, such as smokeless powder, ammunition loading and shipways. Most of these facilities are likely to be kept in stand-by condition as a reserve for future wars and will not come onto the market.

Nearly \$1.5 billion more of the Government's investment is represented by improvements or expansions in arsenals and Navy Yards which are operated by the Government at all times, through peace and war.

Peace Prospects.

Under \$10 billion is left of the Government's investment with peacetime production possibilities. This falls into three broad groupings: (a) A little more than \$1 billion in so-called scrambled plants; (b) about \$5.5 billion in industries which can produce for peace as readily as for war, requiring chiefly markets (this would include such industries as steel, chemicals, gasoline, machine tools, electrical equipment, synthetic rubber, and industrial components); and (c) slightly less than \$3 billion in plants which could be converted to peacetime production but only after some physical alterations and change-over. This would include airplane, aircraft engines, tanks, munitions, and assembly plants. Some of these plants are likely to be kept as stand-by reserves; others will need to be used for storage and warehousing.

While this still leaves a disposal problem that will have to be handled with wisdom and efficiency, it is a more manageable problem than the total figure of Government investment in plants would indicate offhand.

Size of Plants.

The great size of the Government-owned war plants that are to be disposed of will present many difficult problems and is one reason for our emphasis on giving the disposal agencies power to lease as well as sell. The average cost of Government-owned plants erected during the war is \$6 million apiece; 70 percent of the Government's total investment is in projects costing over \$10 million apiece; 12 percent in projects of \$100 million plus, each. Leasing on a fair basis will widen the opportunities for independent and local groups to take over some of these plants.

Subdivide Plants.

Studies should also be made as to the possibilities of subdividing the very largest units. Nor is the dollar cost to the Government a true yardstick of their real value, since many of these plants were erected at high war costs which bear no relation to their potential value in use by industry. Some are so disadvantageously located as to be unable to compete.

Wide Publicity.

Brochures describing the various plants to be disposed of are under preparation. When completed, *they should be given the widest publicity so that all who are interested can make their bids.*

3. Tightening the Mobilization Machine.

At the present stage of the war, preparations for demobilization are inseparable from the actual conduct of the war. The demobilization or unwinding of our war economy can best be done by the same agencies which wound up our industrial mobilization. These agencies have the experience and the know-how, the feel, and touch with all these problems, and with Government and industry. By industry we mean industry in its broadest sense—labor, management, and capital, whether it be on the farms, in the mines, in the factories, in civilian activities, or in governmental service.

New For Old.

The existing agencies not only have the basic organization for adjusting their programs to the changing conditions of the war, but also are constantly called upon to do so. In most instances of contract cancellation to date contracts for new weapons have been given in place of those cancelled. When the Armed Services cancel one weapon because of a change in strategy, they know best what other weapons need to be made and which can replace cancelled production.

Dividing Our Resources.

From the start of the war, the industrial machine has been making war and civilian goods, with first call going to war and essential civilian requirements; and what is left over going for civilian goods. So it must continue until the war is won. As war needs slacken, more can and should be made available for civilians. The dividing of our resources has been—and remains—the responsibility of the War Production Board which has full powers to do the job.

Over-All Direction.

The necessary over-all direction in dealing with the many problems of transition is the function of the over-all mobilizing authority—the Office of War Mobilization. The Office of War Mobilization can see both the mobilization and demobilization as one whole, laying out the tasks assigned to each of the operating agencies, eliminating overlappings and conflicts of functions, and making certain that no problems fall undone between the agencies.

Primary responsibility for formulating plans and for carrying them out in the fields assigned them must rest with the different operating agencies where the governing facts are available. As now, the Director of War Mobilization is available for clarifications of policy or appeals by one agency against the decision of another.

New Agency Unwise.

No new Office of Demobilization could do these many jobs as well as the existing agencies, working in unison. In its operation such a new agency would have to cut across all existing agencies and could hardly avoid coming in conflict with every war agency. It would hinder the prosecution of the war. By the nature of its assignment, and being removed from war responsibility, it would tend to pressure for quickening demobilization for its own sake.

With the bloodiest fighting still to come, we cannot permit any compromise, either among our people, in the country or in the Government, with the fact that war needs come first.

Staffing Difficult.

Nor are the difficulties of creating and staffing a new organization fully appreciated. At present, there already are so many Government agencies that the best available men already are pressed into service.

Compact Staff.

A small staff set up in the Office of War Mobilization and using the existing agencies, carefully assigning to each its responsibilities and duties and supplying general supervision, can do more than any new great operating or semi-operating agency that might be created.

Cut Out Overlappings.

There may come a time later when a new, clearly post-war agency will have a place, particularly in liquidating present war agencies. That is one reason why we have recommended that the Director of War Mobilization, using the Bureau of the Budget, maintain a constant study of the functions of all war agencies to eliminate overlappings, discontinue unnecessary functions, merge or transfer units for greater efficiency, preparing ultimately to liquidate what is left of war agencies.

All that we have said against the creation of a new agency does not mean that we do not believe that Congress should lay down the broad policies and measures for these various agencies to follow in dealing with the different demobilization problems. Any additional legislation required should be enacted promptly by Congress.

Tightening Needed.

Nor does our opposition to a new demobilization agency mean that we are entirely satisfied with the existing machinery of the Government. To the contrary, we believe that a general tightening up of the war machinery is necessary—both for mobilization and demobilization. The changing conditions of the war in this respect can be

pictured as dislocations that loosen the war mobilization machine and there must be a steady tightening up.

Requirements.

In addition to the running review of war functions, we recommend these further tightening up measures:

1. A running conspectus to be maintained by the Office of War Mobilization of the progress being made by the agencies on the special tasks assigned them.
2. Intensification of the fine work, so little known by the public, that has been done in the past seven months by the review boards, organized through the Director of War Mobilization, in screening the Services' programs so as to cut out requirements beyond actual needs.

This is in recognition of the fact that there is no sense in producing tools of war, far beyond what is needed to defeat the enemy. Weapons of war quickly become obsolete and possession of great quantities of such weapons would fool us into a false sense of security in the after-war. The cuts already effected by these review boards total many billions. The potential benefits from sweating down the programs, in avoiding the waste of material, manpower, and facilities used to produce unneeded war goods, at the same time permitting increased production of needed goods; the effect of those goods in lessening the dangers of inflation; the reduction in the dollar cost of the war, lowering the national debt, and the cost of carrying that debt which must be met through taxes—these great benefits warrant the aggressive prosecution of your reviews and their extension to any field so far untouched.

3. Improvement by the Armed Services and the War Production Board of their methods of working together, particularly in the handling of the problems of demobilization, contract cancellations, and the resumption of civilian production. Conflicts and indecisions in demobilization can be more costly than they were in mobilization.
4. Strengthening of the Industry Advisory Committees in the War Production Board, their functioning and membership. All other Government agencies should use the same committees.

Industry Committees.

In these industry committees the Government will find the best groups to advise on all of the many problems of industrial demobilization, particularly on the resumption of civilian production while still maintaining the war program. These committees should be representative of both small as well as large interests and of all parts of

the country. When carrying out what the Government requests of them, these committees should have the present protection under the Anti-Trust law, through the full transition period. Capable of great good, they could be a source of abuse, and care must be taken to prevent the abuse of the privileges and responsibilities placed upon them.

Exchange Information.

5. Since the Armed Services will know first the changes in the program dictated by strategy or war events, it is most important that the Services furnish the civilian agencies full information in adequate time for these agencies to plan their share of the adjustments to changing war conditions.
6. The civilian agencies, in turn, must organize themselves to receive and use this information effectively.
7. Closer cooperation between the War Production Board and the Office of Price Administration to insure the prompt adjustment of price controls when and where needed, to avoid delaying the resumption of civilian production.

Foreign Policy.

We also invite attention to the growing impingement upon mobilization and demobilization problems of foreign policy, diplomacy, and treaty matters.

Trial and Error.

There must be a constant refinement of policies and methods, and appropriate legislation through trial and error experience. And in this experience there must be the closest cooperation by all of the agencies with Congress. In our own inquiry we have found the committees of Congress most cooperative. Many of our recommendations were inspired by suggestions from members of Congress.

Balancing the Program.

All that we have said earlier about the great benefits from the fine work being done by review boards in screening military requirements, holds with equal force to every other aspect of the war production program. It argues the need for *an early, equally effective review* of the programs for the production of raw materials, for stockpiling, for imports, for subsidies, premiums, and other devices to stimulate marginal production. To continue any of these programs beyond their need is a waste of resources. It prevents the production of more of what is needed. It adds to the federal debt. It increases the demobilization problems.

Always this must be in the fore—the program must be kept in balance.

Expand Uses Or—

Civilian uses for materials left after war needs are met should be expanded or, if that cannot be done because of a lack of manpower or manufacturing facilities, the production or import of these primary materials should be cut back. This will release manpower and facilities for a new balance of the program at a higher level.

Decide Now.

Failure to make the necessary decisions promptly will make later decisions more difficult. On the other hand, by keeping the programs in constant balance—inventory and planned acquisition on one side and prospective demands on the other—we will be able to carry the economy through the transition period with successively higher utilizations of our resources.

Stockpiling Trouble.

Some short-sighted persons will oppose prompt decisions in the hope of continuing unnecessary production. We call them short-sighted because they are only borrowing employment from the future when it will be needed, and using it up in the present when there is more work than all of us can do. Unneeded stocks of raw materials, beyond the margin of military safety, will hang over the post-war market, depressing future production, employment and prices. It will be stockpiling trouble for the future.

Strategic Reserve.

A distinction can be drawn as to those strategic materials which ordinarily are not produced or are produced in small quantities in this country. Such materials can always be utilized for future war needs, for peacetime production, or be held in a strategic reserve. While not unduly alarmed at the physical size of such stocks, we do feel that the timing of their acquisition can be most important. Present high costs argue for restricting such stocks to no more than a reasonable margin of safety above current needs. Also the purchase of these materials, deferred to later years, can be a helpful factor in stimulating international trade when such a stimulus could be vital.

"X Day" Planning.

The handling of current cancellations and the advance planning for the "X Day" on which Germany is defeated both require the closest working together of the military and civilian agencies. Some excellent work is being done by the military, and this information should be fully available in adequate time to the civilian agencies.

But these civilian agencies must organize themselves to put the information to use.

As far as is practicable—and such planning has its limitations—this “X Day” plan should seek to estimate cancellations in advance, the industries affected, and the resources likely to be released; make tentative selections of the industries and plants to be freed, weighing how these selections can be guided to improve war efficiency and to make for the speediest resumption of civilian production and the smoothest transition to peace.

Many Benefits.

Effectively carried through, we can visualize many benefits from this “X Day” plan. Contracts can be scheduled better so more of them will run out in orderly fashion and not have to be terminated when uncompleted. Some items likely to be cancelled will be found in demand by other agencies. In such instances arrangements can be made to transfer the uncompleted portion of the contract, avoiding terminating the contract with all the difficulties of settling, only to let another contract for virtually the same goods. This will be particularly important in the field of textiles and ordinary consumer goods.

Review of Controls.

As one part of the adjusting to changing war conditions—and this applies both to current adjustments and to those being planned for—all war production and limitation controls should be brought under early review to determine under what conditions these orders can or should be modified.

This general observation might be made. In the mobilizing for war it was always safe to err on the side of stringency in control, since one knew that rising war needs would demand ever tighter controls in the normal course of time. In the unwinding the reverse will be true. Lessened war demands will result in an extra loosening of the situation, since there will be a tendency to reduce hoards, to hold back on advance orders, and so on.

A further improvement in the shipping situation, freeing the seas to new goods, could cause many shortages to disappear almost overnight.

Therefore we stress an “early” review, since by the natural inertia of time the adjustment of controls will not be made as quickly as warranted.

Extend War Powers.

As is pointed out in the section dealing with surplus property, the adjustment of these controls will be most important in the effective

handling of surpluses. Until the law of supply and demand can function once more the basic wartime controls will have to be retained. All war legislation due to expire and which still is needed should be promptly extended.

During 1944 the Price Control Act will expire; also the requisitioning power given to the President; and the priorities and allocations powers on which the functioning of the War Production Board rests. Each of these laws is a vital necessity, both for the continued prosecution of the war and for our return to peace. Failure to renew these war powers would be a crippling blow.

In addition to these, other war powers may have to be extended. We have asked the Attorney General to make a study of the war powers of the different agencies to determine when these powers will expire, which can be allowed to elapse, and which should be extended. This is a field which the Committees of Congress may want to study, as well.

Resources Forecast.

In general, materials and manufacturing facilities both are likely to be looser than manpower, even after the collapse of Germany. We shall have to continue to strive unceasingly for a better utilization of manpower, for an end of strikes that waste manpower, and for a better balancing of contracts against available manpower. We have watched with interest the extension to other parts of the country of the “labor budget” plan proposed last September for the West Coast. Depending on the effectiveness that the local people can bring to the plan in the different communities, they will find in the “labor budget” a valuable instrument in shifting from war to peace.

Civilian Preferences.

To guide the swiftest resumption of civilian production, when and to the extent that it becomes possible without interfering with the war, an advance listing should be made of those civilian needs which have been restricted during the war and which are to have preference in the opening up of civilian supply. Highest priority naturally will be given those things which contribute directly or indirectly to improved military efficiency, such as vital repairs, expanded transportation, or improved maintenance.

Two Limiting Chains.

In thinking of the resumption of civilian employment, two important *chains* of production must be kept in mind—the *chain of materials*, and the *chain of integration of American industry*. Many civilian articles require a combination of materials and their production may be blocked by the lack of one or two of those materials

Again, some manufacturers will not be able to resume production because they are makers of parts that are dependent upon the release of major assembling units.

Fair Competition.

As far as possible, no manufacturer should be permitted to jump the gun on his competitors. Efforts should be made to treat all alike. It may not always be possible to do so, however, and industrialists must understand that this objective cannot be allowed to interfere with war requirements or to hold back the production of needed civilian items and so to contribute to inflation and unemployment.

Physical Reconversion.

This should be said about the term "reconversion" itself. Only a small proportion of American industry will have reconversion problems in the true meaning of the word, in that they will have to change over their plants physically to shift from war to peace production. There will be no such problem in the basic food industries, in textiles, and other nondurable goods. The problem will be confined chiefly to durable consumer goods, where the greatest physical conversion to war has taken place.

A detailed study of the specific industries affected by reconversion problems is now being made. Preliminary estimates indicate that at most only 20 percent of our industrial capacity will have these physical change-over problems. Other industries will have the simpler reconversion problems of changing over from war goods to peacetime goods, with no physical change required in the plants.

Advance Tooling.

Reconversion will be quickened and possible unemployment offset proportionately if those industries which have retooling problems in connection with peacetime output are permitted to secure their tools in advance of the end of the war. The facilities for making such tools can be expected to be available in time. This, along with the proper use of Government-owned surplus tools, should meet the needs. Similarly reasonable quantities of materials that will be wanted for testing for new products should be released.

The Human Side.

Tightening up is needed so that proper attention will be given the human side of these demobilization problems.

The war has brought abnormal conditions of employment which have given rise to human problems which become reflected in every situation requiring administrative or legislative decision. These problems cannot be separated from the others. They will be greater or

smaller directly according to the way in which such programs as contract termination, surplus disposal, the mustering out from the Armed Forces, public works, social security, education and benefits for veterans, and international agreements are handled. There is no way of isolating problems of human interests from others. But there is no necessity for losing sight of the personal element in any of the fields of adjustment—and there will be no excuse for ignoring it.

"Work Director."

Returning soldiers and sailors, war workers, and the population at large deserve to have their individual and collective interests discussed and acted upon through channels more efficiently geared for effective action.

It is our hope that the new "Work Director," whose creation we recommend, will see that the machinery for centralizing, planning, and action is effected so that the human element is not lost sight of.

For lack of a better title, we are calling him Work Director. His duties will embrace far more than the title indicates, for his will be the responsibility of finding every possible way in which the opportunities for individual Americans to pursue their chosen peacetime pursuits may be broadened so as to benefit the population as a whole.

Most of our veterans will be seeking jobs in the open employment market; others who are disabled can find encouragement mending their broken nerves and bodies through special occupations which return them also to useful peacetime work. Still others will be eager to return to colleges or take up vocational training instead of a job. There is at present a scattering of efforts on the part of many agencies to plan for the veterans' return. The important point at which civilian plans must be coordinated with the military in the demobilization of men and women in the service is a crucial one and it is now the final responsibility of no one agency.

Our Labor Force.

The abnormal increase in civilian employment and the geographical shifts of the national labor force must be dealt with in our preparations for peace. It is impossible to predict the size of the post-war reduction in our labor force at this time, for many factors still are unknown. They include the size of our peacetime Army and Navy; number of casualties; number of women returning home; retirement of older people and younger workers; number of veterans returning to school or going into vocational training.

PART V

Uniform Termination Article.

JANUARY 8, 1944.

For the Press.

The Director of War Mobilization today issued a directive to all procurement agencies making immediately effective a uniform article for the termination of Government fixed-price war-supply contracts, and a statement of principles to be followed by such departments in determining costs.

The directive was based upon a recommendation by Mr. B. M. Baruch and Mr. John Hancock. Mr. Baruch is in charge of the special unit in the Office of War Mobilization established by Director Byrnes to deal with war and post-war adjustment problems. Mr. Hancock is associated with Mr. Baruch in that work and is Chairman of the Joint Contract Termination Board, composed of representatives of the various departments, which Board has agreed to the article and the statement of principles today made effective for all departments.

In releasing the recommendation of Mr. Baruch and Mr. Hancock, Director Byrnes stated that the Office of War Mobilization would keep in touch with the various departments in order to see that the policies adopted were made effective. He said that the unit headed by Mr. Baruch had made great progress in considering other phases of contract termination and in the development of policies to govern the disposition of surplus property.

Director Byrnes said it was an important step toward eliminating the delay in a contractor getting his money and delay in the employee getting a job.

Statement by Director of War Mobilization James F. Byrnes.

JANUARY 8, 1944.

Letter from Mr. Baruch and Mr. Hancock to Director Byrnes, Transmitting the Uniform Termination Article and Statement of Principles on Cost Determination

Herewith we are transmitting with our approval, and the recommendation that they be made effective, a Uniform Termination Article for Government fixed-price war-supply contracts and a Statement of Principles on the Determination of Costs which have been drafted and unanimously agreed upon by the Joint Contract Termination Board, established at your direction on November 12, with representatives of the major war procurement agencies—War and Navy, Treasury, Maritime Commission, the R. F. C. subsidiaries, and the Foreign Economic Administration.

To facilitate war procurement and because of the need to insert this Termination Article into new war contracts and to give contractors the earliest opportunity to have this article included in their existing contracts, the joint board has asked that the Termination Article and Cost Statement be announced immediately, in advance of the broader program of contract-termination policies on which we are working and which we will recommend to you.

Defines Rights.

This Termination Article and Cost Statement deal with only two of the many aspects of contract termination policies. They fill a long-felt need for a clear definition of what are the rights of the Government and contractors when war contracts are terminated; a definition that will be fair to contractors while protecting the Government, and the same definition to bind all of the war procurement agencies.

The Termination Article and Cost Statement are not intended to cover and should not be confused with the many other aspects of contract-termination policies including such questions as payments and loans, settlement procedures, the keeping of adequate records, and protection of the public interest, the special problems of subcontractors, appeals, company-wide settlements, the disposal of property, and the need for legislation. All of these problems are enmeshed in many difficulties which are being cut through and will be reported on to you.

Unifies Procedures.

The fact that the termination provisions in Government war-supply contracts are to be simplified and made uniform is an important contribution to and can be described as the first step in developing a full set of clear-cut, workable policies on contract termination; but it is only the first step.

We trust there will be no speculation that our release of this Termination Article reflects a belief in an early end of the war. Contracts are being terminated and settled regularly as the needs of war change. The unifying and simplifying of the Government's contracts is a war measure, as well as a preliminary step in preparing for demobilization.

Quick Payment.

To clarify some of the questions that are not covered in this Termination Article and Cost Statement, our objectives on some of the unsettled problems might be stated:

1. How to apply the principles of this Uniform Termination Article to Subcontractors is under careful consideration. A number of serious administrative problems are involved that require further study. Our objective is to have the same principles of contract settlement apply to subcontractors as well as prime contractors.

2. As to payment, our object is quick payment of what the Government owes so that our great productive capacity can be fully utilized for war and peace—destroying the dangers of unemployment and inflation.

3. The development of the necessary safeguards to protect the Government's interest in both the settlement of contracts and the disposal of property, including not only adequate records but also protective methods for the prevention and detection of fraud.

Prompt Clearance.

4. On the clearance of Government-owned materials and equipment from the plants of both prime and subcontractors, we have set for ourselves the objective of assuring prompt clearance with a dead line of not later than 60 days after the filing of inventory lists, and with manufacturers having the right to remove and store this property at an earlier date at their own risk.

Manufacturers will benefit from having this termination article in their contracts. It will assure uniform handling of their claims by all of the agencies with which they have contracts, eliminating possible conflict and confusion over varying contract provisions; it will make for swifter and more equitable settlement, give manufacturers a clear definition of their rights; reduce litigation.

Long-Felt Need.

The desirability of having a Standard Termination Article for all agencies has been generally recognized. It has been advocated by business groups, independent organizations, the procurement agencies themselves as well as several important committees of Congress, including those headed by Senators George and Murray.

Efforts to develop such a uniform termination clause have been going on within the Government for more than a year and a half. The fact that agreement has been obtained in these last weeks is a tribute to the fine, cooperative spirit with which the Joint Contract Termination Board and its staff has functioned and to the preparatory work that has been done by the other agencies, particularly that done under the auspices of the War Production Board.

Protect Public Interest.

The article applies only to domestic contracts, not foreign. Consideration is being given to certain other exceptions and an approved list of such exceptions will be issued soon. Obviously, where the sums involved are so small or the time of the contract is short, the termination article is not needed.

In drawing up this article, the joint board was under instructions to protect the Government's interests fully, not giving contractors more than they are entitled to under existing contracts, but to assure them their just and fair rights. The termination article necessarily is a merging of the many types of contract termination provisions that have been used by the agencies and will not fit all cases perfectly. Differences between this article and existing contracts will be outweighed by the advantages of the unified, simpler, and speedier procedure for settling contracts which this uniform termination article makes possible.

Workable Principle.

Both the Termination Article and Cost Statement are confined to broad, workable principles, with details left to be covered in administrative regulations, manuals, and instructions. Many points were not included because they were questions of detail which will require constant refinement in the light of experience and could be handled best by regulations which can be revised readily and which are more easily adjusted to special cases.

