

DIARY

Book 753

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**United States Army Air Force**  
Expenditures: See China

Bretton Woods, N.H.  
July 12, 1944  
9:30 a.m.

INSTRUCTION OF AMERICAN DELEGATES - BANK

- Present:
- Mr. Spence
  - Mr. Kelchner
  - Mr. Angell
  - Mrs. Klotz
  - Miss Newcomer
  - Mr. Brown
  - Mr. Bernstein
  - Mr. White
  - Mr. Pearson
  - Mr. Wagner
  - Mr. Wolcott
  - Mrs. Morgenthau
  - Mr. Acheson
  - Mr. Collado
  - Mr. Eccles
  - Mr. Reed
  - Mr. Vinson
  - Mr. Luxford

MR. WHITE: We are slowly climbing up on the list of quotas.

H.M.JR: How about the Chinese?

MR. WHITE: We can pick up fifty from South Africa. They will take a hundred instead of one hundred and fifty.

H.M.JR: We had them down for five-fifty - China?

MR. WHITE: Yes, you could give them six hundred, although Keynes wants to give that fifty to Czechoslovakia and Poland; but we can give a little to Poland and Czechoslovakia.

H.M.JR: I think we should start because the people are here that I would like to work with. So I think, Harry, if it doesn't bore these people, if you start de novo once more and give us a little thumbnail sketch of what this Bank is for and what its conception is, and so forth.

MR. WHITE: Five or ten minutes?

H.M.JR: Whatever you want.

MR. WHITE: The foreign investments which have taken place in the past twenty or thirty years have sometimes risen as high as a billion and a half a year from the United States. That isn't net, that is gross, because there were constant repayments in other forms. That is the highest reached for a number of years after the last war. They were three-quarters of a billion or a billion a year.

Now, this war - this amount will not begin to touch the needs of the world. There has been infinitely more destruction, prices are higher than they were in the middle twenties, so that the same project, whether it is a power project or a dock or factory, will cost them more money, and the need is very, very much greater.

It has been now at least five years, and in some cases six, seven, and eight years, when there has been no capital movement because, if you remember, prior to the war, in the first place there was a great deal of uneasiness in many of the places, and in the second place there was a good deal of monetary disruption so that investors the world over were very reluctant to invest money abroad. In fact there is a contrary movement taking place. So you will not only have a terrific backlog of need for capital, but you have superimposed on that the current demand which would take place under normal circumstances, added to a stupendous demand for capital.

Therefore you have to consider the properties of the world in terms of very much larger magnitude than was ever true before.

Now, I think we would all agree that the most important single factor for the maintenance of political stability - not the maintenance, but the achievement of political stability - as well as the maintenance of a high level of trade, is, during the next five years, adequate foreign investment.

There is nothing that will serve to drive these countries into some kind of "ism" - communism or something else - faster than having inadequate capital to reconstruct their railways, their port facilities, their power development - things which have been destroyed during the war, or things which have deteriorated

because there has been no attempt to maintain any but the most necessary services.

And if these countries do not have a reasonable source of foreign investment, several things are going to happen, all of them very serious. One, they will have very severe unemployment. In other words, they will not be able to reemploy their demobilized armies and their people - millions will be thrown out of work in each country by the cessation of production of armaments, because that is all they are producing in the occupied countries as far as industry is concerned, to say nothing of the millions of prisoners who will return, and millions of soldiers who will be demobilized. There will be a large amount of unemployment, and there will be a general unrest as a result of that, and as a result of the fact that they don't see industry going ahead.

We, on the other hand, will have a drop in the export trade. There is no question but what we can get all the business we can handle during the first couple of years, as far as export business is concerned.

Our problem is likely to be we haven't enough to distribute. But I am speaking now of the third, fifth, fourth years. And you will have a depression, political instability, and a low level of foreign trade, which will threaten everything that we are fighting for in this war.

It is one of the most serious problems. It is more serious than even the monetary problems in its dangerous potentialities. There must be capital supply and you cannot look at the problem from the point of view of small amounts involved, or whether you are making available a little more at lower rates of interest or not; it must be looked upon as the major problem that is confronting the post-war world as far as economics is concerned, which has its immediate repercussions so far as political stability is concerned.

That is the situation.

Now, how are we going to meet it? You can meet it in three ways: One, you can do nothing about it except let the foreign investor invest if he feels like it. Well, you can't expect an American investor to make loans of that magnitude all over the world. It isn't fair to

expect them, it isn't reasonable, and he is not going to do it. He will make some loans. I am sure that England will be able to float a loan at reasonable rates here; I am sure Holland will be; even France may be able to float some loans - and there may be a country here and there - some South American countries which still have good credit risk.

If you didn't have the Monetary Fund to give confidence in the stability of currency and in the prospect of withdrawal of interest, I would venture to say you would have no loans floated here - I mean, they would be insignificant amounts. You might find corporations putting branch plants in various areas, but so far as countries being able to float any significant quantities of capital, it would just be out.

The Monetary Fund gives them confidence that you won't have exchange depreciation. It doesn't guarantee it indefinitely, but it gives added confidence, and it gives the lift to the flow of international capital by assuring some degree of monetary stability in some countries, and a very high degree of monetary stability in other countries.

But even with that, the investor is not going to invest. Just think what he has suffered - defaults, depreciation, he hasn't been able to withdraw his profits, and in general he looks at Europe and says, "My God, how do I know what is going to happen in Europe? How do I know now Yugoslavia and France are going to turn out, let alone such countries as Greece and China and Bulgaria?"

After all, the enemy countries will need capital, too, after they have joined the family properly, and you will want to put them on their feet, otherwise they become a nest of trouble that will spread.

All right, that is the situation. That is the first thing, then; you cannot depend upon the foreign investor. We have no right to, and we simply won't.

The other two alternatives are for the United States itself to make those loans - either make them directly out of their capital, something like the RFC or Export-Import Bank which we already have, or to make them through guaranteeing.

Now, there are some loans that must be made through our own agencies and the Export-Import Bank plays an important role and should continue to play an important role, and it should have more money. There are some cases in which for quasi political reasons or because we want to accomplish certain things or because we want to do the negotiating ourselves and make it on a bilateral basis - we want to make the loan ourselves, just as we have in the past.

There is a field for that and we should do that. But to attempt to get the United States to make even part of the loans that are necessary all over the world is to make a sucker out of our taxpayers. It would mean that our taxpayers have to bear the entire risk of loans of that character, that if there are ever defaults, we pay them.

Now, we all admit that these countries need capital and that they benefit everybody. They don't only benefit the United States, to be sure; they benefit us because we export more goods - we have a high level of trade. Once our exports of machinery go to a particular country they tend to buy the same machines and materials here, so that you are improving not only the business of the United States immediately, but even indefinitely there are ramifications of it, but not enough for the United States taxpayer to take the whole risk of loans which are the largest in magnitude in history and which, moreover, are risky.

Now, what we said - and that is the reason for the origin of the Bank - we said that these risks must be shared by the whole world. We don't want the American taxpayer to bear the risk, and so we said it will be a world Bank in which each country will bear a share of the risk in proportion to their ability to do so. So if there are defaults it won't fall on the American taxpayer. It won't increase his taxes, but will be shared by England, by the Netherlands, by Canada, by France and by Russia. They have a responsibility for this just as we have, and they ought to bear part of the risk.

Now that is the necessity for a world Bank. Now, then, once having done that, we wanted to do two things - or three things. One, we wanted to reduce the risk as much as possible because, after all, we do bear a third because we are the largest country and, of course, our national income and capital is greater than the rest of the world put together. But we wanted to reduce the risk.

Two, we wanted to interfere as little as possible with our regular methods of doing business by private bankers, by private underwriting companies, by private investors. We wanted the Government and the Bank to interfere not at all or as little as possible with private enterprise - private banking - have the machinery they can operate. There is no reason for the Government to stick its nose in that business. We wanted the Government to keep out of the international Bank.

The third thing that we wanted to do, which is tied up with the first, is to see that if the Bank had anything to do with loans they would be what we would call good loans - they would be productive loans. They would be loans, also, which would take into consideration everything else that a government borrows, and for the first time in history would have any kind of a responsibility to know everything that a government borrowed, all its debts, to make certain that you wouldn't have a repetition of what happened in the twenties, to make certain so far as the Bank was concerned.

If private investors want to do it without the aid of the Bank, at least they would have access to information they have never had before. It is very doubtful whether any private underwriting company would think of floating a loan to many of these countries without talking it over with the Bank and seeing what the Bank would do. So it would have advantages in that direction.

It would have further advantages in making certain that the loans were not only for productive purposes, but that there would be a follow-through, a responsibility to see the money was spent for the purposes for which the loans were carried out.

In addition to the objectives which we enumerated, there was the further objective that if these loans were not forthcoming, there would be terrific pressure on the Stabilization Fund that we are thinking of because countries would simply have to get goods that they should get on long-term credit, because they are not able to pay them back in three, four, five, or ten years, but they have to have them and they would be using every source of short-term credit; they would be using the Stabilization Fund and they would be doing things which would not be in their long-run interest and certainly not in the long-run interest of the Fund.

Now, with all those things in mind, we attempted to devise the Bank. Now, in order to interfere as little as possible with the customary charges of foreign investments, we said that the bulk of the banking business will be used only for guarantees, that it will be the private investors and underwriting companies that will make the loans, and it will be the Bank that guarantees them.

And only as a small amount - we didn't specify how much, but the British proposal, which I think was an improvement - specified there shall be twenty percent of the Fund set aside in the event, for one reason or another, that the underwriters will not take a particular loan and the Bank thinks that the loan needs to be made. So you set aside twenty percent of the Funds for loans made directly by the Bank, and the other eighty percent is security against guaranteed loans.

Now, then, we speak of the Bank as being ten billion, but you know that actually only twenty percent will be called, and only a small part of that, actually, will be in gold. So there isn't a great burden on any country. The burden on the country may be nothing at all. They may even find that they make money out of this. I think that they will. I think that probably, in the long run, indirectly, that the interests and the other revenue will outweigh any defaults. But they are committed to make good any defaults which may occur.

Now, the Bank, by guaranteeing those loans, makes possible the flow of private investment, which means, of course, higher trade, more employment, not only abroad, but here, and it also puts those countries on their feet. Now, how can we reduce the risk?

Well, one way of reducing the risk is to charge reasonable rates of interest and to have a long enough term of years. One of the big reasons for defaults in the past in foreign loans is that the rates charged have been very high. It wasn't at all uncommon for rates to be seven percent, eight percent, and then for the bond to be sold at ninety-two, and for the actual government to get eighty-eight, which means that before he was through with it he was paying nine and ten percent interest.

H.M.JR: Give them the Cuban example.

MR. WHITE: I don't know that rate.

H.M.JR: Those bonds, what were they sold at?

MR. BROWN: I don't know.

MR. WHITE: I think at ninety-three and eighty-eight.

H.M.JR: Less than that.

MR. WHITE: Because there were big profits for the underwriters; in very many cases they didn't look too closely why the government wanted to borrow. And you had governments borrowing and spending the money, paying high prices for goods and greasing all the way along the line, so that a country ended up with interest payments which were fabulous.

We in the Treasury, I think, made the only study of this character - a comprehensive study of the Brazilian loans. We went to every single Brazilian loan made back to 1940 - the time when we were trying to arrange negotiations with Brazil. We had a man in Brazil. He is here, Orvis Schmidt. He was down there for the Treasury for over a year and then he came back and made this study of the Brazilian loans in which he traced down what the loans were obtained at, the uses that were made of them, and the defaults, and all the other aspects and characteristics of the loan. And the net result was to show that Brazil had to pay approximately twenty percent on loans that were productive. Now, there isn't a country in the world that can pay that and of course they defaulted.

The twenty percent figure was arrived at because a good many of the loans were used for purposes for which no loans ever should have been made, and there were all kinds of conditions about the loans.

MR. WAGNER: Whom were those payments to - America?

MR. WHITE: The American bondholders got stuck - neither did the underwriters get twenty percent; the underwriters made a substantial profit in most cases because they always make profits on risky loans. But the fellow who was stuck was the American bondholder and the Brazilian people, because the loans weren't properly used and they paid high rates for them. They just defaulted.

You go through South American country after South American country and you will find similar situations. Sometimes not as bad - sometimes better - with the result they all default. Then they may pick them up; there are readjustments at very low rates.

Therefore, one of the important elements in making a loan sound is to have reasonable rates of interest and make sure that the loan is for a good purpose and used for that.

And equally important is to make sure they have it for a long enough period. When a country builds a power site - a dam for electric power to run industry, and so forth - it can't pay it back in four or five years, or ten years.

It needs a low rate of amortization for two reasons: In the first place because the local earnings are usually not high enough, and therefore there is an extra burden on the budget. But much more important than that is the fact that they can't develop their exports rapidly enough.

They have to transfer those funds, and it is in the transfer that defaults have been. The defaults rarely have been in local currency.

Countries can usually collect enough taxes, or force reductions in their expenditures against their income to set aside money for foreign payment, but they can't get the foreign exchange.

Now, if you have a long enough period of years which is appropriate to the project, you greatly reduce the risk.

1/d

Now, the domestic and foreign investor doesn't rightly like to make a forty-year or even a thirty-year loan to a foreign government on his own. Even a United States Government bond, the longer period you go, has some difficulties, if you get beyond the thirty-year period.

With the bank guarantee it makes it possible to charge reasonable rates, gives a long period of amortization, have the right kinds of loans, all of which reduces the risk.

Now we come to the fourth of the greatest risk reducing agencies. Here, for the first time, would you have a loan which is guaranteed by the Government, irrespective of where it is used. Let's say it is Colombia. The Colombian Government has to guarantee it. Well, they have done that on a large number of loans. That is nothing new. But it is the first time that you have a loan to an international--a group of governments of this character. They have been special loans, special amounts, and even those they paid more attention to than private loans. A government will default much more quickly if he owes it to private investors. He may even default to a government, although rarely have there been defaults to the United States Government. I don't think there are any. The only default is, of course, the war debts. But even the Export-Import Bank--Warren, where are you?

MR. PEARSON: Here.

DR. WHITE: What is your record of defaults to date, aside from Finland?

MR. PEARSON: We don't have any.

DR. WHITE: And we have been doing business for how long?

MR. PEARSON: Ten years.

DR. WHITE: And some of the loans, I'm pretty darned sure, no commercial organization would make.

MR. PEARSON: I think we should say we have made no loans that a private investor would make.

DR. WHITE: Why wouldn't they make them? They wouldn't make them because they were too risky, and yet there hasn't been a default. In other words, governments are very reluctant

to default to another government, particularly a large government.

Now, if you get a group of governments, what would a default mean? A default would mean virtual ostracism from the credit market, because it would be such a public thing, and all governments would be interested in it.

So that for all the reasons that I have cited--I have gone into a little more detail, Mr. Secretary, because I wanted to demonstrate--

H.M.JR: I want to compliment you. It isn't too much detail. If you are reaching the end, then I'd like the Congressional Members to take over and cross-examine you as a witness.

DR. WHITE: All right. What I was trying to do was to show that the risk of loans through this Bank are, in the judgment of the technicians--all of them, as far as I know--the lowest of any kind of the character of foreign investment loans. And all that has a bearing, Mr. Secretary, on the question of what are the chances of loss.

If you examine the foreign loans in the past that the United States has made or that other countries have made, you will find that the loss through defaults--that is, current rates of interest and all the rest of it--I am not sure of my figures, but I think it has been less than a third.

MR. BERNSTEIN: Just during the period of greatest difficulty of transfer. That is right.

DR. WHITE: During the last twenty or twenty-five years--and most of that is due to the difficulty of transfer.

Now, we have tried to meet that problem. You can't meet it completely, but you can meet it in measure, I mean even where the trouble is transfer. One of the things which this Bank can do is that if a country finds it difficult to transfer the payments--what do we mean by that? We mean that Colombia owes the United States, let's say, ten million dollars a year on debts--owes Americans, not the United States. She has the money in Colombian pesos, but she can't buy dollars because her exports aren't high enough. The money begins to pile up. But those are defaults. The American investor wants dollars, not pesos. So it is to him a default.

This Bank provides that in any three-year period the Directors could leave the money locally and continue to pay the investor in the particular currency that he wants, and then make arrangements to refund the local currency.

Now, that doesn't eliminate the risk, obviously, but it tends to smooth it out. It gives the country a chance to make up later, and protects the investor. So that the risk, even in the past, which has been less than a fourth, under all those conditions of bad loans, loans to individuals, exchange difficulties of all characters--even under the worst possible situation, lumping all the bad loans together and some of the good ones, and there haven't been a great many very good ones, because most of the good countries don't borrow now--they are lenders. U. K. was a lender; Netherlands was a lender; Sweden and Switzerland were lenders. It is the good countries in the past who have been lenders, but in the next ten years those countries will not be lenders. Switzerland and Sweden will be--maybe one or two others--Canada and the United States. The rest will be borrowers for the next five or ten years.

So that even under those very bad circumstances you only had losses running from one-fourth to one-fifth.

Now, we believe that under this Bank arrangement, because of the reasons that I have cited, the losses are very likely to be less than ten percent. I am taking the over-all losses over a period of twenty years--less than ten percent.

I could state that in another way. I could say that if the Bank had ten times as much loans outstanding as it had capital, it would have enough if they all met their requirements; but nobody is advocating such a preposterous ratio.

MR. BERNSTEIN: There is a different point, Mr. Secretary. If the losses are moderate--and that means less than a fifth--the actual collection of guarantee fees would be more than enough to meet the losses. There would be no draft on capital.

H.M.JR: Say it again.

MR. BERNSTEIN: If the losses are moderate--and that means less than a fifth--and I don't think that is being too optimistic, then the collection of guarantee fees, because each of these loans has guarantees, the Bank would collect some guarantee fee annually. Those guarantee fees would be more than adequate to meet the losses.

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DR. WHITE: In other words, when you speak of moderate losses being twenty percent, you might call them moderate-- I would call them large. But even if they were as much as twenty percent, which is almost as much as the losses have been on lousy loans in the past twenty years, even so the Bank would have enough cash from the fees which are charged for that very purpose which pile up as a reserve to meet those defaults. So that the American Government, for example, would not be called upon to put up any money because of losses. The Bank would meet it out of its fees.

Now, all that suggests what? It seems to us to point to two things: that never in history has there been such a demand for foreign capital as there will be in the next five years; second, never in history has there been a time when it is more important to meet that, both from our own point of view, our own unemployment and foreign trade, and from the point of view of world trade, world prosperity, and world peace. You can't duplicate the situation that we will be confronted with in the next five years in history; third, since you are confronted with that enormous demand, we feel that you ought to be as conservative as possible, because we think by being conservative--in fine, it is always wise to be conservative, anyhow. But we think that it would be conservative to have outstanding capital of three times.

By the way, Dewey told one of the boys last night--

H.M.JR: Which Dewey?

DR. WHITE: The President-Elect's namesake, Charlie Dewey. Far be it from me to cite him as an authority, but I thought it would be of interest. We won't want to rest our case on that. He said that it is preposterous to assume that the outstanding loans must be limited to two or three times; it can be much more than that. I am not citing that as an authority, but giving an opinion. He is thinking in terms, probably, of four or five times--I don't know. We think that we are being extremely conservative by having double. I remember when we talked about it, some of the men wanted three times.

H.M.JR: Do you mind, Harry, before you go into that thing, if you have finished your presentation I'd like to leave that for the moment. After all, you have given us all a tremendous concentrated lot of information. So if you would like to rest your case at this point, then I'd like people like the Congressmen to cross-examine you.

5/a

DR. WHITE: If I can just add one word, I'll drop the business of the rate and say one word as to how the loans will be handled, so the mechanism will be clear, and then I'll be happy to answer any questions that I can.

Clearly, the underwriters will be confronted with possibilities; countries will seek them out; they may seek countries out. It is their business. That is what they exist for; that is where they make their legitimate income; that is what they should do.

The only difference between the present recommendation and the normal conditions is that they would have five or ten times the business to deal with than they ordinarily would. I talked with some investment bankers when I went up to New York to their annual meeting, and those whom we talked to, after we explained this, admitted that they would do a great deal more business and make a great deal more earnings, profits, with the Bank than without the Bank. There wouldn't be the chances for high profits made by taking loans that are likely to be sour, or by getting a possible creditor like Greece who is so eager to make a loan that she will pay anything to get it. They wouldn't get those high margins, but they will do much more business. There'd be a lower return for each dollar, but at least they should have the satisfaction of knowing the loans would not be sour to the investors.

And most underwriters don't want to sell loans that won't make good. They have a high sense of fiduciary responsibility. They would rather do more business at a lower rate than less business at a higher rate. That isn't true of all the underwriting, but it is true of a lot of the big ones.

Now, they would decide to make the loan, look the conditions over--it looks good to them. They will say, "We will make it if it is guaranteed." Let's say the Bank investigates, finds the terms reasonable, finds the use is reasonable, and says, "All right, we will guarantee the loan, providing these conditions are met." The underwriting company, at that point, sells it the way they always do. They go to the investor and say, "Here is a Colombian bond yielding three or four percent, and it is guaranteed by the Bank."

Now, they have always sold loans. The only difference has been there has never been anybody to guarantee it, and it has borne a little higher interest rate, so the prospective investor is now confronted with something new. He is confronted with a bond which he can buy that is guaranteed by twenty or thirty or forty governments, besides the government that is borrowing. Besides that--I'd have to get in the other question at this point.

H.M.JR: I want to have Bernstein repeat that point for the benefit of Mr. Wolcott, about the guarantees as a caution against losses.

MR. BERNSTEIN: Yes, sir.

Let's assume that the Bank's loans average twenty-five years; then it collects, let's say, an average of one percent per annum on those guaranteed loans as its guarantee fee. If one fifth of the loans defaulted from the very first day, and the Bank took up that whole loan and paid off the whole principal one day after it made the loan, it would collect out of the guarantee fees four fifths of the loan, going ahead and meeting their obligations to maturity and paying off the bondholders.

The Bank would have collected enough in guarantee fees to meet all losses and not have to draw one cent on its own capital.

MR. ECCLES: Where does he get the expenses for operating?

MR. BERNSTEIN: Just assume that those expenses are moderate.

MR. WHITE: And, moreover, some are met directly. If you make investigations, the country has to pay for it, but it does not take care of the overhead. There will be other sources of revenue.

MR. ECCLES: It would have to come out of fees.

MR. WHITE: There are some other sources of revenue, but they are not important. But if you are dealing with three, four, five billion dollars over that period--

MR. BERNSTEIN: I just wanted to add, there is no problem to the expenses; the expenses would be moderate. The expenses could be fully met out of the other income of the Bank. It collects the cost of the investment, it would be making direct loans out of its twenty percent, and be collecting four, four and a half, or five percent on that. It may not cover all, but I think the relative amounts would be rather small.

H.M.JR: Now, gentlemen, you have heard this very excellent presentation of Mr. White's.

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Any delegate who would like to ask him any questions or develop any points on which you have doubts?

MR. WAGNER: Harry, I was just thinking on the question of selling to the public. You remember the experience that the investors in New York had on the guaranteed mortgages. Then when the depression came, there was no reserve with these financial organizations that guaranteed them.

Now, we haven't that situation here, and I think that ought to be emphasized. There is a reserve here to meet any defaults.

DR. WHITE: That is true. There is this reserve that begins from the very first day. In the first place, not only do you have the reserve of the Bank, itself, but you have the Bank backed by thirty governments of whom at least--I mean, you can take your pick. But look at the countries you are talking about: United States, Canada, United Kingdom, Netherlands, Belgium and France. Those countries already have, and always will have, enough gold reserves to take care of a drain of that kind without the slightest--I mean, the amount that you would have to collect from all of them, we all obviously have enough, and the amount that you would possibly have to collect from all of them on the service charges is such peanuts that it is even kind of silly to mention it. If there are defaults of services on five billion--but let's say they all default, which is an impossibility, on the service charges; you are not attempting to pick the loans up in the period of five or six years. The amount involved for the other countries would be in tens of millions of dollars a year. They have that double kind of security. You are quite right.

MR. WAGNER: But I mean you have all these people that have been stuck, you know, and they think about guarantee and want to be persuaded.

DR. WHITE: The word "guarantee" has lost a good deal of its attractiveness, because people have held guaranteed loans and have got stuck. That is true. That will have to be made clear to them, but I think, after all you know, who buys these bonds--the same fellow that has always bought bonds, and probably a little more.

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MR. PEARSON: Widows and orphans, usually.

DR. WHITE: Or people who represent them. Those fellows are accustomed to asking questions about bonds. It is not like selling E Bonds to a mass of people in which ~~case~~ you have an awful time trying to explain them. You couldn't explain them, but you are talking about the investing class.

MR. BERNSTEIN: Mr. Secretary, prior to these mortgage bonds which were guaranteed, there was one class of guaranteed bonds that was most common. The experience with that class of guaranteed bonds, and Mr. Brown will probably bear me out, has been exceptional, the very best that you could possibly get: those are railroad guaranteed bonds where one railroad guarantees the bonds of another. They have had very favorable experience.

MR. BROWN: I wouldn't agree. I have seen the bonds of Western Pacific guaranteed by the D & RG, who lost almost entirely, Bernie.

MR. BERNSTEIN: Any others? What has been the general experience with those guaranteed railroads?

MR. BROWN: I had the bonds of the Old Colony guaranteed by the New Haven Railroad.

H.M.JR: Your example is poor--I would withdraw it!

DR. WHITE: Ask him to name one that has been good. Then you could get one after another.

MR. BROWN: All the bonds guaranteed by the Pennsylvania are good.

H.M.JR: It is not a good illustration.

DR. WHITE: Mr. Bernstein, would you consider the bonds guaranteed by the railways as good as the bonds guaranteed by the Government?

MR. BERNSTEIN: No, sir.

MISS NEWCOMER: Assuming that the hundred percent guarantee is important from the selling point of view, what would be the objection to doubling the capital and

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having a ten percent paid in? The immediate drain would be the same, contingent liability is greater, but if you aren't going to lose it anyhow--

MR. WHITE: I think it is hard enough to get a ten billion dollar loan. The public doesn't think in terms of what the losses are, or what they are called upon to pay; they think in terms of magnitude.

H.M.JR: You said ten billion; I think you mean ten billion capital.