Briefly summarized, the Termination Article provides that the Government may terminate a prime contract at any time by giving notice, which is the common provision in existing contracts. What the contractor must do on receiving his termination notice is set forth. Contractors will be paid for all completed articles at the contract price.

Two Settlements.

Two types of settlement are provided for: One, for the contractor and the Government to agree upon a fair and reasonable settlement through negotiation; the second, if such negotiations prove unsuccessful, for settlement through the application of a specified formula.

Profit Formula.

Of particular interest, is the margin of profit allowed on work which the contractor has begun but has not completed. Clearly, the simplicity of a flat, uniform rate of profit would yield enormous administrative benefits in easing the problems of settlement for both contractors and the Government. However, under certain conditions, a single flat rate might give excessive profits, as where a manufacturer's costs consisted largely of assembling an inventory of raw materials.

Accordingly a profit formula was devised which (a) limits the aggregate profit in all cases to a maximum of 6 percent, and (b) further limits to a maximum of 2 percent the profit on unprocessed inventory, and only to the extent that this inventory is properly allocable to the contract. Both these rates of profit are maximums and there will be instances where only a fraction of a percent profit will be allowed on raw materials. Obviously no profit will be allowed except on work done or cost incurred.

We have felt that it would contribute to fair and speedy settlement, with protection for both the Government and the contractor, to set forth a specified, though not too rigid, yardstick for measuring profit.

Allocable Costs.

The Cost Statement is based upon the recognition only of those costs that are properly allocable to the contract and only to the extent that they are quantitatively reasonable for the performance of the whole contract. In determining these costs, recognized accounting practices are to be used. The Cost Statement goes further to clarify some of the uncertainties that have arisen in the minds of contractors as to which costs are properly allocable to the contract and which are definitely excluded.

In bringing the drafting of this Termination Article and Cost Statement to decision and conclusion, our thinking has been that the interests of both contractors and the Government will be best served by a clear definition of their mutual rights and obligations and by preparing the ground for prompt settlement on the basis of those rights and obligations.

BERNARD M. BARUCH,
JOHN M. HANCOCK,
*Advisory Unit for War and Post-War
Adjustment Policies, Office of War Mobilization.*

2. Uniform Termination Article for Fixed Price Supply Contracts.

Article termination at the option of the Government: (a) The performance of work under this contract may be terminated by the Government in accordance with this article in whole, or from time to time in part, whenever the contracting officer shall determine any such termination is for the best interests of the Government. Termination of work hereunder shall be effected by delivery to the contractor of a notice of termination specifying the extent to which performance of work under the contract shall be terminated, and the date upon which such termination shall become effective. If termination of work under this contract is simultaneous with, a part of, or in connection with, a general termination (1) of all or substantially all of a group or class of contracts made by the Department for the same product or for closely related products, or (2) of war contracts at, about the time of, or following, the cessation of the present hostilities, or any major part thereof, such termination shall only be made in accordance with the provisions of this article, unless the contracting officer finds that the contractor is then in gross or willful default under this contract.

(b) After receipt of a notice of termination and except as otherwise directed by the contracting officer, the contractor shall (1) terminate work under the contract on the date and to the extent specified in the notice of termination; (2) place no further orders or subcontracts for materials, services, or facilities except as may be necessary for completion of such portions of the work under the contract as may not be terminated; (3) terminate all orders and subcontracts to the extent that they relate to the performance of any work terminated by the notice of termination; (4) assign to the Government, in the manner and to the extent directed by the contracting officer, all of the right, title, and interest of the contractor under the orders or subcontracts so terminated; (5) settle all claims arising out of such termination of orders and subcontracts with the approval or ratification of the contracting officer to the extent that he may require, which approval or ratification shall be final for all the purposes of this article; (6) transfer title and deliver to the Government in the manner, to the extent, and at the times directed by the contracting officer, (i) the fabricated or unfabricated parts, work in process, completed work, supplies, and other material produced as a part of, or acquired in respect of the performance of, the work terminated in the notice of termination, and (ii) the plans, drawings, information, and other property which, if the contract had been completed, would be required to be furnished to the Government; (7) use his best efforts to sell in the manner, to the extent, at the time, and at the price or prices directed or authorized by the contracting officer, any property of the types referred to in subdi-

vision (6) of this paragraph; provided, however, that the contractor (i) shall not be required to extend credit to any purchaser and (ii) may retain any such property at a price or prices approved by the contracting officer; (8) complete performance of such part of the work as shall not have been terminated by the notice of termination; and (9) take such action as may be necessary or as the contracting officer may direct for protection and preservation of the property, which is in the possession of the contractor and in which the Government has or may acquire an interest.

(c) The contractor and the contracting officer may agree upon the whole or any part of the amount or amounts to be paid to the contractor by reason of the total or partial termination of work pursuant to this article, which amount or amounts may include a reasonable allowance for profit, and the Government shall pay the agreed amount or amounts. Nothing in paragraph (d) of this article prescribing the amount to be paid to the contractor in the event of failure of the contractor and the contracting officer to agree upon the whole amount to be paid to the contractor by reason of the termination of work pursuant to this article shall be deemed to limit, restrict, or otherwise determine or affect the amount or amounts which may be agreed upon to be paid to the contractor pursuant to this paragraph (c).

(d) In the event of the failure of the contractor and contracting officer to agree as provided in paragraph (c) upon the whole amount to be paid to the contractor by reason of the termination of work pursuant to this article, the Government, but without duplication of any amounts agreed upon in accordance with paragraph (c), shall pay to the contractor the following amounts:

(1) For completed articles delivered to and accepted by the Government (or sold or retained as provided in paragraph (b) (7) above) and not theretofore paid for, forthwith a sum equivalent to the aggregate price for such articles computed in accordance with the price or prices specified in the contract;

(2) In respect of the contract work terminated as permitted by this article, the total (without duplication of any items) of (i) the cost of such work exclusive of any cost attributable to articles paid or to be paid for under paragraph (d) (1) hereof, (ii) the cost of settling and paying claims arising out of the termination of work under subcontracts or orders as provided in paragraph (b) (5) above, exclusive of the amounts paid or payable on account of supplies or materials delivered or services furnished by the subcontractor prior to the effective date of the notice of termination of work under this contract, which amounts shall be included in the cost on account of which payment is made under subdivision (i) above, and (iii) a sum equal to _____ percent² of the part of the amount determined under sub-

² Not to exceed 2 percent.

division (1) which represents the cost of articles or materials not processed by the contractor, plus a sum equal to _____ percent² of the remainder of such amount, but the aggregate of such sums shall not exceed 6 percent of the whole of the amount determined under subdivision (1), which for the purpose of this subdivision (iii) shall exclude any charges for interest on borrowings;

(3) The reasonable cost of the preservation and protection of property incurred pursuant to paragraph (b) (9) hereof; and any other reasonable cost incidental to termination of work under this contract, including expense incidental to the determination of the amount due to the contractor as the result of the termination of work under this contract.

The total sum to be paid to the contractor under subdivisions (1) and (2) of this paragraph (d) shall not exceed the total contract price reduced by the amount of payments otherwise made and by the contract price of work not terminated. Except for normal spoilage and to the extent that the Government shall have otherwise expressly assumed the risk of loss, there shall be excluded from the amounts payable to the contractor as provided in paragraph (d) (1) and paragraph (d) (2) (i), all amounts allocable to or payable in respect of property, which is destroyed, lost, stolen, or damaged so as to become undeliverable prior to the transfer of title to the Government or to a buyer pursuant to paragraph (b) (7) or prior to the 60th day after delivery to the Government of an inventory covering such property, whichever shall first occur.

(e) The obligation of the Government to make any payments under this article: (1) shall be subject to deductions in respect of (a) all unliquidated partial or progress payments, payments on account theretofore made to the contractor and unliquidated advance payments, (b) any claim which the Government may have against the contractor in connection with this contract, and (c) the price agreed upon or the proceeds of sale of any materials, supplies, or other things retained by the contractor or sold, and not otherwise recovered by or credited to the Government, and (2) in the discretion of the contracting officer shall be subject to deduction in respect of the amount of any claim of any subcontractor or supplier whose subcontract or order shall have been terminated as provided in paragraph (b) (3) except to the extent that such claim covers (a) property or materials delivered to the contractor or (b) services furnished to the contractor in connection with the production of completed articles under this contract.

(f) In the event that, prior to the determination of the final amount to be paid to the contractor as in this article provided, the contractor shall file with the contracting officer a request in writing that an equitable adjustment should be made in the price or prices specified in the

² To be established at a figure which is fair and reasonable under the circumstances.

contract for the work not terminated by the notice of termination, the appropriate fair and reasonable adjustment shall be made in such price or prices.

(g) The Government shall make partial payments and payments on account, from time to time, of the amounts to which the contractor shall be entitled under this article, whether determined by agreement or otherwise, whenever in the opinion of the contracting officer the aggregate of such payments shall be within the amount to which the contractor will be entitled hereunder.

(h) For the purposes of paragraphs (d) (2) and (d) (3) hereof, the amounts of the payments to be made by the Government to the contractor shall be determined in accordance with the statement of principles for determination of costs upon termination of Government fixed-price supply contracts approved by the Joint Contract Termination Board, December 31, 1943. The contractor for a period of 3 years after final settlement under the contract shall make available to the Government at all reasonable times at the office of the contractor all of its books, records, documents, and other evidence bearing on the costs and expenses of the contractor under the contract and in respect of the termination of work thereunder.

3. Statement of Principles for Determination of Costs Upon Termination of Government Fixed-Price Supply Contracts.

The following is the Statement of Principles for Determination of Costs upon termination of Government fixed-price supply contracts approved by the Joint Contract Termination Board, December 31, 1943, referred to in paragraph (h) of the Uniform Termination Article applicable to the termination of fixed-price supply contracts at the option of the Government:

"1. General principles: The costs contemplated by this statement of principles are those sanctioned by recognized commercial accounting practices and are intended to include the direct and indirect manufacturing, selling, and distribution, administrative, and other costs incurred which are reasonably necessary for the performance of the contract, and are properly allocable or apportionable, under such practices, to the contract (or the part thereof under consideration). The general principles set out in this statement are subject to the application of any special provisions of their contract. Certain costs are specifically described below because of their particular significance, and, as in the case of other costs, should be included to the extent that they are allocable to or should be apportioned to the contract or the part thereof under consideration.

"(a) Common inventory: The costs of items of inventory which are common to the contract and to other work of the contractor.

"(b) Common claims of subcontractors: The claims of subcontractors which are common to the contract and to other work of the contractor.

"(c) Depreciation: An allowance for depreciation at appropriate rates on buildings, machinery, and equipment, and other facilities including such amounts for obsolescence due to progress in the arts and other factors as are ordinarily given consideration in determining depreciation rates. Depreciation as defined herein shall not include loss of useful value of the type covered by subparagraph (f).

"(d) Experimental and research expense: General experimental and research expense to the extent consistent with an established pre-war program, or to the extent related to war purposes.

"(e) Engineering and development and special tooling: Costs of engineering and development and of special tooling; provided that the contractor protects any interests of the Government by transfer of title or by other means deemed appropriate by the Government.

"(f) Loss on facilities—conditions on allowance: In the case of any special facility acquired by the contractor solely for the performance of the contract, or the contract and other war production con-

contract for the work not terminated by the notice of termination, the appropriate fair and reasonable adjustment shall be made in such price or prices.

(g) The Government shall make partial payments and payments on account, from time to time, of the amounts to which the contractor shall be entitled under this article, whether determined by agreement or otherwise, whenever in the opinion of the contracting officer the aggregate of such payments shall be within the amount to which the contractor will be entitled hereunder.

(h) For the purposes of paragraphs (d) (2) and (d) (3) hereof, the amounts of the payments to be made by the Government to the contractor shall be determined in accordance with the statement of principles for determination of costs upon termination of Government fixed-price supply contracts approved by the Joint Contract Termination Board, December 31, 1943. The contractor for a period of 3 years after final settlement under the contract shall make available to the Government at all reasonable times at the office of the contractor all of its books, records, documents, and other evidence bearing on the costs and expenses of the contractor under the contract and in respect of the termination of work thereunder.

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"(a) Common inventory: The costs of items of inventory which are common to the contract and to other work of the contractor.

"(b) Common claims of subcontractors: The claims of subcontractors which are common to the contract and to other work of the contractor.

"(c) Depreciation: An allowance for depreciation at appropriate rates on buildings, machinery, and equipment, and other facilities including such amounts for obsolescence due to progress in the arts and other factors as are ordinarily given consideration in determining depreciation rates. Depreciation as defined herein shall not include loss of useful value of the type covered by subparagraph (f).

"(d) Experimental and research expense: General experimental and research expense to the extent consistent with an established pre-war program, or to the extent related to war purposes.

"(e) Engineering and development and special tooling: Costs of engineering and development and of special tooling; provided that the contractor protects any interests of the Government by transfer of title or by other means deemed appropriate by the Government.

"(f) Loss on facilities—conditions on allowance: In the case of any special facility acquired by the contractor solely for the performance of the contract, or the contract and other war production con-

tracts, if upon termination of the contract such facility is not reasonably capable of use in the other business of the contractor having regard to the then condition and location of such facility, an amount which bears the same proportion to the loss of useful value as the deliveries not made under the contract bear to the total of the deliveries which have been made and would have been made had the contract and the other contracts been completed, provided that the amount to be allowed under this paragraph shall not exceed the adjusted basis of the facility for Federal income-tax purposes immediately prior to the date of the termination of the contract, and provided further that no amount shall be allowed under this paragraph unless upon termination of the contract title to the facility is transferred to the Government, except where the Government elects to take other appropriate means to protect its interests.

"(g) Special leases: (1) Rentals under leases clearly shown to have been made for the performance of the contract, or the contract and other war production contracts, covering the period necessary for complete performance of the contract and such further period as may have been reasonably necessary; (2) costs of reasonable alteration of such leased property made for the same purpose; and (3) costs of restoring the premises, to the extent required by reasonable provisions of the lease; less (4) the residual value of the lease; provided that the contractor shall have made reasonable efforts to terminate, assign, or settle such leases or otherwise reduce the cost thereof.

"(h) Advertising: Advertising expense to the extent consistent with a pre-war program or to the extent reasonable under the circumstances.

"(i) Limitation on costs described in subparagraphs (d), (e), (f), (g), and (h). In no event shall the aggregate of the amounts allowed under subparagraphs (d), (e), (f), (g), and (h) exceed the amount which would have been available from the contract price to cover these items, if the contract had been completed, after considering all other costs which would have been required to complete it.

"(j) Interests: Interest on borrowings.

"(k) Settlement expenses: Reasonable accounting, legal, clerical, and other expenses necessary in connection with the termination and settlement of the contract and subcontracts and purchase orders thereunder, including expenses incurred for the purpose of obtaining payment from the Government only to the extent reasonably necessary for the preparation and presentation of settlement proposals and cost evidence in connection therewith.

"(l) Protection and disposition of property: Storage, transportation, and other costs incurred for the protection of property acquired or produced for the contract or in connection with the disposition of such property.

"2. Initial costs: Costs of a nonrecurring nature which arise from unfamiliarity with the product in the initial stages of production should be appropriately apportioned between the completed and the terminated portions of the contract. In this category would be included high direct labor and overhead costs, including training, costs of excessive rejections, and similar items.

"3. Excluded costs: Without affecting the generality of the foregoing provisions in other respects, amounts representing the following should not be included as elements of cost:

"(a) Losses on other contracts, or from sales or exchanges of capital assets, fees and other expenses in connection with reorganization or recapitalization, antitrust or Federal income-tax litigation, or prosecution of Federal income-tax claims or other claims against the Government (except as provided in paragraph 1 (k)); losses on investments; provisions for contingencies; and premiums on life insurance where the contractor is the beneficiary.

"(b) The expense of conversion of the contractor's facilities to uses other than the performance of the contract.

"(c) Expenses due to the negligence or willful failure of the contractor to discontinue with reasonable promptness the incurring of expenses after the effective date of the termination notice.

"(d) Costs incurred in respect to facilities, materials, or services purchased or work done in excess of the reasonable quantitative requirements of the entire contract.

"(e) Costs which, as evidenced by accounting statements submitted in renegotiation under section 403 of the Sixth Supplemental National Defense Appropriation Act, 1942, as amended, were charged off during a period covered by a previous renegotiation, may not be subsequently included in the termination settlement if a refund was made for such period, or to the extent that such charging off is shown to have avoided such refund.

"4. To the extent that they conform to recognized commercial accounting practices and the foregoing statement of principles, the established accounting practices of the contractor as indicated by his books of account and financial reports will be given due consideration in the preparation of statements of cost for the purposes of this article.

"5. The failure specifically to mention in this statement any item of cost is not intended to imply that it should be included or excluded."

4. Directive Order to All Procurement Agencies Issued by Director Byrnes.

The Uniform Termination Article for Government fixed price war supply contracts and the statement of principles on the determinations, adopted by the Joint Contract Termination Board and approved by the War and Post-War Adjustment Unit of the Office of War Mobilization, are hereby made effective.

The Termination Article shall be used to the fullest extent practicable in all new war contracts and contractors shall be given the earliest practical opportunity to have the article included in existing contracts.

Situations in which it is deemed impractical to use the Termination Article should be promptly reported to this Office for further instructions.

APPENDIX 1

Statement of Policy on Termination Financing of Joint Contract Termination Board.

Introductory

The larger part of the productive capacity of the country is now engaged in the production of war supplies. The speedy conversion of this gigantic war economy to a peace economy will be essential if we are to avoid a disastrous business depression and mass unemployment at the end of the war. This reconversion of industry and the providing of new jobs for the millions discharged from military service and the other millions now engaged in war plants will require the release of the working capital of the contractor now employed in war production. In this situation, it is vital to make this capital available by prompt and final settlement of war production contracts. The Board believes:

(1) That the war contracts which are terminated must be settled and settled promptly by negotiated agreements wherever possible between the contractors and the procuring agencies of the Government.

(2) That settlements so negotiated should be final and not subject to review by any other agency except for fraud.

(3) That representatives of the procuring agencies who negotiate settlements or who make disbursements thereunder must not be financially liable for action taken by them in good faith.

Even with simple and speedy procedures, the settlement of terminated contracts for the production of war supplies will inevitably require a considerable period of time. Therefore, it is vital to the maintenance of our industrial economy that some means be found to insure that contractors, subcontractors, and suppliers of any tier engaged in war production get cash promptly upon termination of their contracts, to release their working capital from war inventories and receivables, to take care of their obligations to subcontractors and suppliers in the tier immediately below them, and to permit them to return to peacetime business.

* * * * *

It is recognized that the policies and procedures outlined below are predicated on extensions of existing mechanisms involving contract-by-contract settlements and settlements with subcontractors through prime contractors and intermediate subcontractors in a vertical chain. If other methods of settlement such as direct settlements with subcontractors or horizontal over-all company settlements are adopted, they will call for different or supplementary financing policies and procedures. It is likewise clear to

the Board that provisions for loans and guarantees will be of particular importance if substantial partial payments are not actually made in such a way as to reach both prime contractors and subcontractors at all levels.

Existing Policies and Procedures.

During the settlement period the procuring agencies have certain power to furnish financial assistance to contractors, in addition to such private financing as may be available or such financing as may be furnished by other governmental agencies such as the Reconstruction Finance Corporation. Prompt full payment may be made for completed articles. Partial payments may be made to prime contractors on account of the amounts clearly due the prime contractor or which are for the purpose of paying approved settlements with subcontractors and suppliers. Advance payments (that is, advances in the nature of loans made or authorized prior to termination against future deliveries) already made or authorized on the contract and not yet expended may be utilized to pay outstanding bills. Pursuant to existing legislation and Executive Order 9112, the procuring agencies are authorized to make direct loans or to guarantee "V" or "VT" loans which permit a contractor to obtain financing not only for present war production but also to finance his war production inventory and receivables attributable to terminated contracts pending final settlement.

It is the policy of the Board that, in addition to the use of private financing or financing furnished by other governmental agencies, the procuring agencies shall use these methods to the maximum extent. Partial termination payments should be made to prime contractors up to the amounts, less a reasonable margin, clearly due the prime contractor for his own costs and his financing of approved settlements with subcontractors and suppliers. Attention is also invited to the fact that, in the absence of legislation authorizing the guaranteeing of loans after termination of contracts, a war producer can obtain a "V" or "VT" guarantee or commitment giving termination protection while still in a war production status but cannot obtain such a guarantee or commitment thereafter.

Policies and Procedures Under Proposed Financing Legislation.

The Board recognizes, however, that under existing law and procedure the contracting, certifying, and disbursing officers of the procuring agencies may be subject to financial liability in the event that a partial payment in excess of the amount actually owed is made and not recovered; that advance payments in general cannot be made after war production has ceased and are of only limited value in freeing

cash tied up in war production inventory and receivables; that more workable procedures should be adopted for the protection of contractors under section 6 of the revised standard form of "V" or "VT" guarantee agreement; and that the absence of any provision for interest on termination claims makes it difficult for contractors to obtain private financing during the settlement period and places them at a disadvantage as compared with contractors being financed by advance payments or guaranteed loans, which provide for waiver of interest after termination.

The Board feels that the heart of the problem presented is the careful balancing of the urgency of supplying funds immediately upon termination with protection of the Government's interest. If by taking a broad over-all view the country will be better off by getting money out quickly even though some extra expense will result, then, to that extent, the risk of extra expense must be taken. It is impossible at this time to foresee just what the circumstances will be and the procuring agencies should be instructed and empowered in an emergency to take such steps as may be required in the public interest to insure adequate and prompt financing of claims during the settlement period.

The Board therefore recommends that legislation be enacted containing at least three types of provisions: First, authorizing the making of advance or partial payments to contractors and subcontractors after termination and relieving officers of the procuring agency authorizing or making such payments and prime contractors or intermediate subcontractors through whom they are made of financial responsibility for excess payments made in good faith; second, authorizing the making of guaranteed or direct loans to war producers after termination of their contracts or subcontracts; and third, allowing interest on termination claims during the settlement period as an allowable item in termination settlements. Such legislation, with existing mechanisms, should be such as to permit the adoption of the following recommended procedures:

Full Payments to Prime Contractors.

1. The procuring agencies shall provide for the prompt inspection of and payment at the contract rate for all such articles as are completed at the date of termination or as are completed thereafter with the Government's approval.

Partial Payments to Prime Contractors Under Vertical Settlement Procedures.

2. In order that the contractor may obtain, in advance of the filing of a certificate and supporting data as specified in paragraph 3 below, prompt payment of amounts that are clearly due to him, the procuring

agency shall make immediate partial payment of such part of the contractor's termination claim as the agency agrees will be clearly within the amount which the contractor could ultimately obtain under paragraph 3 below.