MR. WHITE: I meant capital. We speak of a ten billion dollar capital, and justly. Even with our familiarity of using large numbers these days, ten billion dollars capital is a very small amount. Now, you make it a twenty billion dollar capital and I think you are increasing your chances.

MISS NEWCOMER! Be more difficult to get that accepted than the two hundred percent ratio.

MR. WHITE: That is a matter of judgment. If people go around and say it is a risky business, this two hundred percent, you know you get the Congressmen - you can go before a committee of the Congress and you will get three or four or five bankers who nod their heads very sagely and say, "That is a risky business." They are influenced, naturally; we expect them to be. But if you get somebody else who comes up and says, "I believe that this bank ought to be conservative," and everybody agrees; then they say, "Conservatism is three hundred, but let's make it two hundred" - it all depends on how it is presented.

But that doesn't mean that you may not reduce its chances of acceptance. It was the knowledge of the fact that much depends on the views that are spread before Congress, because Congress has to pass it, and the best plan in the world isn't worth the paper it is put on if it isn't going to be passed. And if, in order to pass it, you have got to meet opposition that springs from one reason or another, or because of legitimate conservatism, or lack of understanding - whatever it springs from - the fact remains that if that is going to come up before Congressional committees, and we are going to say that it is a risky loan, then you better make it whatever you have to make it in order to prevent that.

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MR. ECCLES: I can't understand how the suggestion made here increases the risk. He is talking about a one to one, and instead of a ten billion, a twenty billion volume here, but a ten percent payment instead of a twenty percent down payment.

Now, the whole question is whether or not these countries would subscribe for twenty billion capital Bank with a ten percent payment -- a ninety percent guarantee and a ten percent down payment, or a twenty percent and an eighty. Our Congress in that case would have to authorize, if we took the thirty percent, instead of six hundred million, they would have to authorize a billion, two. The payment would be exactly the same as proposed. There is no more risk one way than the other. It is just a question, though - I think you are going to have enough trouble.

MR. WHITE: I was thinking of the psychological reaction. I agree with it as an ingenious suggestion and a good one. I was merely thinking of coming out of this Conference, after we have talked about a ten billion dollar Bank, and saying that the boys lifted it to twenty billion." That was the only thought in my mind.

MR. ECCLES: I think your difficulty is that the British and the other people - you will have enough trouble raising the ten billion. Their proportion of the ten billion subscription, with the guaranteed liability of the ten billion--

MR. VINSON: Mr. Chairman, might I ask the Senator from New York to yield to permit me to ask a question?

H.M.JR: Does the Senator yield?

MR. WAGNER: I didn't have the Floor.

MR. VINSON: At that point I would like to know what is the proposal as to subscriptions, because I think that is a very important point in determining the ratio. What are the proposed subscriptions?

MR. WHITE: You mean the quotas?

MR. ECCLES: How do you get the ten billion dollars?

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H.M.JR: If I might interpolate as Chairman, the thing that was worrying Judge Vinson last night was - if you don't mind my interpreting - was that some of these countries may or may not hesitate in participating in the Bank, depending upon the ratio at which--

MR. VINSON: And I might add this: We have the Fund, and we have got certain quotas. Now, we will have the Bank and we will have certain subscriptions. The first thought that comes to my mind is the question of differences in quota and subscription - differences in amount and differences in liability. Now, that is one thought.

And the next point is our liabilities. If the strong countries of the world come in with subscriptions near to or approximating the quotas, keeping the relationship approximately the same, we have two billion seven hundred and fifty million in quotas. In the Bank I have heard the figure three billion dollars.

It seems to me that U.K. ought to come up from one point three to possibly one billion four hundred and twenty-five million, or something of that kind. But if you have all the strong countries with relatively the same subscription that they have quota, then the one hundred and fifty percent may be just as safe and sound as old wheat in the mill from our viewpoint.

But if the subscriptions of the sound countries, of the solvent countries, the countries that will be in there pitching when we have the rainy day and we have the default, if they drop down, then of course, the degree of our liability increases.

MR. WHITE: I think we would agree with that a hundred percent, Judge.

MR. VINSON: What are the discussions in regard to the subscriptions of the so-called good-risk countries? Are they real credit nations?

MR. WHITE: Yes. Well, the principle that we started out on is just as you described it, Judge. We said that this isn't the same as the Fund; what we want here is as large subscriptions as we can get from those countries whom I think we, in general, regard as sound, and so far as a lot of the other little countries, we don't care what they put in as long as they are members of the Bank.

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MR. WAGNER: How do you bring that about - having large quota countries put in large subscriptions?

MR. WHITE: That is part of our job here. We figure that U.K. and Russia, the Netherlands, Canada, and France, ought to be high participants for two reasons. In the first place, they are good credit countries and for the reason the Judge said, you have greater assurance that they will make good. After all, a guarantee for Guatemala still remains Guatemala! So they, in the first place, have good credit risk and should therefore be those upon whom we lean most heavily.

Secondly, those countries, by virtue of their large trade, and some of those countries by virtue of their national position - and on that I am speaking more of Russia and China and the United Kingdom - they benefit most from a prosperous world and therefore they ought to share a little larger part of the risk.

So we start on that assumption. Now, however, there is another factor that must be included which kind of dominates that, and that is that the participation, the willingness to share in the risk, must be fairly closely related to a country's wealth and national income. We are by far the richest country. Our national income is anywhere from four to five times greater than that of England.

Now, I am not suggesting that we should put in four or five times, but we must take that into consideration. Russia's income, we think, in five or ten years will be very high in terms of real income. I don't know how much, but if the past twenty years is any criterion, with their rich natural resources, their enormous population, they are going to be a rich country, relatively speaking; not as rich as the United States, of course, because we are not standing still - we will always keep ahead of them - but they are rich enough to bear a substantial part. China is not rich; nevertheless, she is preening herself to be the fourth largest country. She wants all the kudos that comes from being a large country, except some of the responsibilities. I wouldn't say her credit risk is as good as any of the others, but she ought to bear a large responsibility because she is continually telling us she is one - she is the fourth largest country and wants to be in the Major League - O.K., bear part of the responsibility.

MR. ACHESON: Will Russia put in a billion dollars?

MR. WHITE: Yes, she should put in whatever her quota on the Monetary Fund is. If she wants a billion, two, that is what she ought to put in in the Bank. If she thinks it is important to be right under U.K., - "Then be under U.K. in the capital that you are risking."

MR. WAGNER: I am probably asking a foolish question again, but how do we exact these?

MR. WHITE: They have to agree here. If they agree here, then it is an international obligation and they are committed. We have one fight on quotas - that is another one - but we have to start in.

Now, if we go to Belgium, Netherlands, Canada also have to be high, but after all, remember Canada's population of eleven million people. She has a per capita income that is almost as high as ours - not quite - but you are talking about the difference between eleven million people and one hundred and thirty-five million people, and it isn't fair to expect her to run the same risk. If you keep all those factors in mind, we see where we get.

MR. VINSON: But isn't it necessary, before the Delegation determines what the ratio shall be, to know what the subscriptions of the member countries are?

MR. WHITE: I think that is a good point.

H.M.JR: I think we got off to the wrong start last night.

MR. ECCLES: I think, Henry, that is what was suggested. As I recall the breaking up of the meeting, it was to this effect; that so far as the American Delegation was concerned, that if the U.K. and Canada and the Dutch were willing to go to a ratio of one hundred and fifty percent, and take what we felt was their share, then we should be willing to go to one hundred and fifty percent; but if by our insisting on one hundred and fifty percent they wanted to cut down what they put in and wanted to reduce the risk, then that should change our view. Now, it seems to me that is where we ended up last night.

MR. WHITE: That is reasonable, but let's not put too much emphasis on the Netherlands. She has a reputation, but she is small.

H.M.JR: Let's also, in the room here - in the Netherlands we have Mr. Beyen, an ex-president of the Bank for International Settlement, at bat, and who is the other man?

MR. WHITE: de Iongh.

H.M.JR: The other man was formerly manager - de Iongh - of Mendelssohn, and while he was there they held him personally responsible. Now, after all, I don't want a man from the Bank of Mendelssohn - which I happen to have gone into - I say, I - I mean the Treasury - we happen to have gone into the thing very, very thoroughly, we have their papers and everything else, and it is one of the most outrageous performances in international banking.

If you want a good reason why there should be a World Bank - and I want a Treasury expert to explain to you how Mendelssohn ran their bank - we would be very glad to do it, because there are the two opposite poles.

Now, you have this man here who, they told us at this luncheon that the Belgians gave us, was held personally responsible for Mendelssohn's failure. If you would like the story, we can take a half hour and give it to you, because we have got the papers. Merle Cochran got those papers at that time. Of all the outrageous things!

Now, I don't think the American Delegation should be influenced in the case of the Netherlands, when people who have either an unfortunate record - I think that is the kindest word I can use - and a selfish interest like Mr. Beyen has, or sense of loyalty to the former president - influence us on this very important decision.

MR. WHITE: Well, the Netherlands is a small country and at the most giving her a quota of two hundred and fifty million dollars - well, we are talking about a ten billion dollar Fund--

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H.M.JR: It is the people here representing them and their past history. I don't think that that kind of people should make up our minds for us. That is all I am trying to say.

MR. VINSON: Mr. Secretary, you have two billion seven hundred and fifty million. U.K. has a billion three hundred million, but with her colonies and Dominions it adds up to two billion five hundred.

MR. WHITE: One of the things, Mr. Secretary, that I am troubled about - we are being pushed into a consideration which I think is very unrealistic. For example, I agree with the principle of the Judge, saying that we want to put up more, but when we go from that to the assumption that we are taking a risk because it is one and a half times the capital, that is the thing I balk at because I don't think we are taking any risk.

Mind you, I think they ought to bear as much as possible, and we ought to force them to, but it is not a corollary that we are being unwise or taking any undue risks, because it is one and a half.

In other words, I think we ought to get those fellows to take as much as possible.

H.M.JR: Of what?

MR. WHITE: Of the quota. We ought to have the U.K. as high as we can make them do it.

H.M.JR: I think that is right.

MR. WHITE: But I don't think we should follow that by saying if they don't the risk is greater, because I think what is greater on us--

MR. ECCLES: That gets down to a question of the difference of opinion which we discussed for hours last night and I don't want to get into a further discussion except to say I don't agree with Harry and I think I can make a case on the other side.

H.M.JR: But you don't want to.

MR. ECCLES: No, but it seems an honest difference of opinion.

MR. ECCLES: On the question of risk, I am willing to go to one hundred and fifty, but I am not willing to accept Harry's statement that one hundred and fifty is no risk.

MR. WHITE: No, I don't think I said that. I said it is a small risk. After all, this isn't a commercial business, gentlemen. We are not a Board of Directors here thinking how to invest our money in order to make money. You are dealing with a world cataclysm here. Sure you have to take risks. We are spending eight billions a month on a war - my God, what is it to risk a matter of half a billion or a billion over a period of thirty years?

MR. ECCLES: Mr. Secretary, just one word on this. I think this can either be what Harry says, no risk at all, or it could be a pretty big risk. Now, it all depends upon the future of the world. That is the uncertain factor. If none of these loans are likely to default, possibly, or a great many might default - if you get a world cataclysm, then you have a big default. If it doesn't - well, you may have little or no default. The public and the investors then are going to say, "Well, we have to figure on the safe side of this thing, and we are going to figure that there may be a cataclysm, and so forth; therefore, we are going to look to the United States and Canada and a few others to make good these loans, which would be the safe, conservative approach assuming that things don't work out over the years as we might expect.

Now, that seems to me to be the uncertainty, that you will have a big default or possibly no default. And, again, the question of transfer. The default of Chilean bonds, the default of a lot of these other bonds that we had, was not because these countries were unable to collect in their own currency, it was because this country here refused to take Chilean nitrate, Chilean copper, and other products.

Now, I don't know what the policy of this country is going to be in the future, whether we are going to be willing to turn from a condition of having an export trade on balances of billions of dollars a year. From the very beginning of the Republic up until the present time, we have figured that we should have, at least for a good many years, a favorable balance of trade.

MR. WHITE: No, no, Marriner.

MR. ECCLES: Now we are going to have to look to the reverse position here when these obligations begin to be paid off. If ten billion of these securities are sold here - fifteen or twenty billion are sold in this country - I think the question of whether or not the payment is going to be made is going to depend a very great deal upon whether or not the policy of this country will permit the transfer, and if it does permit the transfer, the loans may be good.

H.M.JR: May I say something, Harry? I think what we, as the American Delegation, have to keep in mind - I think last night, unfortunately, both Mr. Wolcott and myself - if he doesn't mind my associating myself with him on this - we had the very good excuse that we were busy with the Russians all afternoon. I think we lost sight of the forest for looking at a tree.

Now, I think what we ought to keep in mind here as a Delegation is a series of stepping stones toward looking towards world stability. Do we want a Stabilization Fund, and do we want a World Bank? Now, those are the two things that we are here at Bretton Woods for. Those two things alone aren't going to be answered. There will have to be other things. The whole question of tariffs and all the rest of those things are going to have to come into it, but we have taken upon ourselves the job of two stepping stones, and the two are very closely inter-related. One is the Stabilization Fund, which is to make the foreign exchange available to the world without cut-throat competition; and the other is to make long-term loans available with a supervision and a guarantee, not only to the countries, but the individual investor, and in the final analysis to the individual owner of the money.

Now, what we want to do this morning is to have an expression before we get through, not as to whether it is going to be a loan one time our capital or three times our capital, but I want an expression from the American Delegation as to whether or not we are, as the American Delegation, in favor of a World Bank. And then, if we are in favor of a World Bank we have a couple of days to get these other forty-four nations to join us in this on as favorable terms as we can get, considering the proposition as a whole.

Now, when Mr. Eccles very sincerely points out this question - he can begin to talk about tariffs, he can begin to talk about everything else - is American Labor going to accept - if we can't get Chile, which is a good example, if we get pressed again to where we were before - I mean, we went down there and made contract for the copper and for the Chilean nitrate which we have been talking about, and so forth and so on - then we put them back on their feet. Now, whether the American public, by and large, is going to have us willing to do that when the war is over, I don't think anybody in this room knows, but--

MR. ECCLES: That is the question, isn't it, as to the value of the security in the future?

H.M.JR: Yes, Marriner, but you have to have the mechanism and that is what we are talking about here. And I take it that you are in favor of a World Bank?

MR. ECCLES: I think that the World Bank is a necessary part of the Stabilization program. I think they go together.

H.M.JR: And before we leave here this morning, I am going to ask for an expression from the Delegation - do we want a World Bank, or don't we? Now, then, it is up to Mr. Acheson, who is Chairman of this Committee, plus the people associated with him, to make as good a bargain as we can, and the time is very short.

I don't want to stop Mr. Eccles. Mr. Pearson wanted to say something.

MR. PEARSON: I thought--

H.M.JR: But might I ask all of you people, please talk to the point. The point is, do we or don't we want a World Bank, so that Mr. Acheson and his other people can go out and get as good a bargain as they can, please.

MR. PEARSON: I thought, Mr. Secretary, we were getting off the point. I think it is not an emotional question of what we would like to do to make the world a better place to live in, the question is, will the American investment market take these bonds? That is

where I would limit it. I would rather see a Bank that is a successful Bank than a Bank which is a shell that can't sell its securities. My only point is that I would limit the ratio to something which I think the investment public would take.

H.M.JR: If you don't mind, I differ with you. I think our purpose here is to make it possible to supply the mechanism that will make a better world to live in. This is one of two mechanisms. The State Department has many other problems they are dealing with, but the Treasury, plus the assistance of the Federal Reserve and the other agencies, is trying to work this thing out so there will be a better world.

MR. PEARSON: I agree with that objective, Mr. Secretary - don't misunderstand me. But I thought the particular point here was whether the bonds would be salable.

H.M.JR: That, if you don't mind, I think is all part of the picture which once the American Delegation has instructed Mr. Acheson and his associates on, that we want a World Bank, then it is up to them in the next couple of days to make as good a bargain as they can.

Now, what you are saying is very important. After all, I am the biggest seller of bonds in the world, and I realize, and I kept saying over and over again, under the volunteer plan, you can't force this thing down their throats. Canada found compulsory savings a failure and we have been successful because we have been able to give the American investors something that they like and they keep asking for more. So of all the people in this room, nobody is as conscious of what you are saying as I am.

MR. WHITE: But I think it can be clearly misunderstood.

H.M.JR: I don't, Harry, if you don't mind.

MR. WHITE: I will get a chance later - no, not at all.

H.M.JR: I am afraid we will go back to talking about a tree, and I want to talk about the forest, if you don't mind. Then if your blood pressure gets too high at any time, we will relieve it.

MR. WHITE: It certainly begins to be increased!

H.M.JR: Well, just hold it. I am trying to go around the room.

Mr. Reed?

MR. REED: I am rather inclined in favor of it.

H.M.JR: Yu are. Is there anything you would like to ask anybody in the room, or any advice you would like to give to the group who have to go out and do the bargaining the rest of this day and tomorrow? Any guidance you would like to give them?

MR. REED: No.

H.M.JR: You are telling us you are in favor of it?

MR. REED: Yes.

H.M.JR: Mr. Wolcott?

MR. WOLCOTT: Well, I think I could say without any equivocation at all that I could sell the Bank if I tried to. I am very much in favor of it, personally.

Our Party, as I understand it, has taken no definite position on the Bank - it has taken no definite position on the Fund. So I think I am in a little different position on the Bank than perhaps I am on the Fund. Maybe I will have to explain that. Bob Taft is issuing a statement today which seems to me somewhat contrary to Mr. Dewey's statements.

MR. WAGNER: Tom Dewey?

MR. WOLCOTT : No, Tom Dewey!

H.M.JR: Just as long as we know what we are "Dewey-ing."

MR. WOLCOTT: I personally - it doesn't affect anyone else - I feel a little squeezed in my Party between these two statements, so I don't feel at liberty to make any public statement on the Fund without consulting with Tom Dewey or those who are consulting with Tom Dewey,

because I realize my own limitations and I am not going to try, alone, to sell anything to the Republican Party that they are not willing to accept. I have to feel my way along on the Fund. But I think we are in an entirely different position on the Bank, and I don't see any reason why I should take - or any other Republican who feels as I do - see why I shouldn't take a very strong position in favor of the Bank, because I personally believe in it.

But frankly - now, if I may look at one tree - having been in the forest - I got scared last night when they started talking about the differences between eighty and three hundred - I frankly got a little scared, because I thought there was in this Delegation a clash of these two philosophies which might have its repercussions quite generally. And there seems to me to be some middle ground that we can agree on that is perfectly safe and will justify a continuance of our position with respect to it.

H.M.JR: Again thank you for your complete frankness and your assistance.

Mr. Vinson?

MR. VINSON: Well, I favor a Bank. I think it is complimentary to the Fund - I think they dovetail - and I am in favor of the Bank.

H.M.JR: Mr. Brown?

MR. BROWN: I strongly favor the Bank. I only want to have a Bank that has a chance of passing Congress, and a Bank whose securities will appeal to the American investor, because if it doesn't meet those two tests it has an unfavorable reaction to set up something that doesn't work.

H.M.JR: Did I ask you, Senator Wagner?

MR. WAGNER: You didn't, but I have indicated right along that I am for it.

H.M.JR: May I ask you?

MR. WAGNER: Yes, of course. I think somebody said

a moment ago - I think you did, Mr. Chairman - that we have to make sure that the other countries deal fairly with us or come along with us, or something of that kind. I suppose you meant by that in the amount of subscription they were taking for the Bank.

H.M.JR: That is right.

MR. WAGNER: That brings up the question that I think Judge Vinson suggested a moment ago, that when it comes to the Bank, these other strong countries ought to come in with fairly large subscriptions.

MR. VINSON: That is right.

MR. WAGNER: And it seems to me we have to sell that to the public, too; that is there is any risk, these other large strong countries are also taking the risks.

That is about all I have to say. I think there is no question of having a Bank as against the chaos we will have otherwise after the war.

H.M.JR: Miss Newcomer?

MISS NEWCOMER: Well, I favor it very definitely. It seems to me it is an essential part of the machinery.

MR. WAGNER: You are not going to insist on twenty million, either?

MISS NEWCOMER: No.

H.M.JR: Have I asked you, Mr. Spence?

MR. SPENCE: In am in favor of the Bank. I think it is a very fine venture for a splendid purpose, and I think it is interchangeably related to the Fund. I don't see how you could consider one without the other.

H.M.JR: Mr. Acheson?

MR. ACHESON: Of course, Mr. Secretary, the Secretary of State is obviously in favor of it, and I came up here as one of his assistants to help you bring it about.

H.M.JR: Now, then, may I try and instruct you, and if I am not instructing you in the spirit of this Delegation, when I get through I would be glad to have any suggestions.

MR. VINSON: Did you ask Harry White?

H.M.JR: Well, I am so sorry, Harry.

Harry, are you in favor of the Bank? My most humble apologies!

MR. WHITE: I tell you, Mr. Secretary, my chief reason for advocating it is, as I look down the line of opponents in the press I think, if those fellows are opposed to it, it must be good. I am suspicious that it probably has merits.

H.M.JR: I think your reasons are terrible, but your conclusions are good!

Mr. Acheson, after listening to last night and today I think what you should do is to go out, consult the other countries, find out how much they will subscribe, inquire from them what they think the ratio of lending should be, sort of keeping more or less our own feelings on that matter in reserve - although the feeling here, I think, is - if I express it correctly - and I want any Delegate to correct me when I am through - that if the other larger creditor countries come in with their appropriate amount, that somewhere there in the vicinity of one and a half times seems to be more or less the way the people feel here. And then just as soon as you have sounded out these other countries, I think the American Delegation would like to have a report from you.

Now, is that too broad a statement, or could you operate within that statement?

MR. ACHESON: I think I could get some idea about it. We haven't got a great deal of time, and these Committees are beginning to meet now on the subject, so we will have to act within the next day.

H.M.JR: Now, would any American Delegate like to add or subtract or modify the instructions which I have given to Mr. Acheson?

MR. WHITE: It is a pretty large order, Mr. Secretary, that you have given him, in the short time which he has available, together with the fact that he has to represent the Delegation on the various Committees. It is almost like turning over to one Delegate the whole question of the Fund. I imagine it will have to be split up.

H.M.JR: Well, he is Chairman. He has people associated with him. He has Delegates - I mean, technicians. And he is the Chairman of this group.

MR. WAGNER: What Congressional member is there? I think Congressman Wolcott is one, aren't you?

H.M.JR: Who else is on this? Mr. Acheson, who is associated with you?

MR. ACHESON: I haven't got with me the assignments of the Delegates to the various Committees.

Mr. Bernstein?

MR. WHITE: They all are assigned to some Committees.

MR. WOLCOTT: May I propose here that they reverse the order in Commission Two? Lord Keynes is starting with the Commissions and referring matters back to the Committees. In the case of the Fund we work from the Committees up to the Commission. I think that changes our setup somewhat and leaves the responsibility on Dean Acheson's shoulders more than it would be otherwise. So the Committees, as I understand it, only have those matters before them which have been referred to them, or will be referred to them by the Commission. Is that right?

MR. ACHESON: Well, the arrangement which Lord Keynes made yesterday was to take the whole draft of the Bank and first of all he picked out certain sections where the differences of opinion were largely ones of expression, although there was some substance, but not agreement. Those were referred to a Drafting Committee, of which the United States is the Chairman, to iron out these differences. Then he referred to each one of the Committees, One, Two, Three, and Four, the remaining sections of the draft.

Each one of those Committees was asked, through its Chairman, to appoint a small group of people who would look at these things in the first place and make a recommendation which the Chairman would then either take to the Committees or put back into the Commission. If it was something that was going to take extended talk, it would go to the Committee; if it was something that appeared to have solved the difficulty, because the two parties objecting to it were both on the Drafting Committee, then it goes right back to the Commission.

Now, on those small Committees we have lined up a group of technicians and advisers. On the main Committees there are the Delegates who have been assigned at the opening of this Conference. That list I do not have before me now.

MR. WHITE: I have it here; I can read it off, if you like.

On Committee Five - there are four Committees on the Bank, Five, Six, Seven, and Eight - Committee Five, according to this list, has Senator Tobey as the leader and Miss Newcomer and Senator Wagner as part of the group.

MR. WAGNER: What does that deal with?

MR. WHITE: Purposes, Policies, Capital and Subscription of the Bank; in Two, Operations of the Bank.

H.M.JR: Who is on that other?

MR. WHITE: Senator Tobey is the leader and Miss Newcomer and Senator Wagner.

MR. WAGNER: Incidentally, Senator Tobey was re-nominated and won the primary contest.

MR. VINSON: I think, speaking for one member of the Delegation, I am very happy that he was nominated.

MR. WAGNER: I am, too. He is a very broad-minded fellow.

H.M.JR: The American Delegation would lose face if one of the members lost in the primaries.

Harry, if Senator Tobey isn't here, there is Senator Wagner, Miss Newcomer, and Mr. Wolcott. If Senator Tobey doesn't show up, Senator Wagner, would you mind assuming the leadership in that group?

MR. WAGNER: I am not the leader.

H.M.JR: No, but Senator Tobey is, and he is not here.

MR. WAGNER: Well, I will do anything. I don't know enough to be a leader.

H.M.JR: You are learning fast, like me. I am not quite as fast as you.

MR. VINSON: Mr. Chairman, are the Committees under Commission Two at work now?

MR. ACHESON: The subcommittees are.

MR. VINSON: It would seem that we haven't a Delegate that is present at a subcommittee meeting.

MR. ACHESON: No, we are having the technicians go ahead on the subcommittees. The material that they work out will then be referred either to the Committee on which a Delegate will be present, or to the Commission.

MR. WHITE: I think it is a good idea, don't you, Dean, wherever possible for Delegates to attend some of the subcommittees, if they have time.

MR. COLLADO: The schedule we worked out last night definitely includes some of that, but for the nine-thirty meetings, which are just two of the subcommittees, and from the point of view of policy among the less important of the subcommittees, it was felt the technicians could go ahead while the Delegation had this meeting.

At eleven-thirty, on the other hand, there comes a very important Committee and we feel that one of the Delegates should attend that meeting. That will be in ten minutes.

MR. WHITE: That is Committee Six, isn't it - Operations of the Bank?

MR. COLLADO: It is Two-A - Subcommittee A of Committee Two. It is your Six.

MR. VINSON: Who is on that Committee?

MR. WHITE: That Committee is led by L.T. Crowley. He is a few hundred miles away.