3. In addition to payments provided for in paragraphs 1 and 2 above, procuring agencies shall, without prejudice to the position of either party in the final settlement, make partial payments from time to time to contractors as set forth below:

(a) Each contractor requesting such a partial payment shall file with the procuring agency handling the termination a certificate (based on accepted commercial accounting practices and not in conflict with any principles in the "Statement of Principles for Determination of Costs Upon Termination of Government Fixed-Price Supply Contracts") setting forth his estimate (which may be revised in connection with any subsequent certificates) of all or any of the following elements:

(1) Cost of raw materials, purchased parts, supplies, direct labor and manufacturing overhead applicable to the terminated portions of the contracts, less any proceeds or estimated proceeds of such items retained, diverted, or disposed of or agreed to be so retained, diverted, or disposed of. Manufacturing overhead shall comprise those indirect expenses reasonably related to production such as indirect factory labor, maintenance and repairs, property taxes, insurance, factory rentals, and similar items generally recognized as manufacturing overhead expenses. This category shall not include special obsolescence of or loss on disposal of facilities, engineering and development, special tooling, administrative expenses, costs of terminating leases or other special costs which are related primarily to the termination of the contract;

(2) Advances and progress payments made by the contractor for supplies, parts, raw materials, or other items required for the terminated portions of the contracts, which are outstanding and unliquidated at termination and are not in excess of the subcontractor's claims;

(3) All other elements of cost with respect to terminated contracts which may include any allowable items of cost excluded from or not included by the contractor in (1) above, but which shall not include any provision for profit;

(4) Unliquidated balance of advance or partial payments made by the Government to the contractor under the contracts being terminated.

(b) Subject to the limitations set forth in paragraph (d) below, partial payments shall be made by the procuring agency, within thirty days after receipt of the certificate, of 100 percent of the amounts set forth in 3 (a) (1) and 3 (a) (2) unless the procuring agency has reason to believe, based on its examination of the claim, that the costs and expenses claimed have not been reasonably supported by the con-

tractor, in which case such partial payments will be made within such period but reduced accordingly. The procuring agency in making its examination of the claim may require the submission of additional data to support the certificate.

(c) In addition to the payments provided for in paragraph 3 (b), the procuring agency shall, as promptly as possible—and to the extent possible within such 30-day period—make additional partial payments from time to time of 100 percent of any balances due on items included in 3 (a) (1) and 3 (a) (2) and of 100 percent of any amounts due on items included in 3 (a) (3) to the extent that subsequent examination by the procuring agency substantiates such elements of cost.

(d) In no event, however, shall the aggregate of the partial payments made under this paragraph 3, when added to those made under paragraph 2, at any time exceed 90 percent of the procuring agency's estimate of the aggregate valid claim of the contractor as set forth in 3 (a) (1), 3 (a) (2), and 3 (a) (3) above, less the amounts set forth in 3 (a) (4) above.

(e) Partial payments without regard to the above restrictions may be made on reasonable terms and conditions, including the use of a controlled account from which only expenses incurred in connection with canceled contracts may be paid. Such payments out of a controlled account may be made either to subcontractors and suppliers or to the contractor for reimbursement of expenses already paid by him.

Payments to Subcontractors Under Vertical Settlement Procedures.

4. Without overlapping the partial payments provided for in paragraphs 2 and 3 above, the procuring agencies shall likewise provide for partial payments to prime contractors for the purpose of permitting them to make final or partial payments to subcontractors and suppliers. In any case where an amount payable to a subcontractor or supplier and includible in the amount payable to the prime contractor has been finally determined by agreement between the prime contractor and subcontractor or supplier, specifically approved by the procuring agency, or in accordance with general instructions, the partial payment shall be 100 percent of the amount so determined and such payment shall be final and conclusive as an element in the prime contractor's claim in the absence of fraud on his part. Where the amount payable to the subcontractor or supplier has not been finally determined, the partial payment to the prime contractor for the account of the subcontractor or supplier shall be determined substantially in accordance with the principles, procedures, and limitations established in this statement for partial payments to prime contractors, together with supporting data from the subcontractor and prime contractor.

5. In financing contract-by-contract settlements with subcontractors and suppliers through a vertical chain, as provided for in this statement, subcontractors and suppliers desiring partial payments must obtain them whenever possible through their prime contractors, but, in exceptional cases, where hardship is being worked on subcontractors or suppliers by reason of their inability to deal through their prime contractors, the procuring agencies should, if practicable, make payment directly to the subcontractors or suppliers. Partial payments on individual contracts will, in general, be made to subcontractors and suppliers below the first tier only by agreement with the prime contractor and intermediate subcontractors. Any partial payment made directly to a subcontractor or supplier shall be determined substantially in accordance with the principles, procedures, and limitations established in this statement for partial payments to prime contractors including a certificate and supporting data from the subcontractor or supplier. In making any direct partial payments to subcontractors or suppliers under this provision, the procuring agency shall make due allowance for outstanding setoffs or counterclaims asserted by the prime contractors or intervening rights asserted by other persons against such prime contractors, subcontractors, or suppliers. Any direct partial payments to a subcontractor or supplier shall be conditioned upon his furnishing appropriate releases for the benefit of the Government, the prime contractor, and any intermediate subcontractors.

Excess Payments.

6. Any excess payment over the total amount payable on final settlement shall be regarded, to the extent of the excess, as a loan, bearing interest at 6 percent per annum, to the company ultimately receiving the same. The officers of the procuring agency authorizing or making the partial payment and prime contractors or intermediate subcontractors through whom it is paid shall be relieved of financial responsibility for excess payments made in good faith.

Loans.

7. In addition to such private financing as may be available or such financing as may be furnished by other governmental agencies, the procuring agencies should guarantee or make commitments to guarantee loans to any contractor, subcontractor, or other person applying therefor who is engaged or has been engaged in the performance of a war contract which has been curtailed or terminated. The guarantee shall, in general, not exceed 90 percent of the loan, and a reasonable fee shall be charged therefor. The amount of the loan shall be based on an estimate of the applicant's over-all investment in war production receivables, inventory, work in process, and amounts paid or concur-

rently to be paid to the tier of subcontractors or suppliers immediately below the applicant. For this purpose a contract will be classified as a war contract if the procuring agency concludes that it has been or is connected with the production or procurement of war supplies. Such loans, guarantees, or commitments to guarantee will generally be made by the procuring agency which appears to have or to have had the dominant interest in the output of the contractor in question but may be made, in doubtful cases, by any procuring agency or any other agency authorized to guarantee such loans. Operations will be decentralized; existing agencies and mechanisms now used under Regulation V will be utilized to the greatest degree practicable; standard forms of loan and guarantee agreements shall be adopted for use in all cases; and simplicity of procedure shall be emphasized.

8. Prospective borrowers will be required to seek guaranteed loans directly through normal financing channels. However, in cases where it appears that a contractor, subcontractor, or other person described in paragraph 7 is or will be unable to arrange this type of loan within 30 days from filing of application, a loan will be made directly by a procuring agency or its agent. In determining the amount of the loan and the method of servicing it, the procuring agency will, if practicable, employ the same agencies and follow substantially the same procedures as in the case of a guaranteed loan. In the event that a direct loan is made, the gross interest charged will be the same as on a comparable guaranteed loan.

Interest on Termination Claims.

9. Interest should be allowed on the unpaid portion of termination claims under contracts terminated otherwise than for default, as a matter of fairness to contractors and subcontractors during inevitable delays in settlement and to permit and encourage contractors to borrow from private sources in order to finance themselves during the settlement period. The rate of interest should be 2½ percent per annum.

10. In determining the amount payable to or for the account of a prime contractor, the procuring agency should recognize to an appropriate extent, not in excess of 2½ percent interest paid or payable to subcontractors or suppliers.

11. Appropriate deduction shall be made for interest waived on advance payments and guaranteed or direct loans outstanding during the settlement period.

12. The period of interest payable to prime contractors will run from the 30th day after dispatch of the notice of termination, but if the prime contractor unduly delays the determination or payment in whole or in part of amounts payable to him, the procuring agency may stop the running of interest for the period of such delay by the giving of 10 days' notice to the contractor.

APPENDIX 2

Statement of Policy as to Removal and Disposition of Property in Connection With Contract Termination¹ of Joint Contract Board.

The speedy adjustment of terminated contracts depends to a large extent on the prompt removal and disposal of completed articles, component parts, work in process, raw materials and equipment in the possession of the contractor at the time of termination. So long as the war continues it is essential to clear the contractor's plant as soon as possible so that it may return to the production of other needed war materials and to make available for other war production any property which can be used for that purpose. After the war the speedy disposition of such property is essential in order to clear the contractor's plant for a return to civilian production. To that end it is essential that broad powers of disposition be vested in the procuring agencies, and that a central agency² should be designated to which may be transferred property not disposed of by the procuring agencies and no longer required by them.

In some cases legal title to the property in the possession of the contractor has passed to the Government; in others, it remains in the contractor. In either case the problem is essentially the same and there is need for policies permitting uniform administration. Therefore, the following steps should be taken promptly upon termination or substantial modification of any contract.

1. As soon as possible after receipt of notice of termination or modification of any contract, the contractor should submit lists of property no longer required for the performance of the contract to which the Government is entitled or which are the property of the Government. Separate lists should be prepared of (1) machine tools and other production equipment, (2) completed articles, subassemblies and component parts, (3) work in process, (4) supplies, (5) materials, and (6) scrap. Partial lists should be presented from time to time giving preference to those items which, in the opinion of the contractor or the procuring agency, are immediately needed in war production either in the contractor's plant or elsewhere. The list should contain an adequate description of each item and should show the ceiling and current established market prices for each item if readily available and any readily available information as to the cost of each item to

¹ Facilities held by contractors under contracts containing special provisions for disposition other than those recommended herein will be dealt with in a separate report.
² The term "central agency" used herein means such central agency as may be designated by the Director of War Mobilization to dispose of the particular kind of surplus or to set price policy.

the contractor. Where the contractor wishes to retain or acquire an item, he should state the price at which he is willing to accept the item. Failure to list an item should not prevent the contractor from claiming reimbursement therefor in the final settlement and in connection with final settlement the contractor may furnish additional information as to the cost of any item.

2. Where the contractor has an option to purchase or lease or other contract rights in any item, he should promptly indicate whether he desires to exercise such rights or is willing to waive them. If he indicates the former, disposition of the property should be made in accordance with the terms of the contract.

3. While the lists are in course of preparation and as the necessary information becomes available the procuring agency and the contractor should seek to make immediate disposition of any items which can be readily disposed of. If, in the judgment of the procuring agency, the item is one which it would be appropriate for the contractor to retain or acquire, the procuring agency should endeavor to negotiate an agreement for such retention or acquisition. If the procuring agency determines that the item should be disposed of to someone other than the contractor for purposes of war production, the procuring agency should endeavor to arrange for such disposition through the contractor or direct. Prior to the cessation of hostilities, any item not disposed of to the contractor or to others for purposes of war production, which the procuring agency does not desire to retain for its own use or that of any other governmental department, may be disposed of by the procuring agency or by the contractor with the approval of the procuring agency for any purpose not inconsistent with the policies of the Board. It is expected that the power of disposition for any purpose other than for war production or to the contractor will be transferred in whole or in part by action of the Board to the central agency as it becomes ready to undertake such activity.

4. Each procuring agency may exercise complete discretion as to the price at which any item may be disposed of subject to such pricing policies or formulas as may be established by the Board or under its authority, including any specific instructions referred to in paragraph 9 hereof. In the absence of specific action by the Board the procuring agency will endeavor to dispose of property at prices which it may regard as representing fair values under the existing circumstances observing the following general policy as to determination of fair value.

(a) Where there is an established market price for the item an effort should be made to obtain that price with due allowance for the condition of the item, its location and the cost to remove it to a place of disposal, and the selling cost including cost of preparation for sale.

(b) Where there is no established market price, consideration should be given to the foregoing factors and any other available information including the cost of the item, and the speed with which the item can be reprocessed or otherwise put back into use. It is recognized that disposal prices will in many instances bear little, if any, relationship to cost.

(c) Substantial portions of property involved in contract termination, particularly work in process, jigs, dies, fixtures, and specially designed items having no known commercial application, may have no value except as scrap. A prompt effort should be made to determine promptly what items are properly classified as scrap and to effect prompt disposition of such items.

(d) In cases where disposition is made to a contractor or supplier for the purpose of performing a war production contract consideration may be given to any lesser value of the item to the contractor or supplier for that purpose, if war production will thereby be facilitated. If disposition cannot be made at prices determined in accordance with the foregoing, then until such time as the central agency becomes ready to undertake disposition of the property, sale may be made by the procuring agency under such other regulations as it may prescribe for the purpose of adequately testing the market.

5. Unless the contract otherwise provides, the contractor may, at any time after receipt of termination notice, remove from his plant and store at his own risk, any property, and the Government, with the consent of the contractor, may remove and dispose of any property listed in accordance herewith prior to final settlement. At all events, unless the contract otherwise provides, any property not disposed of in the manner hereinbefore provided within sixty days from receipt of a list covering the particular item should, upon demand of the contractor, be removed from the contractor's premises by the procuring agency unless the procuring agency shall previously determine that the item is not chargeable to the Government and does not belong to the Government. In the event that any such property is not so removed upon demand, the property may be stored by the contractor at the expense and risk of the procuring agency either on the contractor's premises or, if he determines that space is not available for that purpose, then elsewhere. In such a case the contractor should take reasonable precautions for the protection of the property and should notify the procuring agency of the action taken. If it is later determined that the procuring agency was not obligated to take property which was removed or disposed of prior to final settlement, an adjustment should be made in the final settlement which will allow the contractor the current disposal value of the property at the time of removal.

6. Any property which comes into the hands of the procuring agency in connection with contract termination which is not disposed of as hereinbefore provided and which has been determined by the procuring agency to be surplus to its needs should be reported to the central agency for disposition. Upon receipt of such report the central agency shall with reasonable promptness take possession accountability, and full responsibility for any further maintenance or utilization removal, protection, storage, sale, or other disposition of the property. The central agency shall consult with the procuring agency as to the disposition of any property of special military significance. The procuring agency shall have the right to remove and store for the account and at the risk of the central agency any property so reported, pending action by the central agency.

7. The procuring agency shall render all reasonable assistance to the central agency in performing its obligations under paragraph 6. The central agency shall be authorized to use any existing storage or other facilities which the procuring agency finds it practicable to make available to it.

8. Transfers to the central agency shall be made without values, but the central agency shall make periodic reports to the procuring agency as to the aggregate estimated value of items transferred, valuations to be based on disposal values at the time of transfer to the central agency, as estimated by the central agency.

9. Any disposition of property by the procuring agencies or the central agency shall be made subject to such regulations as the particular agency may prescribe but only in conformity with policies or determinations of the Board and under applicable rulings of the War Production Board, the Office of Price Administration, or any other duly authorized agency. At the request of any procuring agency or the central agency or on its own initiative, the Board may establish or approve pricing formulas under which any article or class of articles may be sold by a procuring agency, may designate the appropriate agency to sell any article or class of articles, and may prohibit or condition the sale of any article or class of articles by a procuring agency.

10. The foregoing provisions relate solely to property in the hands of prime contractors. In order to carry out the basic policies of speedy adjustment of contracts and prompt clearance of plants, the same principles should be applied to property in the hands of subcontractors of any level where the subcontractor submits lists of such property prepared in accordance with paragraph 1, with the certificate of the prime contractor that the items listed are believed to be properly allocable to the prime contract, or any other satisfactory evidence of that fact.

APPENDIX 3

Role of Major War Agencies.

The reconversion of industry from war to peace often is spoken of as if it were one job. Actually, many jobs are involved, all of which must be done together. Eight major steps in industrial reconversion can be listed in the order of their sequence:

1. As the war changes, the production of certain weapons and war supplies is cut. Minor adjustments already are taking place; with the defeat of the Nazis, major cuts would come.
2. After the decision as to what is to be cut is made, the next step is to decide which producers of these munitions and supplies are to be cancelled out and which left in production.
3. On all war contracts that are terminated, the Government will owe the manufacturers money. Step three is to determine what the Government owes and to pay manufacturers promptly so they will have ready working capital with which to take on new business. This is called the settlement of terminated war contracts.
4. Simultaneously, the plants of these manufacturers are cleared physically of Government-owned inventories, raw materials, equipment, semifinished parts—this to make room for new equipment and new materials to start up peacetime production.
5. Any materials, inventories, equipment, and other properties coming into the possession of the Government are redistributed among other war producers as far as practicable to stimulate war production.
6. As plants, manpower, and materials are freed from war production, such resources are shifted first to other war work as far as such war work is needed.
7. With war needs satisfied, these resources of manpower, materials, and plants are shifted to increase production and employment for civilians.
8. As war needs slacken, wartime controls are modified or removed.

All One Program.

While these steps are listed in sequence, all the programs are to be carried through concurrently since adjustments already are taking place and will continue through the end of the war. The entire program must always be kept in balance.

The subject index lists the references to what the various war agencies are to do in carrying out the recommendations of our report. Because of their importance, there follows a brief summary of the

more important aspects of the roles of the War Production Board and the Armed Services; also, a brief summary of the legislative action requested by the report.

Armed Services:

To decide what weapons and war supplies should be cut as the war changes, informing the War Production Board as soon as such cuts are thought of; to work with the WPB and other civilian agencies, including War Manpower Commission on the choices of which contracts are to be cancelled; to negotiate settlements of what the Government owes on terminated war contracts after cancellation; to assist the Surplus Property Administrator in promptly clearing Government property from war plants; to work with him and the WPB on redistributing surplus property to stimulate war production; to be prepared to shift contracts to make use of plants and manpower freed by cancellations; to work with the WPB in the preparation of an "X Day" reconversion plan; to work with the "Work Director" on the demobilization of the Armed Forces when that becomes possible.

War Production Board:

To keep the program of production for war and civilians in constant balance; to lay down the policies to guide the choices for *cancelling* contracts of war goods no longer needed; to work with the Armed Services and other procurement agencies and with the War Manpower Commission and other civilian agencies in making the actual choices of which producers are to be cancelled and which left in war production; to guide the shifting of contracts to make use of facilities or manpower freed from war production; to decide what civilian production and employment is to be resumed as war needs slacken; to work with the Surplus Administrator and Armed Services on the disposal of surplus Government property so as to stimulate both war production and resumption of civilian employment; to keep all war controls under constant review so that they can be promptly modified; to review worthwhile local projects, deferred during the war, and which may be cleared as war needs slacken.

Legislation:

"Congress should lay down whatever policies it feels wise and desirable to guide the existing agencies in their handling of demobilization problems"; the Work Director to work with Congress on a combined program of legislation and operations for the entire human side of demobilization; legislation requested for the settling of terminated war contracts; the Surplus Administrator to report to Congress as soon as possible on legislation needed for surplus Government prop-

erty; extension of price control law, the priorities and allocations powers on which the functioning of WPB rests and the requisitioning power of the President; extension of Smaller War Plants Corporation's lending authority to permit changeover assistance; liberalization of Federal Reserve's authority to make industrial loans; post-war tax law on the shelf; Congress consider funds for engineering public works shelf.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE Feb. 28, 1944

TO: Secretary Morgenthau
 FROM: Mr. Hase *HA*
 Subject: The Business Situation,
 Week ending February 26, 1944.

Summary

Production index recovers slightly: Although industrial output showed a further slight decline in January, the decrease was less than seasonal and the FRB adjusted index of production rose to 242 from 241 in the previous month. This compares with the war-time peak of 247 reached last October and November. Munitions output in January declined 2 percent, due in part to shifts in the merchant shipbuilding program.

Stock market: Railroad stocks and bonds have advanced sharply since the beginning of the year, in contrast to the unusually narrow price fluctuations of leading industrial stocks. Their strength reflects evidence of some shift in financial sentiment toward the prospect of a longer war. In addition, our ratio of war to peace stocks has shown a moderate strengthening.

Cost of living: The BLS cost-of-living index declined 0.2 percent in January, largely as a result of lower food costs and a slight decline in retail clothing prices. Since reaching the peak of 125.1 last May, the index has moved within a relatively narrow range, and at its present level of 124.1 it is now only 2.8 percent higher than a year ago.

Commodity prices: Due largely to advances in cotton and rosin prices, the BLS index of 28 basic commodities rose slightly in the four weeks ended February 25. The all-commodity index registered no change for three successive weeks, then rose 0.2 percent in the week ended February 19. On the whole the various price indexes have shown very little change during the past several months, with prices of most items covered by OPA ceiling regulations.

Retail trade: Department store sales in February have dropped sharply under last year's levels, due to the heavy wave of score buying which occurred in February 1943. The Department of Commerce has estimated that total retail sales in 1944 will rise about 5 percent above last year's record levels assuming present price levels are maintained.

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Industrial production declined less than seasonally in January

Industrial production showed a further small recession in January, but the decrease was less than seasonal and the FRB adjusted index of production advanced slightly to 242 from 241 in the previous month. This compares with the wartime peak of 247 reached last October and November. (See Chart 1.) The slight rise in the adjusted index in January was due principally to a 4 percent gain in steel output and a substantial increase in coal output. Production of textiles and shoes also increased in January, contributing to a slight gain in the adjusted index of nondurable goods production.

On the other hand, aggregate munitions output in January declined 2 percent below the previous month. The principal factor in the decline was a drop in merchant shipbuilding arising from the shift from Liberty ships to Victory and other types of ships. Output of destroyer-escort vessels also slowed down, but the number of landing craft accepted for service rose 20 percent in January. Output of these ships is currently characterized as the "number one munitions program" by the WPB. Although the number of airplanes accepted in January was moderately below the previous month, the aggregate airframe weight of completed planes rose 5 percent. The output performance of the aircraft industry during the month was the best of the entire war period.

Factory employment declines

The moderate decline in industrial production in recent months has been accompanied by a somewhat similar recession in factory employment, as the following index numbers show:

	Industrial production (Unadjusted) (1935-39=100)	Factory employment (Unadjusted) (1939=100)
October 1943	249	170.5
November 1943	247	170.7
December 1943	239	169.3
January 1944	238	166.4

The principal factor in the employment decline in January was the previously-mentioned shift in the shipbuilding program, although virtually all manufacturing groups showed some recession. As a result of the declines in December and January, estimated factory employment in the latter month was about 370,000, or 3 percent, less than in November.

Cutbacks in war contracts and shifts in war production undoubtedly have caused numerous local employment dislocations. However, the WMC has continued to stress the probability of an over-all manpower shortage in the first half of 1944. The WMC's revised labor market area classification effective at the beginning of this month showed 68 areas in the acute shortage list, as compared with 67 a month earlier, while critical labor shortages were said to exist in rail transport, ball bearing factories, coal mines, foundries, meat packing and radio tube plants. A particularly acute manpower shortage is confronting the railroads, and an intensified recruiting campaign to obtain necessary workers is slated to get under way shortly.

Rise in railroad stocks and bonds feature securities markets

Stiff resistance to Allied forces in Italy, and failure of heavy bombing raids and Russian gains to uncover signs of imminent German collapse, appear to have caused some re-orientation of financial sentiment recently. Partial evidence to this is seen in the spirited bidding up of prices for railroad securities, although other factors have contributed to this rise. Despite the vast improvement in railroad earnings and finances under war-time conditions, traders and investors have evaluated railroad earnings very conservatively, partly due to the possibility of a relatively short war. Since the beginning of January, however, the Dow-Jones averages of railroad stocks and second grade railroad bonds have risen 16 percent and 14 percent, respectively.

In the face of these substantial gains, industrial stock prices have been unable to move ahead since the early part of last month, and at the end of last week were about 1 percent below the 1944 high reached on January 5. (See Chart 2.) Many leading industrial stocks recently have been moving in an unusually narrow range.

The continued failure of industrial stocks to join in the rise in railroad securities has been interpreted bearishly by many stock market commentators. In this connection it is interesting to note that short selling on the New York Stock Exchange increased during January, with the aggregate short position at the end of the month rising to the highest level since last June. The total short interest at the end of January of 847,000 shares was about 110,000 shares higher than a month earlier.

Along with the improvement in prices for railroad stocks, various other prime war beneficiaries, such as aircraft stocks, have strengthened moderately. In consequence, our ratio of war and peace stocks last week showed the war group to be in the strongest relative position since last October. (See Chart 3.) Industrial stock prices in London have made small gains during the past month, and early last week equalled the war-time high reached last September. Trading activity in the London market recently has been relatively quiet, with little change expected until the invasion gets under way.

Cost of living slightly lower

The BLS cost-of-living index declined 0.2 percent in the month ended January 15. Thus, following an almost continuous rise from November 1940 to a peak of 125.1 in May 1943, the index during the last eight months has moved within a relatively narrow range. At its present level of 124.1, the index is 2.8 percent higher than a year ago and is 25.9 percent above the pre-war level of August 1939. (See Chart 4.)

Lower food costs were largely responsible for the slight decline in the index last month. Food costs dropped 0.7 percent, largely as a result of the sharp decline in egg prices. Most fresh vegetable prices rose noticeably, however, with green beans, spinach, and cabbage showing increases of 43.1, 16.0, and 9.1 percent, respectively. Due in part to subsidies, the index of retail food prices is now at the lowest level since February 1943.

Retail clothing prices showed a slight decline last month, following increases in the seven preceding months. Reductions in clothing prices were due largely to end-of-season clearance sales of men's overcoats, top coats, and wool suits and women's coats. Costs of household furnishings as well as costs of various services continued to edge higher.

Cost-of-living index severely criticized

Labor members of the War Labor Board Committee, appointed by the President to investigate the cost of living, have attacked the BLS index as distorting "the basic facts of our wartime living costs". A report on the investigation was submitted to the President, without the approval of the full committee, stating as a conclusion that living costs rose 43.5 percent from January 1941 (the base date of the "Little Steel" wage formula) to December 1943, as compared with the 23.4 percent rise for that period shown by the BLS cost-of-living index.

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Among the criticisms of the BLS index made by the labor members' report was that the index fails to measure adequately the following:

1. The disappearance of many cheaper line goods.
2. Quality depreciation.
3. The fact that more people must eat meals away from home.
4. Black market prices.
5. The cost of moving to new jobs.
6. Maintenance of dual residences by out-of-town war workers.
7. Increased taxes and war bond purchases.

The Bureau of Labor Statistics, upon the request of Chairman Davis of the War Labor Board, last week submitted an appraisal of the above-mentioned report, stating that the conclusions in the report were erroneous, being based on many "errors of fact" and supported by "unrepresentative facts".

Price movements in narrow range

Price indexes have shown very narrow movements during the past several months. While a few commodities not covered by ceilings have edged higher, and some upward adjustments in ceiling prices have been made, their influence on the indexes has been slight. Furthermore, price declines of some commodities, often of a seasonal nature, have tended to stabilize the indexes.

As our war effort approaches maturity, cross currents in the price situation appear to be developing, although the fundamental price picture continues inflationary. The armed services are now in a better position to estimate requirements, with the result that cutbacks of various items have been made as surpluses appeared. These cutbacks have helped to ease the supply situation for several metals. The release of steel for furniture springs and baby carriages, for example, caused some dealers to slash prices on their stocks of "victory" models of these items. With a two-year stockpile of quicksilver on hand, the New York price fell from \$192 a flask in December to around \$132.50 at the present time, following the termination of some Government buying contracts. Due to uncertainties over the length of the war, business men are reported to be adopting a more cautious attitude in making long-term commitments, which tends to moderate inflationary pressure.

- 6 -

Following three successive weeks with no change, the BLS all-commodity index advanced slightly in the week ended February 19. At 103.3 the index is now only 1 percent higher than a year ago, although it is 37.7 percent above the pre-war level of August 1939. Higher prices for livestock, and the OPA's action in raising ceiling prices for furniture and wood pulp, accounted for most of the advance in the index. Furniture prices were up 3.7 percent. On the other hand, hosiery and underwear prices showed a 1.7 percent decrease. The OPA recently allowed an increase of from \$2 to \$10 per ton for wood pulp in order to stimulate production.

Basic commodity index advances slightly

The BLS index of 28 basic commodities rose 0.5 percent during the four weeks ended February 25 and now stands at a new high, 80.4 percent above the August 1939 average. This rise was due largely to the continued advance in cotton and rosin prices, both of which are not under price ceilings. (See Chart 5.)

Rosin prices advanced almost 8 percent in the period as demand continued strong for the dwindling supplies. Prices of cotton have moved almost steadily upward during the past three months, but the 10-spot market price last week was slightly below the corresponding week of last year. March cotton futures, however, last week touched a 15-year high. The extremely heavy hog marketings, which congested stockyards and taxed slaughter facilities, have begun to taper off. Hog prices of those weights included in the Government support program moved above the support level during the past two weeks, after having been at that level for three months.

Egg prices more stable

While egg prices have declined moderately in recent weeks, they have been considerably more stable following the sharp breaks of December and the first part of January. (See Chart 6, upper section.) Prices of fresh standard eggs at Chicago, which fell almost 9 cents in the five weeks ended January 15, have declined only 1 cent during the succeeding five weeks. Egg prices, however, remain below ceiling levels. Receipts have continued to rise seasonally, although recently receipts at the four leading markets have temporarily leveled out. Larger numbers of layers, and particularly favorable weather, have been largely responsible for the noticeable increase in egg receipts above the levels of a year ago. (See Chart 6, lower section.)

- 7 -

Government purchases and a heavy into-storage movement have helped in stabilizing the egg market. The WFA support program, which had been applicable only in the Northeast last month, was extended to 64 cities throughout the country on February 7. Government contracts for dried eggs have absorbed much of the surplus in the mid-western producing area. Other factors which have contributed to the stabilization of egg markets have been: (1) heavier culling of laying flocks, due in part to a less favorable egg-feed ratio, (2) sharply lower retail prices, and (3) increased hatchery operations, particularly in the Middle West.

Crop conditions improve

Moderate to heavy snow and rainfall during the past six weeks have improved prospects for the winter wheat crop, after unusually dry weather in the fall and early winter had caused considerable concern. In view of the tightening wheat supply situation, the 1944 wheat crop is becoming of increasing importance.

Fears of premature budding of fruit trees as a result of abnormally warm weather which covered large sections of the country recently appears to have been relieved by colder weather, although some damage to early fruit was reported locally in Georgia. A record crop of citrus fruit is indicated for this year as the weather continues favorable both in Florida and in California. While truck crops have been affected by the usual variety of weather hazards which are to be expected at this time of year, they are reported to be making fairly good progress, and a record tonnage of winter-season commercial truck crops is expected.

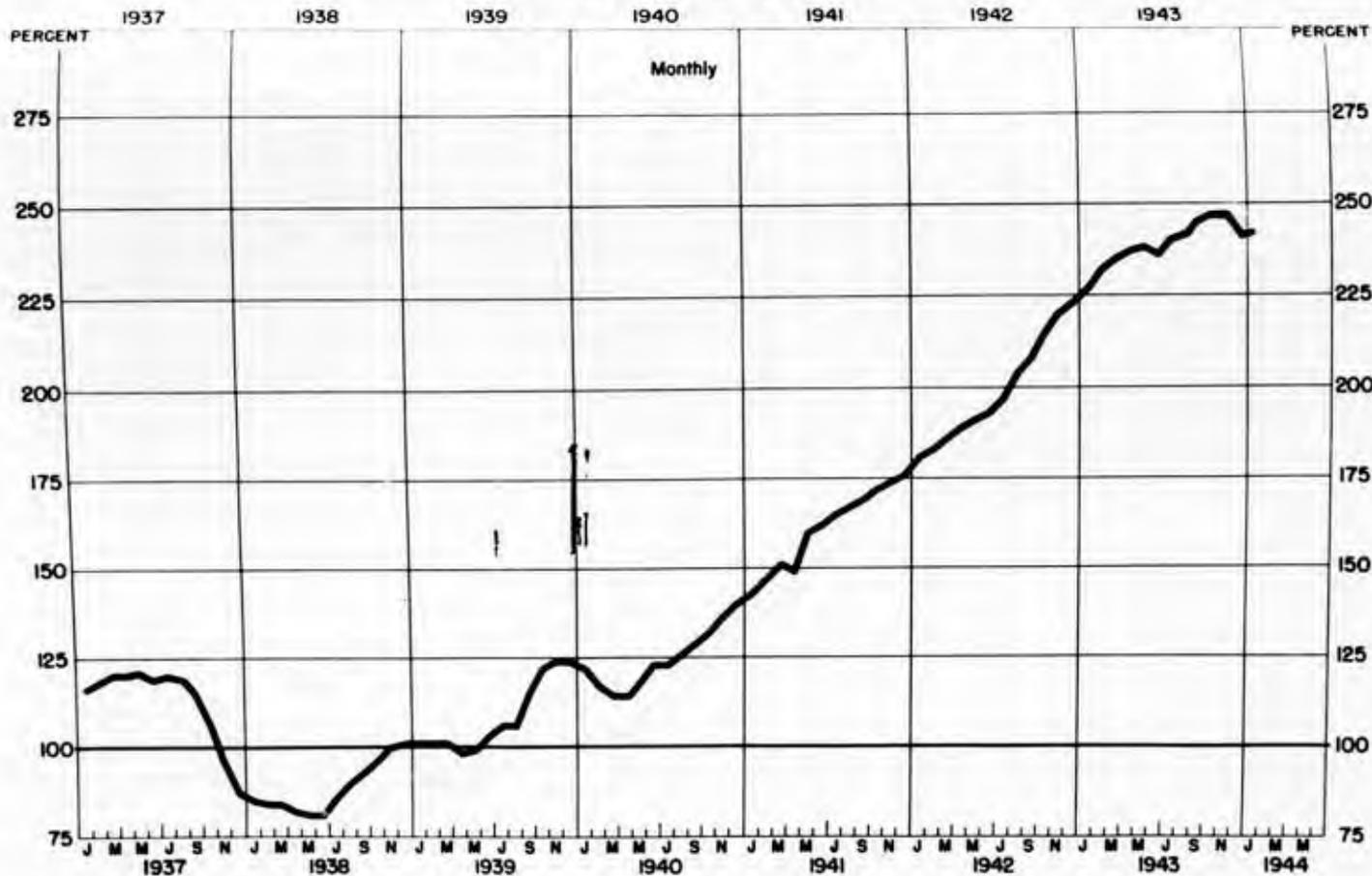
Department store sales below 1943 levels

Department store sales thus far in 1944 have been relatively steady, in marked contrast to the wide swings in sales early last year. It may be recalled that a surprise shoe rationing order touched off a heavy wave of scare buying in February 1943, and as a consequence recent sales figures show substantial declines from last year's levels. Department store sales in the week ended February 19 showed a decline of 9 percent from the corresponding week in 1943, while sales in the week ended February 12 were 21 percent under the 1943 level. (See Chart 7.) Preliminary reports indicate that retail sales during the past week again fell under year-earlier levels. Thus, Dun & Bradstreet estimates that total retail trade for the country as a whole last week dropped from 4 to 6 percent below the corresponding period last year.

- 8 -

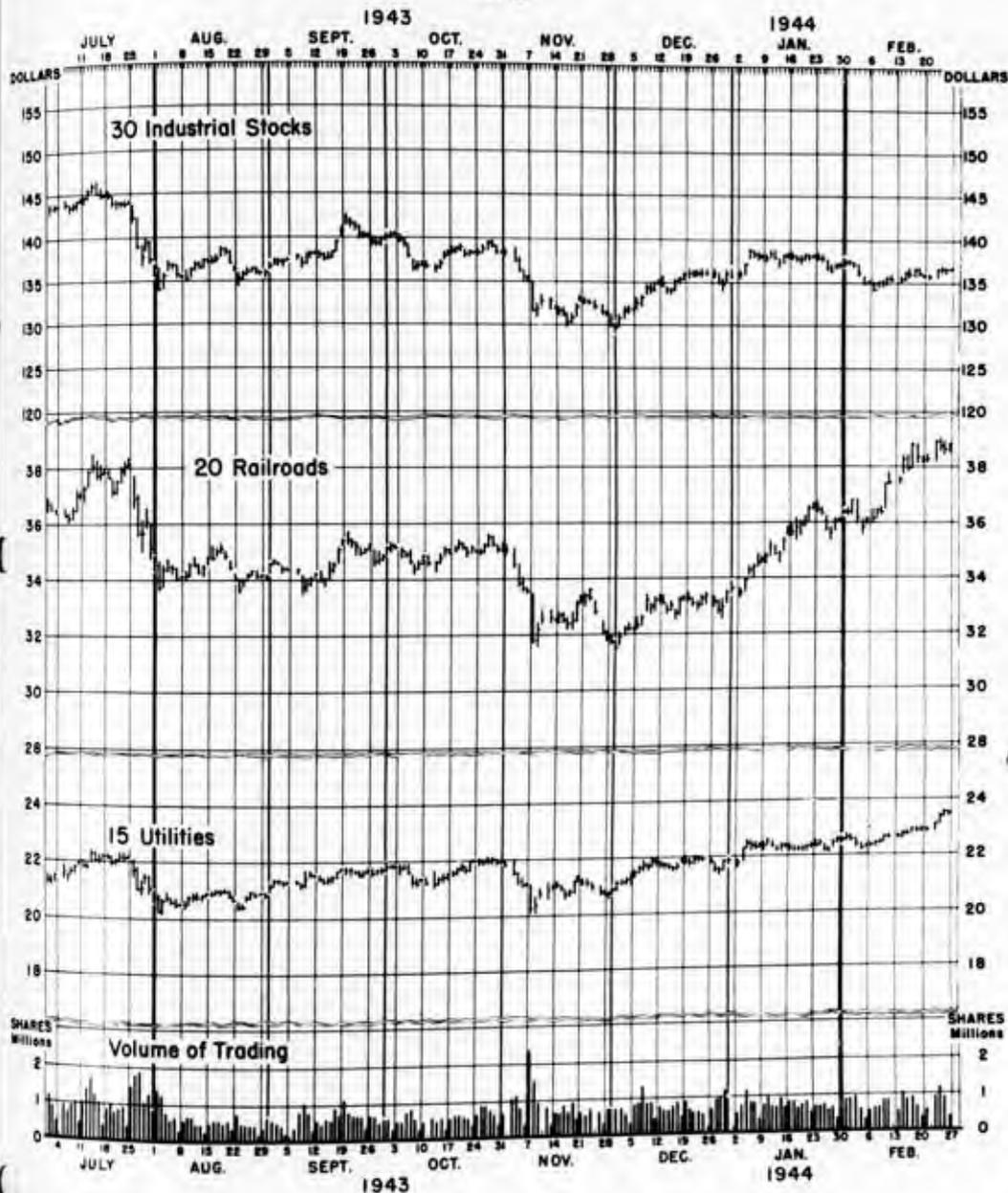
In connection with the retail trade situation, it is of interest that the Department of Commerce has just issued an estimate forecasting 1944 retail sales volume at \$66 billions, which is an increase of 5 percent over last year's record total. The estimate is made on the assumption that prices will be held at present levels. Despite a decline of about \$1 billion in inventories in 1943, the Commerce Department expects that the volume of goods available for civilians in 1944 will be about the same or a little larger than last year, due to an anticipated slight increase in civilian goods output.

F.R.B. INDEX OF INDUSTRIAL PRODUCTION, REVISED
 1935-39=100, Seasonally Adjusted



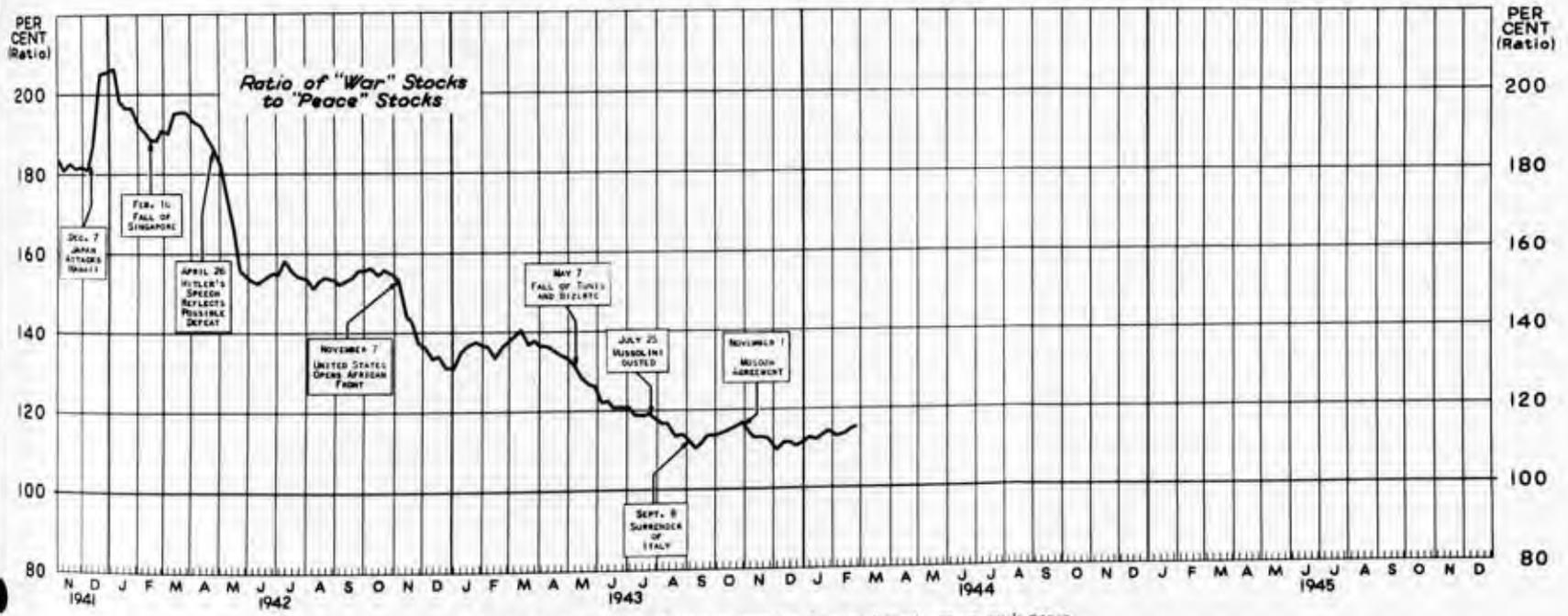
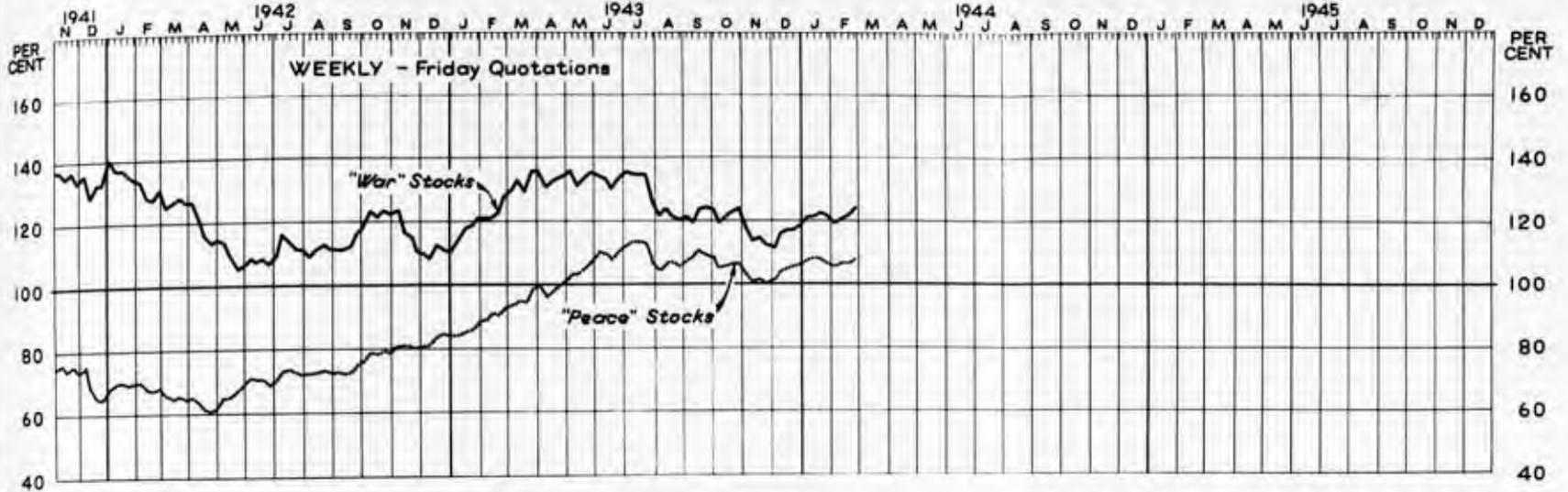
STOCK PRICES, DOW-JONES AVERAGES