MR. WAGNER: Where is he?

MR. WHITE: I understand he is - well, he isn't here.

H.M.JR: I will be as frank as my friend, here, Mr. Michigan, I think he is Chicago-bound.

MR. WAGNER: Going to write the Platform?

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

MR. WHITE: There are three other members: Mr. Brown, Mr. Eccles, and Mr. White.

H.M.JR: May I make a suggestion? There seems to be a considerable similarity between the quotas for the Fund and the amount that they are going to subscribe to this. That Quota Committee has been very successful. I would like to appoint a Steering Committee on this Bank which would be the same as the Quota Committee was. The Quota Committee was composed of Mr. Acheson, Mr. Wolcott, and Mr. White and Mr. Vinson.

MR. WAGNER: Good Committee. I would be for that.

H.M.JR: Now, there is considerable similarity. I mean, if Russia says, "Well, we don't want to come through with a billion. I want a billion, two" - there may be some horse trading.

So, if that is agreeable - for lack of a better name, I will call it the Steering Committee on the Bank - to be composed of Mr. Acheson, Mr. Wolcott, Mr. White, and Mr. Vinson. Is that acceptable?

MR. WOLCOTT: May I interrupt? You said the Committee has been very successful. The proof of the pudding is in the eating, and we haven't come to any definite conclusion.

H.M.JR: We still haven't got indigestion!

Maybe I think they are successful because they keep me posted.

MR. WHITE: I just wanted to be sure that Dean registered.

H.M.JR: But if that is agreeable, the Steering Committee on the World Bank will be Mr. Acheson, Mr. Wolcott, Mr. White, and Mr. Vinson.

I am available. I have only begun to learn about this Bank, and as you go along, I would appreciate it if the Steering Committee would, from time to time, give me an opportunity to consult with them.

MR. WHITE: I think Mr. Eccles, in the absence of Mr. Crowley, ought to lead this. As I say, he has been dodging leadership.

MR. WAGNER: Playing golf!

MR. ECCLES: I can hardly agree with that. I have been here most of the time, and Mr. Crowley hasn't.

MR. WAGNER: Where have you been?

MR. ECCLES: I don't want to take leadership. I am willing to be an adviser here, but I have reasons for not stepping out and taking leadership, and I don't want to do it.

It seems to me if we are going to get through this thing that we are not going to be able to go through the same formalities that we have been doing on the Fund. You are just not going to do it. I don't think we are going to function with these Committees in the manner that is outlined there at all. It seems to me that the Delegates agree on the questions of policy, and leave it up to the technicians to formulate it. That is my view of the thing.

MR. WAGNER: Mr. Chairman, on the Committee of three that I am a member of, the technicians are the fellows that have done the work, but I have sat with them and learned from them, and occasionally they would ask my advice about something they were in doubt about, but they are the boys that are needed.

H.M.JR: Well, they will be there.

MR. WAGNER: I know; they have been there right along, with me. I wanted to pay a tribute to them.

MR. VINSON: I dare say, though, that you have made real contributions in respect to policy.

MR. WAGNER: Well, maybe.

MR. ACHESON: This is a depressing matter, because it is now about eleven-twenty-eight, and at eleven-thirty one of the subcommittees meet. There are two subcommittees under Committee Two - or Committee Six, whatever you would like to call it - and Mr. Eccles and Mr. Brown are the two Delegates on Committee Two. These two Committees may get into some of the subject matter that we have been discussing. We would like very much to have Mr. Eccles

go to the meeting of what is called Subcommittee Two-A in two minutes, taking with him Mr. Angell, Mr. Pearson, and Mr. Louchheim.

H.M.JR: Will you accept that assignment?

MR. ECCLES: Yes, I don't mind working on the Committee, but I don't want to be the leader.

MR. ACHESON: That isn't nearly so pressing, today.

MR. ECCLES: That is a subcommittee.

H.M.JR: Two minutes.

MR. ACHESON: And at four-thirty.

Then another subcommittee of that same Committee is meeting at four-thirty, and we would like very much to have Mr. Brown go to that with Mr. Collado go to that, and Mr. Hansen. That is on Operations.

H.M.JR: Do you accept that, Mr. Brown?

MR. BROWN: I do. I am the American leader on Committee Two, Operations of the Fund, which has been meeting all morning. There is nobody there except Gardner, but if you are willing to have me drop the Fund, I will be glad to go to the Bank.

MR. WHITE: No, I think the Fund has more problems, and you have followed it right from the beginning. I think it would be unfortunate if at this critical period you abandoned the Fund. The next few days are important.

H.M.JR: Try and do both, will you, Ned? Do the best you can. We had to have this meeting this morning. I don't know how the rest of you feel, but I think it was most fruitful.

MR. VINSON: I do, too.

H.M.JR: What else, Dean, please?

MR. ACHESON: On Committee Three, which would be Committee Seven, there are two subcommittees; one of those has to do with management questions. We would like to ask Senator Wagner to do as he has with the Fund - technician, Mr. Minskoff, who will stay with you.

MR. WAGNER: Where is that?

MR. ACHESON: That will meet tomorrow at eleven-thirty.

There is another subcommittee of that one which is on relations with other international organizations, to which I thought I would go, because UNRRA and the Food organization, and those things, come into it, with Mr. Luthringer and Oscar Cox.

Then there is one other subcommittee in which there are legal questions of immunities, and so forth, and Mr. and I can do that.

MR. WHITE: Dean, I think, speaking of subcommittees, you didn't mention the fact that Representative Wolcott ought to attend both subcommittees, if possible, because he is the leader of what you call Committee Three. You were just assigning subcommittees, but the Committee itself--

MR. WOLCOTT: I haven't made any contribution to Ned Brown on his Committee and I haven't been able to, anyway, but I would like to be there to give him moral support. In the last two or three days we have been so busy with the Russians, I haven't been able to be there. So it is apparent that if we went into the same problems on the subscriptions that we have on the quotas, I wouldn't be able to function.

MR. ACHESON: I think he could do a big job on the quotas.

H.M.JR: Dean, could you, before you go to your Committee, give that piece of paper - unless you want to do it - to Mrs. Klotz so she could get the thing mimeographed, so everybody mentioned could get a copy of that?

MR. ACHESON: We have it downstairs all done. I will bring it up.

H.M.JR: Then she can have it distributed so each person will have it.

MR. ACHESON: Yes.

H.M.JR: I think this has been a very good meeting. I feel much better about it, and I think that we will call the American Delegation together again when we feel there is a need of it, that is all.

So the meeting is adjourned.

Bretton Woods  
July 12, 1944  
4:35 p.m.

TWENTY-FIVE PERCENT CLAUSE

Present: Mr. White  
Mr. Acheson  
Mr. Vinson  
Mr. Wolcott  
Mrs. Morgenthau  
Mrs. Klotz

MR. WHITE: Did you explain to me even though that was seven or eight years --

MR. ACHESON: We explained that, but he said that nevertheless he was sure that was going to make so much trouble that he would lose the chance on it.

H.M.JR: I think we have to kind of digest that. Don't you people want to digest it and discuss it with some of the speakers?

MR. ACHESON: Yes, but I just wanted to tell you that I go down in a minute to this committee and then I will be available.

H.M.JR: Well, as I say, the message I asked to deliver was that this wasn't urgent, but if you men could spare me a few minutes, I would appreciate it.

Now, is there anybody that you have seen that you think the five of us should know about?

MR. WOLCOTT: I haven't anything in mind, Mr. Secretary.

MR. VINSON: I don't think I have anything, either.

H.M.JR: Then tell us what happened at press.

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MR. WHITE: The first twenty minutes were spent on Russia and what they said was an ultimatum. I tried to clear that up in the way you suggested, and indicated that there was some disagreement on the interpretation of the twenty-five percent clause, and that the matter wasn't at all of fundamental importance, but just a misunderstanding that cropped up doubtless through language difficulties. I said it was a question as to possibly what consideration meant. We had given it consideration, and they thought there was an agreement on it. I can't say that I was strictly honest in the matter, but they had all the facts--nine hundred million dollars--

H.M.JR: Did they have that, too?

MR. WHITE: Oh, yes.

MR. ACHESON: That is the first time they have had that.

MR. VINSON: I hadn't seen that.

MR. WHITE: Twelve hundred without the twenty-five percent. But I tried to dodge it, give the impression that there was a misunderstanding. They said they were given until six o'clock tonight. I said, "Absolutely not."

H.M.JR: I think, Dean, I would like your advice. I think I ought to ask to call on Mr. Stepanov and assure Mr. Stepanov on my word of honor that this did not come from me and I am most embarrassed, that this is one of the things that we tried to keep in the American delegation and this is the sort of thing that happens. I want to just apologize to him and assure him this was nothing that came from me, and he would just have to take my word for it. They will think that I did this thing in order to force their hand.

MR. ACHESON: I think that is all right. I wouldn't get in a defensive position with them.

MR. VINSON: But I think you ought to think about it, Mr. Secretary. When you tell him that it didn't come from you, you are telling him something that he ought to know. He ought to know that it didn't come from you.

- 3 -

H.M.JR: What I am saying now--everybody in the room is excluded. I have had things come from people--don't misunderstand me; I am looking at you, but I don't mean you--who work in the White House--stories--I ought to know that it didn't come from there, but it did. Now, you can do any guessing that you want to.

MR. VINSON: I think I remember!

H.M.JR: I ought to know that a person of such and such a standing wouldn't give out a story to the Wall Street Journal, but he did.

MR. VINSON: All I knew was, and all I know is, that I didn't give it out.

H.M.JR: That is why I can say it to you.

MR. VINSON: It is a habit of mine not to talk.

MR. WHITE: I think it might be a nice gesture if you said you are very sorry that that has happened and we are trying to do our best to correct the situation. Just tell them that you are sorry. Don't say it didn't come from you. He knows that.

MR. WOLCOTT: I think any of us who are used to being pumped by the press can take care of ourselves pretty well, but this pressman goes around to all of the Delegations and talks to the experts and gets a little piece here and there.

H.M.JR: I arrived in Cairo, and I didn't know at the time, but the English paper turned out to be owned by anti-English Egyptians. There was a scathing article about me, and it turned out it was the same people who did the thing when the five Senators were there that they got so excited about, the same paper. Well, the American Minister, Kirk, got excited, and the Egyptians got excited, and various people.

(Mrs. Morgenthau entered the conference.)

H.M.JR: They officially came to let me know that this was something that was directed, and so forth, and so on, and it made me feel a little bit better.

- 4 -

MR. WHITE: I think it is a nice gesture. I remember that very well.

H.M.JR: You know, they have been double-crossed so often that if I don't go up and see them--

MR. VINSON: I remove any suggestions that I made.

H.M.JR: My suggestion is, just let me walk up there alone and call on Mr. Stepanov and do it very quietly, because if the thing was reversed and I was in Moscow and this thing leaked, I would think of holding a pistol to my head, and I would be awfully angry.

MR. WOLCOTT: There is some talk as to whether they were communicating with Moscow, and one of the boys told me that he has a desk or something down there near where they are sending these out, and he said they are sending out reams of this code stuff to Moscow every night.

MR. WHITE: You can tell what it would take to explain this misunderstanding!

H.M.JR: I am going to tell the American Delegation that any discussion with Russia from now on will be confined to people in this room.

MR. WHITE: You can do it without telling them so.

H.M.JR: If anybody asks what is happening, I will tell them, but the people in this room--now, certainly the people in the State Department associated with Dean are trained. My Treasury people are trained, so it is somebody who isn't trained. I have a pretty good notion, too. But certainly the people in State are trained, as are my Treasury people, but I think if we just keep it to this group--

MR. WOLCOTT: I think that anybody with the responsibility of it would realize how embarrassing it would be to the Russians and embarrassing to us.

H.M.JR: Well, there are some people who don't want us to get close to the Russians.

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MR. WOLCOTT: We are losing two of our Delegates today. Mr. Somers is going back, and I understand that Reed is going perhaps tomorrow.

MR. WHITE: Somers seemed to be unhappy while he was here.

MR. VINSON: I thought he was very happy.

H.M.JR: I know you want to go. I will see you maybe sometime this evening again, sometime after supper if you would drop in.

MR. ACHESON: All right. I have a meeting of the Steering Committee before eight-thirty. Do you want me to drop in after that?

H.M.JR: How late would it be?

MR. ACHESON: About ten-thirty, I guess. I will just come up and see if there is anybody around. If you have gone to bed, all right.

H.M.JR: Fine, thank you.

MR. WHITE: Dewey was there listening at the press conference. It will be interesting to see his reactions, and this fellow, Cocke, whom Senator George sent up. He is thoroughly sold on this plan.

H.M.JR: These people have no business in the press conference. I have never seen press conferences run this way. It is the most unheard of thing that people like Cocke and the other people should go to press conferences. It has never been done before, and the result is that people in there that are here for propaganda magazines and so forth, and so on--they just don't belong.

MR. WHITE: I suppose that anybody who is a pressman, even if he is a magazine weekly--isn't he automatically a member of the press?

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H.M.JR: What McDermott should do--it is the working press. They have to get a connection. The only day that I was in there I saw fifteen people I knew weren't press people. Now, how can you go off the record with the press with fifteen people who don't even know what it means or the ethics of it. But that is strictly McDermott's responsibility and we can't do anything about it. He has a lot of bench-warmers around there. I have never seen a press conference run like it before.

MR. WHITE: The reporters are getting enthusiastic about the Bank.

MR. WOLCOTT: Many of the delegates have told me that they have gone to the press conferences to get the picture because of the questions that have been pumped at you.

MR. WHITE: They asked me about Taft's speech, but fortunately I had had a chance to talk it over. Fred Smith and Mac advised me how to answer it.

H.M.JR: How did you answer?

MR. WHITE: I said it was one man's opinion and one of the big differences. If Taft wants to saddle the American taxpayer with a lot of extra debt, we feel the world should share it.

MR. WOLCOTT: He sent me this Monday.

H.M.JR: Could I read it and return it to you?

(Mr. Wolcott hands the Secretary copy of Mr. Taft's letter)

MR. WOLCOTT: I noticed in the paper today that one of the experts--he was to release it Tuesday morning, he told me in the letter, and then he wired it and said he wasn't releasing it until Wednesday.

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MR. WHITE: It was in this morning's Times.

MR. WOLCOTT: There were one or two comments in the Herald Tribune. Well, I am very glad you said it was one man's opinion, because the first question that was put to me--not by Senator Wagner, but by someone who overheard our conversation--the question was asked whether that was a reflection of the Republican contingent, and I told them I didn't think it was, because there was an indication that they had not cleared that statement with Tom Dewey or any of Tom Dewey's advisors before he made it. And the statement that I had had in the first of the series of statements which Tom Dewey had made--an explanation of the Republican foreign policy--was, it seemed to me, diametrically opposed to that, because Tom Dewey mentions specifically some machinery for international economic stabilization. Now, of course, he didn't mention this Conference and this plan, but his article came out after this Conference had been in session for two or three days. So you can readily draw the inference he had this Conference in mind. So I am taking the attitude that I am not going to make any statement at all to get in the squeeze between these two factions.

H.M.JR: But you indicated to them it was not the Republican Party speaking?

MR. WOLCOTT: Yes, and I called attention to the statement made by Dewey in his first release; that could be interpreted to be just the opposite.

H.M.JR: I am very happy; I am going up to see Mr. Stepanov.

July 12, 1944

I called on Mr. Stepanov. He had another Russian with him, and I explained to him that I was very sorry that the press had gotten word in part of the negotiations going on between his Government and mine. I said I had followed the practice of trying to keep the American delegation and the experts informed, and I was afraid that there was somebody who didn't want to see Russia and the United States get too friendly and, therefore, was making trouble. I also said that he should remember that Mr. Roosevelt was running for President, and the Republicans didn't lose a single opportunity to do something to hurt Mr. Roosevelt's prestige. He said he understood that, and he realized the success of this Monetary Conference would be useful to Mr. Roosevelt when he ran for President.

Mr. Stepanov was most friendly. He said that he understood Harry White had denied the story at his press conference, and I said, "Yes, they asked him a direct question and he liked like a diplomat." He said that there were really no grounds for misunderstanding between us, and that he was simply waiting word from Moscow before taking the matter up with us again.

I personally think the call was most worth while, and they seemed very appreciative.

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7-12-44

Mr. O'Connell says there was nothing in the 1940 or 1936 Democratic platforms pertaining to silver.

The following is the only mention of monetary matters in the 1940 Platform:

"We have steered a steady course between a bankruptcy-producing deflation and a thrift-destroying inflation, so that today the dollar is the most stable and sought after currency in the world - a factor of immeasurable benefit in our foreign and domestic commerce."

25  
July 13, 1944.

Dear Mr. Willett:

In the absence of the Secretary, who is away from Washington, I am acknowledging your memorandum of July 6, which transmitted copies of the Executive Reports on lend-lease operations as of May 31. This data will be brought to Mr. Morgenthau's attention immediately upon his return to the office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Mr. Herbert Willett,  
Director of Research and Reports,  
Foreign Economic Administration,  
Washington 25, D. C.

GEF/abs

## FOREIGN ECONOMIC ADMINISTRATION

WASHINGTON 25, D. C.

July 6, 1944

MEMORANDUM

To: The Honorable Henry Morgenthau  
From: Herbert Willett  
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 May 31, 1944.

RECEIVED  
JUL 10 1944  
OFFICE OF THE  
DIRECTOR OF RESEARCH AND REPORTS

**CONFIDENTIAL**  
Executive Report No. 1

**ALLOCATIONS, OBLIGATIONS AND EXPENDITURES**  
**LEND-LEASE FUNDS APPROPRIATED TO THE PRESIDENT**

Report as of May 31, 1944

(Thousands of Dollars)

Appropriation Category	Adjusted Appropriations	Cumulative to May 31, 1944		
		Allocations	Obligations	Expenditures
Ordnance and Ordnance Stores	1,592,306	1,575,179	1,438,130	1,282,333
Aircraft and Aero. Material	2,549,625	2,541,118	2,440,078	2,154,457
Tanks and Other Vehicles	739,273	701,314	656,098	627,012
Watercraft	3,621,703	3,348,939	2,969,785	2,800,864
Misc. Military Equipment	334,288	323,619	279,737	263,375
Production Facilities	1,154,688	1,112,004	1,055,237	993,928
Agric. and Indust. Commodities	13,158,929	12,914,860	10,162,003	8,782,626
Servicing, Repair of Ships, etc.	790,818	698,424	601,709	589,086
Services and Expenses	700,000	451,902	312,386	269,999
Administrative Expenses	28,999	28,217	27,490	27,267
<b>Total</b>	<b>24,670,629</b>	<b>23,695,576</b>	<b>19,942,653</b>	<b>17,790,947</b>

Procuring Agency	Cumulative to May 31, 1944		
	Allocations	Obligations	Expenditures
War Department	5,491,438	5,168,818	4,829,366
Navy Department	3,819,505	2,793,844	2,260,192
Maritime Commission and War Shipping Admin.	3,307,226	2,883,516	2,882,759
Treasury Department	4,720,638	3,693,915	2,988,510
Department of Agriculture	6,330,891	5,379,825	4,812,024
Other	25,878	22,735	18,096
<b>Total</b>	<b>23,695,576</b>	<b>19,942,653</b>	<b>17,790,947</b>

July 1, 1944

**CONFIDENTIAL**  
Executive Report No. 2

**STATEMENT OF LEND-LEASE AID**

Report as of May 31, 1944

(Thousands of Dollars)

Type of Aid	Cumulative to		Month of	
	May 31, 1944	April 30, 1944	May	April
Goods Transferred	23,606,518	22,446,386	1,160,132	1,266,135
Servicing, Repair of Ships, etc.	490,860	422,951	67,909	- 9,360
Rental of Ships, Ferrying of Aircraft, etc.	2,097,145	1,927,951	169,194	25,006
Production Facilities in U. S.	618,303	618,014	289	549
Miscellaneous Expenses	94,751	93,444	1,307	1,610
<b>Total Services</b>	<b>3,301,059</b>	<b>3,062,360</b>	<b>238,699</b>	<b>17,805</b>
<b>Total Goods and Services</b>	<b>26,907,577</b>	<b>25,508,746</b>	<b>1,398,831</b>	<b>1,283,940</b>

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 May 31, 1944				
	Br. Empire	China	U.S.S.R.	Other	Total
Goods Transferred	17,747,850	200,112	5,114,816	543,740	23,606,518
Servicing, Repair of Ships, etc.	345,267	1,893	88,867	54,833	490,860
Rental of Ships Ferrying of Aircraft, etc.	1,674,804	13,924	224,817	183,600	2,097,145
Production Facilities in U. S.	-	-	-	-	618,303
Miscellaneous Expenses	52,427	1,212	2,470	38,642	94,751
<b>Total Goods and Services</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,907,577</b>

July 1, 1944

**CONFIDENTIAL**  
**Executive Report No. 3**

**LEND-LEASE GOODS TRANSFERRED**

Report as of May 31, 1944

(Thousands of Dollars)

	Cumulative to May 31, 1944				
	Br. Empire	China	U.S.S.R.	Other	Total
Ordnance (Excl. Ammunition)	722,278	15,709	269,405	22,496	1,029,888
Ammunition and Components	1,532,272	22,204	408,666	30,408	1,993,550
Aircraft	2,181,078	71,238	769,518	108,207	3,130,041
Aircraft Engines, Parts, etc.	1,450,624	26,812	238,794	22,761	1,738,991
Tanks and Parts	2,042,822	939	426,511	39,877	2,510,149
Motor Vehicles and Parts	575,248	25,630	600,759	20,170	1,221,807
Watercraft and Parts	2,459,718	4,247	208,905	156,396	2,829,266
Foods	2,196,307	44	672,414	22,897	2,891,662
Other Agric. Products	560,398	43	7,988	126	568,555
Machinery	575,617	6,115	548,135	10,813	1,140,680
Metals	845,879	11,440	368,727	38,876	1,264,922
Petroleum Products	982,541	2,575	44,297	3,153	1,032,566
Miscellaneous Materials and Manufactures	1,623,068	13,116	550,697	67,560	2,254,441
<b>Total</b>	<b>17,747,850</b>	<b>200,112</b>	<b>5,114,816</b>	<b>543,740</b>	<b>23,606,518</b>

July 1, 1944

C  
O  
P  
YFEDERAL RESERVE BANK  
OF NEW YORK

July 12, 1944

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. white

I am enclosing our compilation for the week ended July 5, 1944, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Very truly yours,

(Signed) L. W. Knoke

L. W. Knoke,  
Vice President.

The Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington 25, D.C.

Enc.

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

Week Ended July 5, 1944.

Strictly  
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)										BANK OF FRANCE			
	D E B I T S				C R E D I T S						Net Incr. (+) or Decr. (-) in Funds (d)	Total Debits (e)	Total Credits (e)	Net, Incr. (+) or Decr. (-) in Funds (d)
	Total Debits	Gov't Expendi- tures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities Official (b)	Transfers Official Australian Account	Other Credits (c)					
First year of war (g)	1,792.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+ 299.0	
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+ 220.1	
Second year of war(h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1	
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+ 125.9	18.5	4.4	- 14.1	
Fourth year of war(j)	764.0	312.7	170.4	280.9	1,072.3	-	0.5	155.1	916.7	+ 308.2	10.3	1.0	- 9.3	
<b>1943</b>														
September	49.4	16.8	10.6	22.0	86.2	-	-	15.0	71.2	+ 36.8	-	-	-	
October	38.2	16.0	-	22.2	115.4	-	-	40.5	74.9	+ 77.2	-	-	-	
November	65.9	42.4	5.9	17.6	89.0	-	-	3.5	85.5	+ 23.1	-	-	-	
December	98.1	16.3	-	81.8	134.5	-	-	36.5	98.0	+ 36.4	-	-	-	
<b>1944</b>														
January	44.6	22.2	10.6	12.0	127.5	-	-	1.0	126.5	+ 52.7	-	-	-	
February	143.6	14.3	2.1	127.4	144.5	-	-	29.0	115.5	+ 0.7	-	-	-	
March	152.9	71.1	12.5	69.3	133.3	-	-	24.5	108.8	- 19.6	-	-	-	
April	134.8	14.9	-	119.9	122.2	-	-	27.5	94.7	- 12.6	-	-	-	
May	125.1	28.8	8.1	88.2	164.7	-	-	37.0	127.7	+ 39.6	-	-	-	
June	101.9	24.1	-	77.8	95.7	-	-	28.0	67.7	- 6.2	-	-	-	
July														
August														
<b>Week Ended</b>														
June 14, 1944	13.5	4.4	-	9.1	12.1	-	-	-	12.1	- 1.4	-	-	-	
June 21, 1944	10.2	7.6	-	2.4	56.1	-	-	12.0	44.1	+ 45.9	-	-	-	
June 28, 1944	9.2	1.6	-	7.6	10.3	-	-	6.0	4.3	+ 1.1	-	-	-	
July 5, 1944	72.8	5.7	0.2	66.9(i)	6.7(k)	-	-	1.0	5.7(k)	- 66.1	-	-	-	

Average Weekly Expenditures Since Outbreak of War  
 France (through June 19, 1940) \$19.6 million  
 England (through June 19, 1940) \$27.6 million  
 England (through June 20, 1940 to March 12, 1941) \$54.9 million  
 England (since March 12, 1941) 21.5 million

See attached sheet for footnotes.

- [REDACTED]
- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
  - (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Murgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
  - (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts. See (k) below.
  - (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
  - (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
  - (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
  - (g) For monthly breakdown see tabulations prior to April 23, 1941.
  - (h) For monthly breakdown see tabulations prior to October 8, 1941.
  - (i) For monthly breakdown see tabulations prior to October 14, 1942.
  - (j) For monthly breakdown see tabulations prior to September 29, 1943.
  - (k) Includes \$ 3.2 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports.
  - (l) Of which \$ 50.1 million represents cost of gold purchased for export.

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

Week Ended July 5, 1944

Strictly  
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS			CREDITS					DEBITS			CREDITS				
	Total Debits	Transfers to Official British A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds (e)	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds (e)
First year of war (a)	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
Fourth year of war (d)	723.6	-	723.6	958.8	47.1	170.4	-	741.3	+ 235.2	197.0	155.1	41.9	200.4	-	200.4	+ 3.4
1943																
September	47.2	-	47.2	70.1	-	10.6	-	59.5	+ 22.9	16.8	15.0	1.8	20.0	-	20.0	+ 3.2
October	32.1	-	32.1	71.3	-	-	-	71.3	+ 39.2	42.8	20.5	2.3	26.5	-	26.5	- 16.3
November	15.4	0.1	15.3	95.1	-	5.9	-	89.2	+ 79.7	6.6	3.5	3.1	18.2	-	18.2	+ 11.6
December	146.8	0.3	146.5	55.1	-	-	-	55.1	- 91.7	39.7	36.5	3.2	27.0	-	27.0	- 12.7
1944																
January	32.3	-	32.3	78.5	-	10.6	-	67.9	+ 46.2	6.0	1.0	5.0	11.3	-	11.3	+ 5.3
February	25.4	-	25.4	118.5	23.1	2.1	-	93.3	+ 93.1	31.3	29.0	2.3	28.6	-	28.6	- 2.7
March	30.3	0.5	29.8	88.6	15.0	12.5	-	61.1	+ 58.3	27.6	24.5	3.1	29.9	-	29.9	+ 2.3
April	183.6	-	183.6	96.7	-	-	-	96.7	- 86.9	29.5	27.5	2.0	39.4	-	39.4	+ 5.9
May	154.2	-	154.2	86.3	-	8.1	-	78.2	- 67.9	42.6	37.0	5.6	39.6	-	39.6	- 3.0
June	100.1	0.1	100.0	63.3	-	-	-	63.3	- 36.8	31.4	28.0	3.4	21.8	-	21.8	- 9.6
July																
August																
Week Ended																
June 14, 1944	7.4	-	7.4	11.3	-	-	-	11.3	+ 3.9	1.6	-	1.6	16.1	-	16.1	+ 14.5
June 21, 1944	3.5	-	3.5	12.1	-	-	-	12.1	+ 8.6	12.0	12.0	-	5.3	-	5.3	+ 6.7
June 26, 1944	25.9	0.1	25.8	10.6	-	-	-	10.6	- 15.3	6.3	6.0	0.3	-	-	-	- 6.1
July 5, 1944	67.5 (f)	-	67.5 (g)	26.7 (h)	-	0.2	-	26.5 (i)	- 40.8	3.0	1.0	2.0	13.5 (1)	-	13.5 (1)	+ 10.5

Average Weekly expenditures for

First year of war	6.2 million.
Second year of war	8.9 million.
Third year of war	10.1 million.
Fourth year of war	13.9 million.
Fifth year of war (through July 5, 1944)	17.6 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.  
 (b) For monthly breakdown see tabulations prior to October 8, 1941.  
 (c) For monthly breakdown see tabulations prior to October 14, 1942.  
 (d) For monthly breakdown see tabulations prior to September 29, 1943.  
 (e) Reflects changes in all dollar holdings payable on demand or maturing in one year.  
 (f) Does not reflect transactions in short term U. S. securities.  
 (g) Includes \$ 1.0 million deposited by War Supplies, Ltd. and \$ 25.3 million received from New York account of Canadian Chartered Bank.  
 (h) Includes payments of \$56.7 million to New York agency of Canadian Bank to cover redemption of Canadian National Railway 5% bonds, due 7/1/69 but called for redemption 7/1/44.

(1) Includes \$13.0 million in connection with the expenses of our armed forces abroad.

BE-947  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Algiers

Dated July 12, 1944

Rec'd 11:30 p.m.

Secretary of State

Washington

2371, July 12, 6 p.m.

FOR WRB FROM MURPHY.

Reference my 1937, June 10, 9 p.m.

In connection with proposed establishment of refugee camp near Philippeville reply has now been received from French authorities accepting in principle Allied proposal for establishment of such camp and suggesting the setting up of a commission composed of representatives of the Inter-Allied General Staff, of representatives of the FCNLP and eventually a representative of Yugoslav Government, which would establish without delay rules and regulations for administration of the refugees for duration of their stay in North Africa and establish conditions under which Allied authorities will coordinate with French authorities all arrangements necessary in connection with lodging, feeding and maintenance of such refugees.

CHAPIN

WSB

AIRGRAM

SECRET

From: Port-au-Prince, Haiti,  
Date: July 12, 1944.  
Rec'd: July 17, 8 am

URGENT

The Secretary of State,  
Washington, D. C.

A-369, July 12, 11:00 a.m., 1944.

I brought to the attention of the Minister for Foreign Affairs today the information transmitted in Department's airgrams Nos. A-214 of July 5, 12:30 p.m. and A-216 of July 5, 2:00 p.m., 1944, and enquired whether the Haitian Government had reached any decision after making the study referred to in my airgram No. 321 of July 15, 11:00 a.m., 1944.

The Minister replied that the Haitian Government will issue instructions to the Legation at Bern to inform the German Government through the Swiss authorities that Haiti considers all of its passports held by persons in enemy or enemy-occupied territory valid until an examination of each case shall have been made. This applies to those persons who were unable to comply with the Decree-Law of February 4, 1942, as well as to those persons holding documents whose validity is open to doubt.

The Minister stated that this decision, which he will confirm to me in writing, will require the approval of the Council of Ministers, a meeting of which will be held soon, but that he does not anticipate any objections from that body.

He added that it is purely a humanitarian measure and that the Haitian Government considers that many of the persons who will benefit by it are undesirable. I gathered that, after the conclusion of hostilities, unfavorable decisions will be reached in many cases.

WILSON

File: 800.1  
OW:mak

**S E C R E T****CABLE TO AMBASSADOR NORWEB AT LISBON AND DEXTER**

A neutral government is about to dispatch new attache to its legation Budapest as a result of message similar to that contained in Department's 1479 of May 25, WRB's 31. He is generally familiar with Board's program and has had extensive conversations with Board's representative concerning immediate problems, which he is prepared to attempt to deal with through any available channels on practical basis. He is prepared also to operate on specific projects suggested by Board. In view of ultimate sentence of your 2095 of July 7, your 94 to WRB, you may desire that he contact specific persons or undertake specific projects. If so please advise the Board promptly.

THIS IS WRB LISBON CABLE NO. 56.

\*\*\*\*\*

July 12, 1944  
10:00 a.m.

LSLesserideh 7/11/44

MS  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

July 12, 1944

9 p.m.

AMEMBASSY,

LISBON.

1976

The cable below for Norweb and Dexter is WRB no. 56.

A neutral government is about to dispatch new attache to its legation Budapest as a result of message similar to that contained in Department's 1479 of May 25, WRB's 31. He is generally familiar with Board's program and has had extensive conversations with Board's representative concerning immediate problems, which he is prepared to attempt to deal with through any available channels on practical basis. He is prepared also to operate on specific projects suggested by Board. In view of ultimate sentence of your 2095 of July 7, your 94 to WRB, you may desire that he contact specific persons or undertake specific projects. If so please advise the Board promptly.

HULL  
(GLW)

WRB:MMV:KG  
7/12/44

WE

S/CR

CABLE TO MINISTER JOHNSON AT STOCKHOLM AND OLSEN

The War Refugee Board requests that you deliver the following message to Mr. Hilel Storch, Furusundsgatan 10, Stockholm:

QUOTE Understand Analie Pesse, Rindalgatan 44, Stockholm informed Theresienstadt situation and in possession Theresienstadt lists. Please check recent news concerning deportations from Theresienstadt for extermination in Birkenau and send to us through War Refugee Board full reports as well as lists of Theresienstadt inmates.

WORLD JEWISH CONGRESS  
LEON KUBOWITZKI UNQUOTE

THIS IS WRB CABLE TO STOCKHOLM NO. 53

\*\*\*\*\*  
July 12, 1944  
10:00 a.m.

BAKvintar 7/10/44

Distribution of true  
reading only by special  
arrangement. (SECRET W)

July 12, 1944  
8 p.m.

AMLEGATION,

STOCKHOLM.

1386

The WEB cable 52 below is for Olsen.

Information received here to the effect that Portuguese Legation Budapest has extended refuge to Vilmos and Gauka Gabor, Hungarian Jews who are the parents of Mrs. Conrad N. Hilton the wife of an American citizen. The Portuguese Minister Budapest is reported to have arrived in Switzerland with another daughter Magda Bichovska. This action on part of Portuguese indicates that Wallenberg may perhaps secure cooperation from that quarter.

HULL

(GLW)

WEB:MMV:KC  
7/12/44

S/CR

NOB

SE

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington  
TO: American Legation, Bern  
DATED: July 12, 1944  
NUMBER: 2387

CONFIDENTIAL

TO MINISTER HARRISON AND McCLELLAND.

Pehle has been in consultation with Swiss Minister here in an effort to secure without delay the Swiss franc equivalent of \$1,500,000 for extraordinary relief purposes. You are requested urgently to discuss this matter with Kohli of the Swiss Political Department. This relates in part to JDC compliance with Saly Mayer request reported in your 4258 of July 5.

THIS IS WRB CABLE BERN NO. 81.

HULL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern  
TO: Secretary of State, Washington  
DATED: July 12, 1944  
NUMBER: 4409

## SECRET

Delivery of following message to Velics Cairo, Wodianer Lisbon, Apor Vatican City, Ambra Madrid, and Ullein-Reviczky and Szabo Stockholm, has been requested by Bakach-Besseney. For text of appeal referred to, see my message of July 12, Number 4411.

That the following joint personal appeal,  
which has been signed by all dissident ministers,  
should be read on radio ~~Berona~~ and I are sure you  
will agree. I shall take it that you agree, if  
I have no reply.

HARRISON

CABLE TO ANKARA

Please deliver the following message to Robert F. Kelley, Foreign Service Officer, from J. W. Pehle.

In response to your 1233 of July 7, assume you have received by now our 610 and 621 in this connection.

THIS IS WRB CABLE TO ANKARA NO. 80

July 12, 1944  
12:25 p.m.

WStewart:pdk 7/11/44

Distribution of true  
reading only by special  
arrangement. (SECRET W)

July 12, 1944

6 p.m.

AEMBASSY,

ANKARA.

630

The WRB cable no. 80 below is for Kelley from Pehle.

In response to your 1233 of July 7, assume you have  
received by now our 610 and 621 in this connection.

HULL

(GLW)

WRB:MMV:EG  
7/12/44

NE

S/CR

Distribution of true  
reading only by special  
arrangement. (SECRET W)

July 12, 1944

7 p.m.

AMEMBASSY,

ANKARA.

631

The following WRB cable 79 is for Hirschmann.

Please refer to your 1218 of July 5.

The Board is highly pleased to learn of the Jewish Agency's success in obtaining five ships for evacuations from Constanza. In view of the recommendation of Ambassador Steinhardt and yourself and in view of the fact that the operation of refugee evacuation ships without safe conduct appears to be the only means for rescuing appreciable numbers of refugees in the Balkan Black Sea Area, the War Refugee Board agrees to the program in question and undertakes to participate in the moral responsibility. It seems to us that this is a preferable alternative to abandoning refugees to their fate in enemy territory.

Although a Russian safe-conduct may not be absolutely necessary inasmuch as the evacuation vessels are not enemy ships, it is assumed that the Russian Government has been advised at least informally of these evacuation operations through its Ambassador at Ankara. If a formal safe conduct is later deemed desirable, it is suggested that you contact Ambassador Harriman directly.

HULL  
(GLW)

WRB:MMV:KG  
7/12/44

NE

EE

S/CR

CABLE TO AMERICAN CONSULATE, ISTANBUL, FOR JOSEPH SCHWARTZ

Please deliver the following message to Joseph Schwartz, from Moses A. Leavitt of the Joint Distribution Committee:

"Understand twelve hundred Jewish internees in Camp Jassenovac Croatia to whom food parcels could be sent by International Red Cross from Turkey advise whether this camp included in Simond's program Stop Cayou ascertain discreetly and cable through Consulate whether in what amounts and in what form refugees from Rumania and Balkans are bringing currency or other liquid resources to Turkey Stop We cabled Herbert Emerson few heavy demands being made on us for rescue operations we request Intergovernmental Committee to consider taking over for last six months this year our credit authorizations as follows \$40,000 monthly Rumania \$25,000 Hungary, \$100,000 France and \$10,000 Italy total one million fifty thousand Stop Also asked that Rumania and Hungary authorization be increased for account Intergovernmental Committee Stop We will keep you advised Stop Regarding export of shoes from Palestine question of blockade involved and we exploring possibilities Stop Please send soonest if possible through pouch list of people arrived Turkey through exchange happy Van Tijn among them."

July 12, 1944  
12:25 p.m.

FH:db 7/12/44

DEPARTMENT  
OF  
STATE

INCOMING  
TELEGRAM

70  
DIVISION OF  
COMMUNICATIONS  
AND RECORDS

LL-890

PLAIN

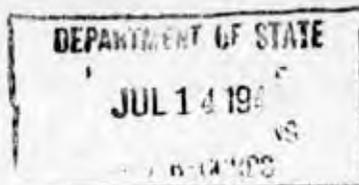
London

Dated July 12, 1944

Rec'd 9:25 p.m.

Secretary of State,  
Washington.

5505, July 12.



FOR SECRETARIES OF STATE AND TREASURY.

The following is a review of the main items of interest concerning the Bretton Woods Conference as reported in the London press of July 12:

THE FINANCIAL TIMES carries a lengthy report of the Indian delegations compromise proposal for the inclusion of a partial sterling balance settlement in the funds scope, with quotations from the UK, US and French statements detailing reasons for nonacceptance of the Indian proposal. THE FINANCIAL TIMES also comments on the prospects of success of the Conference by the writer of its "Money Market Notes" column. This writer considers that the Bretton Woods discussions are "anything but plain sailing" and states that "in well-informed circles in London hopes are expressed

-2- #5505, July 12, from London.

are expressed that a compromise will be reached". He adds that if a deadlock is reached, failure to form an all embracing, international currency front would hinder postwar recovery, but it need not necessarily mean international chaos, and concludes, "The alternative to an international agreement might well be the development of the sterling bloc as far as possible - an idea, incidentally, proposed on more than one occasion by many observers".

THE FINANCIAL NEWS gives front page prominence to the Indian sterling balance compromise proposal. In stating that "India's proposal is opposed by the United Kingdom, the US and France", it quotes at length from the Keynes statement on British and Russian "imprudence" in fighting the war on the principle of unlimited liability and also quotes from the American and French statements. It also reports the Norwegian proposals for the liquidation of the BIS, the exclusion of Germany and Japan from the fund and the bank; the creation of an international banking unit called "demos" the use of gold contributions to the fund as  
cover

-3- #5505, July 12, from London.

cover for note issues; and for the designation of their currency in the fund as additional fiduciary money not to be covered by gold. A short item on the Mexican and Bolivian silver proposal states that the chances of adoption are slim. This paper's Lombard Street column by Paul Einzig is devoted to the BIS. Einzig urges that the BIS be liquidated but had expected that the proposal might come from Czechoslovakia whose gold was handed by the Bank to Germany. He points out that the BIS as a medium of cooperation between central banks is an "anachronism" and a "dead horse" since the power of central banks in determining policy has declined and their place has been taken by treasuries, which will inevitably control the proposed international institution.

Oscar Hobson in the NEWS CHRONICLE discusses the progress of the money talks and states that "the belief now seems to prevail in informed quarters in the city that it is going quite reasonably well - at least as well as one had any right to expect at the start and much better than was suggested by the gloomy

hints

-4- #5505, July 12, from London

hints at a possible breakdown which were being put out even a few days ago".

He notes that politics, as must be expected in international conferences, have intruded vigorously, but that it is better that issues bulking largely in the minds of participating countries should be frankly discussed. He cites Russia's change from indifference when the proposals were just propounded, to a pitch of interest leading to her successful bid for a larger quota. He also instances the attempt by the Indian delegation to "thrust into the foreground" the question of its sterling balances.

He shares Intel's doubts as to the probable scarcity of dollars so far as the early years after the war are concerned due to the high price of goods in the US which he attributes to "the great advance in wage rates", but he points out that such questions as the duration of the Japanese war and of Lease-Lend policy will also enter into the matter.

THE DAILY TELEGRAPH financial editors, commenting on the proposal for the liquidation of the BIS, say  
that it is

-5- #5505, July 12, from London.

that it is apparent that its functions must be superseded by those of the proposed new bank which aim at controlling the flow of investment. "Like the League of Nations, the BIS can claim to have been ahead of its time in its own sphere. It must now give way to new institutions forged from new experience."

This paper also carries a short news item on the reconstruction bank proposal mainly of reader interest.

WII NT

EJH

DEPARTMENT  
OF  
STATE

INCOMING  
TELEGRAM

DIVISION OF  
COMMUNICATIONS  
AND RECORDS

LFG-769

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

New Delhi via Army

Dated July 12, 1944

Rec'd 3:03 p.m.

DEPARTMENT OF STATE  
JUL 14 1944  
DIVISION OF  
COMMUNICATIONS & RECORDS

Secretary of State,  
Washington.

507, July 12, 1 p.m.

On July 11 the Finance Department of the Government of India issued a press communique which reads as follows:

"Government's attention has been drawn to the Reuter message containing what purports to be a statement made by an International Monetary Conference spokesman at Bretton Woods, U. S. A. to the effect that the 100,000,000 ounces of silver recently Lend-Leased by the United States Government to India is being used exclusively for coinage. Government wish to make it perfectly clear that the objects for which this silver was acquired, as agreed between the United States Government and the Government of India, were as stated in government's press communique issued on June 15 last, viz. for coinage and for sale to the public, if required, in furtherance of Government's anti-inflationary policy. There has been no change in those objects".

MERRELL

JMS EDA

NOT TO BE RE-TRANSMITTEDCOPY NO. 11SECRETOPTEL No. 227

Information received up to 10 a.m., 12th July, 1944.

1. NAVAL

One of H.M. Submarines yesterday torpedoed a northbound transport south of KOS. Another of H.M. Submarines reports having torpedoed 1st 1,100 ton ship approaching ANDAMANS and on 4th probably torpedoed 2,000 ton ship off NICOBARS.

2. MILITARY

NORMANDY. U.S. Troops have made a series of limited advances. On the night they have reached ANGOVILLE, 3 miles south LA HAYE DU PUIITS and astride CARENTAN-PERIERS Road their leading troops are about 4 miles from latter place. Further attacks N.W. and N.E. of ST. LO have resulted in limited advances. Strong German resistance to U.K./Canadian advance towards ORNE and very heavy fighting. Our troops have held firm to the high ground between ESQUAY and ETERVILLE against German counter-attacks. Canadians now on outskirts of LOUVIGNY. Though village and neighbouring woods held by enemy. German losses heavy.

ITALY. Little change in general situation; stiff German resistance especially in French and U.S. sector. Small gains ADRIATIC Sector but no substantial changes PERUGIA/AREZZO areas. In the west our positions have been improved and minor advances have taken place.

RUSSIA. Russians have captured VILNA and made further progress N.W. POLOTSK, S and S.W. DVINSK, W. and S.W. BARANOWICZE and towards PINSK.

3. AIR OPERATIONS

WESTERN FRONT. 11th. 1,047 Fortresses and Liberators bombed objectives MUNICH area as follows: railway centre 1,526 tons; aero-engine works 374; and airfield 194. All with unobserved results owing to cloud. Lancasters, Marauders and Bostons dropped 175 tons on flying bomb launching site in the ABBEVILIE/AMIENS area and 190 tons on fuel dumps and a railway bridge in NORMANDY. 640 fighters flew armed reconnaissances over Northern FRANCE and 192 patrolled the bridgehead. German casualties 4, 0, 1. Ours - 20 U.S. heavy bombers, 11 Allied fighters missing.

ITALY AND SOUTHERN FRANCE. 10th. 115 medium and light bombers and 270 fighters (1 missing) attacked objectives Northern ITALY and in battle area. About 200 more fighters attacked objectives Western Italy and Southern France.

10th/11th. 83 bombers (1 missing) dropped 146 tons on MILAN railway centre.

4. GERMAN ACTIVITY

6 a.m. 10th to 6 a.m. 11th. Flying bombs launched - 83; destroyed by fighters 18; anti-aircraft - 5; balloons - 2. Total 25. During 24 hours ended 6 a.m. 12th, 116 flying bombs launched of which 87 crossed coast.

Bretton Woods  
July 13, 1944  
9:00 a.m.

STEERING COMMITTEE

- Present: Mr. White
- Mr. Luxford
- Mr. Acheson
- Mrs. Klotz
- Mr. Vinson
- Mr. Wolcott
- Mr. Luxford

H.M.JR: Will somebody start?

MR. ACHESON: The one I think that would interest Mrs. Morgenthau more of these two is probably 3-A of Commission 2, which begins at nine-thirty, and which has the relationships with the ILO and the Food organization. There is going to be quite a little flurry in this because these people want the bank to do quite a little for them.

H.M.JR: Well, tell her that when she comes in.

Now, Dean, do you want to tell me?

MR. ACHESON: I can't tell you nearly as well as Judge Vinson can, because they had a meeting last night of a lot of the technicians and delegates at which I was not present because I was in the Drafting Committee of Commission 2. I have the notes of what I was told went on there.

H.M.JR: Would you rather wait until he comes and let Harry report?

MR. ACHESON: I would rather wait, yes.

H.M.JR: Anything as between you and the other delegates?

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MR. ACHESON: There is one thing I would like to ask Luxford about, and that is whether we have gotten out that 7-A and B on the Fund.

MR. LUXFORD: Final provisions? We whipped that out, and we cleared it through the Drafting Committee yesterday so somebody would act on it. It will go into the document today. In fact, it is in that document. We just usurped it because nobody else is willing to handle it.

H.M.JR: Durbrow wouldn't go to the Russians without my telling him to, would he?

MR. WHITE: No, no, he is outside.

H.M.JR: I think it is a mistake to keep running to them.

MR. WHITE: Some of the boys are disturbed about the way Ned Brown is handling that Bank and the impression he is creating about the nature of the Bank, and the disparaging way in which he is speaking of some of the countries.

H.M.JR: Harry, I have an idea which may not be worth anything, but Mr. Cox, of Atlanta, appeared on the scene. There is quite a lot of publicity, and he is here officially representing the Chairman of the Senate Post-War Committee, Mr. Walter George--he is here officially for him.

MR. ACHESON: Is he? I didn't know he was here.

H.M.JR: Your office knows all about it. I cleared it through Kelchner; he arranged for him to come, and telegraphed him to come. I take it when I ask Kelchner it is up to him to tell you.

MR. ACHESON: Absolutely.

H.M.JR: He is most enthusiastic.

Now, he says, "I had a long talk with Senator George and the other Senator from Georgia, and Senator George

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isn't quite sold on this thing, but he says this is one of the greatest things for the Southeast there could be." What I am getting at is this: If you are having trouble with Ned Brown, why don't we start off working this fellow in?

MR. WHITE: Well, it is not the sort of trouble, and I don't think this fellow would be of any help.

H.M.JR: He is a very powerful fellow, and he is here representing the Chairman of the Post-War Committee. He is one of these extroverts; he wants everybody to know it. I think his influence on the foreigners might be good. Let's just stop and think a minute.

MR. LUXFORD: Well, I heard the same report Harry is talking about, and the criticism was made that Ned, in addressing a meeting, very freely cast derogatory remarks toward other countries present.

MR. WHITE: I am not interested in that so much as I am the Bank.

MR. LUXFORD: In the Bank meetings?

MR. WHITE: No, on the Bank.

H.M.JR: What is he criticizing, the other countries or the banks?

MR. LUXFORD: I understand both.

MR. WHITE: I heard both, but--

H.M.JR: May I again repeat what I am saying, that if Mr. Cox were delegated--given some kind of authority so he could sit beside Ned Brown or back of him, I mean--and if Ned Brown does something like this he could just tap him on the shoulder and say, "Wait a minute, that isn't the way we feel down in thirteen States in the Southeast that I am looking after."

MR. WHITE: It isn't that kind of a thing.

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H.M.JR: I am going to argue a little bit more with you. Ned Brown is this way, and you bear me out, because he feels he has to do this sort of thing because he is the only banker here. He is Chairman of the Federal Reserve Advisory Committee. He is here representing the ABA, and he most likely is leaning over backwards so that they won't say, "Well, you didn't have to go as far as you did."

And if you get another banker with the backing of Senator George who is sitting beside him, who is most enthusiastic, it can't hurt, and it might back him up and make him feel that maybe he isn't the only banker in the country. What do you think, Dean?

MR. ACHESON: I think it might help. I think Ned Brown is tired out.

MR. LUXFORD: That is the point.

MR. ACHESON: He has worked terrifically hard on this for a long time, and he is a big fat man, and that takes a lot, anyway.

MR. WHITE: He has cried a couple of times.

MR. ACHESON: He is really simply exhausted.

MR. WHITE: I don't know whether that is an exaggeration.

MR. LUXFORD: I heard the same report, that he broke down and cried.

MR. WHITE: I think, Mr. Secretary and Dean, if it is all right with you, when the Commission meets, of which you are in charge, I would like to be with you, and if you call on anybody but yourself, I would like you to call on me.

MR. ACHESON: I should be glad. In fact, I would be delighted to take this job of leading it because I don't know enough about this thing.

MR. WHITE: It isn't what you are doing; you are handling it very well. It is what he does. He means well,

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but it is comparable to petting a cat and then giving it a kick that will send it fifty feet. What a knife-thruster! But there is no way of handling him except to keep him seated. I don't mind him in the meeting, but--

H.M.JR: Again, how would you feel? You have thirty or forty advisers and technicians. This fellow is here.

MR. ACHESON: I don't think you want him in the meeting, Henry. I think if you could talk to Ned outside, calm him down and support him--

MR. LUXFORD: I think Brown's personality is so much stronger than Cox's that he would just mow him down. You would have another Brown rather than another Cox.

H.M.JR: No, you are wrong. This fellow has come up here representing Senator George. I talked to him about Coca-Cola, and he told me Coca-Cola had set aside eight million dollars for foreign business the minute the armistice is signed. They have thirty-five plants in foreign countries. They don't know whether they exist, but they have a terrific interest in this proposal. I know this--

MR. WHITE: Yes, he is pretty aggressive.

MR. LUXFORD: I grant you that, but I know Brown, too.

H.M.JR: He would be wonderful for the foreigners.

MR. WHITE: But Brown will take a particularly poor vision.

H.M.JR: Dean, you think about it.

MR. ACHESON: I think you ought to get him to talk to Brown.