Daily



COMPARISON OF PRICE MOVEMENTS OF 20 "WAR" STOCKS AND 20 "PEACE" STOCKS*

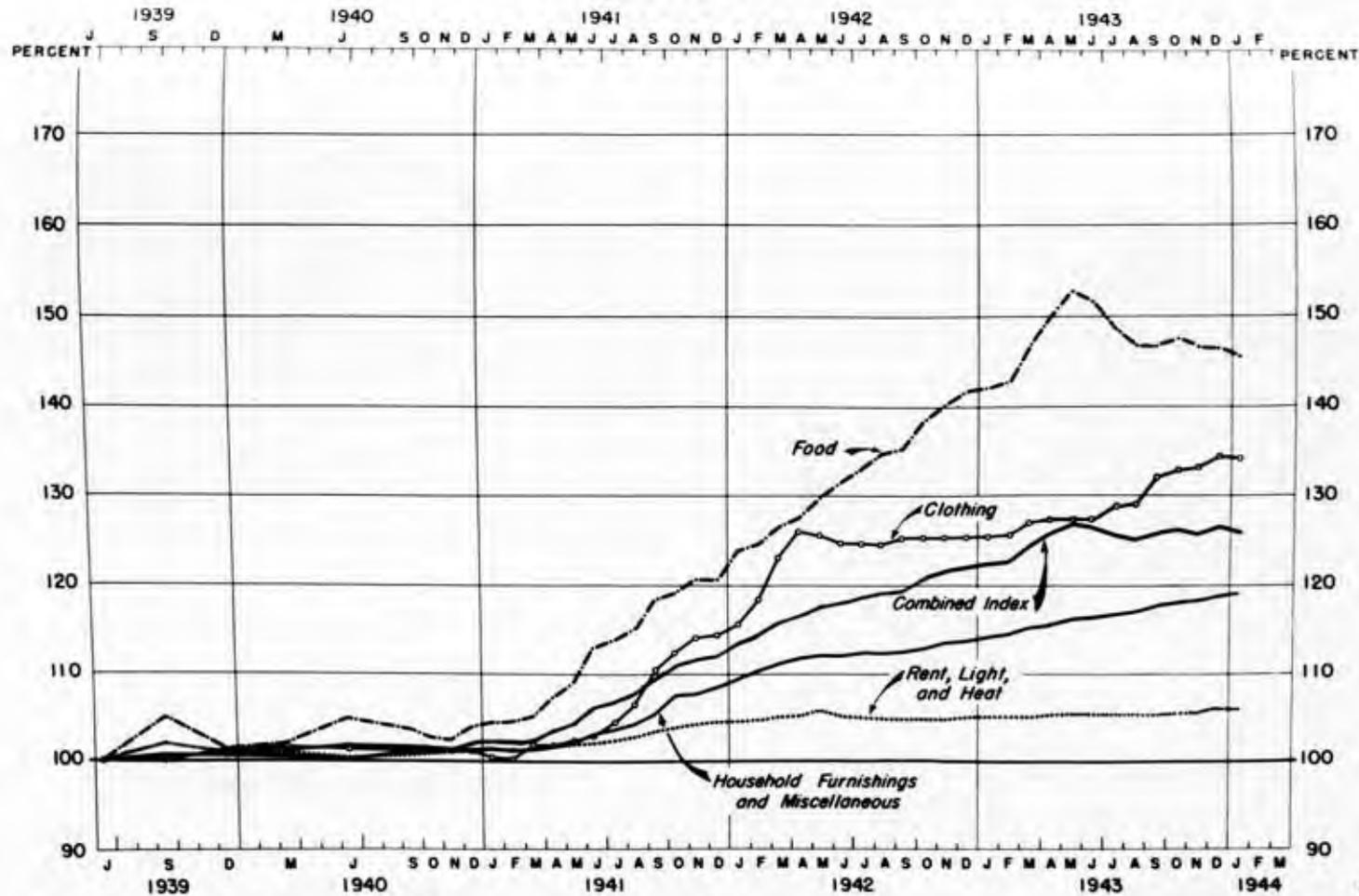
August 1939 = 100



* Stocks selected on basis of relative benefits from prolonged war vs. early peace. Indexes are weighted averages of price relatives.

COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



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

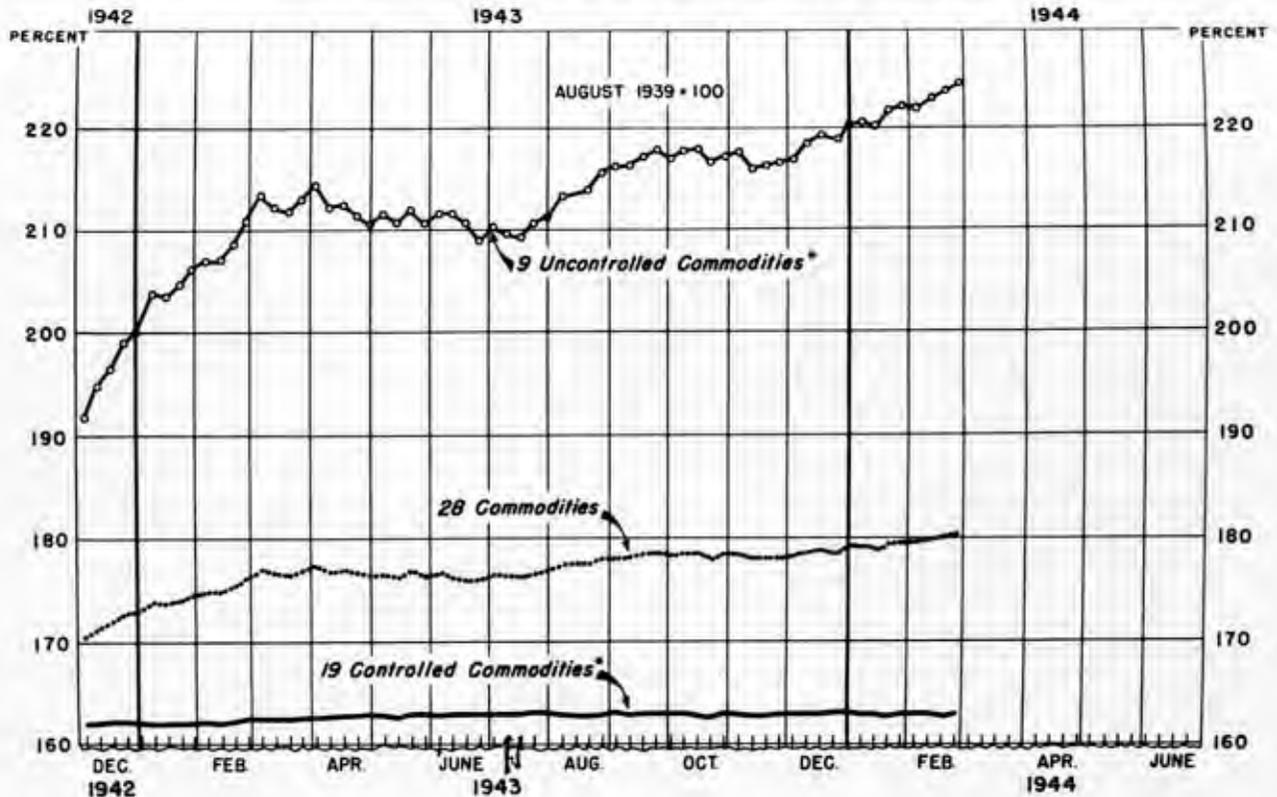
Source: B. L. S.

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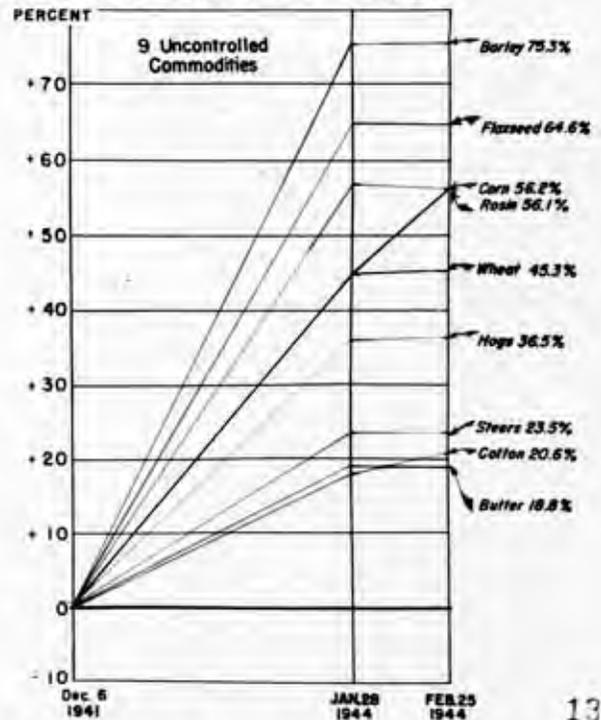
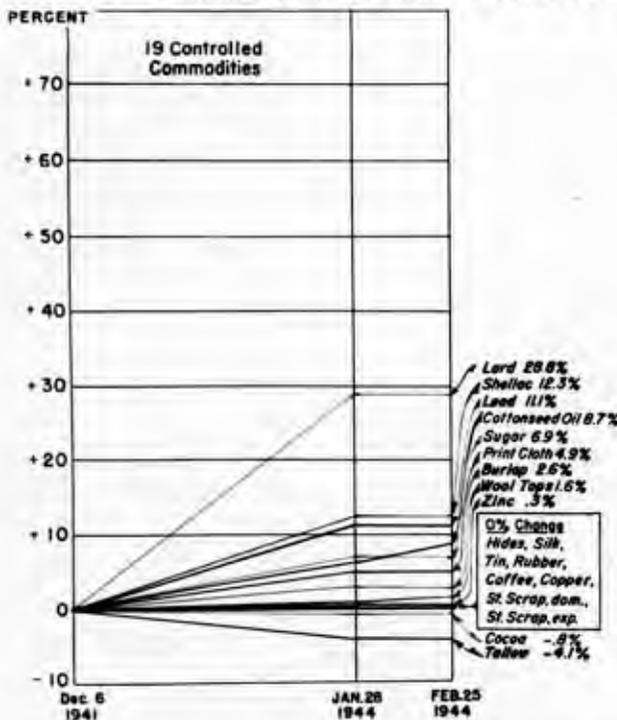
138

Chart 4

MOVEMENT OF BASIC COMMODITY PRICES



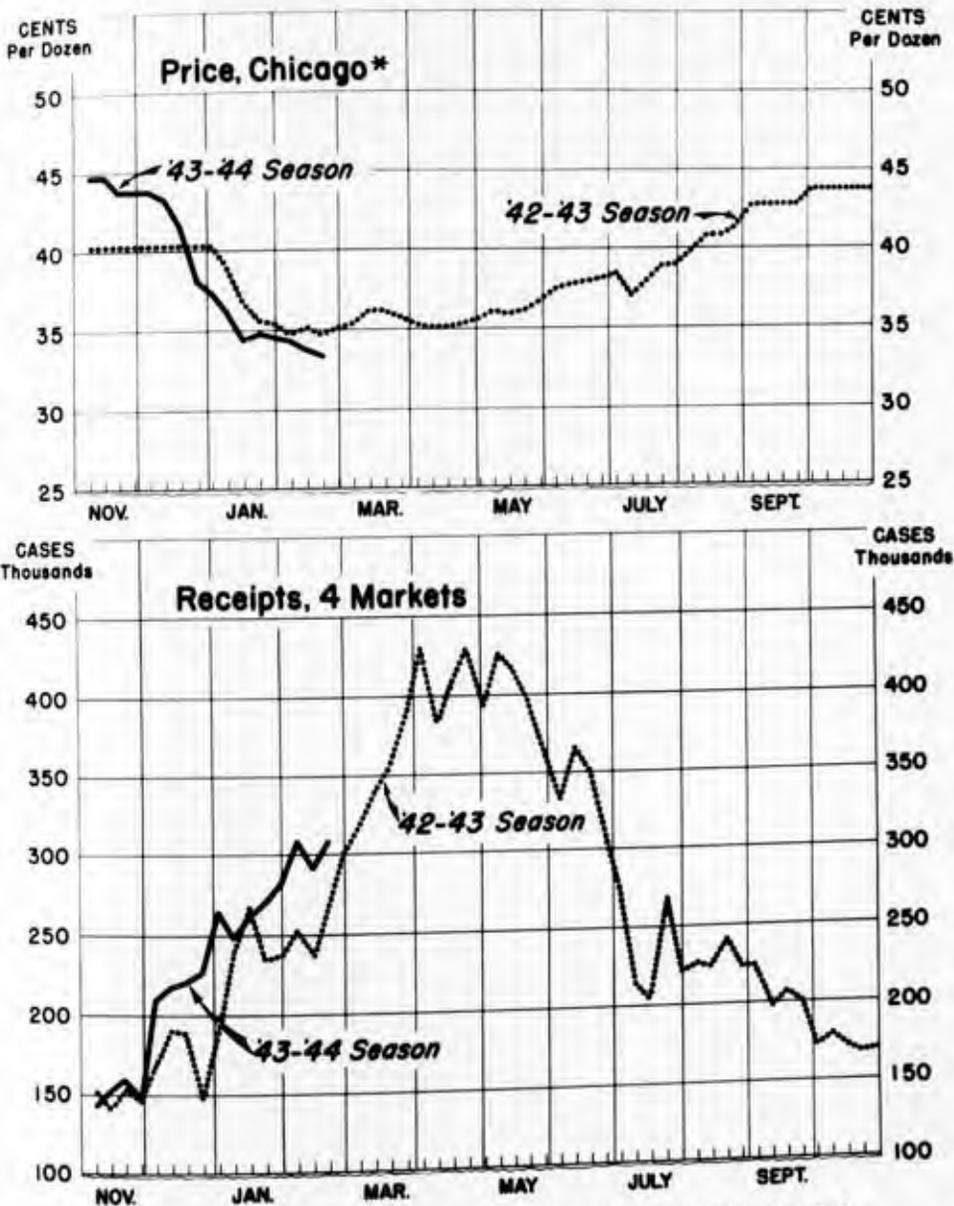
PERCENTAGE CHANGE DEC. 6, 1942 TO JAN. 28, AND FEB. 25, 1944



*20 Controlled & Uncontrolled previous to June 26, 1942.

EGG PRICES AND RECEIPTS

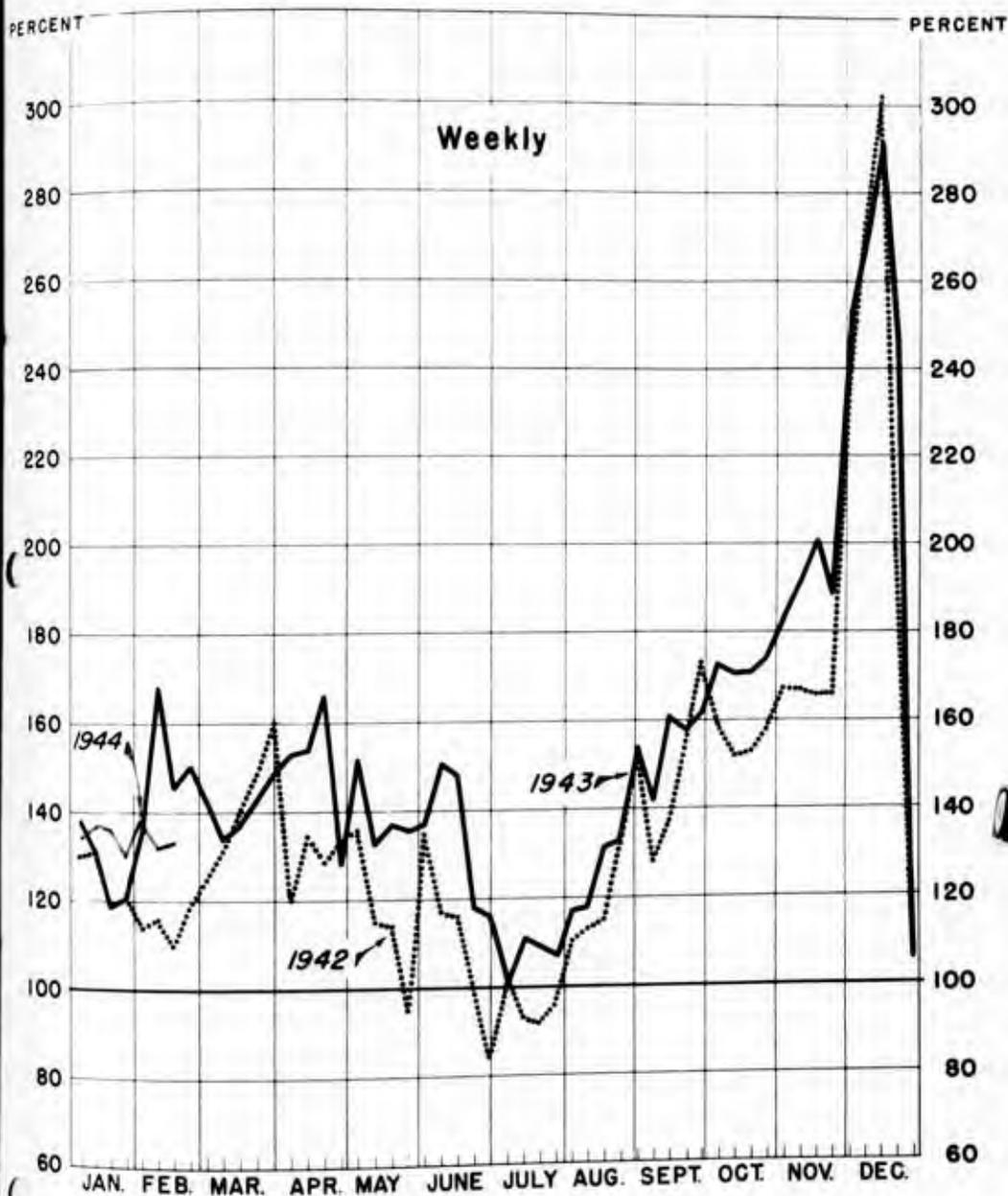
Year Beginning in November



**Weekly average, fresh standards. Previous to July 17, 1943 certain comparable grades used.*

DEPARTMENT STORE SALES

1935-'39 = 100. Unadjusted



142 ✓
5/25/47

MEMORANDUM FOR THE SECRETARY:

Late Monday afternoon (February 28) Stettinius mentioned to Pehle over the telephone that there was a "group" in the State Department urging that Argentina be "frozen" at once. He stated that things were moving rapidly in Argentina and asked whether Treasury had any views on the issue of an immediate "freeze". Pehle told Stettinius that he would check in the Department and advise Stettinius if we had any recommendation. Stettinius indicated that a decision might be made within a day or so.

There is some difference of opinion in the Treasury as to whether, at this time, we should take a strong position with State in answer to Stettinius' inquiry. The majority view among the Treasury people concerned with this matter seems to be that our reply should be:

"The Treasury recommends immediate freezing of Argentina."

Some of the men, however, feel that it would be preferable to reply along the following lines:

"The Treasury has recommended freezing for a long time. However, we know that important political developments have recently taken place as to which we are not fully informed. We, therefore, regard the matter of imposition of freezing control at this time as a matter for State to decide."

We would like to discuss the matter with you.

WPA
WPA

MEMORANDUM FOR THE FILE

February 28, 1944

Meeting in Mr. White's Office

February 28, 1944

4:00 P. M.

Present: Mr. White

Dr. Clark

Mr. Boardman

Mr. Plumpre

Mr. Friedman

Subject: Canada's dollar balances.

Mr. White began the discussion by referring to the Campy account. He said that, according to information received from Dr. Clark, Canada as of December 31, 1943 owed \$46.8 million on Campy account. Dr. Clark said that he was not sure of this figure.

The next item discussed was that of Camex regulations. Dr. Clark indicated that his figure was \$38.8 million, of which \$31.9 million were for expenditures in 1942.

Mr. White then asked about the question of Canadian purchase of American tanks in England. Dr. Clark indicated that \$60 million of these tanks had already been delivered and \$49 million more were to be delivered by the end of March, 1944. Therefore, the amount involved would be \$109 million plus ocean transportation costs. He expected that this would be paid during the current fiscal year.

With regard to Canadian reimbursement of \$1,350,000 of capital advances for operation of marginal mines, Dr. Clark said that the paper work on this had already begun. The suggestion was also made that the Canadian take over paying the subsidies on the output of these marginal mines which amounted to about \$1,200,000 per year and that contracts for the purchase of nickel from Falconbridge also be transferred. The nickel contract amounted to \$8,400,000 of which the amount saved by the United States Government would be the subsidy part which was about 20% of the whole or about \$1,680,000.

The proposal that Canadian participation be eliminated from contracts for the purchase of New Galena's nickel was then discussed. Mr. Boardman

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Division of Monetary
Research

said that the Canadian Exchange Control Board was now taking the position that there was no longer any reason for Canadian participation since New Caledonia was no longer part of the sterling area.

With regard to reimbursement by Canada for United States Government expenditures for permanent airfield development, Dr. Clark said that Canada was prepared to make such reimbursements and that it would total \$34 million. In addition, there were \$17 million of new bills which the Canadian Government was not going to submit.

The proposal that Canada assume the refining and distribution costs of gasoline used to meet the British commitment in connection with the Air Training Plan was then discussed and Dr. Clark indicated that this was being done. The suggestion that Canada pay for crude petroleum used to meet this commitment was also made. It was pointed out to the Canadians, however, that the position of FEA and ourselves was that we were willing to have the United Kingdom or Canada pay for this crude petroleum. Dr. Clark said that he wished to consider this proposal.

The Navy Department suggestion for the cancellation of contracts for PB2B planes, including reimbursement of about \$20 million for past costs, was then put forward. Dr. Clark indicated that he thought that all of these planes were of American type and that the Navy was making the suggestion because the United States no longer had any use for this type. It was indicated to him that our information from the Navy was that all of these planes were for land-lease purposes, that is, they were to go to some part of the British Empire and that, in fact, some had already been shipped.

The War Department suggestions for the termination and cancellation of contracts totalling about \$76 million were then discussed. Dr. Clark requested information regarding the individual items, saying that since the Canadian Minister of Finance, Mr. Ilesley, was in town it would expedite matters greatly if he could discuss this matter with him during the next twenty-four hours. (The next morning the requested information was sent to Dr. Clark through Mr. Fluepre.)

Mr. White then summarized the discussions, pointing out that he would like to present the above program to the Secretary. Since no transaction with Canada would be for purposes of financial assistance, the Treasury would then not have to examine or confer on the growth of Canadian balances. He would thereafter, of course, be pleased to see the strengthening of Canada's external position.