MR. LUXFORD: I agree with that, but I don't think you can get him into the meetings.

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MR. WHITE: I think if we can have that arrangement, that at Commission meetings I sit at your left or rear--

MR. ACHESON: Why not at Commission meetings--you take that over and I will sit at your left?

MR. WHITE: No, I wouldn't think of it, but occasionally when there are technical questions--if they are to be handled, either I would like to handle them or indicate which of the technicians can handle them. Then I will be sure that the fellow who gets up and speaks will--

MR. ACHESON: I will do it any way you say. But I think it would be better for you to take on--

H.M.JR: Listen, Alphonse and Gaston, if I may, I think Dean should continue as he is, and it is agreeable for him to have White at his rear, but not too far to the rear.

MR. WHITE: Right rear, Mr. Secretary!

H.M.JR: Front and center.

MR. WHITE: Now, I saw the Russians last night. They got a message to come at ten o'clock. I thought surely they had something important to say, and I got hold of Judge Vinson and called up to say I would like to come up with Judge Vinson. They said it was nothing important, just to see about the agenda tomorrow. So I went up alone.

H.M.JR: Yes, professor.

MR. WHITE: Then what they wanted to do was for us to postpone taking up all the items that were on that list, saying they hoped to hear tomorrow morning, but if they hadn't heard, they didn't want to discuss it. I tried to narrow down those items which couldn't be discussed, and we spent over an hour on Four alone and got them to agree on everything except price indexes. They had all kinds of technical reasons. Then we also discussed the other question, which was equally important, and uppermost in their mind, who shall determine whether or not an alteration in exchange

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rates affects international trade. You remember that point. We said the Fund determines it, and they said the Government did.

Anyway, after about two hours I gave up. It was hot as blazes there and they said, "We need six more hours to get through with this."

Now, that raises the question as to whether or not we can stop all of those things from coming up in the Commission.

MR. ACHESON: You can't.

MR. WHITE: I told them I would talk to you this morning to see whether anything could be postponed.

Now I think the only thing that could be postponed, Mr. Secretary--everybody knows now--is about the twenty-five percent contribution. I mean, everybody in the building knows that we are waiting to hear from Russia on that, and possibly about newly-mined gold.

But the other matter--I don't think we can stop that.

MR. ACHESON: No.

MR. WHITE: I don't know what the position is going to be if we pass that.

H.M.JR: I don't know--did I see you after I went up to the Russians to make my apologies?

MR. ACHESON: No.

H.M.JR: They received it extremely well and seemed to like it. One remark they made that I forgot to report was that there will be no black cat pass between us. I thought that was rather nice. And then as I got up to go he said, "We feel that there are good grounds for a misunderstanding, and we are simply waiting to hear from Moscow," which I thought was encouraging.

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MR. WHITE: They said they hoped to hear this morning, but it will take a lot more to win them around. It just takes time, that is all, an inordinate amount of time.

H.M.JR: Well, what else is there?

MR. WHITE: You can postpone judgment until about half an hour before.

H.M.JR: Before the meeting? Yes, I would wait until the last minute. I have this call coming through, I hope. Once it came through very well and once it came through very badly.

MR. LUXFORD: Do you think it would be bad if they were voted down a couple of times in that meeting?

MR. WHITE: But you can't bring some of these matters up to a vote and then confront them with a fait accompli. It merely is irritating. If you can avoid it--

H.M.JR: I thought that in order to save the nerves of you people, and so forth, and so on, I would not have a meeting of the American Delegation this morning. I will give you all the time I can. But I don't want to have these people begin to feel that they are being left out.

What would your advice be, Dean? When do you think I should call them together?

MR. ACHESON: I don't think they feel they are being left out.

H.M.JR: Do you think I should have one this afternoon?

MR. ACHESON: No, I don't think you can this afternoon, because you are having Commission One meeting at two-thirty, and Commission Two meeting at five o'clock.

H.M.JR: Why don't I do this so that they know there will be one, call one today for tomorrow morning so they know there will be another one?

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MR. WHITE: Or it might be reasonable to call one after the two Commission meetings. The Commission meeting this afternoon is extremely important. That is where we either fish or cut bait on most of these things. There ought to be a meeting after that, and appropriately tomorrow morning. If it is in the morning, it won't last very long, because there will be other meetings at ten o'clock, or nine-thirty. So if you can, meet at nine-thirty tomorrow morning so you can get out by ten and go over some of the things that happened at the Commission meetings.

H.M.JR: Why don't we do this, Mrs. Klotz? We will have the American Delegation meet at nine-thirty, and I want somebody to pass on who the technicians are who are going to come so they just don't come in indiscriminately. Who invites these people?

MR. WHITE: I have invited some of them; others have drifted in. We can easily curtail the list by not notifying them. The only one from my staff that I want in here is E. M. Bernstein. Luxford will be there, and Pete will be there. I think that Goldenweiser--

H.M.JR: Whom do you want?

MR. WHITE: Ness, who writes up the reports.

H.M.JR: Do you want Oscar Cox?

MR. WHITE: Yes.

H.M.JR: Now who would you like?

MR. ACHESON: Pasvolsky and Pete.

MR. WHITE: I think Jim Angell, unless you want to cut it down.

MR. LUXFORD: Goldenweiser.

H.M.JR: Yes.

MR. LUXFORD: And Frank Coe.

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H.M.JR: Yes.

Then you give that list to Joe and let him stand there with a six-shooter in his hand and say that those are the ones who are to come in.

MRS. KLOTZ: O.K.

H.M.JR: I don't know where the leak is, but I am going to cut the thing down.

MR. LUXFORD: I understood from Durbrow that right after this meeting we had with the Russians they went in to the press and reported this meeting with the Russians the other afternoon. I saw it in the paper.

H.M.JR: I don't get you, Luxford.

MR. LUXFORD: You know the conference we had with the Russians on the quota. According to Durbrow that was in the papers the next day.

H.M.JR: I didn't see it.

MR. WHITE: By the way, many of the men who have been attending these meetings--the State Department boys, Miller, Wright, and White--it has been very excellent for them because they have picked up an awful lot of things here and have the feeling of it which they have had an opportunity to use. They have done excellent work, but it won't be necessary for them to come tomorrow.

H.M.JR: If Dean Acheson wants them in, he can just tell Mrs. Klotz.

MR. ACHESON: It helps them to know what is going on, and they go around and educate the Latins and other people, but it just depends on what is coming up. If you are going to have a discussion about the Russians, you ought to have Durbrow. Why not have them outside?

H.M.JR: Would you take care of that? You have Pasvolsky and Collado. If you want anybody else, either outside or here--

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MR. ACHESON: All right.

MRS. KLOTZ: They are practically all on again.

H.M.JR: No, that cuts the back row by two-thirds.

MR. WHITE: There is one problem coming up this afternoon that I think we need a decision on right now, and that is whether we are going to permit to come to a vote - the question of where the location of the head office is.

H.M.JR: I have a place--Fishkill.

MR. WHITE: It might not be a bad place.

MR. LUXFORD: If we are going to have any voting on these things, this may be our afternoon--

H.M.JR: So we can give them a cocktail party every afternoon.

MRS. MORGENTHAU: Or a clambake.

MR. WHITE: Rather than bring that on with the British, why not postpone it until the last meeting on the Fund-- just dodge it?

MR. LUXFORD: You have all the Latin Americans who will be voting as a body today.

MR. WHITE: But there will be no question of their voting for the Fund. What do you think? It is just a matter of tactics. That is something that is extremely important to the British. I don't know what they can do if we do get up. We will vote it through, and what will they do, make a reservation, or what is the procedure?

MR. LUXFORD: You either accept the document, or you don't.

MR. WHITE: They are almost licked. What do they do? Publicly say, "We object because of some other reason." That is why I want to go through the whole Fund before we

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get to that and make that almost last. We have had agreement on whatever you can get agreement on, and then that is the issue. If we have other issues, they may use the other issues as an excuse, which would place them in quite a different position. So what do you think? Is it your judgment we ought to leave it until the last?

H.M.JR: I don't think it makes an awful lot of difference. Can you settle it on the spot?

MR. WHITE: What we can do is take it up in its order, and it is close.

H.M.JR: Close to the end?

MR. WHITE: No, close to the beginning. I am inclined to think it had better be postponed if it can easily be done, but we don't have a good reason for postponing it.

H.M.JR: May I say this: If it is so obvious that you are postponing it because you think it is difficult, I wouldn't postpone it.

MR. WHITE: I am afraid of that.

MR. ACHESON: Have you told the British what our view is?

MR. WHITE: We said we are adamant in it. They haven't re-opened the question. He said the Exchequer wouldn't stand for it, and we said we were adamant. Now, where that leaves us, I don't know.

MR. ACHESON: Is the Judge coming to this meeting?

H.M.JR: He has been invited, yes. My feeling is this: I wouldn't do anything to show them that you are afraid of letting it come to a vote, Harry.

MR. WHITE: Why don't we just take it in the normal course of events like any other provision? If they ask us ahead of time, we will tell them, of course, that the American Delegation is going to support the provision, whatever it is. What the other countries are going to do, we don't know.

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MR. LUXFORD: If we are willing to take this thing to a vote basis, we can clean up the whole works.

MR. WHITE: That is what we are going to do this afternoon.

MR. LUXFORD: Some of these things haven't even been reported.

MR. ACHESON: If you will give those fellows we mentioned a moment ago, Miller, White, Wright, and Durbrow, a list of the important things that are coming up and what your view is, they will line up as close to twenty votes for you as they can.

MR. WHITE: You don't think it would get back to the British?

MR. ACHESON: Sure, it probably will.

H.M.JR: Don't forget Liberia; they are instructed to vote with us.

MR. LUXFORD: Liberia, the Philippines, and Ethiopia.

MR. ACHESON: Have you talked with them about their quotas?

MR. WHITE: No, I think we ought to do that this morning. We have been waiting for the other to be cleared up.

MR. ACHESON: I think they are the only ones who haven't been seen--Luxembourg, Liberia--

MR. WHITE: I talked to Luxembourg and left it indecisive, because they want ten billion. They can give only five, and I want to see how much there is left over. But I made sure that Liberia and Ethiopia were seen.

MR. LUXFORD: The reason I say this is because you can argue and argue, and we haven't good arguments for some of the things we have to push through.

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MR. WHITE: There is no question that you can't vote on every provision, but pursue the same tactics on others.

Speaking of the legalities for a moment, supposing the chairman, after hearing the discussion, four or five for and one against, and he says that the chair rules that the sense of the meeting is as follows, can at some time subsequently the British say there was no vote and that wasn't the sense of the meeting, and re-open the thing?

MR. ACHESON: I haven't the rules here, but can't they ask for a roll call vote?

MR. WHITE: They could, but they must ask at the time. Once they accept the chair's ruling, then if there are no objections--

MR. ACHESON: ... then it is finished.

MR. LUXFORD: But the trouble is, you are going to find so many of these countries so very articulate who are in opposition, whereas the Latin Americans will just sit there until they vote.

MR. WHITE: No, you can depend on Cuba, Mexico, Peru, and Brazil, possibly.

MR. ACHESON: I think what you could do is to have a yea and nay vote if you can't tell by the noise, and ask them to raise their hands.

MR. LUXFORD: We got seventy-five aye's there on everything, didn't we?

MR. WHITE: A yea and nay vote?

MR. ACHESON: That doesn't count. But if you ask them to raise their hands--

MR. WHITE: If there is any objection to the ruling of the chair, you can have a roll call.

MR. ACHESON: You can have a raising of hands vote. That is very easy.

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MR. WHITE: Instead of attempting to ascertain the sense of the meeting. It is much safer the other way if it is legal.

MR. LUXFORD: That is perfectly all right, if they don't object.

MR. WHITE: There are just a few things left. If the Russians were only agreed, we could clean them all up inside of an hour.

MR. ACHESON: Have you enough left in the quotas to take care of Czechoslovakia and Poland?

MR. WHITE: Keynes said he could knock fifty off of South Africa, but he wants to allocate that twenty-five--twenty-five to Czechoslovakia, which would be all right, and twenty-five to Poland, so he will be a good fellow. We had thought that instead of doing that, if we could give fifteen to each we would have twenty, which together with something else you could give to the Chinese, if necessary.

H.M.JR: Mendes-France said last night he was going to see you. He is not satisfied.

MR. WHITE: I think they want twenty-five more. They are the ones who have been cut the worst from their figures. Their figures showed over five hundred and fifty million dollars--their data. And we have cut them to four hundred and twenty-five, so they have the strongest case.

H.M.JR: I thought it was four hundred.

MR. WHITE: Four twenty-five.

H.M.JR: I told him four hundred last night. Was I wrong?

MR. WHITE: I think so.

(Judge Vinson enters the conference.)

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MR. WHITE: Four hundred was India, and we gave them twenty-five more than India.

MR. VINSON: I am sorry, Mr. Secretary; I checked the time at nine-thirty in my mind. I am certain I was told nine-thirty.

H.M.JR: Dean said that you could give a better report, because you would give it first hand as to what happened last night.

MR. ACHESON: That meeting you were in.

MR. VINSON: Well, it was a very interesting meeting. I reported what occurred when the group called on Lord Keynes, and I don't know that there is anything special to report relative to the subscription figure. The group seemed to like that idea of having a subscription figure approximate to the quotas for countries over two hundred million, and for the proportionate increase of the larger countries to make up the gap between that which you desire to have subscribed and that which would be reached under the strict quota figures, keeping in mind that the countries with the quotas less than two million dollars would be substantially reduced.

(Mr. Wolcott enters the conference.)

MR. VINSON: India and China would probably be reduced, and possibly some adjustments made in others. The group last night did not react favorably to the suggestion made by Keynes relative to the series or box policy in issuing the securities.

H.M.JR: What does that mean?

MR. VINSON: Well, Lord Keynes suggested that it might be well to consider taking the two billion dollars in subscribed paid-in capital and issue securities against it with a reserve of a hundred percent. As a matter of fact, he started talking about the Dutch proposal of just loaning up to seventy-five percent, but I think--I got the impression at least that he sort of was coming

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up toward the hundred percent in what I would call the first series or series A, what he called tranche. Then that first two billion dollars would be loaned with a hundred percent reserve. You would then have a bracket or a box of, say, the second two hundred million; and if the market looked good, you might issue those on a basis of one twenty-five--ratio of one twenty-five, and the third series or box possibly up with a ratio of one fifty to one. Now, our technicians just simply said that that wouldn't work.

MR. WHITE: I talked it over this morning. I wouldn't say all our technicians--they greatly exaggerated the difficulty.

MR. VINSON: I am going to still say, my good friend, that our technicians there last night--they might have changed their minds this morning, but Bernstein was up on his hind legs saying that you couldn't have three pockets, that you wouldn't be able to interchange--wouldn't be able to take the money.

MR. WHITE: He changed his mind this morning after talking to me, and I would like to examine that closely.

MR. VINSON: I am not going to question that, because I have found ever since I have known you that you are most persuasive.

MR. WHITE: Only when I have a good case, Judge.

MR. VINSON: But that was the reaction. And the Delegates--Mr. Wolcott will bear me out if I am inaccurate in this statement, that the Delegates present were Senator Wagner, Mr. Wolcott, Mr. Eccles, Mr. Brown, and myself.

MR. WOLCOTT: I know I got myself in awfully bad, I thought, by suggesting that the thing kind of looked a little bit good to us and we ought to review it. They all jumped down my neck. (Laughter)

H.M.JR: Jesse, I agree with you. I liked it because I was kind of groping the night before last, and this seemed like a kind of good way out.

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MR. WHITE: I tell you what might be a compromise.

MR. VINSON: Well, let's get this angle straightened up and see if Jesse doesn't agree that the sentiment there last night of the delegates, and I thought the concensus of opinion of the technicians after some considerable discussion--some of us at first thought--and I thought yesterday afternoon it was a good thing.

MR. WOLCOTT: Ned Brown was very much opposed to it, and I don't remember what Marriner Eccles said about it. Senator Wagner, I don't think, voiced his opinion on it, but we were talked down, anyway. If we had talked it, we might even have reviewed the possibilities of it. We were squelched.

MR. VINSON: What did Collado report in regard to the series?

MR. ACHESON: I didn't have a chance to talk with him.

MR. WHITE: That is what E. M. Bernstein reported.

MR. ACHESON: One of the men reported that the method was not liked--they did not want compartmentalization of the guarantee.

MR. VINSON: Well, we had the question of charges. There was quite a discussion with regard to that, and there was no conclusion reached there, as I recall it. I talked to all the board--three and a half percent interest, two percent amortization, and one percent guarantee fee.

MR. WHITE: Mr. Cocke told me that they called that a commitment fee in America. Let's make sure. Nobody would understand the phrase he used. Let's change it.

MR. VINSON: Guarantee means something to me.

H.M.JR: I never heard the expression "commitment fee."

MR. LUXFORD: That is what the RFC used.

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MR. VINSON: That means something else to me.

MR. WOLCOTT: Isn't there a distinction between the RFC commitment fee and the guarantee fee?

MR. WHITE: As this fellow explains it--

MR. WOLCOTT: The RFC gives you a line of credit for a hundred thousand dollars, and they commit themselves to give this to you if and when you need it. And they charge a little fee for surveying your needs for it.

MR. WHITE: That may be it. I was taking this fellow's word for it, I didn't know.

MR. VINSON: The question of calling up loans--it was discussed with Lord Keynes. Lord Keynes' position was stated to the group, and I think that the consensus of opinion was that something had to be done about it. He was talking about interring dead dogs, dead cats, dead horses--that there had to be a burial was the catch phrase, taking care of the dead. They felt that something had to be done about it.

MR. WHITE: It seems to me that something might be worked out on the basis of letting each country do what it wants to.

MR. VINSON: Bernstein came up with a suggestion in respect to the ratio, going back to ratios now, that a lot of them liked, and liked very much.

MR. WHITE: On the reserves?

MR. VINSON: On the reserves. He has a formula with just very little language that figures out about one-twenty to one.

MR. WHITE: That is better than a hundred.

MR. ACHESON: That is the direct loans, the guarantees, reserves, and surpluses.

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MR. WHITE: Reserves and surpluses--I don't know about the direct loans. The more you make up the tranches into smaller amounts, the more difficult it becomes, but what you can do is to make two divisions, five billion each, which would avoid most of the difficulties.

MR. VINSON: Bernstein suggested two series last night.

MR. WHITE: Did he speak in favor of the two series?

MR. VINSON: He said he thought they might be able to work out two series. He had been very strongly opposed, and then came up with the two series, and one of the other boys felt that it wouldn't work, particularly, I would say, Brown and Eccles. Is that right?

MR. WOLCOTT: Brown is very much opposed to any difference in the tranche method.

MR. WHITE: The matter is really very simple. You start in with five billion at whatever you agree on. Be as conservative as your judgment makes it. Then you say in the next five billion, "The bank is the authority to go up to X." Now, anybody buying in the first five billion has whatever attractiveness they claim it has. I think they very greatly exaggerated it, but that is a matter of opinion. Then if at the end of that they don't interfere, then with the first five billion--if they find satisfactory results of that experience, that they have underestimated the appeal, or if for one reason or another they think they can go to a higher ratio, then they have the authority to go to one and a half. Everybody who bought the first five is protected by a hundred percent reserve and it can be reloaned out if necessary. So the banks have the flexibility that is necessary to shift from one of the boxes to another. There is a constant incoming stream and outgoing stream in both blocks.

MR. VINSON: How could you shift from one box to the other?

MR. WHITE: You couldn't. The box remains the same, but you always have five billion dollars worth of assets

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which you can lend out with the agreement that it is backed by, let's say, a hundred percent reserve.

MR. LUXFORD: Why don't you let receipts come back into the other box?

MR. WHITE: The receipts come back into the box from which the loans were loaned. You always have five billion. It is a bookkeeping matter, so you are able to tell the investor, "This loan is backed by one hundred percent reserves."

Then if you want to move into the other bracket as time goes on, it is even possible, you see, not to wait for the first five over. Supposing you sold two billion and found they were going extremely well. Then you can take the next five million out of the next box or two or three billion. It gives you some degree of flexibility.

MR. VINSON: There was some discussion about not attempting to freeze it in any particular way, but to have an over-all ratio and let the Bank determine how they would do it in watching the market.

H.M.JR: May I get a word in here? Neither of you gentlemen was here. There is a gentleman here at the request of Senator Walter George in his capacity as Chairman of the Post-War Committee in the Senate. His name is Cox. He is a banker from Atlanta. He headed our war bond drive there and did a wonderful job. He seems to be thoroughly sold on this World Bank idea. I have been trying to suggest that they use him. Why not have somebody get hold of him on this thing, explain it to him, and if he likes this idea of these compartments, let him go to work on Eccles and Brown?

MR. VINSON: I think Eccles--

H.M.JR: Try him out.

MR. VINSON: I am certain about Brown's position, Mr. Secretary, but Eccles--

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H.M.JR: No, but this fellow is accredited. He is an adviser now, and he is a man of considerable importance in the Southeast.

MR. VINSON: May I insert that from what I heard he wouldn't be able to have a great deal of influence with Mr. Eccles?

H.M.JR: But I don't--

MR. WHITE: Is this man Cox or Brown?

MR. VINSON: Cox.

H.M.JR: But you have to meet this fellow.

MR. VINSON: I have met him. I have been with him and talked to him.

H.M.JR: I am trying to get the idea, because you know how expansive he is, and if these people feel that there is another banker in the United States who thinks well of this thing and he begins to talk--you can't stop him from talking.

MR. VINSON: Mr. Secretary, let's try to agree among ourselves and then sell him, because I just happen to know about certain attitudes. And as I see it, it is perfectly agreeable to me to bring him in, but as I see it, it is a late day to bring--

MR. WHITE: This is Luxford's suggestion, but I haven't thought it through. He says, "Why can't we have whatever percent you agree to on the original basis?" Now, some of the loans are paid back. I am not speaking now of the commitment fees, but the repayments; they are amortized over a period. So let's say at the end of five years you would have anywhere from a sixth to a fourth paid back. Now, that is new money. You have already cancelled your liquidation. Let the Fund have flexibility in determining under what conditions the repayments are to be made, because it is a new species of contract.

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MR. WOLCOTT: You mean the Bank?

MR. WHITE: The Bank, excuse me.

MR. VINSON: What about the five-year provision after the Bank is started when they may not have payments?

MR. WHITE: Well, there are payments all the time.

MR. VINSON: I thought there was a provision discussed down there last night about--it may have been amortization.

MR. WHITE: That is right. We favored that. I don't know how far we will get with it--three or five years. I like best of all the five billion plan, unless they are willing to leave it flexible with the Bank. Or better still, why not five and five? As these fellows say, they lack experience.

H.M.JR: May I say something, Harry? These repayments which come back from the loan, irrespective of the amount of collateral back of them, should go in, too, like the general fund of the Treasury. All repayments to the Government, irrespective of where they come from, go into the general fund of the Treasury.

Then this Bank--if they want to issue some new loans, they can draw on the one procedure or the other, but they go back into the general fund of this Bank, following the regular Treasury procedure.

MR. WHITE: Yes.

H.M.JR: But I wanted to give an example of the general fund.

MR. WHITE: The trouble with that is that the incoming payments may not be very large in the first five years when the bulk of it is coming.

H.M.JR: But you would be building up a kitty.

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MR. WHITE: Either that, or what would be the trouble with trying three billion at a hundred percent and then let the seven billion at not higher than two, and maybe down to one.

MR. VINSON: I don't believe--

MR. WHITE: The first three billion that you sell, Judge--you are selling it conservatively. Then you have some experience.

MR. VINSON: I am talking about the two hundred ceiling.

MR. WHITE: I said up to two hundred. They may decide on one, ten or one, fifty.

MR. ACHESON: May I interrupt? I have a note from George Luthringer who is now in room A, Sub-Committee on the Bank. He suggests that I get down to the meeting, as he thinks it is getting out of hand. Do you want to take a look?

MR. WHITE: May I? What room is he in?

MR. ACHESON: Room A, Sub-Committee on Relations with other International Organizations.

MR. WHITE: I will go right down.

MR. ACHESON: I will go right down if you want me.

MRS. KLOTZ: Your man is waiting and says that Committee meeting is getting out of hand.

H.M.JR: One second--let it get out of hand for a minute. If you (Acheson) go, could Collado represent you here? I would like to come to a decision. Or would you want to be present yourself? Or, can you (White) go and Bernstein be here?

MR. WHITE: Yes, either of us.

H.M.JR: I want one or the other.

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MR. VINSON: Collado made a memorandum in regard to the consensus of the group, and I thought he would be here.

MR. ACHESON: I would like to be here.

H.M.JR: Can you send Bernstein?

MR. WHITE: Yes, I will send Bernstein in. It may be something we could very quickly handle and I will come back.

H.M.JR: Send Bernstein up, please, and if Collado is feeling well enough, ask him to come also.

MR. ACHESON: I think he is in bed this morning.

(Mr. White leaves the conference.)

H.M.JR: I think for your sake and in order to save time we ought to settle this thing now. Do you agree, Jesse?

MR. WOLCOTT: Yes.

MR. VINSON: When the matter was presented, Bernstein made a very strong argument against it, and that was on the basis of three series.

(Mr. Luxford enters the conference.)

MR. VINSON: Then later Bernstein came up with the idea that you had of two series, and that would work. But as I remember it, the consensus seemed to be to have an interchangeability of the money along your idea that you couldn't afford to have pockets and tie up money in one tranche that couldn't be used.

H.M.JR: Luxford, taking your idea, I gave a parallel, the general fund of the Treasury.

MR. LUXFORD: That is it. The beauty of it is that nobody in the first block can ever lose any money. That is,

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his guarantee is fixed. Once the money is repaid, however, it is fresh money.

H.M.JR: And it should be treated just like the general fund.

MR. ACHESON: That money would only be repaid if the Bank sold its own securities. If it guaranteed some securities, the money would be paid to the original lender.

MR. LUXFORD: That is right, but as soon as it had lifted that liability off its book either by repayment to the original lender or any way else, then it could be free to move to the original block if it wanted to.