Dr. Clark indicated that he had some queries about the reimbursement on Comm requisitions and the proposal to cancel the contract for PB2B

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Division of Monetary
Research

planes and the volume of the War Department contracts. He said that he felt that many of the Army contracts were probably for common type stores. He indicated, however, that he would discuss this program with the Canadian Minister of Finance and other Canadian officials and would give Canada's reply in the very near future.

I. S. Friedman

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Algiers
TO: Secretary of State, Washington
DATED: February 28, 1944
NUMBER: 643

CONFIDENTIAL

We have transmitted to Madrid the following telegram:

46, February 23, 7 p.m. The contents of your no. 61, February 16, have been discussed with the Direction de la Security Militaire who today are cabling Mr. Bayonne, their representative in Spain, as follows:

- (1) Unless in your possession photos not required.
- (2) Two copies of forms will be required for Algiers and two for Rabat.
- (3) Thumb'prints must be obtained.
- (4) If the form agreed upon is used no supplementary information will be necessary.
- (5) Within four days the names of individuals forwarded to Algiers will be cleared.

The above requirements are in accordance with our original understanding with the French and after consultation with the British and UNRRA representatives they concur.

CHAPIN

COPY

EXHIBIT B

Memorandum of a Conversation with Dr. Floyd H. Black, Auxiliary Officer working on Bulgarian Questions.

Prior to 1935 the Bulgarians showed no indications whatever of intolerance towards minorities. Their Government was the most tolerant of the Balkan countries. Beginning in 1935 he saw the first signs of evidence of the poison introduced by the Nazis. The persecutions began. In January 1941 the first laws against the Jews were introduced. They deprived the Jews of any privileges and appropriated twenty-five per cent of their property. In August 1942 Jews were deprived of all their property and not permitted to engage in any business whatever. They were obliged to turn over all their cash to the National Bank. Their property was confiscated. Those of the wealthier class who held shares were able to sell them from which twelve per cent was cut into a special blocked fund in the National Bank. For those Jews who had some funds each person was permitted 1,000 levs or about 10.00 per month and a maximum of 60.00 per month per family. People could not sell their apartments or houses which were eventually confiscated. They could sell their furniture and household belongings.

From this mechanism they have been somehow able to eke out a bare existence although they are now wearing down to the thin edge. Some have secreted money through generous Bulgarian friends.

Dr. Black is told by those few who are now coming out of Bulgaria that the poorer people are now in a bad condition being fed from soup kitchens, etc. and unless they are able to leave by next winter many will starve.

The present Bulgarian Government is entirely dominated by the Nazis. This Government has acted outrageously in not trying some means of resisting the Nazi orders against the Jews. The Hungarians and Rumanians, for example, have both been more lenient than the Bulgarians in their treatment of the Jews. The Bulgarian people generally, however, are not anti-Semitic. Anti-Semitism is strongest among the officials, among officers and super-patriots. The peasantry are not anti-Semitic at all.

Visas

No one can leave Bulgaria without first having secured a Turkish visa. Having done so they then apply to the Bulgarian Government for exit visa. There are not enough Turkish visas for those who possibly could secure Bulgarian visas, although it is not said by any means that the 45,000 Jews in Bulgaria would necessarily

- 2 -

be permitted to leave if they receive Turkish visas. There are about ten a week now coming through. This number could easily be fifty a week.

The only method of evacuation is by railroad and transportation is necessarily difficult through Turkey. It would be possible to evacuate larger numbers if a boat could be sent to Bourgas, and it is possible that the evacuees could get to Bourgas. Varna, the other coastal city is now a German military zone.

Istanbul, February 28, 1944.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Habana
TO: Secretary of State, Washington
DATED: February 28, 1944
NUMBER: 207

CONFIDENTIAL

Reference is made to the Department's 174, February 26 and my airgram A-364, February 19, 3:45 p.m.

The Minister of the Treasury confidentially informed Nufer yesterday at Nicaro that he expected the proposed decree to be changed on reutrn of the President and the Prime Minister to Habana this week, in which event I hope this may ~~mean~~ abandonment of the project.

BRADEN

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Cairo
TO: Secretary of State, Washington
DATED: February 28, 1944
NUMBER: 61 - GREEK SERIES

SECRET

You are informed that the Foreign Office advises receipt from others through neutral country of "warm recommendation" that bombing of railway stations of Larissa and Rouf in Athens be avoided because of large number of women and children refugees from last raid on Pireaus who have concentrated around these districts. The attention of Commanding General USAFIME has been brought to the foregoing information.

The above message repeated to Algiers for the information ~~of~~ our Mission there.

MACVEACH

BE-384

PLAIN

London

Dated February 28, 1944

Rec'd 8 a.m.

Secretary of State

Washington

U.S. URGENT
1597, Twenty-eighth

By way of urgent reminder Embassy desires to state that reply from Department on two points is necessary to reach us by twenty-ninth if to be of use in preparing for parliamentary debate Wednesday morning on Inter-Governmental committee on refugees.

One. As requested in Embassy's 1393 eighteenth final paragraph consent is requested to statement premised on approval of holding of plenary meeting. Director has approval from Argentine, Brazil, Netherlands representatives expects French approval and urgently desires ours.

Two. Regarding the understanding requested in Embassy's 1554 twenty-fifth penultimate paragraph Foreign Office urgently desires expression of approval.

WINANT

RR

MM-67

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (SC-00)

Madrid

Dated February 28, 1944

Rec'd 3:32 a. m., March 1st.

Secretary of State,
Washington.

683, February 28, 6 p. m. (SECTION ONE)

Proposals for war refugee board outlined in Department's 463, February 18, midnight, raise two separate questions, first that of evacuation of stateless and unprotected refugees now in Spain, and secondly that of the facilitation of passage of further numbers of such refugees into or through Spain from German occupied territories.

(1) With reference to first question there are now estimated to be in Spain approximately 1500 refugees who might be classified as stateless and unprotected. Of this number about 400 are Spanish Sephardic Jews who have recently been brought to Spain from German concentration camps under agreement between Spanish and German governments for evacuating elsewhere but whose travel to further destinations has not yet been arranged; it is expected that considerable number of these persons will apply for admission to Fedhala center. Another 450 have already applied for evacuation to Fedhala

-2- #683, February 28, 6 p. m. (SECTION ONE) from Madrid to Fedhala and estimated 250 have received or will soon receive visas for other destinations principally Canada. Most of remaining 200 prefer to remain in Spain for one of following reasons: (a) to be near families still in German occupied countries; (b) to await visas for destinations to which they cannot at present time proceed; (c) because of feeling based on distrust of the French, that they will be better off in Spain than at Fedhala and inability to proceed to any other destination.

Response of refugees to offer of evacuation to Fedhala center (*) rests due largely to this distrust and to fear that Lyautey will turn out to be French concentration Camps under instructions from Department we have attempted no means of persuasion beyond acquainting them with nature and conditions of proposed project. French authorities have moreover insisted on subjecting all applications to detailed scrutiny at Algiers and Rabat before allowing persons to proceed from Spain and present indications are that considerable numbers may be turned down on security and other grounds. It appears therefore that under present circumstances this project may not prove solution of problem of clearing residue of stateless refugees

-3- #683, February 28, 6 p. m. (SECTION ONE) from Madrid

refugees out of sea in and that there will remain question of destinations for those who either do not choose to accept this offer of evacuation or who are not considered acceptable by French and Allied authorities. (In this connection I should appreciate clarification of meaning of "involuntary" removal of refugees from Spain). It may be mentioned with reference Department's 512 February 24 that present delay in completing arrangements for departure of refugees for Fedhala is due principally to above mentioned requirement that applications be submitted to North Africa for prior approval.

HAYES

WSE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Madrid
 TO: Secretary of State, Washington
 DATED: February 28, 1944
 NUMBER: 683

CONFIDENTIAL

SECTION TWO.

Stateless refugees in Spain, as previously reported, are at present being well cared for by private American charitable organizations represented by David Eichenstaff, who has also been instrumental in arranging during the past year the evacuation of approximately 900 such refugees. At present the number of stateless and unprotected refugees entering Spain is negligible.

(2) It should be pointed out in reference to the problem of facilitating escape of additional numbers of refugees from German occupied territory into Spain that reduced rate at which Spanish border control, but is considered due rather than to difficulties of reaching the Pyrenees frontier from points within occupied Europe.

Virtually no refugees of this type, so far as is known, have been prevented from entering Spain by Spanish border control or turned back by them to German authorities and by encouraging a further relaxation of this control there would appear to be little advantage gained. On the contrary there are definite arguments against such relaxation principally that it would facilitate the undetected entry of German agents into Spain at a time when one of our major objectives is to rid Spain of such agents and would render increasingly difficult the control of smuggling activities, which directly impairs our preemptive purchase program. Moreover, it would give to the Spanish authorities convenient excuse for closing their eyes to such of these activities as they might wish to let pass without notice.

It is considered by me to be unnecessary to suggest to the Spanish Government that it facilitate spread of information to German occupied areas that Spain is prepared to grant asylum to refugees in view of the fact that any changes in Spanish policy toward refuge (*) throughout occupied Europe by means of underground grapevines almost as soon as they are known in Spain. Moreover, it can hardly be denied that a broadcast offer by the Spanish Government of asylum to persons fleeing from German authorities would have political implications over and above its primary humanitarian purpose and it is not illogical to suppose that one of primary results of such a step would be immediate tightening of German border con-

-2-

trol along the Pyrenees and increased surveillance over routes leading toward that frontier, a development which could seriously jeopardize the chances of escape of American and Allied air force personnel forced to land in German held territory and make escape more difficult than before for all refugees.

NAFCS

(*) Apparent omission

CORRECTION

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, MADRID
TO: Secretary of State, Washington
DATED: February 28, 1944
NUMBER: 683

In section two of this message, page two line thirteen, delete "refuge (*)" and insert "refugees are known." The line should then read "Spanish policy toward refugees are known throughout occupied Europe."

TA-415

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (SC-00)

Madrid

Dated February 28, 1944

Rec'd 11:44 p.m., March 1

Secretary of State

Washington

683, February 28, 6 p.m. (SECTION THREE)

It is my feeling that Spanish Government could best expedite release of refugees from German controlled areas of Europe by directly approaching German Government with offer to grant transit or temporary residence visas to refugees wishing to leave those areas in much the same way that it has recently effected release of above mentioned Sephardic Jews the ultimate destinations for such refugees to be arranged by the War Refugee Board or other such organization. It should be emphasized, however, that sympathetic consideration of Spanish Government to such a proposal can hardly be expected until there is found more adequate solution to problem of destinations for these refugees than provided by Fedhala project in order that effective evacuation of stateless refugees still in Spain can be expeditiously accomplished and assurances given Spanish Government that all refugees admitted to Spain in future under such an arrangement would be removed without delay to further destinations. This would necessarily involve postponement of screening of refugees until after their departure from Spain although it is appreciated that adequate measures would have to be taken at some later point to sift out agents which Germans would be certain, as in the past, to plant among them.

I have no idea as to what reaction of Spanish Government would be to such a proposal or how successful it would be should it agree to take up matter with German Government. In view of fact that principle obstacles to escape of refugees from German held territory appear to lie within that territory rather than at the Spanish frontier, however, I feel that this approach would come closer to heart of the problem.

I am, for the present, making no approaches to Spanish Government on subject of department's telegram pending consideration of points raised herein. I may say in this connection that it is still my opinion that present political and economic crisis with Spain is apt to have adverse effect on receptivity of Spanish Government even to proposals of purely humanitarian character.

Repeated to London and Lisbon and by pouch to Algiers.

HAYES

EDA

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: February 28, 1944
NUMBER: 1183

CONFIDENTIAL

Given below is the substance of a message received pr's (Legation's telegram February 10, No. 824), in reply to representations in Legation's note to Political Department dated February 9:

As His Majesty's Legation was informed by the Political Department, if Switzerland does not relieve children war victims on a larger scale, it is not because it hesitates to sacrifice part of its resources; but because on one hand convoys of children no longer arrive in Switzerland, on other hand because of limited effect and complications of local distribution of relief, Switzerland could take tens of thousands of children at a time using supplies from its own stocks. Switzerland would gladly do so. As it is known, the Swiss people are again impatient to receive children. Federal authorities having the same desire have unceasingly tried to overcome difficulties which prevented convoys of children from coming to Switzerland for more than a year.

The Political Department is happy to note that
British and

-2-

British and American Governments would be disposed to grant facilities for additional imports of clothing and foodstuffs and thus ease part of the burden if Switzerland were in a position to take more children than its means afford.

The Political Department also hastens to add that the Swiss delegation which has just arrived for economic negotiations in London will not fail to probe with competent British authorities into different aspects of question dealt with in Legation's note of February 9 in order to take up under conditions most favorable to success the high humanitarian endeavor which everyone wishes to bring to a good end.

(The foregoing message has also been repeated by British Legation which has telegraphed summary to London for their information.)

HARRISON

FOREIGN ECONOMIC ADMINISTRATION

Washington 25, D. C.

C
O
P
Y

February 28, 1944

Mr. J. E. DuBois, Jr.
Room 172
Treasury Department
Washington 25, D. C.

Dear Joe:

Thank you for the cable to Steinhardt
and Hirschmann about the S.S. Vatan.

I will appreciate it if you will keep
me informed about this, including the terms of
the charter if it is effectuated.

Sincerely yours,

(Signed) Oscar Cox

General Counsel

cc - Miss Chauncey (for the Secretary), Mr. Paul,
Mr. White, Mr. Gaston, Mr. Pehle, Mr. Luxford,
Mr. E. M. Bernstein, Mr. Friedman, Mr. Lesser,
Miss Hodel, Mr. Stewart, Mr. Pollack, and
Miss Laughlin.

OFFICE
SECRETARY OF TREASURY

1944 FEB 28 10 53

TREASURY DEPARTMENT

NOT TO BE RE-TRANSMITTEDCOPY NO. 12BRITISH MOST SECRET
S. SECRET
OTEL No. 67

Information received up to 10 A.M., 28th February, 1944.

1. NAVAL

On 25th/26th E-boats operating off EAST ANGLIA near a southbound convoy were driven off by one of H.M. Destroyers which damaged one of them.

On 26th/27th our coastal forces attacked a small coastal convoy off JERSEY and probably sank a trawler. One of H.M. Sloops sank yesterday while in tow. There are only 16 survivors from one of H.M. Destroyers.

MEDITERRANEAN. On 26th very heavy swell prevented Liberty ships working but discharge at ANZIO continued on reduced scale. A U.S. Tank Landing Ship ran aground off PONZA and is a total loss. Five ratings and 9 German prisoners missing. 156 survivors reported from one of H.M. Destroyers. KORCULA bombarded by our destroyers yesterday morning.

2. MILITARY

ITALY. To noon 27th. In beachhead German attempt to infiltrate into U.S. line east of ANZIO Road checked by artillery. West of road two British battalions successfully attacked and captured some houses organised and held as strong points.

February 29, 1944

MEMORANDUM FOR THE SECRETARY'S DIARY:

About 3:45 P. M. of the afternoon of February 15, 1944 Ben Cohen called me and asked to read over the telephone to my secretary a part of the President's message which Justice Byrnes wanted us to check. This was done, and my secretary wrote what had been read to her over the telephone. A copy of this part of the President's message is attached as Exhibit A.

It was obvious to me on reading this draft that extensive corrections had to be made. Paragraph (a) was stated very inaccurately. Paragraph (b) listed some minerals which the Treasury had agreed called for some favored treatment on the basis of representations of the War Production Board. Paragraph (c) limited itself to selective logging, which was inaccurate.

I re-dictated this entire list of special privileges as fast as possible and secured a check on my re-written statement from Mr. Blough and Mr. Wales of Surrey's office. Ben Cohen then called me again, being in a hurry for these corrections. I took them practically off the machine and rushed over to Ben's office, not wanting to trust the speed of a messenger.

I went into Ben Cohen's office when I arrived at the White House and he went over the list. I briefly explained my corrections. Ben then showed me a rough draft of the President's message. I had just about time to glance through this draft as you may imagine from the fact that I left the Treasury at 4:15 and returned at 4:35. The message sounded good to me and Ben said it sounded good to him. I remember that Ben made a remark that the President did better sometimes when he did not accept drafts from other people.

At that point, and before I had time to do anything but turn the pages of the President's draft very swiftly, Justice

Byrnes rushed into Ben Cohen's room in a hurry to get to the President. I tried to explain my changes to him but he was in such a hurry that he said "Oh, I'll take your draft". This, apparently, he did, for the President's final message used almost the exact language of my copy. The only exception was the last line of paragraph (c), wherein I had said: "As a grower and seller of timber, I can certify to you that this measure is wholly without justification". The President's final message stated: "As a grower and seller of timber, I think that timber should be treated as a crop and therefore as income when it is sold. This would encourage reforestation".

I think I said something generally to Byrnes to the effect that the message sounded good and he expressed himself similarly. However, I had practically no time for any discussion, as Byrnes was literally on his way to the President when I talked with him. The principal thing he asked me was whether there had been over one-third vote on the conference report in the House and I told him there had been only 101 votes, which was less than one-third of those present. I also said that this vote, however, was not in any way organized, but was merely spontaneous.

When I came back to the Treasury, I told Herbert Gaston and Dan Bell that I had seen the President's draft message and recalled to them as many phrases as I could remember from my hasty reading. I particularly remembered that I told them the "needy" and "greedy" line and the "thesaurus" line, and also the general idea that Congress was at fault for the complicated returns and not the Treasury. I remembered the use of the expression "enrich the Treasury", which I said troubled me. I also told them what I had done about the technical part of the message as explained. A copy of this draft had been handed by my secretary to Dan Bell's secretary while I was at the White House. There was no time, of course, to clear any exact language further than I did.

Act

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Exhibit A

Among these special privileges are:

(a) Permission for corporate bondholders who acquire stock interests in corporations reorganized in bankruptcy to acquire the basis of previous stockholders for recognition of gain or loss. This privilege is granted despite the fact that, in many cases, these bonds are purchased by speculators at far less than their face value, and also for the very purpose of minimizing tax liabilities.

(b) Percentage depletion allowances, questionable in any case, are now extended to such minerals as flak graphite, vermiculite, potash, beryl, feldspar, mica, talc, lepidolite, barite and spodumene. In the case of some of these minerals the War Production Board refused to certify that their production was essential to the war effort.

(c) The lumber industry is permitted to treat income from the cutting of timber, including selective logging, as a capital gain rather than annual income. As a grower and seller of timber, I can certify to you that this measure is wholly without justification.

(d) Natural gas pipelines are exempted from the excess profits tax without justification and in a manner which might

well lead oil companies to request similar treatment for their pipelines.

(e) Wasn't sure about it going in.

Commercial airlines are granted an unjustifiable extension of the tax subsidy on their airmail contracts.

2.

As Corrected

Among these special privileges are:

(a) Permission for corporations reorganized in bankruptcy to retain the high excess profits credit and depreciation basis attributable to the contributions of stockholders who are usually eliminated in the reorganization. This privilege inures to the benefit of bondholders who, in many cases, have purchased their bonds in the speculative market for far less than their face value. It may open the door to further windfall profits in this market because of the undeserved benefit received by reorganized corporations.

(b) Percentage depletion allowances, questionable in any case, are now extended to such minerals as vermiculite, potash, feldspar, mica, talc, lepidolite, barite and spodumene. In the case of some of these minerals the War Production Board refused to certify that current output was inadequate for war needs.

(c) The lumber industry is permitted to treat income from the cutting of timber, including selective logging, as a capital gain rather than annual income. As a grower and seller of timber, I can certify to you that this measure is wholly without justification.

(d) Natural gas pipelines are exempted from the excess profits tax without justification and in a manner which might well lead oil companies to request similar treatment for their pipelines.

(e) Commercial airlines are granted an unjustifiable extension of the tax subsidy on their airmail contracts.

TREASURY DEPARTMENT

WASHINGTON

FEB 29 1944



Dear Mr. President:

About \$2,450,000,000 of Treasury notes and Treasury bonds mature or become due for payment pursuant to a call for redemption between now and June 15, and about \$2,280,000,000 of fully-guaranteed bonds and notes of the Federal Farm Mortgage Corporation, Reconstruction Finance Corporation and Home Owners' Loan Corporation mature or will be called for payment during the same period.

Subject to your approval, and under authority of the Second Liberty Bond Act, as amended, I propose to offer the holders of these securities, other than commercial banks, involving seven different issues in an aggregate amount of \$4,730,000,000, an opportunity to exchange them for additional amounts of the 2-1/2 percent Treasury Bonds of 1965-70 and the 2-1/4 percent Treasury Bonds of 1956-59 which were sold during the Fourth War Loan Drive, and a new issue of four and one-half year, 1-1/2 percent Treasury notes. Commercial banks will be permitted to exchange their own holdings for the new notes, but not for the bonds, which are restricted as to commercial bank holdings.

The authorizing act provides that bonds and notes may be issued only with the approval of the President. Accordingly, I trust that the proposed issues will meet with your approval. It is my intention to make public announcement of the offering on Thursday, March 2.

Faithfully yours,

Dwight D. Bill
Acting Secretary of the Treasury.

The President,

The White House.



APPROVED: March 2, 1944

Franklin D. Roosevelt

Supreme Headquarters
ALLIED EXPEDITIONARY FORCE
Office of the Chief of Staff

29 February, 1944

Dear Mr. Secretary: -

It was very kind and thoughtful of you to write to me about my promotion and to say that it was deserved. Actually it is really an accident of location, but I value it none the less on that account.

It was a great pleasure to have you with us in Africa and Italy and I wonder when we shall see you again. As you know, you are always most welcome.

Faithfully

B. de L. Smith



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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON - 25

February 29, 1944

OFFICE OF THE DIRECTOR

MEMORANDUM

TO: Mr. John L. Sullivan

FROM: Mr. Clifton E. Mack *CEM*

SUBJECT: Proposal by L. M. Nicolson, Director, Division of Storage, Office of Defense Transportation, February 26, 1944.
Re: Storage of Government Surplus Property.

Mr. Nicolson proposes the establishment of an Advisory Storage Committee under the direction of the Surplus War Property Administrator to be composed of representatives of the War Department, Navy Department, Army Air Forces, Maritime Commission, Treasury Procurement, Defense Plant Corporation, Office of Defense Transportation, and any new agency which might be created under the Reconstruction Finance Corporation for the liquidation of Government property. He suggests that the Advisory Storage Committee be authorized to allocate, wherever feasible and without interference in the war effort, such Government owned storage facilities as might be declared surplus by the Army, Navy or other controlling agencies and to determine impartially the use which is to be made by the Government of manufacturing plants, both government and privately owned, which might from time to time become available for storage purposes.

Certain operating and policy factors with respect to the storage problem are outlined.

The advantage of a central clearing house for the assembly of information and impartial control over the allocating of space is obvious. Since the need of storage space for Government surpluses will, to a large extent, be directly related to contract terminations and cutbacks and policies of disposal which are all subject to the authority of the Surplus War Property Administration, Mr. Nicolson's proposal, in general, is believed sound.

Joint consideration of Mr. Nicolson's plan, by the administration and Federal Agencies concerned is recommended.

Mr. Clayton's letter and Mr. Nicolson's memorandum are returned herewith.

Attachments



OFFICE OF WAR MOBILIZATION
SURPLUS WAR PROPERTY ADMINISTRATION

OFFICE OF ADMINISTRATOR

February 26, 1944

811 VERMONT AVENUE NW.
WASHINGTON 25, D. C.

By Hand
Personal

Honorable John Sullivan
Assistant Secretary of the Treasury
Washington, D. C.

Dear John:

Will you please read the attached memorandum of Mr. L. M. Nicolson, Director, Division of Storage, Office of Defense Transportation, on the storage of government surplus property and telephons me, if possible, this afternoon or tomorrow morning?

Sincerely yours,



W. L. Clayton

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
WASHINGTON, D. C.

STORAGE OF GOVERNMENT SURPLUS PROPERTY

In the strenuous days of mobilization of industry for the unprecedented production necessary for an all-out war effort, each separate governmental department and agency was compelled to forge ahead in the execution of its own program without sufficient time or opportunity to give much thought to overall planning or coordination of the combined efforts of the several governmental entities involved. Errors of omission or commission could be largely overlooked because of the vital necessity for speed.

With respect to the demobilization of industry the factor of haste is not present to the same degree, and the problems that will arise can be considered well in advance. The test of the real strength of the governmental wartime administrative machinery will lie in the ability of that machinery to reverse its motion in the task of the orderly liquidation of the wartime industrial programs and effect a return to more normal productive activity.

It must be borne in mind that while we are entering a period when the Government will find itself with surpluses of certain types of machinery, tools, and other production equipment, as well as certain raw materials and semi-fabricated or fabricated products, we do not at this time have a surplus of transportation facilities and equipment. Therefore it is absolutely essential that the storage program for the Government's surplus property be so coordinated with the necessary use of transportation facilities that there be no waste of the latter.

One of the serious problems now confronting the Government is the matter of the removal of Government owned machinery, tools, equipment and inventories of raw materials, semi-fabricated and fabricated articles from privately owned industrial plants where Government contracts are cancelled. It now appears that a very small percentage of this Government owned property can be absorbed by the industries in whose plants the property now rests.

With the cancellation of war contracts the specific questions arising with respect to each individual privately owned industrial plant are

1. What other needed war product can be produced in lieu of the articles which have been discontinued?
2. If no substitution of needed war material can be developed, will that industry be permitted by the War Production Board to resume the production of non-military products?

There is another phase of this situation which requires careful study. Even now there exists a substantial demand by Defense Plant Corporation, the Navy Department, the War Department, and the Army Air Forces for storage space suitable for housing machinery, tools and equipment which must be promptly removed from privately owned industrial plants. To further complicate matters, the Army Air Forces and the Navy Department are seeking suitable storage facilities for the housing of necessary war materiel coming off production lines.

Much as it is to be desired that the Government remove its surplus property from private industrial plants where contracts have been terminated, nevertheless it would be unfortunate if Government owned manufacturing plants, which may become available for use as storage facilities, were employed for the storage of Government surplus property when they are so badly needed for the safekeeping of currently necessary war materiel.

A comprehensive solution of these problems would seem to lie in the establishment of an Advisory Storage Committee to determine impartially the use which is to be made by the Government of manufacturing plants, both Government and privately owned, which may from time to time become available for storage purposes, and allocate such facilities for use by that department or agency which could utilize the plant to the best advantage considering all of the factors involved.

This same Advisory Storage Committee should also be authorized to allocate, wherever feasible and without interference in the war effort, such Government owned storage facilities as might be declared surplus by the Army, Navy, or other controlling agency.

Under this plan all governmental departments and agencies seeking storage facilities would be prohibited from entering into lease negotiations with the private owners of plant properties, no longer needed in the war effort, until the Advisory Storage Committee had made a definite allocation of such plant to a designated department or agency for its use for storage purposes. Such allocation would not be made until the Committee had first determined that the owner of the property was willing to entertain a proposal from the Government to lease the plant for storage of Government surplus property.

By this means the Government would prevent its own departments and agencies from competing, one with the other, for the lease of the same facility and the owner would not be harassed with proposals to lease his property before he had an opportunity to determine to his own satisfaction whether or not he could (a) secure a new Government contract for war production of some other product or (2) secure the necessary approval from the War Production Board to re-engage in peacetime manufacturing activities.

3. If the plant owner cannot engage in production of other war material or non-military products, should his plant be leased by the Government for the purpose of storing Government surplus property pending the liquidation thereof?
4. If the decision is to lease the plant for storage purposes, which department or agency that might be charged with the responsibility of the custodianship of surplus Government property should be permitted to utilize the plant for storage purposes?

In the case of industrial plants that are owned by the Government and production of war material has ceased, the questions arise

1. Should the Government retain title to the plant, if needed for use in storing Government surplus property, or should the Government sell the plant to private interests if a favorable opportunity develops, irrespective of the Government's storage needs?
2. What agency of Government should make the final decision as to what course takes the best interest of the Government with respect to the sale or continued use for storage of the plant.
3. If the decision of the Government is to retain the plant for storage purposes or if there is no immediate prospect of selling the plant, which department or agency should be permitted to utilize the plant for storage?

Any decision with respect to Question No. 4 as it applies to privately owned plants and Question No. 5 as related to Government owned plants must necessarily take into consideration the following factors:

- (1) the proximity of the storage facility to the present resting place of the Government property which must be removed to storage
- (2) if possible, determination as to what general area of the country will eventually absorb such property in the liquidation thereof, and
- (3) the type of Government property which could be stored to the best advantage in a given storage facility with due consideration to the other factors mentioned above.

The proposed Advisory Storage Committee would be set up under the direction of the Surplus War Property Administrator and be composed of representatives of the War Department, Navy Department, Army Air Force, Maritime Commission, Treasury Procurement, Defense Plant Corporation, Office of Defense Transportation, and any new agency which might be created under the Reconstruction Finance Corporation for the liquidation of Government personal property. The representatives of the Army, Army Air Force, Navy, Maritime Commission, Defense Plant Corporation and Treasury Procurement should be charged with the responsibility of keeping the Advisory Storage Committee constantly advised

- (1) of present and anticipated requirements of their respective department or agency for storage facilities to house surplus property, with detailed information as to the type, quantity and present location of such property,
- (2) when, through cancellation of existing contracts a privately owned plant facility becomes a potential storage facility, the department or agency cancelling the contract will supply the Committee with reasonably full and complete information bearing upon the adaptability of the plant for storage purposes,
- (3) of current utilization by their respective department or agency of storage facilities presently under their control,
- (4) of contemplated future cancellation of contracts that would make plant facilities available for other purposes, and
- (5) of requirements of their respective department or agency as claimants for storage facilities available for allocation by the Advisory Storage Committee.

There is presently in existence an Ocean Shipping Committee of the Army and Navy Munitions Board, comprised of representatives of the War Department, Navy Department, War Shipping Administration-Maritime Commission, and Office of Defense Transportation. This Committee now passes on all applications from any governmental agency for the acquisition of storage or other freight handling facilities in all continental port areas. Before the proposed Advisory Storage Committee would make a definite allocation of a facility to be used for storage within a port area, clearance would be obtained from the Ocean Shipping Committee, Army and Navy Munitions Board. This is necessary to maintain the proper fluidity of the port areas for overseas and import shipments.

L. M. Kloolson, Director
 Division of Storage
 Office of Defense Transportation

February 26, 1944

February 29, 1944

MEMORANDUM

TO: Mr. John L. Sullivan

FROM: Mr. Clifton E. Mack

SUBJECT: Proposal by L. M. Nicolson, Director, Division of Storage,
Office of Defense Transportation, February 26, 1944.
Re: Storage of Government Surplus Property.

Mr. Nicolson proposes the establishment of an Advisory Storage Committee under the direction of the Surplus War Property Administrator to be composed of representatives of the War Department, Navy Department, Army Air Forces, Maritime Commission, Treasury Procurement, Defense Plant Corporation, Office of Defense Transportation, and any new agency which might be created under the Reconstruction Finance Corporation for the liquidation of Government property. He suggests that the Advisory Storage Committee be authorized to allocate, wherever feasible and without interference in the war effort, such Government owned storage facilities as might be declared surplus by the Army, Navy or other controlling agencies and to determine impartially the use which is to be made by the Government of manufacturing plants, both government and privately owned, which might from time to time become available for storage purposes.

Certain operating and policy factors with respect to the storage problem are outlined.

The advantage of a central clearing house for the assembly of information and impartial control over the allocating of space is obvious. Since the need of storage space for Government surpluses will, to a large extent, be directly related to contract terminations and outbacks and policies of disposal which are all subject to the authority of the Surplus War Property Administration, Mr. Nicolson's proposal, in general, is believed sound.

Joint consideration of Mr. Nicolson's plan, by the administration and Federal Agencies concerned is recommended.

Mr. Clayton's letter and Mr. Nicolson's memorandum are returned herewith.

Attachments
JLM:af

FOREIGN ECONOMIC ADMINISTRATION
WASHINGTON 25, D. C.

February 29, 1944

MEMORANDUM

To: The Honorable Henry Morgenthau
From: John D. East
Director of Research and Reports
Subject: Executive Reports

Transmitted herewith, for your information,
are copies of the Executive Reports on lend-lease
operations, as of January 31, 1944.

CONFIDENTIAL
Executive Report No. 1

ALLOCATIONS, OBLIGATIONS AND EXPENDITURES
LEND-LEASE FUNDS APPROPRIATED TO THE PRESIDENT

Report as of Jan. 31, 1944

(Thousands of Dollars)

Appropriation Category	Adjusted Appropriations	Cumulative to January 31, 1944		
		Allocations	Obligations	Expenditures
Ordnance and Ordnance Stores	1,692,306	1,573,966	1,476,899	1,307,222
Aircraft and Aero. Material	2,679,625	2,541,034	2,477,956	2,050,244
Tanks and Other Vehicles	739,273	670,371	631,083	613,377
Watercraft	3,871,703	2,930,349	2,328,473	2,130,039
Misc. Military Equipment	354,288	323,239	294,448	248,431
Production Facilities	1,104,688	1,091,949	1,056,317	961,330
Agric. and Indust. Commodities	12,608,929	11,046,931	8,925,835	7,192,084
Serviceing, Repair of Ships, etc.	790,318	673,424	535,712	521,381
Services and Expenses	300,000	417,924	315,834	256,215
Administrative Expenses	28,999	27,048	25,285	25,046
Total	24,670,629	22,247,335	18,067,842	15,305,919

Procuring Agency	Cumulative to January 31, 1944		
	Allocations	Obligations	Expenditures
War Department	5,420,436	5,194,379	4,635,628
Navy Department	3,478,828	2,634,131	2,095,182
Maritime Commission and War Shipping Admin.	2,914,437	2,190,405	2,126,913
Treasury Department	4,602,012	3,261,384	2,493,371
Department of Agriculture	5,308,417	4,766,934	3,338,112
Other	23,202	20,059	16,213
Total	22,247,335	18,067,842	15,305,919

CONFIDENTIAL
Executive Report No. 2

STATEMENT OF LEND-LEASE AID

Report as of Jan. 31, 1944

(Thousands of Dollars)

Type of Aid	Cumulative to		Month of	
	Jan. 31, 1944	Dec. 31, 1943	January	December
Goods Transferred	18,650,262	17,436,442	1,213,320	2,300,593
Servicing, Repair of Ships, etc.	424,337	407,363	16,969	6,600
Rental of Ships, Ferrying of Aircraft, etc.	1,476,518	1,450,698	25,320	63,115
Production Facilities in U. S.	604,993	605,058	65	454
Miscellaneous Expenses	33,639	36,569	2,070	1,730
Total Services	2,594,487	2,549,693	44,794	76,989
Total Goods and Services	21,244,749	19,986,135	1,258,114	1,377,582

Data on Goods Transferred include value of goods procured from lend-lease appropriations to the President and to the War and Navy Departments.

Type of Aid	Cumulative to January 31, 1944				
	Br. Empire	China	U.S.S.R.	Other	Total
Goods Transferred	14,192,825	187,284	3,893,899	376,254	18,650,262
Servicing, Repair of Ships, etc.	287,624	1,373	67,444	66,991	424,337
Rental of Ships Ferrying of Aircraft, etc.	1,103,318	12,400	107,209	163,591	1,476,518
Production Facilities in U. S.	-	-	-	-	604,993
Miscellaneous Expenses	51,752	1,191	2,470	33,220	33,639
Total Goods and Services	-	-	-	-	21,244,749

CONFIDENTIAL
Executive Report No. 3

LEND-LEASE GOODS TRANSFERRED

Report as of Jan. 31, 1944

(Thousands of Dollars)

	Cumulative to January 31, 1944				
	Br. Empire	China	U.S.S.R.	Other	Total
Ordnance (Excl. Ammunition)	607,774	15,610	210,581	16,368	850,333
Ammunition and Components	1,273,125	22,204	363,431	27,694	1,686,504
Aircraft	1,502,257	65,053	641,619	92,619	2,301,553
Aircraft Engines, Parts, etc.	1,153,766	23,339	202,239	22,010	1,406,404
Tanks and Parts	1,635,538	923	360,891	28,463	2,075,815
Motor Vehicles and Parts	447,927	25,545	433,596	17,429	971,557
Watercraft and Parts	1,393,755	4,247	170,606	64,131	2,232,739
Foods	1,320,924	40	332,202	12,737	2,215,903
Other Agric. Products	450,119	41	6,295	56	456,511
Machinery	537,938	4,376	387,174	7,382	977,370
Metals	734,315	11,043	294,120	19,374	1,058,352
Petroleum Products	742,811	2,571	33,685	320	779,387
Miscellaneous Materials and Manufactures	1,232,576	11,787	375,360	67,611	1,687,334
Total	14,192,325	137,234	3,313,399	376,254	18,650,262



TREASURY DEPARTMENT
 PROCUREMENT DIVISION
 WASHINGTON 25

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OFFICE OF THE DIRECTOR

~~SECRET~~

February 26, 1944

MEMORANDUM TO THE SECRETARY:

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

Requisitions have been received and purchases are being made for 27,000 dozen hand sickles and 1,500 dozen scythes for the harvesting of grain in North Africa.

Cliff. Mack
 Clifton A. Mack
 Director of Procurement

SECRET

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF FEBRUARY 23, 1944
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$4683.3 (4683.3)	\$2288.7 (2288.7)	\$1877.3 (1877.3)	\$113.9 (113.9)	\$11.0 (11.0)	\$392.4 (392.4)
Purchase Authoriza- tions (Requisitions)	\$3507.0 (3495.7)	\$1819.5 (1810.8)	\$1388.1 (1388.1)	\$45.0 (44.7)	-	\$254.4 (251.1)
Requisitions Cleared for Purchase	\$3455.8 (3435.5)	\$1792.6 (1780.8)	\$1370.8 (1366.1)	\$44.4 (44.0)	-	\$248.0 (244.6)
Obligations (Purchases)	\$3323.5 (3301.9)	\$1762.3 (1750.4)	\$1338.3 (1332.6)	\$44.0 (43.9)	\$10.1 (10.0)	\$168.8 (165.0)
Deliveries to Foreign Governments at U. S. Ports*	\$1709.4 (1698.7)	\$1152.2 (1146.8)	\$505.6 (500.4)	\$21.4 (21.4)	-	\$30.2 (30.1)

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

Note: Figures in parentheses are those shown on report of February 16, 1944.

SECRET

EXPLANATION OF DIFFERENCE

The decrease in Purchase Authorizations for Russia is a result of adjustment of requisitions to actual contracts.

THE WHITE HOUSE
WASHINGTON

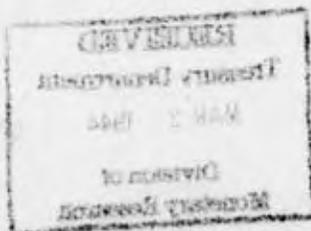
February 29, 1944.

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY

Referring to your letter of February twenty-first, relating to use of currency of exiled governments for military operations, I have talked with Mr. Stettinius about this and I think the position taken by the Treasury Department is the right one.

F. D. R.



AIRGRAM SENT

HML

February 23, 1941
7:30 p.m.

CIRCULAR AIRGRAM TO BE SENT TO ALL AMERICAN MISSIONS

EXCEPT

LONDON, CIUDAD TRUJILLO, SAN SALVADOR,
PORT-AU-PRINCE, TECUCIGALPA, LA PAZ, and BUENOS AIRES.

The following airgram is sent at the request of the President's War Refugee Board:

Refer to Department's cable of January 23 concerning the President's Executive Order establishing the War Refugee Board and declaring the policy of this Government.

In discussing this matter with the Foreign Office of the government to which you are accredited, you are requested to make it clear that the establishment of the War Refugee Board represents this Government's determination effectively to carry out without delay the policy to take all possible measures for the speedy rescue and relief of the refugees of Europe.

Although this Government on its part intends to take all possible action with all possible speed we feel certain that this effort will not be unilateral and we wish to make it clear that it continues to be the policy of this Government to encourage and participate in effective cooperative efforts with other governments.

As the President has stated, the Board of course will cooperate fully with all interested international organizations.

You are requested to make clear to the government to which you are accredited the position of this Government and our desire for its cooperative action. You should explore with the appropriate officials of the Foreign Office the possibility of implementing such cooperation through the issuance by their Government of a declaration of policy similar to that made by the President and the issuance by the Foreign Office of instructions to its representatives in other countries comparable to the instructions contained in the Department's telegram of January 25.

Please keep us informed on this matter.

STETTINUS
(Acting)

WBA:GLW:KG

EHR

ER

SWP

U

FORM 877-D

AMJ - 991

PLAIN

Algiers

Dated February 29, 1944

Rec'd 10:10 p.m.

Secretary of State,

Washington.

658, twenty-ninth.

FOR MORGENTHAU AND WAR REFUGEE BOARD, FROM HOFFMAN
AND ACKERMANN.

Reference is made to telegrams numbers 612 and 613.
Hoffman and Ackermann are in agreement therewith. Ackermann
making arrangements to confer with UNRRA representatives
and other relief organizations in this area. Would
appreciate further information as to relation of
Ackermann's functions with other organizations particularly
Inter-Governmental Committee.

CHEPIN

EDA

TELEGRAM SENT

RP

PLAIN

X

February 29, 1944 X

U.S. URGENT

AMERICAN EMBASSY

LONDON.

1503, Twenty-ninth

Refer to your 1554 of February 25 with respect to anticipated debate in the House of Commons on the refugee problem.

As previously stated, it is the policy of this Government to encourage and participate in effective cooperative efforts with other governments in taking all possible measures for the speedy rescue and relief of the Jews of Europe and other victims of Hitler's persecution. This Government hopes and believes that its actions in this matter will not be unilateral and that the British Government will actively cooperate in concrete measures designed to carry out this policy.

We agree that it would be unfortunate if this Government and the British Government should drift apart in refugee policy. We hope such will not be the case. Whether this will happen is not of course dependent as much upon the expressions of policy

made

X

-2-1503, February 29th, to London

made by each government as it is upon the actual steps which are taken by each government to put these policies into effect.

Although the War Refugee Board has been in existence only a few weeks a number of concrete measures have been initiated for the purpose of carrying out without delay the policy announced by the President. The Board is now preparing for your information and for submission to the British Government a detailed statement of the action already taken and of the programs initiated to rescue and bring relief to war refugees. We feel that the Foreign Office should know, before making its proposed reply in Parliament, that the Board has under consideration various additional steps of which we hope to apprise it in the near future. The British Government will then be in a better position to judge the actual significance of the policy of this Government and to determine the steps it is prepared to take to carry out a similar policy.

The War Refugee Board has no objection in principle
to

X

-3-#1503, February 29th, to London

to a plenary meeting of the Intergovernmental Committee, but has not definitely formulated its views on future actions which may be requested of the Committee.

The War Refugee Board is pleased to be informed that the British Foreign Office has instructed all of its missions abroad to consult with United States diplomatic and consular representatives with a view to cooperative action.

STETINIUS
(Acting)
(GLW)

WRB:GLW:MS
2-29-44

BC

EH

U

COPY

193

GAR-913

PLAIN

London

Dated February 29, 1944

Rec'd 7 p.m.

Secretary of State

Washington

1655, 29th

As prelude to the forthcoming House Commons debate on Intergovernmental Committee and following up earlier editorials today's MANCHESTER GUARDIAN has editorial on refugee situation ending as follows:

"Successful effort demands as it has always demanded the use of men, money, time, energy personally directed with adequate authority to the work of rescue. This is what the American Government announces it is going to provide. It is what we are not providing but could still do if we chose. The ponderous Intergovernmental Committee will never by itself do what is needed."

WINANT

EJH

Mr. John C. ... 194

*

IG-1

PLAIN

London

Dated February 12, 1944

Rec'd 9:18 p.m.

Secretary of State,
Washington.

1222, Twelfth.

FOR SECRETARY OF THE TREASURY AND THE WAR REFUGEE
BOARD FROM CASADAY.

Since February 1 the MANCHESTER GUARDIAN has devoted three editorials to the War Refugee Board and its program. The first two were brief, owing presumably to lack of specific information but all have been strongly favorable to the Board's objectives and have urged the establishing of a similar board here. Quoted below are excerpts from a lengthy editorial in today's GUARDIAN: "The United Nations have never in the last eighteen months faced the refugee problem boldly. The refugees from Axis, and especially Hitler's, persecution are of all peoples and all kinds, but the great majority are Jews, and one says eighteen months because that is roughly the period during which the policy

-2- 1222, Twelfth, from London

policy of 'extermination' has been practised, as it still is, with the full knowledge of all of us. If there have been one or two slight signs that here and there the full fury of the terror has recently been abated it is nevertheless true that in general it is being carried out with the old ferocity. In Denmark and in France for instance children between the ages of two and twelve have been seized, herded together, and deported to the 'unknown destinations' which almost certainly mean death. It is now fourteen months since the House of Commons stood in silence to show its condemnation of such horrors. But apart from very slight changes in our own immigration rules and some slight and unspecified efforts in neutral countries all that has been done is to hand over the work of rescue and relief to the Intergovernmental Committee in London. This body, consisting of a large number of governments and not even yet fully constituted, is little likely to get at the insistent, practical work that is needed, however able and willing may be its officials. The main responsibility must necessarily
be with

-3- 1222, Twelfth, from London

be with Britain and the United States. To rely on this antiquated machine, crawling and creaking its slow way along, is to show that we have never recognized this to be an urgent problem, though urgency is its essence.