H.M.JR: Irrespective of what you report to Mr. Brown or Mr. Eccles, this thing sounds good to me, because after all, I have been in the business of selling Government securities for eleven years. You just don't know what the market will take, and all this theory about managed money and all the rest of it, these people who own the money--they do their own thinking. If it is made very attractive in the first instance and it goes too well and is priced too well and the bonds go up, wonderful. Then the next time you can price them a little closer. But the worst thing that can happen is that these things are priced too attractively. And as far as Mr. Eccles and Mr. Brown are concerned, I have certainly had as much or more experience than either of them have had in this sort of business; I mean, the pricing of securities in the Treasury-- personally I have. I pass on every single one. When I do it, I spend days and days on this and nothing else-- when we are doing an issue. So on this part of the business I don't need any technicians, because I do it myself.

MR. VINSON: There is no question about the issuing. I think you are just dead right as far as the issuing of different series at different rates. But I was impressed with this: In the first bracket, two billion dollars' worth of securities were sold, a hundred percent reserve. Bernstein made the argument that the holder of those bonds could look to every dollar in every asset of the Bank, up to the total amount paid in capital, plus the

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unpaid subscriptions, and that it wasn't just like having ten billion dollars in gold, that you had the currency of countries that might not be worth a hundred cents on the dollar, and that you wouldn't have two billion dollars in gold behind the first two billion. You would have currency in all of the various countries, and while the mechanics of it, as you suggested night before last in regard to series and different interest rates in accordance with the market situation--the reserve end of it seems to me to inject another question. Now, with two tranches, four and four, or five and five, you have a larger fund. But when a fellow buys the first security, he has a hundred percent reserve, and he would have a right to look clear through to the last unpaid subscription to make that commitment good. And if you would take part of it in tranche one and part of it in tranche two, you might be weakening that hundred percent.

MR. LUXFORD: How would you be weakening it in tranche two?

MR. VINSON: You wouldn't probably in tranche two.

MR. LUXFORD: Or even one. As I see it, you would still keep a total commitment of five billion to cover securities that were issued under tranche one. But say it was a two billion dollar issue. Ultimately that issue is repaid or as it is repaid the Fund loses its liability for part of it. Now, all you do is, you say that much comes out of tranche one.

H.M.JR: You fellows keep using this word tranche. Where did you get that word?

MR. VINSON: Lord Keynes. It is t-r-a-n-c-h-e.

MR. WOLCOTT: It means chunk. They explained it to us last night. We didn't know what Lord Keynes was talking about.

H.M.JR: Are you familiar with this term?

MR. ACHESON: I had heard it. I never knew what it meant.

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H.M.JR: In this connection?

MR. ACHESON: No.

H.M.JR: It means a chunk. Let's be American and call it block.

MR. WOLCOTT: At least a chunk.

H.M.JR: All right, but I wanted to know what the heck you were talking about.

MR. ACHESON: I am puzzled also by something which the Judge brings up. How do you take the reserves and surpluses and separate them into two chunks?

MR. LUXFORD: We had originally thought of doing that. Supposing you have forty countries who start in on the Fund and you operate for five years. At the end of that period, let's say, two countries drop out. At that point you have to add just your reserves, anyway, because the country that dropped out wants to be freed from liability for any further obligations of the Fund. So what you have to do, really, is, after you have set up your reserves covering this block, then you allocate those reserves and you start reserves on the next series when a new country comes in or goes out. Then your obligation is incurred while the first country is in; they will be answerable, and you have to use those reserves first for those purposes. But then if another country comes in or leaves, you have to shift your reserve position, anyway.

I don't know whether I made it clear, but you have a problem of shifting reserves, depending on the membership of the Bank, anyway, and it wouldn't be impossible to have another reserve feature, although it would complicate the picture.

MR. VINSON: I may not have it clear in my mind, but it would seem to me that we ought to go slow in setting out here in the master agreement such a degree of rigidity that the Directors could not avail themselves of methods

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that would be much better. Now, we are looking forward to thirty, forty, and fifty-year bonds. And as far as I am concerned, I can't see that far.

H.M.JR: Well, is it the thought that one block of this money will be required to have a hundred percent reserve and the second block will have how much?

MR. LUXFORD: A variable reserve.

H.M.JR: I hadn't heard that said before.

MR. VINSON: Up with a top limit of one hundred fifty--

H.M.JR:- I have listened now for a day and a half to these discussions, and so much emphasis is being placed by Brown on the reserves. I think what the investor is going to do is, he is going to look at the whole picture, at the state of the world, at what other bonds he can buy, and he is going to compare them. If the guarantee of forty-odd nations is attractive to him, the interest rates are attractive, and there are no other securities on the market which are more attractive, he is going to buy them. And I think the reserve is going to be a very small part of the picture which will cause him to make up his mind whether he will or won't buy. But I am willing to go along with these people to divide this thing into two blocks, have the one at a hundred percent to satisfy these people that we are conservative, and I think the other thing--this variable idea that they can have it from a hundred to one hundred and fifty--is excellent. But I do think that the money that is coming back should go into a general fund and be available, considered fresh money that could be loaned from either group.

MR. LUXFORD: Dean, why can't you make these limitations in your issue itself? That is, in your series you will either say this is a first claim on the whole assets of the Fund, or you can say it will be a second claim. The first issues--you have to dress them up and make it a complete pledge of all the assets of the Fund to pay it off, the next issue being secondary. That is what you would have anyway, wouldn't you?

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MR. VINSON: No.

H.M.JR: Dean, are you bothered on this thing? You don't want to make up your mind?

MR. ACHESON: A technical point of it puzzles me a little bit, but if I am assured that can be done, I won't think about that any more.

H.M.JR: I mean as to dividing the thing into two blocks.

MR. ACHESON: Technically if that can be done, I think it is a good thing to do.

H.M.JR: But if it could be drafted so it would make sense, what?

MR. ACHESON: I should suppose that what you have in mind is something to the effect that the total loans outstanding--the guarantee--shall not exceed one hundred percent of the capital reserves, surpluses, and so forth, provided that the Bank in its discretion may divide its capital reserves into two blocks. The first one shall have that limitation; the second one may go up to any amount within its discretion up to one hundred and fifty.

MR. LUXFORD: The only thing, I wouldn't even put the top on one fifty with this thought in mind: Let the Bank's experience ultimately determine how far up it goes. You can fix it on the first half so they will get some experience on how the market will take it, and then let them use their good common sense later on as to how much they raise it.

MR. VINSON: What do you say to that, Mr. Wolcott?

MR. WOLCOTT: It may be purely psychological, but I think you will have trouble, Luxford, in the Congress, if you didn't have a ceiling.

MR. LUXFORD: We have a ceiling on our liability at all times.

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MR. WOLCOTT: I think Congress would look at the liability.

MR. VINSON: And read three to one.

MR. WOLCOTT: They would think in these terms: If the Bank got up to two and one, wouldn't there be a moral obligation on the part of the United States Congress on default to contribute to the Bank later on a pro rata amount to make the guarantee good?

MR. VINSON: Or a hundred percent to the American investors?

MR. LUXFORD: I have an idea there. Why don't we say they can raise it to a hundred to one on a four-fifths vote? Then even Congress can take a look at it when they want to raise it above that amount, but after five years' experience you may find it perfectly all right for the Bank to raise the percentage, but make the vote a four-fifths vote.

MR. WOLCOTT: Here we are, the country with the largest amount of money in the Bank, and we are not in too good a position to go before the Congress and weaken our position as against the very conservative position which the British and the Dutch are taking with much less in there.

MR. LUXFORD: But would anyone object?

H.M.JR.: When he says something, it has weight to it. That is not a pun.

MR. WOLCOTT: I am so used to those puns, I don't even recognize them.

H.M.JR.: It was unconscious until I got it out.

MR. LUXFORD: You don't even think Congress would like to have the authority later on to decide this without an amendment process? In other words, a four-fifths vote would mean that Congress would have an absolute right to veto at any time.

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MR. WOLCOTT: You might set up some machinery in here that would prevent the calling of a new conference, and make the decision as to whether the Bank increased beyond one hundred and fifty contingent upon the poll by the countries representing the majority, or four-fifths of the stock, and let the Bank initiate a proposal that they go beyond that, and if favorable action is taken by the countries--if the Chief Executive of the country is given the authority, all very well and good, but if they are not, the action of the legislative bodies--in our case, on the part of a majority of two-thirds or four-fifths of the country--I don't like to close the door completely against it. I think you have to proceed reasonably conservatively to start it out.

MR. VINSON: This was thrown into it, Luxford, that rather than attempt to increase the subscriptions for this Bank to permit loans to be made for that portion, that higher ratio, it was suggested, "Why have Bank number two created?"

MR. LUXFORD: Why do you need two banks if you have one that is really operating and everybody is satisfied?

MR. WOLCOTT: The argument against these tranches, chunks, blocks, and so forth, was that we were virtually setting up as many banks as we had chunks, that they are all under the same administration, but a different set of books, and so forth, would have to be set up.

MR. VINSON: An explanation was made about Export-Import having a number two bank. Then they merged.

MR. WOLCOTT: And Doctor Pasvolsky said, "What did you do with the first bank?"

They said, "Well, we merged it." That was an answer as to whether they could or could not issue these in series.

H.M.JR: Could I interrupt you a minute? I would like to ask Jesse Wolcott this: Taking the position that Dean Acheson does, that mechanically, legally, and technically

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the thing is possible, can be drafted so it would make sense, how do you feel about this idea that we take this Fund--what is it, ten billion dollars?

MR. LUXFORD: Ten.

H.M.JR: Take the ten billion dollars and divide it in half, one-half of it to be loaned with a hundred percent reserve, and the other half of it to be loaned with a reserve of from a hundred percent up to one hundred fifty, with the monies coming back into a general fund of the Bank to be reloaned through either of the two funds as the Directors see fit? Now, just the general principle?

MR. WOLCOTT: I think in principle that would be acceptable.

H.M.JR: Without taking it for granted, just as Dean says, that the thing can be worked out by the attorneys?

MR. WOLCOTT: I would think it would be acceptable. We want to establish as broad a base as possible. The thing which frightened me the other night was when they started talking three hundred percent, and so forth. I really got scared.

H.M.JR: You and I both. But this thing--on a question of principle, do you think it could be gotten by?

MR. WOLCOTT: Yes, I think, frankly, that the thing which is going to be of more influence than anything else in the Congress is the liability of the United States. If that is very well defined and the limitations very clearly expressed, I think that is about the only thing you have to worry about.

MR. LUXFORD: We have gone so far, Mr. Wolcott, as to prescribe that on every bond the Bank issues it shall be made very clear that it has a liability on the part of any country, that is, any country that is in the Bank except to the extent of its subscription, so there will never be any question on the part of the purchaser as to what he is buying.

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MR. WOLCOTT: I think that is a point they are going to argue more about.

H.M.JR: That this isn't an open-end liability.

MR. WOLCOTT: However, of course, you have to take into consideration that Congress, being cognizant of the practice of coming in with private bills by American citizens--if an American citizen ever was the victim of any defaults which were not paid, then, of course, the Congress would be flooded with private bills predicated upon the moral obligation of the Government to make good. And you are forced to take that into consideration.

H.M.JR: Do you know of a single instance where a holder of one of these South American bonds has come forward with a private bill?

MR. WOLCOTT: No.

MR. VINSON: But you didn't have any Government connection there.

MR. WOLCOTT: I think that is pretty well regulated, Mr. Secretary. That is why I am urging a very well defined ceiling. There isn't much probability of that condition existing at any time if you have a very well defined ceiling within reasonably conservative limits.

MR. ACHESON: May I raise this other point of what you do about the defaulted bonds, because that is very intimately connected with this? That is the one thing that you (Vinson) agree would make more difficulty on the British side than anything else. Don't you think that is a correct statement?

MR. VINSON: That is right.

MR. ACHESON: As I understand from you, when this meeting was concluded last night, they thought there ought to be some provision of some sort for picking up the thoroughly dead loans. Keynes was about as adamant on the other side of that as he was on any proposition, so we are apt to run into one another coming at considerable speed on that one.

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MR. VINSON: And Brown made the statement that he didn't care about his being adamant, that either yesterday or the day before he was so adamant in respect to a position on a committee Mr. Brown was attending and advocating a certain proposal, that he said he was going to take his men and, as I got it, break up the show. And within fifteen minutes after he had gone out of the committee, he got word that U.K. was in full agreement with the position that Brown and others had taken.

MR. WOLCOTT: They all seem to think that Brand is the key to that situation.

MR. VINSON: Brand and Bolton.

MR. ACHESON: My own guess is that they are quite wrong about that, that this is not a question of banking whatever, so far as the British are concerned, but it is a question of what sort of a liability they are assuming in this Bank.

MR. LUXFORD: There is a fight on in the British Delegation on this whole Bank problem. We get it at all points. There is the Brand-Bolton bloc, and there is the Keynes bloc, and the economists bloc.

MR. VINSON: There were suggestions in regard to that, of letting a period of up to five years pass. It would be in suspension, and then, as I got it, there could be a loan made by the Bank to keep alive the defaulted loan and delay the calling on the subscriptions. They discussed that feature at length and thought that they might be able to come up with a plan that would satisfy the United Kingdom.

MR. ACHESON: May I say this, that I think the way this thing presents itself to the British Government, the Chancellor of the Exchequer, under the guise of all this technical banking talk--the British have two very clear alternatives in their mind, and they are in favor of the second one. The first would be to treat this so-called unpaid-in capital as a demand liability which can be made to them at any time to make good a loss. That is

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one view, and that is the one that Ned Brown seems to have.

The British do not have that view at all. They say that they will subscribe to this contingent fund here, but under arrangements by which that subscription will be paid in at the most in certain percentages over a period of fifty years so that they will not be faced in any one year by a tremendous budget demand.

MR. LUXFORD: That is precisely it.

MR. ACHESON: That is the absolute basic point.

H.M.JR: Say that again. What is it?

MR. ACHESON: Their view is that they do not want to go into the Bank on the basis that this uncalled capital represents a demand liability with which they may be faced in any year to make good a big loss. What they are willing to do is to subscribe to this uncalled capital under a scheme by which the greatest demand that can be made on them is a certain percentage of this every year over fifty years. Now, that is at the heart of it.

H.M.JR: That isn't very good one hundred percent backing. If you loaned all the money at a hundred percent reserve and then you had a call on your subscribers to make good, and each one was limited by a percentage--

MR. ACHESON: No, then you simply take over the loan and you service it right through to its maturity and pay it off at its maturity.

H.M.JR: No, but supposing you loan the maximum amount out that you are allowed to under the one hundred percent reserve, but under this position. Then you would have a call on each country, and, let's say, it was all loss.

MR. LUXFORD: You still only lose the amount for each year. You see, you have thirty or forty-year loans. All they are saying is, "You are not going to accelerate the maturity of that loan."

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H.M.JR: That is why they don't want to kick out the bad loans, either.

MR. LUXFORD: That is right.

H.M.JR: If I owned one of these bonds, I would have to wait thirty years?

MR. ACHESON: No, you would get exactly what you were promised when you started out without any acceleration, because the initial debtor went sour.

H.M.JR: But I would get it over a period of thirty years?

MR. ACHESON: Yes, just as you were promised in the original bond.

H.M.JR: Then my fear of their not being able to make good when they call on--I mean, they would be called on a percentagewise basis as the loans matured. That is a smart wrinkle.

MR. LUXFORD: I think it is extremely smart from their point of view, and perhaps ours. The Bank that was originally designed by us had a gold contribution, and each country subscribed its local currency. Now they say that when you have to meet a guarantee--and the guarantee will probably be in dollars--what the Bank needs is gold or dollars, and not French francs or some other currency. Therefore, they say, "Let's make everybody's obligation a gold obligation." That is, if there is any default and there is a necessity for continuing to service this obligation, that must be in gold. "But," they say, "you cannot expect the United Kingdom or any other country that is as hard-pressed as the world will be to meet a terrifically heavy demand in one year for gold. If you will let us amortize that obligation at the same rate at which the security was issued, we can meet it."

H.M.JR: I don't think that is unreasonable.

MR. LUXFORD: I think it is very reasonable. We are likely to end up without gold.

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MR. VINSON: There is a question of the interest rate on the money that they would have to get to make these annual payments entering into it. If money is higher than, say, three and a half percent, and you are having to borrow money at four or four and a half or a higher rate, in order to pay--

MR. ACHESON: They concede that we might be paying, by contributing to the Bank in this way, a higher rate than we would if we just paid it all off.

But they say, on the other hand, they would have to pay a higher rate and be subject to a great difficulty in getting gold.

MR. WOLCOTT: They believe that why we might be opposed to the plan is that we could sell our bonds in the American market for less than the interest and pay it off and make money on it when they probably wouldn't be able to do so.

H.M.JR: Do you think, considering their very weak financial status, that that is unreasonable?

MR. WOLCOTT: No, it rather appeals to me.

MR. VINSON: Well, the question of the salability of subsequent bonds--if you have a defaulted loan that you know is a dead duck and you carry that on your books, and then you have an issue that you want to sell, the argument is presented that they will look at your statement and see loans that are known to be impaired, loans in default, or if you take the extreme case, a loan that was worthless--and you might have enough of those to affect the salability of subsequent issues.

MR. LUXFORD: I haven't talked to the British about this, but I don't think they go so far as to say, "In no case would we be willing to bury the dead." What they say is, "We want the right to decide it at the time and not freeze it in this document." In other words, the Board of Directors might well decide if you have a prosperous period and the loan goes sour, "Well, let's

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take it up boys; the country is in good enough shape." But don't freeze it into the document so they have to do that no matter what condition the country is in.

H.M.JR: I think that is reasonable.

MR. ACHESON: I think that is their position, too.

MR. VINSON: I didn't hear Keynes discuss that point yesterday.

MR. ACHESON: I think he is perfectly willing where you have a big surplus.

MR. LUXFORD: Where you have a prosperous period.

MR. VINSON: As I heard Keynes yesterday, he said that he had sold this plan to the Chancellor upon the theory that the liability of the United Kingdom would be a small sum per year that would pay the interest charge, the amortization, and did he say the guarantee fee, or was that left off?

MR. WOLCOTT: There is a guarantee that is the same as the carrying charge.

MR. LUXFORD: You waive the guarantee when--

MR. VINSON: They would have this amount that would pay the investors the interest plus amortization.

(The Secretary called a short recess.)

H.M.JR: Now, are you people sufficiently clear in your own minds as to where this Steering Committee stands?

(Affirmative response.)

H.M.JR: Then I will let you go.

MR. ACHESON: On this last point, I think we ought to be a little clearer than we are.

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H.M.JR: Which is the last point?

MR. ACHESON: About the British view as to whether they should be required to pick up these dead loans or not.

H.M.JR: Talking for myself, I feel that we ought to kick them out.

MR. ACHESON: Picking them up, burying the dead--

H.M.JR: Terminating them. Speaking for myself, I think this Bank Directorate should have sufficient leeway that they should be able to decide that on the merits of the case. Does anybody disagree?

MR. ACHESON: I think that is right, so we have adequate vote, so that somebody isn't forced into it.

Now, the technicians don't think that is so good, but I think they are wrong on that.

H.M.JR: Anything else?

MR. ACHESON: No, I think that is it.

H.M.JR: Well, this has again been very helpful for me.

If during the day you people--the Steering Committee--would like to meet with me, I am always at your services.

MR. ACHESON: When I get through with this meeting I will find somebody and ask how your call to Moscow came out.

H.M.JR: I will get word to you. If there is nothing else, shall we adjourn? Subject to the call of the Chair or the call of the Members to the Chair.

Summary of telegram from Amb. Harriman  
to Secretary Morgenthau

Ambassador Harriman, in a telegram sent in the early morning of July 13th (today), stated substantially as follows:

"I will not be able to get in touch with Molotov before your telephone call. I only received your cable this morning (July 13th), and Molotov does not reach his office until the middle afternoon, and works through the night. I will make every effort, however, to obtain the information you desire."

I talked again with Mr. Bohlen and told him that a second cable from Ambassador Harriman would be coming through this morning. He will make every effort to have that cable decoded and telephoned here as soon as possible.

*E. D. Brown,*

July 13, 1944

I spoke to Ambassador Harriman at 11:00 this morning, and he says that the delegates have the authority to talk to me, but that Ambassador Harriman has been unable to find out what the answer is.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Moscow (via Army)  
TO: Secretary of State, Washington  
DATED: July 13, 1944  
NUMBER: 2560

## SECRET

Harriman sends the following for Secretary Morgenthau.

As soon as I received your message, I despatched a ~~letter~~ to Molotov with respect to the questions raised in Department's cable of July 12, no. 1670, requesting of him an urgent answer to you. This afternoon I called on Vyshinski to follow this up. It was stated by him that messages on the subject had been received from the Soviet delegates. First he said that the delegates were authorized to negotiate these matters with you and that an answer was being prepared. When I pressed him whether the delegates or the Soviet Government were preparing this reply, he stated that the Soviet Government was also studying the matter. He remarked that it seemed to him personally that the size of the quota and the deduction for devastated countries were two separate questions and he could not understand why they were coupled together. I started to argue the point but he stated that before discussing the matter further, he preferred to study it.

HARRIMAN

Treas. 120

Sec. Morgenthau

**PARAPHRASE OF TELEGRAM RECEIVED**

**FROM: American Embassy, Moscow**  
**TO: Secretary of State, Washington**  
**DATED: July 13, 1944**  
**NUMBER: 2535**

**SECRET**

**FROM HARRIMAN FOR THE PERSONAL AND CONFIDENTIAL  
ATTENTION OF SECRETARY MORGENTHAU.**

Your cable 1670, July 12, was received by me this morning. In order for me to get an answer prior to the hour of your telephone call is utterly impossible. Although he works through the night, Molotov does not reach his office until the afternoon. Undoubtedly, before replying he will desire to consult with his associates. Every effort will be used by me to get an answer at the earliest moment from the Soviet Government.

**HARRIMAN**

Meeting in Secretary Morgenthau's Office  
July 13, 1944  
4:00 P.M.

Present: Secretary Morgenthau  
Sir Jeremy Raisman of India  
Mr. Edward Miller, Jr., State Department  
Mr. R. F. Mikesell

Sir Jeremy Raisman stated that India was in need of additional silver for her coinage program which amounted to about 70 million ounces per year. He stated that a further rise in the price of silver might lead to a disappearance of silver coins and that India was anxious to prevent such a rise.

Sir Jeremy Raisman inquired whether or not it would be possible to obtain on lend-lease another 100 million ounces of silver for coinage purposes. He stated that India's need for additional silver was closely linked with the presence of large numbers of allied troops and the large allied expenditures in India.

Secretary Morgenthau stated that we would discuss this request with Sir Jeremy Raisman when he came to Washington after the Conference.

R. F. Mikesell

Bretton Woods  
July 13, 1944  
5:30 p.m.

LOCATION OF THE FUND: BRITISH PROPOSAL

Present: Mr. White  
Mr. Luxford  
Mr. Vinson  
Mr. Wolcott  
Mrs. Klotz

H.M.JR: What I asked you people to come here for-- I have this party, unfortunately, at six. The Minister of the State Department thought I should entertain. There are sixteen of them.

I have a letter here from Lord Keynes that I will read to you. I thought it sufficiently important that I asked you people to meet with me.

"Dear Mr. Secretary: The United States Delegation have proposed that the principal office of the Fund shall be located in the United States. You will be aware that the United Kingdom Delegation have tabled an alternative to the following effect:-

"The location of the principal office of the Fund shall be decided by the Fund at the first meeting of the Board of Governors, which will take place in the territory of the member having the largest quota."

"I was under instructions from the Chancellor of the Exchequer not to recede from this alternative without his express authority. When therefore during your absence a few days ago I learned from Judge Vinson that it was the view of the United States Delegation that their proposal should be pressed, I immediately communicated the position to the Chancellor of the Exchequer and asked him for further instructions.

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"His reply has now arrived. I am asked by the Chancellor to convey to the United States Delegation that it is the strongly held view of my Government that, whether the location of the Fund is determined during this Conference or at a later date, the decision is a political matter and therefore to be decided by Governments.

"You will, I am sure, agree that the location of the headquarters of the Fund is a matter of high policy. It is not merely financial or economic factors that have to be taken into account: the question raises important issues of political international relations. The question where the headquarters of the Fund should be situated cannot be considered without reference to the location of the other international bodies with which the Fund will have to cooperate. Among the most important of these international bodies will clearly be the projected over-all World Organisation. Until it is known what other international bodies are likely to be established within the framework of this World Organisation, and where they and the World Organisation are to be located, it would be premature to take any final decision about the Fund's headquarters. After all, it is only by accident that the Fund is to be - or perhaps I should say, looks like being - the first international body with extensive executive functions to be established. It seems to us that it would be more prudent without, of course, in any way prejudicing the claims of this or any other member country to be the seat of the Fund, that our two Governments should suspend judgment until they see more clearly where the seats of the other main organisations can most suitably be fixed. This would put them in a position, before taking a final decision, to weigh the many important political factors which will have to be taken into account.

"If the alternative with the United Kingdom Delegation have tabled be adopted, it would be our hope that before the Board of Governors can hold their first meeting a decision could in fact be taken between Governments. But I must particularly emphasise in this letter that in the opinion of my Government it would not be a proper course

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to settle a political matter, such as this is, by equal voting of the financial or technical Delegates from the wide variety of nations here assembled. No one can suppose that the more difficult matters relating to post-war World Organisation, where the major Powers are not for the time being in full agreement, ought to be settled in such a way.

"I should add that the Chancellor's telegram is supplemented by a further telegram from the Foreign Office, which indicates that the Chancellor and the Foreign Secretary are acting in agreement. The Foreign Office is in fact closely engaged on the whole question of World Organisation at this very moment and expects, as you are aware, to discuss it at an early date with the State Department.

"The particular manner in which the issue is reserved for subsequent decision is, of course, for us a secondary matter. The Chancellor also wishes me to make it clear to the United States Delegation, though this is not a major consideration, that the considerable opposition to the Fund which he will have to face in London would be gravely augmented if this issue were to be forced through here and now.

"I should be grateful if you would be good enough to let me have an expression of your views on this matter in order that I may communicate them to my Government as soon as possible. I am, of course, at your disposal at any time for a talk.

Sincerely yours,

/S/ Keynes"

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MR. WHITE: They want to get the seat of the Bank there and the Fund here, or the Bank here and the Fund there. They don't care, as long as they have one, because they feel otherwise there are important things that follow. I think we are strategically in an invulnerable position to get it now. If you wait, I don't know what you will get, because they can't back out on the basis that they don't like where the head office is. Their public won't stand for it, and the world won't stand for it. So the thing to do is to put it through on a vote here.

If they don't like it, it is too bad.

MR. VINSON: Keynes, Harry, and I discussed this matter, and I reported it to you. The view of the American Delegation was expressed in Harry's office at that conference. It was in your office, wasn't it, Harry? Yes, and then we walked out on the floor and Keynes and I had further conversation. It was again stated that the American Delegation was standing firmly behind the language in the draft and wasn't receding from that language. Of course, as you know, the language refers to the chief office, or main office, being in the country with the largest subscription.

The Delegation, I should say, had discussed it at some length, and as I recall it, the Delegation was unanimous in their position, and in the language of Lord Keynes, adamant.

H.M.JR: We are learning a lot of new English words, aren't we? Let me ask Jesse a minute--of course, they have their political troubles, as we do ours, but ours is a little bit bigger on the horizon. Do you, as a Member of Congress--I am talking to you now not as a party member, but just as a Member of Congress--do you see any reason why we should give way to this thing?

MR. WOLCOTT: I think it is very significant that we do not, Mr. Secretary. This is, as I understand it--I don't suppose this could be said to Lord Keynes, but I have been given to understand that many of the South American

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countries and many other smaller countries would feel much better if this gold was here in the United States; and though it doesn't necessarily follow that the gold will be in the location of the office of the Fund, it will naturally follow that it is in the same country, and I think that is perhaps what the fight is about. To give way now on that and let it be decided later on would create a very embarrassing situation in the Congress, as well as perhaps among all of these so-called minor countries who have thought right along that the seat of the Fund would be in the country with the largest fund. We have said that to several countries, and they have laughed and said, "Well, why didn't you say the U. S.?"

H.M.JR: Has anybody talked to the Russians about this?

MR. WOLCOTT: I think it was the Russians who made that statement through the interpreter.

MR. VINSON: And they were agreeable.

MR. WOLCOTT: They naturally expected it to be here.

MR. WHITE: New York has become the financial center of the world. These British are just fighting up-hill. There is no question about that.

H.M.JR: Harry, you don't have to convince me, but I want advice. Do you see what I mean?

MR. LUXFORD: Could I interrupt just a minute? Have you heard the headlines, "The Germans are Withdrawing from the Baltic"?

H.M.JR: Not in this morning's paper?

MR. LUXFORD: In this evening's paper it said that they are withdrawing from the Baltic.

H.M.JR: What would you do under those circumstances?

MR. LUXFORD: Consult the Russians.

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H.M.JR: That is what I had in mind. I thought it would be a nice gesture for some of us to just say, "Now we have this thing, and we are proposing to turn it down, but before we did it, we are just going to inform you about this before we do it."

MR. VINSON: Let's hear from them in regard to the proposal.

H.M.JR: I ought to answer Keynes tonight.

MR. WHITE: I don't think you have to.

H.M.JR: Acheson didn't think I had to answer him tonight.

MR. WHITE: No, he isn't saying anything he didn't say before. You see, what they are worried about is that we will vote on both the Fund and the Bank, which, unless the Delegates oppose it, we have every intention of doing and having both of them here. They will be confronted with a situation for which they will have no alternative. That is why they are bringing all the pressure to bear to do it now, because the Bank and the Fund logically belong in the same place.

MR. VINSON: You mean, not do it now?

MR. WHITE: I say they want to bring pressure not to do it now. They are going to bring every pressure. I wouldn't be surprised, Mr. Secretary, if the Secretary didn't call Roosevelt on this thing.

MR. VINSON: It was a viewpoint of the Delegation that this was a major issue, that it would be a most significant thing when the language and the draft have been written, that this country would be it, to recede from it and leave it up to the determination by the Fund, and that would have a very strong consequence in respect to the passage of the act.

MR. WHITE: Moreover, we are putting in twice as much money as anybody else, three times as much. On

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the face of it, it is preposterous that the head office should be any place else. We can vote it any place we want, by members, by votes, and we will win. They know it, and that is why they don't want to come to a vote. I don't see why we should put ourselves in a position to be subject to political manipulation.

H.M.JR: Then sometime tomorrow I will ask to see Keynes, and I will have some of you present with me. We will see how it works out.

We are having a meeting at nine-thirty. I won't announce it at the nine-thirty meeting, but I will see what the schedule is, and I will get in touch with them.

Well, I have from now until one minute to six if anybody wants to tell me anything.

MR. WOLCOTT: I have a complaint!

MR. VINSON: This is going to be good, I can tell.

MR. WOLCOTT: Well, Bing Crosby, my favorite crooner, is on at nine o'clock and you have set a meeting for nine o'clock.

MR. WHITE: Do you suggest we all tune in?

MR. WOLCOTT: Yes, a movie.

H.M.JR: What is it called?

MRS. KLOTZ: "Going My Way."

MR. VINSON: We got the note while you were in the chair with a gavel in your hand.

H.M.JR: What we can do is, we can advance it to eight-thirty.

MR. WHITE: That is a good idea.

MR. WOLCOTT: Please, pretty please.

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H.M.JR: All right, the meeting is called for eight-thirty tonight. The only person to be informed is Acheson.

MR. WOLCOTT: I think we should meet earlier anyway so we can get to bed early. Thank you, Mr. Secretary.

H.M.JR: I hope all your complaints are as easily taken care of as that.

MR. LUXFORD: If there is a chance that Churchill will go to the President, isn't there some advantage to notifying Keynes at once so they have the time to do it?

MR. WHITE: That is just what you don't want to do.

MR. LUXFORD: But if Churchill does call Roosevelt--

H.M.JR: He isn't going to call him on the phone, and Roosevelt isn't going to answer him without first calling us up here.

MR. WHITE: The vote will take place tomorrow.

MR. VINSON: The answer will be made on his own, in line with ours. That is just too patent.

H.M.JR: I am not going to bother him unless we have an emergency.

MR. WHITE: If the President should call up, we will say we are very sorry, but the Delegates have all voted on it. That will give him a good answer for Churchill. We can't hold up everything.

H.M.JR: That is no answer, but anyway, we have taken care of the meeting for tonight.

What other important business do we have?

MR. WHITE: Just to wait to hear from the Russians.

## UNITED NATIONS MONETARY AND FINANCIAL CONFERENCE

PRIVATE & PERSONAL

13th July 1944.

Dear Mr. Secretary,

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"The location of the principal office of the Fund shall be decided by the Fund at the first meeting of the Board of Governors, which will take place in the territory of the member having the largest quota."

I was under instructions from the Chancellor of the Exchequer not to recede from this alternative without his express authority. When therefore during your absence a few days ago I learned from Judge Vinson that it was the view of the United States Delegation that their proposal should be pressed, I immediately communicated the position to the Chancellor of the Exchequer and asked him for further instructions.

His reply has now arrived. I am asked by the Chancellor to convey to the United States Delegation that it is the strongly held view of my Government that, whether the location of the Fund is determined during this Conference or at a later date, the decision is a political matter and therefore to be decided by Governments.

You will, I am sure, agree that the location of the headquarters of the Fund is a matter of high policy. It is  
not

not merely financial or economic factors that have to be taken into account: the question raises important issues of political, international relations. The question where the headquarters of the Fund should be situated cannot be considered without reference to the location of the other international bodies with which the Fund will have to co-operate. Among the most important of these international bodies will clearly be the projected over-all World Organisation. Until it is known what other international bodies are likely to be established within the framework of this World Organisation, and where they and the World Organisation are to be located, it would be premature to take any final decision about the Fund's headquarters. After all, it is only by accident that the Fund is to be - or perhaps I should say, looks like being - the first international body with extensive executive functions to be established. It seems to us that it would be more prudent without, of course, in any way prejudicing the claims of this or any other member country to be the seat of the Fund, that our two Governments should suspend judgment until they see more clearly where the seats of the other main organisations can most suitably be fixed. This would put them in a position, before taking a final decision, to weigh the many important political factors which will have to be taken into account.

If the alternative which the United Kingdom Delegation have tabled be adopted, it would be our hope that before the Board of Governors can hold their first meeting a decision could in fact be taken between Governments. But I must particularly emphasise in this letter that in the opinion of my Government it would not be a proper course to settle a

political matter, such as this is, by equal voting of the financial or technical Delegates from the wide variety of nations here assembled. No one can suppose that the more difficult matters relating to post-war World Organisation, where the major Powers are not for the time being in full agreement, ought to be settled in such a way.

I should add that the Chancellor's telegram is supplemented by a further telegram from the Foreign Office, which indicates that the Chancellor and the Foreign Secretary are acting in agreement. The Foreign Office is in fact closely engaged on the whole question of World Organisation at this very moment and expects, as you are aware, to discuss it at an early date with the State Department.

The particular manner in which the issue is reserved for subsequent decision is, of course, for us a secondary matter. The Chancellor also wishes me to make it clear to the United States Delegation, though this is not a major consideration, that the considerable opposition to the Fund which he will have to face in London would be gravely augmented if this issue were to be forced through here and now.

I should be grateful if you would be good enough to let me have an expression of your views on this matter in order that I may communicate them to my Government as soon as possible. I am, of course, at your disposal at any time for a talk.

Sincerely yours,

*Keenes*

The Hon. Henry J. Morgenthau, Jr.

Bretton Woods  
 July 13, 1944  
 8:30 p.m.

STEERING COMMITTEE:  
 PROCEDURE

Present: Mr. White	Mr. Vinson
Mr. Acheson	Mrs. Morgenthau
Mr. Wolcott	Mr. Luxford

H.M.JR: Theunis was so mad he shook. Souza Costa was just furious. The head delegate from India was just as furious as he could be. They all came up here, and so I sent for Kelchner and asked whether he couldn't do something about it.

MR. ACHESON: Well, I think Keynes understood that was not a success today.

H.M.JR: Harry, I haven't seen you for a couple of hours. Do you want to tell me very briefly from now until five of nine what has happened?

We have a request. The Republican Party went into a caucus, and they decided that at five minutes of nine-- it was a Party issue--that we adjourn to see a movie.

MR. WOLCOTT: Filed a formal complaint this afternoon.

MR. WHITE: Well, there were two Commission meetings this afternoon, one on the Fund, in which they covered quite a little material. A good deal of it was passed, and some was referred back to a special committee which is to consider it tonight and report back tomorrow morning. We will get over a lot more ground tomorrow morning.

The Drafting Committee has just begun working, and they will probably work until very late at night. They are making progress. We didn't get to some of the very difficult points. We will get to them tomorrow.

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(Mr. Vinson enters the conference.)

MR. WHITE: We have to make sure we have enough votes on a couple of matters that came up before we called for a vote. We will find that out tonight and tomorrow. They didn't want to consider one problem, because they said they couldn't consider it intelligently unless they had their quotas, so I appointed a Quota Committee. I will call it when we have the quotas fixed up.

H.M.JR: For the Conference?

MR. WHITE: For the Conference.

H.M.JR: Separately from this?

MR. WHITE: Oh, yes, this is a formal Quota Committee, which presumably will report the quotas to the Commission, but we won't call them to meet. United States is chairman. We won't call them to meet until we have the quota settled, but at least we met the requirements of the moment.

Now, we are meeting again tomorrow at ten o'clock. I don't think we are going to finish tomorrow. I am pretty sure of that. We will try to meet again probably Saturday morning, because we will have to spend tomorrow afternoon and evening in making sure that we have lined up enough votes on things that will come to the final meeting on Saturday morning. So Luxford, Bernstein, and I will join them when I get through here. We are going to push through on the drafting to make certain that everything is right and ready for tomorrow, because that is practically our last opportunity. So much for the Fund.

Now, the Bank. Dean will tell you about that. Outside of the Fund meetings and the Bank meetings, a number of the countries have asked to be seen about their quotas, and the Judge saw several of the smaller ones, Ethiopia, Liberia, and a couple of the others.

H.M.JR: The India fellow when he was down here--he came down for more silver--mentioned the quota. I told him he had a Quota Committee. He said Mr. White said he

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should see me. I told him he should see our Quota Committee.

MR. WHITE: How it happened was, they wanted to know why nobody invited them to discuss matters of such importance, and why other countries were being seen. I said, "The Secretary will only be too glad to see you."

H.M.JR: He wants another five million ounces of silver a month. We have a memorandum, one to you, one to Danny Bell, and one to the State Department. I wasn't going to get in on it now.

MR. WHITE: Now, that Mendes-France is here; he injected new blood in the situation. He wants five hundred million dollars, and that is all.

H.M.JR: How about the Bank, Dean?

MR. ACHESON: Well, the Bank, aside from the fundamental questions which we talked about, is in very good shape. If I can say what I think is troubling at the present moment, there are two main problems, one group of procedural problems, and the others are substantive problems.

Now, the second one, the substantive problems, you can't do anything about until you get the Russians smoked out, and that is just inherent in the whole situation. Procedurally, I think we are in the most chaotic mess in the world. The only way I believe you can iron it out is to get the Steering Committee together and find out what we are doing. The thing is buzzing around in a perfectly nonsensical manner. We appointed ad hoc committees, section committees, drafting committees, and all kinds of committees. A draft comes in from somewhere and nobody reads it, so it gets referred to somebody else; the delegates are going crazy.

MR. WHITE: That is in the Banking Committee?

MR. ACHESON: No, in the other two.

MR. WHITE: I don't think so.

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MR. ACHESON: To some extent it is, Harry.

MR. VINSON: Were you there when Harry said he would appoint the special committee, Committee on Unsettled Problems?

MR. ACHESON: Yes.

MR. WHITE: There are only two committees now, the Drafting Committee, which will prepare the drafts, and have prepared the drafts.

MR. ACHESON: Harry, now really, let me tell you about this--I don't want to argue about it. Most of these people--only about one-tenth of one percent--even have what I know about it, and about a hundredth--

MR. WHITE: Most of which people?

MR. ACHESON: The delegates and people who were in the room. You have a very complicated procedure. First of all, you get a report of the Drafting Committees, Committee One, and Committee so and so. Those things are all brought up. People think they are about ready to vote on something. Then they discover that that isn't true because it has to be referred to an ad hoc committee or a special committee, and then it has to go to the Drafting Committee.

If we could get perfectly clear and simple decisions on these main points and then have them referred to the Drafting Committee--put into language--I think most of the confusion would disappear, except for these substantive problems.

MR. WHITE: I think the confusions are all in your mind as far as the Fund is concerned.

The Bank is a different story. There is no confusion as far as the Fund is concerned. All the important problems have been settled. They have either gone--

MR. ACHESON: I am sure they have been settled, but I don't think the delegates know that.

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MR. VINSON: Of course, there were several matters there today that were deliberately referred to committees, the Drafting Committee or the Select Committee. For instance, the Russians were down at noon, very much concerned about the question of the change in exchange rates.

MR. WHITE: Yes, the procedure is very simple.

MR. VINSON: And they didn't want the matter to come up.

MR. WHITE: The procedure is very simple, Dean.

MR. VINSON: That matter was shot over to another committee to avoid discussion or vote.

MR. WHITE: This is the procedure on the Fund. I don't know what the procedure on the Bank is. The procedure on the Fund is that the committees have all made their reports to the Fund. When there has been agreement, it was immediately referred to the Drafting Committee. When there was disagreement, instead of referring it back to the committees or instead of discussing it at any length in the committees, we let a few people discuss it, and immediately referred it to the ad hoc committees, created especially for that purpose, to refer back to the Fund Commission, and not to committees. So there were a lot of committees that referred to ad hoc committees who were to report back to the Fund.

You had the Drafting Committee working on things that were already passed upon, and we have said also that when it came back from the Drafting Committee there would be an opportunity for anybody to raise any objections or to consider it. You had things referred to ad hoc committees which were to then report to the Fund Committee.

Now then, the Drafting Committee completed its work in so far as things were settled for it to finish. That draft was before the Fund Committee for going over, paragraph by paragraph. Before that, every one of those paragraphs we had agreed on with the British, with the exception of three or four, and with many others, so we

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know there will be no hitches between us. The ad hoc committees reported to the Fund Committee this afternoon. Much of what they reported was accepted and sent to the Drafting Committee to be refurbished. The regular committees--the four committees reported. The same procedure was used. Where there was a favorable report, it was immediately sent to the Drafting Committee. Where there was some doubt about it, some difference of opinion, it was referred to a special committee created for just that purpose. An important committee will pick up all the loose ends and refer them back to the Fund Committee. I don't see how anything could be simpler or more effective, and it seems to me to be working perfectly.

MR. VINSON: After the meeting of the Commission, I heard expressions from a number of delegates, and particularly after Commission Two operated, and they were loud in their praise for the procedure that was adopted in Commission One, and were raising the very devil about the driving through by Lord Keynes when they couldn't even turn the pages of the document to find the sections in order to know what was under discussion.

MR. ACHESON: The latter, of course--

MR. VINSON: There was nothing--for instance, they spoke specifically about this evening's meeting that they did have opportunity for discussion and consideration, and I really felt like--I feel, Dean, like Commission One is in pretty fair shape.

MR. ACHESON: All right, fine.

MR. WHITE: And the fact that Commission Number Two isn't, Dean--you can't let things go on like that. Just because Keynes is an autocrat doesn't mean that you have to take it. You stand up and you say you don't like the way things are running.

H.M.JR: Wait a minute. On that, I couldn't get in on this other discussion, because I didn't know anything about it, but after I heard from three Ministers of Finance

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how excited they were, I sent for Doctor Kelchner.

MR. WHITE: I don't think he can tell.

H.M.JR: He said he would take it on.

MR. ACHESON: He can't do it, Henry.

H.M.JR: Who can do it?

MR. ACHESON: Only the Steering Committee.

MR. WHITE: Well, Mr. Secretary, I don't think things will go on like that. I don't know how Dean Acheson feels about it, but I will attend the next meeting and get up on my feet. Nobody talks to him. They are either too scared to talk to him or too nice to talk to him, but I am sure that if he is called to task strongly, and you have the crowd behind you, he will modify his procedure.

H.M.JR: Could you do it privately rather than publicly?

MR. WHITE: Maybe.

MR. VINSON: Reference has been made to the Steering Committee, and since you are Chairman of the Steering Committee, it might be well to ascertain just what you have in mind as to what the Steering Committee could do. What is your thought?

MR. ACHESON: I think first of all you have to decide what the procedure is going to be. Do you want to take up these committee reports as they come in and vote on them, on questions of substance, and then refer them to the Drafting Committee to just be put in shape? If that is what you are going to do, then the reports of these committees ought to be provided to the delegates before they come into the meeting. I think the secretariat is perfectly lousy.

MR. WHITE: Very bad. You have a bad secretary there, Upgren, the banker. They were going to fire him, and I thought they did.

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MR. VINSON: Here is what we had in mind today--

MR. WHITE: We did that with the Fund.

MR. ACHESON: The Bank started very, very late, and you have a week--

MR. VINSON: Before it was determined to have a meeting of the Commission, I was under the impression that the next meeting of the Commission would be the last meeting of the Commission--that would be Saturday. I was prepared to move. And all matters that had not been considered by the Commission, whatever the status was, would automatically be referred to this Committee on Unsettled Problems to report back to the Commission meeting on next Saturday. But when you decided to have the meeting tomorrow, I figured that that motion wouldn't be proper. But tomorrow, it seems to me that matters that are unsettled--I think if you make it a catchall for matters that are unsettled, whether you have specified matters in mind or not--but all matters that haven't been considered by the Commission should be referred to this special committee.

MR. WHITE: That is why it is created. The only reason we are having a meeting tomorrow morning instead of later is because we didn't get through today. We need another morning to get through with the voting on what the Draft Committee has already accomplished. We didn't get to that. We only finished the work of the Committees and the subcommittees, so it seems to me not only is there no confusion in Commission One on the Fund, but it is running as smooth as silk, and I don't know where you get your idea.

MR. ACHESON: Let's skip it. I know nothing about it. I am perfectly willing to skip it and go on to the important thing, which I think is the thing you have asked me to do, which is Commission Two. That, I think, is completely disorganized.

MR. WHITE: I think so, from the little I saw.

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MR. ACHESON: The role in which I am cast is one in which I am not willing to continue. I suppose that what you asked me to do was to take the floor in Commission Two very much the way the Judge has taken it in Commission One. That isn't what is going on. So far as Commission One is concerned, you have a tremendous organization with yourself and all the Treasury Staff and all the experts who are working on this thing.

So far as Commission Two is concerned, as far as I can see, all the decisions to make judgments on the merits and which I am wholly incompetent to make judgments on is thrown on me. The whole business of negotiating and talking with people is thrown on me. The whole burden of being Chairman of the Drafting Commission is thrown on me. The whole burden of presiding at these Commissions is thrown at me, and this afternoon when Commission Two met, there was not one single person in the room from five o'clock, when the Commission met, until a quarter of seven, when you came in. who had ever been in a single meeting of any of the committees or knew what the dickens was going on.

Now, I will go on and do anything that I am asked to do, but the responsibility which is in somebody's mind is one which I am not discharging and cannot discharge.

H.M.JR: I think we ought to talk this thing out. Jesse, to keep faith with you, it is five minutes of nine. I am going to stay with the rest and talk this out until I can find a solution, because this is important. Do you care to go?

MR. WOLCOTT: Unless I can be of some help to you. I don't know as I can suggest anything.

MRS. MORGENTHAU: I think I will go down, too.

MR. WOLCOTT: I think, though, that Lord Keynes has sensed what is happening; and if somebody talked to him privately--

H.M.JR: If I find I do need you, I am going to send somebody down to tap you on the shoulder.

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MR. WOLCOTT: I shall be on the right about half way down.

(Mr. Wolcott and Mrs. Morgenthau leave the conference.)

MR. VINSON: In regard to the Steering Committee, that is very important, Mr. Chairman, because if the Steering Committee can come up with procedure that will expedite the thing, they ought to be called together quickly and come up with the revised procedure, because this is Thursday night.

MR. ACHESON: Well, I think there are two separate problems, one is the procedure of the conference, which is not hard to work out. All we have to do is to get two or three people together with Keynes and give Keynes some reasonable assurance that we can get somewhere.

Now, Keynes' performances, I think, are completely understandable, and although tactless--

MR. WHITE: That is right.

MR. ACHESON: ...and all he could do. You started him off on Monday to finish a job on Friday which Commission One has taken two weeks on. Now, he has just got to do it this way.

MR. WHITE: There is no comparison, Dean. The Bank thing has very many further problems. The thing--there is practically agreement on eighty-five percent of it. A good deal of the preliminary work has been done.

MR. ACHESON: Harry, don't let me waste time by arguing; I don't mean to argue.

H.M.JR: Let's be very frank for a minute. If I may be frank, when Dean gets irritated, it is so rare; I realize that the cause must be grave.

Now, you have to be a little patient with me because I haven't attended these meetings, and I don't know what is going on, so you have to educate me. What I want to do

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is this, because I would like to stay here until we get this thing straightened out. Is there anybody like Luxford or anybody who can be helpful?

MR. WHITE: Yes, both Luxford and Bernstein.

H.M.JR: Let's ask for them.

MR. WHITE: They are at the Drafting Committee.

H.M.JR: Tell Smith I won't be able to see him tonight.

MR. VINSON: Who is going to be at this special committee?

H.M.JR: When do they meet?

MR. VINSON: They are meeting at eight-thirty.

H.M.JR: Special committee on what?

MR. VINSON: All the unsettled problems.

MR. WHITE: We will send Bernstein back.

H.M.JR: Look, if I am getting it right or wrong--it seems to me this isn't just something wrong with the American Delegation, where the American Delegation is alone responsible. It seems to me this is a responsibility that, if it isn't going along well, Keynes is responsible for as much as anybody.

MR. ACHESON: They are two wholly separate questions.

H.M.JR: Would you describe them to me?

MR. ACHESON: We are not talking solely about the Bank. The first problem about the Bank is that the Commission meetings on the Bank, which are conducted by Keynes, are being rushed in a perfectly impossible and outrageous way. Now, that comes from the fact that Keynes is under great pressure. He knows this thing inside out

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so that when anybody says Section 15-C he knows what it is. Nobody else in the room knows. So before you have an opportunity to turn to Section 15-C and see what he is talking about, he says, "I hear no objection to that," and it is passed.

Well, everybody is trying to find Section 15-C. He then says, we are now talking about Section 26-D. Then they begin fiddling around with their papers, and before you find that, it is passed.

H.M.JR: I am perfectly willing, as President of this Conference, to go and call on him and in a very nice way tell him that at least half a dozen people have come to me perfectly livid and I think he is making a mistake, and I am going to ask him very respectfully if he wouldn't do the thing at half speed.

MR. ACHESON: That is easy. I don't think that is hard.

H.M.JR: I am perfectly willing.

MR. WHITE: It is your responsibility as President of the Conference.

H.M.JR: Harry, I think it is the Secretary General, but I am perfectly willing to do it.

MR. ACHESON: No, it is really yours.

H.M.JR: You think it is? I am perfectly willing.

MR. ACHESON: Now, in doing it, I think you have to understand the timetable and know that when you are asking him to slow up this thing you are still making it possible for him to finish by Wednesday when the train leaves. I think that is wholly possible, and I don't really think that is a great problem. I think that is just Keynes' temperament and the fact that he is under pressure.

The more serious problem is the second one, which is the situation of the American Delegation. Now that, I

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think is completely disorganized.

H.M.JR: The American Delegation?

MR. ACHESON: Yes, we do not know when we come to a meeting of the Commission at the present time what our view is. Therefore, it cannot be presented clearly and forcefully. The reason that that is true is that there is no organization to decide what we want to do in the first place. Have that carried out in the committees, and have the people who have carried it out in the committees be available for the person who is presiding on the floor for the American Delegation, so that he knows what has happened.

(Mr. Luxford enters the conference.)

MR. ACHESON: Now, just let me describe what my situation is in the Bank.

MR. LUXFORD: Mr. Secretary, in the absence of Judge Vinson, Mr. Bernstein is Chairman of the Committee down there.

MR. WHITE: That is all right.

H.M.JR: That is what we thought would happen. May I just take a minute? Mr. Acheson is worried about the procedure of his Committee, and he is dividing it into two parts, the part about Keynes rushing things--they feel that I should speak to Keynes, and I am willing to do that. He has just now gotten to the part of organization of the American Delegation in his Commission, about which he is very much disturbed. I think we will sit here until we find a solution.

I asked who would be helpful, and they said you and Bernstein. So, will you listen now and make whatever contribution you can?

MR. ACHESON: Well, what I am trying to describe is how we are doing the Bank problem. In the first place, you have asked me to be the leader in the Commission.