At this moment President Roosevelt has taken a step which holds out the promise of that sort of practical action which has hitherto been largely lacking. By executive order, whose text is now available, he has established a war refugee board consisting of the Secretary of State (Mr. Hull), the Secretary of the Treasury (Mr. Morgenthau), and the Secretary of War (Mr. Stimson)."

After summarizing the main provisions of the executive order the editorial continues: "Even this bare summary proves that, to say the least, the scheme provides precisely the machinery that has all along been needed. It is said that Mr. Roosevelt was moved to act by the information reaching him that little was in fact being attempted. Public opinion in the United States will now expect results. Public opinion in this country should not be satisfied with less workmanlike machinery or with smaller results.

The Intergovernmental

-4- 1222, Twelfth, from London

The Intergovernmental Committee and UNRRR. will proceed in their leisurely way with plans for eventual remedies. These are of great importance, but we have done wrong in assuming, as the British and American Governments have hitherto assumed, that next to nothing can be done for immediate measures of rescue and relief. The American Government has clearly abandoned that defeatist, timid view, and we should follow suit. We should establish the same sort of working machine. We should lend our aid by appointing a general director here and special officials abroad, by setting up temporary camps, by encouraging the border countries through assistance and also through example, and by more freely opening our own country, since about the admission of refugees we remain obstinately and discredibly mean. It is never possible to say much openly about what is being done, or may be done, in neutral countries lest the German spite discharges yet more poison, but one has only to mention what Sweden has done for Norwegian refugees and for the Danish Jews to realise how much more an energetic

-5- 1222, Twelfth, from London

energetic British-American policy could still accomplish. The Turks also should be stimulated to understand that their ally Britain expects them to encourage the escape of Balkan refugees over their borders, and every effort should be made to explain to the now hesitant satellites how carefully their conduct in this question is being watched. There is one other contribution we can make. We should announce that Palestine cannot and will not be shut to refugees after the present limit for immigrants is reached. No single one of these expedients will do much in itself, but practised all together they would reduce the sum of misery."

WILMANT

WWC

TELEGRAM SENT

February 29, 1944

AMJ

PLAIN

War Refugee Board

AMLEGATION,

LISBON.
618, twenty-ninth.

Please transmit the following message to Dr. Joseph Schwarz, Lisbon, from J. W. Pehle, Acting Executive Director, War Refugee Board.

QUOTE I would appreciate receiving directly from you any information available to you concerning possible programs and the implementation of measures for the rescue, transportation, maintenance and relief of refugees. In reporting to me please emphasize in detail the obstacles to such programs and any suggestions you may have with respect thereto. Please cable me through the United States Embassy at Lisbon. UNQUOTE

STETTINIUS
ACTING
()WRB:GLW:KG
2/25/44

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COPYI N C O M I N G C A B L EL I S B O N

1344

RECEIVED AND STENCILLED
FEB. 29, 1944

FA30 XVX PGK502 LISBOA VIA ROA 69 24 1710
LC LEAVITT
JOINT DISTRIBUTION COMMITTEE
270 MADISON AVENUE
NEW YORK

299 NEGOTIATIONS FOR TRANSPORTATION 5000 CHILDREN ESCORTS TRANSNISTRIA
NOW MORE FAVORABLE BUT MAY COST APPROXIMATELY THREE HUNDRED DOLLARS
EACH STOP ASCERTAINING FROM REUBEN RESNIK AND CHAIM BARLAS
ISTANBUL WHETHER THEY CAN ACTUALLY BE MOVED AND ALL OTHER
DETAILS STOP IF EVERYTHING SATISFACTORY THEIR END MAY WE PROCEED
STOP NATURALLY WILL HOLD OUT FOR LOWEST POSSIBLE PRICE STOP
IMMEDIATE REPLY URGENT

JOSEPH SCHWARTZ

cc: Miss Chauncey, Miss Hodel, Messrs. Luxford, DuBois, Friedman,
Lesser, Stewart, E.M. Bernstein, Gaston, White, Paul, Pollak

February 29, 1944

To: Mr. Warren
From: J. W. Pehle

Please transmit the attached cable from the War Refugee Board to Ambassador Steinhardt and Hirschmann, Ankara, Turkey.

(Signed) J. W. Pehle

JWP:mgt 2/29/44

CABLE TO STEINHARDT AND HIRSCHMANN, ANKARA, TURKEY.
FROM WAR REFUGEE BOARD.

Refer your 344 of February 26 greatly encouraged your news on transportation Jewish refugee children from Bulgaria to Palestine via Turkey. Congratulations and keep up the good work. Trust this is only the beginning.

CM-202

This telegram must be paraphrased before being communicated to anyone other than a Government agency. (BR)

Ankara

Dated February 26, 1944

Rec'd 8:30 p.m.

Secretary of State,

Washington.

344, February 26, 5 p.m.

FOR THE WAR REFUGEE BOARD FROM HIRSCHMANN

Since telegraphing you last we have broken the bottleneck for the land transport of Jewish refugee children from Bulgaria to Palestine via Turkey.

The Turkish authorities have today given assurances that Jewish refugee children will be transmitted through Turkey at the rate of 150 every ten days beginning next week.

STEINHARDT

NPL

February 29, 1944

TO: Mr. Stettinius

FROM: Mr. Pehle

Attention: Mr. Warren

Attached is a cable to Ambassador Harriman in Moscow from the War Refugee Board designed to secure if possible the cooperation of the Russian Government in some of the projects on which this Government is working to rescue the Jewish people of Europe and other victims of enemy persecution.

We feel that it is important that this cable be dispatched as soon as possible. The cable should also be repeated to Ambassador Steinhardt in Ankara for his information and the information of Hirschmann.

(Signed) J.W. Pehle

Attachment.

JEDuBois:ecr
2/29/44

CABLE TO AMBASSADOR HARRIMAN, MOSCOW.

TO HARRIMAN FROM THE WAR REFUGEE BOARD.

Our circular airgram of January 26 described the functions of the War Refugee Board, composed of the Secretaries of State, Treasury and War. This Board has been established by the President to take action for the immediate rescue and relief of the Jewish people of Europe and other victims of enemy persecution.

The Board is actively engaged in carrying out the policy of this Government as announced by the President, and is seeking the cooperation of all members of the United Nations in this tremendous task.

The Board is fully conscious of the great work which the Russian Government has done to date in saving the lives of untold numbers of refugees, including Jews, from Hitler who were rescued in the midst of battle from the jaws of the German army. At the same time the Board is convinced that if it could secure the cooperation of the Russian Government in some of the projects on which this Government is working, the chances of saving many people from death would be greatly increased. In view of the outstanding record of the Russian Government in this whole matter we are not suggesting that pressure be put on them to do more than they are now doing. We feel, however, that if the Russian Government can be convinced of the fact that we are sincerely determined to do what we can to prevent the murder of the Jews and other persecuted peoples by Hitler, they may be prepared to cooperate in some of the programs which we have under consideration.

There are many ways in which the Russian Government might be of assistance in connection with these programs. The representative of the War Refugee Board in Turkey, Ira Hirschmann, at the suggestion of Ambassador Steinhardt, has already discussed two specific problems with Soviet Ambassador Vinogradov in Turkey. Vinogradov was informed of our intention to exert pressure on Bulgaria and other satellite countries and was requested to take parallel action. Vinogradov was also informed of our efforts to get the Turkish Government to give permission for the use of a ship for evacuating refugees and was asked to support our request. Although Vinogradov agreed to speak to the Bulgarian

Minister informally, he pointed out that on both of these matters he could not act formally except through Moscow. Vinogradov suggested that you should request the assistance of his Government on these two problems and he agreed to do likewise.

We feel that it is very important that you discuss this whole matter with the Russian Government immediately. You should make clear the policy of this Government and discuss frankly the problems with which we are faced.

The following information concerning some of the things we are working on and some of the obstacles we have encountered is furnished for your information and use in connection with your discussions with the Russian Government:

(1) The War Refugee Board is convinced that it is of utmost importance to undertake at once an organized and concentrated effort to make clear, by all appropriate means, to all Axis satellites that the Allied Governments view in a most serious light their assistance in any form to Hitler's program to exterminate the Jews, and other similar groups, regarding all such action as criminal participation in organized murder. The Board also believes it necessary to make clear to the satellites by all possible means, its intention to do everything in its power to rescue such unfortunates who are in danger of death, in order not only to give the satellites a clear view of the attitude of this country in the matter, but also of the opportunities which exist for assisting in the execution of our policy. The Board feels very strongly that a campaign of this kind must be made through all possible channels and be constantly repeated at every available opportunity. The Board believes that parallel action on the part of other Allied Governments would do a great deal to assure the success of this endeavor. At the moment it is important that pressure be brought to bear particularly on Rumania, Bulgaria, and Hungary, because in those areas there are many refugees in imminent danger of death who can be evacuated to Turkey and other places if those Governments permit it.

In addition to making formal representations to the governments of the satellite countries, the Board feels that there should be employed in this campaign all available means for

effecting the widest dissemination of our attitude not only to the governments themselves but to the largest number possible of the people of satellite countries. In this connection the Office of War Information is cooperating with the War Refugee Board in bringing home to the people in Germany and the satellite countries the fact that we mean business in this matter.

(2) In addition to this program designed to bring about a change in the actions and attitude of our enemies, the Board is convinced that there is a real opportunity for actually bringing many of these peoples out of German controlled territory. The Board is convinced that one of the greatest opportunities for actually rescuing such people exists in the areas adjacent to Turkey and the Black Sea. It is known that in Transnistria, Rumania and Bulgaria there are substantial numbers of refugees in imminent danger of death. It also appears that arrangements can be made with the Turkish Government to receive refugees from these areas. There are strong indications that the Rumanian Government at least will permit a substantial number of these refugees to leave Rumania. It is indispensable that means of transportation be found at once.

The Board is now trying to make arrangements for a small Turkish vessel to proceed to the Rumanian port of Constanza and evacuate approximately 1000 children to Turkey. The Board's representative in Turkey reported that the charter of the S.S. VATAN, a small Turkish ship, might be obtained if we could offer to the Turkish Government a guarantee to replace the ship if lost. This Government promptly offered such a guaranty. It is possible that the Russian Government may be of some assistance to us in our negotiations with the Turkish Government. We are also taking up with the Swedish Government the possibility of obtaining some Swedish ships for this purpose. In your discussions with the Russians you should bear in mind that this transportation problem appears to be the key to evacuations in the Black Sea areas.

(3) It is one of the functions of the Board to find places which will serve as temporary havens of refuge to which persons now in danger of death in German controlled Europe may

- 4 -

be removed. In getting the cooperation of Spain and Turkey the essential point is to make sure that we remove as soon as possible the refugees coming into these countries and transport them to other places. A camp has been set up in North Africa to which refugees from Spain are being removed in order that more refugees may enter Spain from occupied areas. Refugees coming into Turkey are at present being received into Palestine. In order to increase the flow of refugees through Spain and Turkey from occupied areas the Governments of those countries are being requested to relax border and other controls, etc. The Board is offering to arrange for financing the setting up of reception camps which would receive refugees entering those countries and would make it possible to take them on to other places as rapidly as possible.

The Board believes that if a substantial number of persons are to be evacuated it will be necessary to find at least temporary havens of refuge in many places. Accordingly, the Board is presently exploring all possibilities of this kind.

In the case of Switzerland the Swiss Government apparently is willing to accept refugee children if it can be guaranteed that such children will be removed from Switzerland after the war. Efforts are being made to satisfy Switzerland on this score.

If the Russian Government were prepared to accept immediately Jews and other war refugees who escape to neutral countries from German controlled Europe, or who could be transported from the Balkan countries across the Black Sea to Russia, and give them at least a temporary haven of refuge in Russia, the possibility of evacuating large numbers of people would be greatly increased. Also if the Russian Government were prepared to give assurances to countries like Switzerland that she would be willing to take refugees from them after the war, they might be willing to receive considerably more refugees than they are now receiving. If as a result of your discussions with the Russians it appears that they would be willing to receive such refugees at least on a temporary basis, you should of course make all efforts to secure their full cooperation.

- 5 -

As can be readily seen from the above, by virtue of the physical and time factors involved, Russia could be of tremendous assistance to us in solving some of the obstacles which we are encountering. Your prompt and personal attention to this matter will be greatly appreciated.

This cable has been repeated to Ambassador Steinhardt at Ankara.

JED:JBF:ecr
2/29/44

CONFIDENTIAL
For security reasons the
text of this message must
be completely covered.

MJB-927
This telegram must be
paraphrased before being
communicated to anyone
other than a Government
agency. (SC00)

Chungking
Dated February 29, 1944
7:07 p.m.

Secretary of State,
Washington.

DEPARTMENT OF STATE
DIVISION OF
MAR 2 1944
COMMUNICATIONS
AND RECORDS

392, February 29, 10

TO SECRETARY OF TREASURY FROM ADLER,

(1) Chungking wholesale prices. December, general 20,930, food 14,060, January 21,220 and 14,610 increases of 4,6,1 and 4 percent on November and December, respectively. Well informed circles estimate prices have gone up here since Chinese new year at end of January by at least 25%. Weekly economic.

(2) Black market rate for United States currency has risen spectacularly since first February when it was around 90 in Chungking and 110 in Kunming. On February 7 it was 130 in both places, on February 11 it rose to 170 in Chungking and to a little less in Kunming. During last week it jumped to 225 in Chungking and to between 250 and 300 in Kunming. Rupee rate has also risen roughly proportionately.

It should

-2-#392, February 29, 10 a.m., from Chungking

It should be noted that the markets for United States currency are extremely loose and that there are considerable divergencies in quotations at the same time and place. The sharp rise in black market rates is due to a combination of factors including an adjustment to sharp rise in prices since Chinese new year to longer term and consistent drop in purchasing power of fapi, rumors that Chinese Government is about to change official rate to hundred to one as a result of American pressure and that it is about to take action closing black markets and finally a substantial increase in demand due to accumulation of funds in Free China to credit of merchants in occupied China who have been increasing shipments of goods particularly dye stuffs to Free China as a result of Jap taking over stocks of cotton in Shanghai.

(3) Price of gold has also risen sharply since beginning of year. It is now over CN 20,000 per ounce in Chungking CN 25,000 per ounce in Chengtu and CN 16,000 in Kweilin and Hengyang. Market has been closed in Kunming since price hit CN 37,000. Government has already sold 50,000 ounces originally held

-3-#392, February 29, 10 a.m., from Chungking
held by Farmers Bank and over 80,000 ounces of
gold imported from United States. Am reliably
informed Ministry of Finance has decided to push
up rate of sale which has recently reached 1400
ounces per day but it still appears to err on side
of conservatism in its gold sales policy.

(4) Central Bank receipts of foreign exchange
granted "special" rate totaled sterling 1,114,000
and United States 9,445,000 form AY October 1943.
"Special" rate was increased from 30 to 40 on
January 20 and was extended to include Chinese over-
seas remittances and all foreigners personal ex-
penses.

(5) Industrial production in China continues
to decline and there is an increasing tendency to
ask Lend Lease for certain categories of unfinished
and manufactured goods previously produced in free
China owing to their exorbitant domestic cost of
production. Cotton production for 1943 higher than
in 1942 totaling 1,884,000 piculs of which government
has collected over one-fifth in land tax.

(6) Kung has replaced T. V. Soong as chairman of
board of directors of Bank of China by instructions of
Generalissimo

-4-#392, February 29, 10 a.m., from Chungking

Generalissimo; Soong remains a director. All cash purchases from United States and United Kingdom have been canalized in Central which it is rumored is to take over CDS.

(7) Dr. Kung visited Chengtu for a day on February 15 to inspect economic impact of airfield construction and to arrange for remedying shortage of notes which is holding work up. I accompanied him at his invitation. Chengtu cost of living jumped 25% in January and has risen by about the same amount in February. Since first of year price of rice and flour has risen 75 to 80% while prices of construction materials have more than trebled. United States Army officers state that shortage of CN currency cost United States an extra CN one billion in relation to construction material alone as during delay in their purchase prices went up. Shortage of currency still only partially remedied Chengtu flour mills and lumber firms either owned by or have connections with Szechuan militarists which renders price control and curtailment of profiteering even more hazardous and difficult than it usually is in China.

(8) Dr. Acheson

-5-#392, February 29, 10 a.m., from Chungking

(8) Dr. Acheson of War Department informs me that Kung has asked him to arrange for War Department to ship us 20,000,000 of United States currency to China to be used for reducing and steadying black market rates. Kung indicated he would prefer such sales of this United States currency as took place should be on joint account of China and ourselves.

(9) Chinese recently approached British with proposal that sterling 50,000,000 loan be used for selling sterling backed savings certificates in China. British have replied with counter proposal that sterling 20 million of loan be used to guarantee an internal bond issue with method by which sterling would be deposited to China's credit and rate at which would be repaid to be negotiated later that a further sterling 10,000,000 be used for same purpose if it successful and that remainder of loan be used for purchases from sterling area during the war. Negotiations are still continuing and Kung has expressed himself optimistically as to outcome.

GAUSS

WSB

215

D
Corrected page 5 of cable from Adler
#392, February 29, 1944, Chungking

CORRECTED
 DEPARTMENT OF STATE
 DIVISION OF
 COMMUNICATIONS
 AND RECORDS

-5-#392, February 29, 1944, from Chungking.

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GAUSS

WSB

HS-728

This telegram must be paraphrased before being communicated to anyone other than a Government agency. (SCOO)

Chungking

Dated February 29, 1944

DEPARTMENT OF STATE
DIVISION OF

MAR 1 1944

COMMUNICATIONS
AND RECORDS

Secretary of State

Washington

393, February 29, 11 a.m. (SECTION ONE)

TO SECRETARY TREASURY FROM ADLER

RE your 223 of February 12.

(1) According to maritime customs data China imported around 50 billion in 43 while note issue increased by about 40 billion in same period. Domestic production of notes restarted in spring of 42 and was at rate of about 18 million pieces monthly in notes of various denominations probably totalling about five billion for the year. While exact data for importation of notes in 41 and 42 are not available it is known that imports for those years were greater than actual notes released for circulation. Thus China had on hand in China at start of year a supply of about 20 billion in notes if not more. It is claimed by responsible officials that a large part of the notes on hand in China - as well as of the 8½ billion in transit in India - are notes of small denomination which it no longer

1 1944

-2- #393, February 29, 11 a.m. (SECTION ONE) from Chungking

longer pays to issue. On the other hand it is known that Central Bank has some 500 notes in hand which it is afraid to issue because of possible adverse repercussions on confidence; largest notes now in circulation is 200.

(2)- Current domestic production is now 25 million pieces per month, 17 million in Chungking and rest in Iosan new Chengtu, consisting solely of 100 notes. Other plants exist but not operating due to paper shortage, etc. Current expansion in note circulation probably around six billion per month and likely to increase with expansion of our military operations in this theater. Thus domestic production accounts for less than half of current needs. Paper and ink for domestic production must be imported over hump. Of 150 tons of notes now being flown in monthly one-third takes the form of paper for domestic production

GAUSS

wSB

RT-794

This telegram must be paraphrased before being communicated to anyone other than a Government agency. (SC-00)

Chungking

Dated February 29, 1944

Rec'd 1:24 p.m.

Secretary of State,
Washington.



393, February 29, 11 a.m., (SECTION TWO).

While no data are available for last couple of months it may be assumed that current imports plus current domestic production roughly suffice to cover current needs so that supplies of notes on hand in China are around CN 20 billion and may be more. Above estimates are based on assumption that figures on note issue which Chinese Government has been giving us for last two years are accurate. Incidentally in spite of numerous inquiries on my part, whether by accident or design on part of officials involved, have not received data on note issue for months subsequent to November 1943.

Four. With respect to banks all banks whether Government or private are required to keep 20% of their deposits with Central Bank in cash as reserve but this requirement has so far not been enforced in case of Government banks, Banks characteristically complain of shortage

-2-#393, February 29, 11 a.m., (SECTION TWO), from Chungking
shortage of notes in relation to business needs and claim
their current cash holdings inadequate for current volume
of commercial transactions. Bank of China largest bank
next to Central Bank has about CN two billion in cash in
hand in all its branches and in addition has a current
account with Central Bank of CN one billion. Farmers'
Bank has CN one billion cash in hand in all its branches
and about CN half billion in current account with Central
Bank, its total deposits amount to CN seven billion.
Bank of Communications occupies an intermediate position
between Bank of China and Farmers' Bank. Note that
private banks also have to keep current accounts with
Central Bank usually not less than size of their cash
reserve with it.

Five. For information on current note production for
and note shipment to China please inquire from Security
Bank Note and American Bank Note Companies. These two are
most important foreign producers of notes for China, the
only other at present being Waterlow of London.

END OF MESSAGE.

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Information received up to 10 A.M. 29th February 1944.

1. NAVAL

A convoy to NORTH RUSSIA has arrived safely without loss. On 20 th a Norwegian Submarine probably sank two ships in convoy off SOUTH NORWAY. and on 25th in same area probably sank a 2,000 ton ship.

At ANZIO 27th unloading reduced by adverse weather. A tank landing ship was damaged during an air raid. U.S. Cruiser bombarded German artillery positions.

2. MILITARY

Russia Russians have captured railway towns 15 miles East and 12 miles North-East respectively of PSKOV and further south are within 3 miles of NOVORZHEV (65 miles West of KHOLM). In the South Germans claim to have driven back in counter attacks Russian Forces at YAMPOL 40 miles South-West of SHEPETOVKA.

Burma ARAKAN. Over 1,500 Japanese dead counted in MAYU RANGE Battle area between 4th and 26th February. A local Japanese attack 25th/26th in area 6 miles West South West of BUTHIDAUNG was repulsed.

KALADAN. West African troops have continued their advance down the KALADAN VALLEY and have reached points on West bank of river 5 and 6 miles South of KYAUKTAW.

3. AIR OPERATIONS

Western Front 315 heavy and medium and 54 light and fighter bombers attacked military constructions NORTHERN FRANCE dropping about 650 tons. 71 aircraft attacked other objectives. 6 heavy bombers, 3 other aircraft missing.