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Now, the way Keynes has organized it, all the problems come up to the Commission and the committees are practically defunct at the present time and he has divided the committees up into nine ad hoc divisions of the committees which report directly to the Commissions. Now, on those nine groups there are various Americans who have to get a party line. There is no very clear way in which they get the party line. That was brought out clearly this afternoon. Very well, all these nine committees meet and do various things. They make reports. These reports come up to the Commission Number Two, on which I sit.

Now, I am also, in addition to the leader on Commission Number Two, the Chairman of the Drafting Committee of Commission Number Two. The Drafting Committee is now meeting at eight-thirty; it met last night at eight-thirty and adjourned at twelve-fifteen. It is meeting tonight at eight-thirty and will adjourn at one or two, or whenever it is. It met again this morning at eleven-thirty and sat until after one o'clock.

I am also on Subcommittee Four, which has to do with the legal aspect of the thing, and that meets sometime or other. You told me the other day that you wanted me to work with the Steering Committee on all of the quotas and these other substantive problems.

H.M.JR: You mean the American Steering Committee?

MR. ACHESON: Yes, on the quota for the Bank and these problems that Ned Brown and everybody has brought up. On the Fund there has been a very closely-knit, effective group in the American Secretariat. Luxford and all these people have been working on the thing. And the Bank--that is not organized at all.

We are having these tremendous debates about the ratio, and whether we pick up the loans and various other things, with the result that after working on drafting problems most of the day, and on other problems, I went into the Commission Number Two and up came this tremendous row of reports. There was not one single person in the

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room who had been on any of these committees. Two of the committees on which Americans had been present named diametrically opposite reports, so you didn't know what the American party line was. When I turned around to try to find out what the line was on this, there wasn't anybody who had been at any committee meeting.

Now, I just don't know what to do. I do the best I can. I improvise and make speeches and delay and do everything, but I just want you to know.

MR. VINSON: I think it is a question of manpower. I just think that you have to have some fellows sitting back of you.

MR. WHITE: That is the end of that.

H.M.JR: I think the thing that we have to do--it is manpower, but the other way around. It seems to me the first thing we have to do is to relieve Dean of some of this. I mean, nobody can do what he is doing and do a good job.

MR. ACHESON: Well, you add to it the fact that I know nothing about the Bank, I am playing this by ear.

MR. LUXFORD: I think there are some suggestions that we could make, growing out of our experience on the Fund, that might be extremely helpful.

H.M.JR: Before we do that, I wonder if we can't take some of the things which don't have to do with the Bank that Dean is doing--relieve him of those. You are the leader on Commission Two?

MR. ACHESON: Yes, I am through with the Fund.

MR. VINSON: He is leader of Commission Two.

MR. ACHESON: Yes, unless you want me on these Russian crises about the quotas.

H.M.JR: Right now, I personally will relieve you of that. I will take care of that unless you want to.

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MR. ACHESON: I would be delighted to be relieved.

H.M.JR: I mean, with the assistance of these other two people. Make a note as to your responsibility on the crises on the Russian quota; I will relieve you of that.

Now, I go further. I will relieve you of being a member of the Quota Committee on the Fund.

MR. ACHESON: That would be fine.

H.M.JR: I will relieve you of the Quota Committee on the Fund.

Now, have you any other suggestions of things we could relieve you of?

MR. ACHESON: No. That isn't the heart of the problem. I would like to be relieved of quota responsibility, unless you get into a major row with the Russians, and then I would like to be in.

H.M.JR: I have said now that on quota responsibility we will relieve you of that; and if we get into a major row, then I will have to consult you.

MR. VINSON: Might I inquire, was Collado there today?

MR. ACHESON: Yes.

H.M.JR: Excuse me for laughing because you can't pronounce his name; I can't pronounce the Russian economist's name. Promise not to repeat what I say, but I can't pronounce his name so I always call him "Slobolosky."

MR. VINSON: What is it.

MR. ACHESON: Pasvolsky.

MR. VINSON: Collado presided at the group meeting last night in regard to the Bank, which I thought was a very constructive meeting. There are a number of men here who have their teeth into the Bank. Now, there is Bernstein, Doctor Angell, and there is Pasvolsky.

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MR. WHITE: He was out on the porch today during Commission Two meeting.

MR. VINSON: That was pretty close. There was another one or two there last night.

MR. WHITE: Sure, but I don't think that meets the problem.

MR. VINSON: Dean wants to have somebody sitting behind him there.

MR. WHITE: What Dean wants is what he is going to get, and what we had every intention of giving him when we got through with the Fund. You remember, I said I would sit on your right and you would have Collado on your left and Bernstein would join us after the Drafting Committee is over. Just as when Judge Vinson sits down there he has two boys on his right and left. Before I let anything pass I send a messenger there. I know at the time what our position is, and what line we want to take.

Of course, it is impossible to expect you or anyone else to take the position of leadership and know what is going on, because there have been months and months and months behind it, just the same as it would be impossible for Judge Vinson. But the function Judge Vinson serves and the function you would serve would be to get on your feet at the appropriate occasions and the boys would turn to you and suggest something, and you would expect to be advised wholly from them.

The reason we suggested putting you on as Chairman of the Drafting Committee was to get you familiar with the material that was coming up. That was the purpose of it.

Now, one of the things that the boys have told me-- and it is partly due to the exigency of the occasion and partly possibly to a misunderstanding--that you have turned more, probably because our boys were busy, but you have turned more to your boys. Now, your boys are not familiar.'

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MR. ACHESON: I don't have any of my own boys.

MR. VINSON: Pete is familiar with it.

MR. LUXFORD: May I suggest that there is still a more fundamental problem here? It is the game Keynes is playing. You can't have us and expect us to man nine subcommittees. That is just foolishness. If he is going to use the Commission as his big operating unit, then he ought to appoint one Unsettled Problem Committee. We can man that, and man it effectively. Any issue that can't be solved in the big Commission goes to that Unsettled Problem Committee. We can always have it staffed with a good top-notch man. But you can't expect us to staff nine committees and coordinate them. If you cut out all those committees and get this down to the working committee underneath the Commission, then Keynes' system will work.

MR. ACHESON: You have got it pretty nearly to that. He is almost through with his committees.

MR. WHITE: I think more than that. We had assumed that the Fund was the thing to get out of the way first; it was more complicated, involved more work, and there were more differences of opinion. That has taken the major part of the time of many of us.

We got the Bank ready. We agreed on many of the provisions, except some of the outstanding ones which weren't, and we haven't paid attention to the Bank committees the way we have the Fund, because it wasn't necessary. Suffice to say there won't be any provision that will go through that we don't approve of, I mean, that the group doesn't approve of, but instead of catching it lower down and working it along, we had ample preparations and ample time. We felt that the Fund was so much simpler, so much less room for disagreement, that we could let it go.

MR. VINSON: You mean the Bank.

MR. WHITE: Yes, we could let it go and concentrate on the immediate task at hand of the Fund until we were through with the Fund, and then we would catch it at the Bank level.

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Now, you have seen it in its worst disorganization. Keynes has contributed to that by the way he has handled it. It wasn't necessary. What we wanted Keynes to do was to give the stuff to the four committees to stall until we were through with the Fund and then we could come in. Instead of doing that, he has short-cut all that, with the results that you are familiar with.

Now, I don't think the situation is serious at all, because from now on, at your next meeting you will find that we will know what is wanted, with the exception of those major questions which may remain unsettled, and the differences between ourselves and the British will be known ahead of time. Iron them out as much as they can be ironed out, and you will have men at your side who will advise with you and advise you as to the next step, so I don't think Keynes has to be stopped. In the first place it is impossible to hear what he says-- what the people say. He doesn't run a meeting properly.

MR. LUXFORD: He does it on purpose so he can rush through things.

MR. VINSON: What I am interested in is the suggestion that Dean has to make as to what the Steering Committee can do that will help straighten out the thing, because the Steering Committee can meet and can come up with revised procedures that may help.

MR. ACHESON: I withdraw my suggestions about that, because Harry says that he thinks that Commission One is in good shape. I don't know enough about it.

MR. WHITE: I don't mean to say there isn't a lot of hard work to be done.

H.M. JR: I don't know whether Dean feels any better or if he doesn't, but I think he should say what is in his heart so that at least in the next day or so--I don't quite see where we are giving him anything other than we are relieving him of responsibility.

MR. ACHESON: The important thing, Henry, is that the American Delegation must be prepared through someone

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other than myself to make up its mind on what it wants. Now, what I regard myself as is the trial lawyer; I am there on the floor.

H.M.JR: What do they call that in England?

MR. ACHESON: The barrister.

What I want to know is, what does my client want? Now, what my client has now said is that I am the barrister and also have to tell the client what it wants.

MR. VINSON: I may have the thing wrong, but day before yesterday, or whenever it was that the Secretary appointed the so-called Steering Committee, as I recall it, he said to the Delegation that time was of the essence and that he was going to appoint this Committee, and the Committee would determine the delegation policy; and if we felt that the matter should be referred back to the Delegation, we would refer that matter back to the Delegation.

H.M.JR: That is right.

MR. VINSON: It may be that some of us on the Steering Committee may have been derelict, and it may be that it is because we just had such faith in Dean that he was carrying the ball and moving along, because we haven't had any meetings of the entire group, although two of us last night spent three or four hours together. I think we got through about twelve-thirty with a meeting in which Senator Wagner and Marriner Eccles and Mr. Brown and Wolcott and myself were there, in which the most important items, as I understood it, were discussed.

MR. ACHESON: That is perfectly true. You discussed those, and you reported to the Secretary about them. And then, what happened after that? They were discussed at the meeting.

H.M.JR: Discussed here this morning.

MR. ACHESON: But then, nothing happens. Who takes hold of them and does something about them? I can't do it.

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H.M.JR: I have to ask these gentlemen here who in the Bank Committee is the chief technical man who should do something about it and who should be beneath Dean?

MR. WHITE: Luxford, White, and Bernstein, and Collado. That is the lineup. The others are too far behind. Dean is wholly right. He is not expected to be advocate and barrister.

H.M.JR: Harry, speaking for yourself, when is your next meeting?

MR. ACHESON: It is going on now.

MR. WHITE: You mean the Commission meeting? Saturday afternoon.

H.M.JR: Between now and Saturday afternoon--I take it that you say there is a meeting going on now at which Bernstein is presiding?

MR. WHITE: No that is the Fund meeting.

H.M.JR: I mean, with all due respect, you say White and Luxford and Collado and Bernstein, but can these people prepare the American Delegation on the Bank so that they can give a brief to our barrister so he can present it?

MR. WHITE: That is a horse from a different stable.

MR. ACHESON: They have to go to committees first of all and get the right answer out of committees.

MR. LUXFORD: That is where I think one of our weaknesses is.

H.M.JR: What you are asking for is a brief so that when you are there Saturday afternoon you have a brief which is prepared for you to follow.

MR. ACHESON: Yes, but a brief which means something in terms of the Committee reports; because if you don't have someone who goes to a Committee--

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H.M.JR: Now, let me ask this, Harry--I am groping because, you appreciate, this is all new. We appointed a Steering Committee, which is here. Between now and Saturday, how busy are you, Fred?

MR. VINSON: I don't have too many; I am just ready to work day and night.

MR. WHITE: He has to work on this Committee which is called the Special Committee, which prepared all the unfinished things for the Fund Committee.

H.M.JR: All right, who is there that can be sort of manager at a level below Acheson and whip these things into shape? That is what he wants.

MR. WHITE: I thought he had Collado.

I don't know. We can talk it over tonight and see how we can fix it up. Dean is wholly right; he stated it correctly that he is the barrister. You state what you want and you give him one wing, and he flies. But he has to be advised as to what is wanted and what isn't wanted. He has a right to expect that from his assistants. We had a discussion of that point a few days ago. We have been kind of out of the Bank because we have been concentrating on the Fund, but we haven't been out of the Fund in the sense that we knew everything that was decided.

H.M.JR: Yes, but--

MR. WHITE: We talked about it. I remember Bernie saying, "Well, he has Pete Collado, and he is using him for that purpose."

I said, "Well, let him run along then until he complains."

H.M.JR: I know the feeling he has. It is a feeling of confusion.

Now, if you want tonight to think it over--

MR. WHITE: Let's see what we can figure out.

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H.M.JR: Have somebody who is not too busy, whether it is Collado or somebody on that level, who can manage this thing for Dean.

MR. WHITE: Well, we have no such thing, Mr. Secretary. We haven't had it in the Fund. The thing has to be organized.

MR. ACHESON: Harry, I think really the answer to this is, as you get the Fund a little bit more cleared out, separate Luxford and Eddie. Now, I don't want Pete to take the managership of this, because Pete has all kinds of ideas of his own. I don't know whether those are the ideas of the American Delegation or of Henry, or whatever the thing is, and Pete will fill me up with anything in the world. And you will give Luxford or Eddie, as the case may be--separate them now. We have almost come to the end of the Fund. Now, give either Luxford or Eddie to Pete. Pete has tremendous energy. He will organize these boys and get everything done, but I want to know that what I am doing is what the gang wants done, and I never know that if I am going to rely on Pete, because Pete is a statesman in his own right. He will develop all sorts of ideas.

H.M.JR: May I say this, most sincerely, that I think if you talked it over and got a couple of our boys together before the nine-thirty meeting tomorrow--come in and have five minutes with me, will you?

MR. WHITE: We will figure out something. I didn't intend to leave Dean alone today. I said I would be at your right, but I was called off on other things, and I felt the Fund took first place. We were right on the threshold.

MR. LUXFORD: Twenty-four hours will make a lot of difference.

H.M.JR: But come in a little bit before the meeting tomorrow morning, Harry.

MR. WHITE: Yes, we will have some constructive suggestions and get fixed up.

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MR. ACHESON: What about the Keynes matter?

MR. WHITE: The meeting isn't until Saturday, so you don't have to hurry.

H.M.JR: We have met on that. You weren't here. All of these people said I should sit tight and should see Lord Keynes and simply tell him that the American Delegation would have to sit tight, but to postpone it as long as possible.

MR. ACHESON: What did he say in his letter?

MR. WHITE: Just the same thing.

H.M.JR: He repeated four times that the Chancellor of the Exchequer thought it politically unwise to bring this thing up. It would be difficult for him politically. It takes him about four pages.

MR. VINSON: It seems very evident to me that you ought to have your organization so that the man will have men who will attend each of these nine subcommittees.

MR. ACHESON: They must be.

MR. VINSON: And report.

MR. ACHESON: And these must be at the general meeting.

MR. WHITE: They don't have to be at the general meeting, but we do have to have the men who are by your side, whether it is Luxford or Bernstein--they must know what has happened. They have always kept you informed, haven't they?

That is the way we have run it, and that is the way you will have to run it. You can't build an organization between now and then. Most of these men whom we have are very helpful in specific tasks, but they haven't been with it long enough, and haven't had the discipline that our group of boys have. We never move, Luxford, Bernstein, I,

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or any of Luxford's boys, until the thing has been cleared right through to me, and we are in agreement.

MR. ACHESON: But you see, today what happened was at one committee Ezekiel went off and agreed to something which was the direct opposite of what everybody has said was the policy of the United States. Then there was another meeting which somebody else went to and said the opposite.

MR. WHITE: I thought Ezekiel was the secretary.

MR. ACHESON: I don't know what Ezekiel was, but he was giving me hell because I objected to this thing tonight. All these agricultural cooperatives--

H.M.JR: That is known as a Freudian slip.

MR. ACHESON: Up comes Angell and says, "He is a liar, we never agreed." So I got up and said that this was all a mistake, we never agreed to this, whereupon somebody else came rushing up and handed me a report. Another committee had agreed to the opposite. I was going almost nuts.

MR. WHITE: I stepped down to this meeting this morning when they were going to recommend that loans be made to the International Banks, and I spoke against it. Finally they dropped it, but in order to throw the fellow a bone--in order to stop the discussion--because I had come down so hard on him--he wanted some buildings and research laboratories, and there is where we got crossed. I will show you how it happened.

MR. ACHESON: I knew we were crossed, but I did it on purpose.

MR. WHITE: I expected you would be informed of it by your man, Luthringer.

MR. ACHESON: But I wasn't. That was not because I was misinformed.

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MR. WHITE: I told this fellow, "Why don't you put it down in writing and specify what you want in a resolution, and I will see that the American Delegates who were opposed to this take another look at it?", thinking that would settle the argument.

We took a look at it and gave it the consideration that it deserved, and I expected Luthringer to give it to Dean. Dean opposed it strongly. I suppose I didn't know enough of this other.

MR. ACHESON: I knew.

MR. WHITE: I think it is fair to say, Mr. Secretary, that the Bank seems more confused on this point of view, and that with the exception of the major things that have come before your Delegates--these four or five points--we know exactly what we want in the smaller things, and we will catch them a little higher.

H.M.JR: Yes, but you admit yourself--put yourself in Dean's position. He doesn't pretend to be an expert, and he has these different people making opposite reports.

MR. WHITE: Yes, the thing I miscalculated is that I thought that Pete was serving in that capacity and that we would join him before the thing got--

H.M.JR: And Dean says he doesn't want to rely on Pete, because Pete has his own ideas.

MR. ACHESON: I am not complaining.

MR. WHITE: Pete is an able worker.

H.M.JR: You think this over tonight, Harry, and I will be available any time after nine tomorrow morning. I don't want to call on you in the same status as this morning.

MR. WHITE: That happened once in five weeks that I slept until eight o'clock, but that is because I went to bed at three.

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MR. ACHESON: Henry, may I take this letter (indicating letter from Lord Keynes to the Secretary)? It ought to have some powerful consideration.

H.M.JR: I thought you said we ought to say no to them.

MR. ACHESON: I don't want to argue, but I just want to say that we ought to think about this.

H.M.JR: Well, you will have to argue with Wolcott, Judge Vinson, and Harry White, because they are adamant on this thing. They can talk for themselves.

MR. VINSON: Of course, the Delegation had discussed it, and I thought, as I recalled it, the Delegation was more completely unanimous--

MR. WHITE: ...than it has ever been on anything else.

H.M.JR: I will make it the first order of business tomorrow morning.

MR. ACHESON: Let me just say one thing, which I am not sure that you get in the discussions of the Delegation. If I understand what I get out of this letter as I read it, his point is not that the question is as to whether we will decide in Bretton Woods where the place is going to be, or the various places--have the Bank or the Fund decide where it is going to be--it is something quite different from that. It is that this shall be a decision between governments, not through the mechanism of the Bank or the Fund, but between governments.

Now, I just think you want to think it over.

MR. WHITE: Who is to determine where the head office is in an international conference? I should think it would be the conference. The governments are represented by the delegates. After they decide it, like any other point, any other government can accept it or reject it. They can say, "We don't like this thing and are not going to join."

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MR. ACHESON: Harry, all I want to do is to state the question. I am not arguing about it at all.

MR. WHITE: The question has to be argued about it in order to come to a decision. Why be so scared of an argument?

MR. ACHESON: I am not scared of an argument; I am just too tired to make an argument, but I do want somebody to understand the question.

MR. WHITE: I see. Well, you restate it.

MR. ACHESON: It is not whether the groups which are now gathered are voting about the Fund going to decide in Bretton Woods where the offices are going to be, or postpone it for a vote of the Board of Directors. The question which he is raising is that this is a matter of high policy to be decided among the governments which decide matters of high policy, where the location of all the important things are going to be.

MR. WHITE: British and U. S.

MR. ACHESON: And the Russians and the Chinese, and somebody else. I gather that he does not believe that this is one of the questions in which the vote of Costa Rica is the same as the vote of the United Kingdom.

MR. WHITE: They know that if they don't stop it, it will be here.

MR. ACHESON: It may be, but I think you have to understand this problem.

MR. VINSON: That may be underlying this, but let's see what the picture is. Day before yesterday--Monday--was the day that Lord Keynes and you and I were in your office. That was a meeting of the Commission, wasn't it?

MR. WHITE: I think so.

MR. VINSON: We walked out of your office into the Commission. He raised the question with Harry and me,

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and we informed him of the attitude of the Delegation. Then we left the office, and I talked with him on the floor of the auditorium and repeated what had been said by Harry and me.

Now, he waits until Thursday to write this letter saying that it is a matter of high policy to be decided between the governments, but the Commission has to go one of two ways; they either take the language that has been in the draft for how long, Harry?

MR. WHITE: In this last draft? I suppose at least ten days.

MR. VINSON: According to that language, the main office would be in the country having the largest quota.

MR. WHITE: If I am correct, that was in at Atlantic City.

MR. VINSON: He makes the suggestion that it be determined by the Board.

Now, what is the difference so far as high policy is concerned as to whether it is voted in the Conference or the language is changed and it is to be determined by the Board?

MR. ACHESON: I don't think that is what he means.

MR. VINSON: That is his alternative. His alternative is to not pass on it here, but leave it up to the Board. That is what he said to us.

MR. WHITE: That is right.

H.M.JR: He may have said that there, but also didn't you people say that at that meeting he said he was going to telegraph London?

MR. VINSON: Not about this.

H.M.JR: What he says there is not quite what Dean Acheson says. What he is saying is that this is a matter between governments, or foreign offices.

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MR. VINSON: The point I am trying to make is that on Monday he said to Harry White and me that we ought to go a different road and let the Fund determine where it will be.

MR. WHITE: He brought the same question up in Atlantic City, and he said that he didn't think that--he hoped we were not going to put that in the draft, that it would be voted on here, because he said the most appropriate way to determine that would be by the Fund after it gets started.

H.M.JR: Are you through? May I simply say this, Dean, that whether it is done between governments or whether it is done here, this thing is a matter of postponing the day of reckoning. I am convinced--and I will act as chairman tomorrow, and not as a pleader, but I will let you listen--that these Congressional Delegates feel--and I think this is almost of first importance as an argument to get it through the Congress--that the thing will be located here. And I also think, knowing that they know as much as they do, that if we dropped the matter, it would be one of the most serious arguments that they could have, and it would be twisted. People like Taft or somebody would twist it and say that we had a secret understanding.

Now, to me it boils down to this--and I will be willing to face this thing--these groups--once and for all--that the financial center of the world is going to be New York and we don't want to postpone this thing until another day where we may not be in as advantageous a position and maybe have them get in a horse-trading position and maybe end up by having it in London. Now the advantage is ours here, and I personally think we should take it.

MR. WHITE: If the advantage was theirs, they would take it. He is willing to make a deal now.

MR. ACHESON I won't confuse your issue; I just wanted you to consider that.

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H.M.JR: I get the clean-cut distinction, because after all, as you know, all through these years certain things have been between governments, certain things have been between Treasuries, and I have lived with the State Department, and I know the distinction. I am fully cognizant of the differences of conduct as between heads of offices, foreign offices, and ministers of foreign affairs, and so forth, but evidently he told these people one thing on Monday; then he thought up this very cute device that this should be a thing between governments and not settled at the Conference, but he is just putting the thing off.

Now, I will just bring the thing up tomorrow as chairman without being a pleader. I want you to hear what these Congressmen think. Right along they know the whole story, and I think for us to give in on this thing to the English, as far as Congress is concerned, and as far as we here, all of us Democrats, and as far as the Republicans are concerned, I think it would be taking a major risk, because I don't know how it happens, but somebody certainly out of this group tells the newspaper people pretty near everything that happens.

MR. VINSON: If we changed our position, they wouldn't have to tell anything, because it has been in the draft; if we changed the draft--that is the argument that some of the Congressmen made.

H.M.JR: Well, I will bring it up. You are all very tired tonight. I will bring it up the first order of business. I think, again, this has been a good meeting. I hope Dean feels it has been a good meeting.

I am sure that Harry, by tomorrow morning, will have a suggestion which will make it easier for you to operate. I think you have been a very good sport about the whole thing. After all, we are trying to telescope into ten days or two weeks what normally would take two months. But, Harry, I think it is a mistake to even think of an extra day. In the first place, you have your train troubles which are almost unsurmountable, and when you begin postponing for one day, I don't know what you will have to do.

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MR. WHITE: We will do the best we can. I think we will get through.

H.M.JR: Your train troubles are almost insurmountable.

MR. WHITE: Send home the excess baggage.

## UNITED NATIONS MONETARY AND FINANCIAL CONFERENCE

July 13, 1944

**Memorandum for Judge Vinson:**

If we decide to do anything on improving the quota of Poland, Senator Wagner wants to be the delegate to inform them, for obvious reasons. Will you please take care of this matter for me.

Henry Morgenthau, Jr.

7/12/44

A LETTER TO  
MEMBERS OF THE DELEGATIONS, UNITED NATIONS  
MONETARY AND FINANCIAL CONFERENCE  
FROM THE  
CITIZENS CONFERENCE ON INTERNATIONAL ECONOMIC UNION

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CITIZENS CONFERENCE ON INTERNATIONAL ECONOMIC UNION, Inc.  
45 Astor Place, New York, 3, N. Y.  
Telephone: GRamercy 5-4775

July 13, 1944

TO MEMBERS OF THE DELEGATIONS, UNITED NATIONS  
MONETARY AND FINANCIAL CONFERENCE:

Large sections of the peoples of all nations hopefully await daily news of developments from the historically significant United Nations Monetary and Financial Conference at Bretton Woods. Those of us who have been working through the Citizens Conference on International Economic Union for the past two years to promote interest in a permanent agency for world economic cooperation and peace are grateful that President Roosevelt called this meeting, and enthusiastic over the favorable response from so many of the United and Associated Nations. We feel confident that the draft of a multilateral international agreement to expand productivity and trade and to organize full employment throughout the world will receive wide public approval.

The ground has been well prepared for definite action and a precise program looking towards a cooperative world. There have been many months of consultation among the financial officers and economic experts of various nations. Preliminary plans were laid before governmental bodies months ago. The public had been informed before the Bretton Woods Conference was called that accord had been reached on general principles and policies. There would be widespread disappointment if not dismay were this meeting to adjourn without completing plans for the agencies which it is necessary to set up. The people have come, through the anguish and the waste of two world wars in one generation, to fear division and delayed decisions--the chosen weapons of organized reaction.

You have been appointed delegates because of your understanding of the interdependency of all peoples for food, shelter, and clothing, for jobs and social security. You have been selected because you are technical experts with a practical knowledge of political as well as economic problems. Each one of you represents his government not merely as a national but as a representative of all peoples, alert to the necessity of drafting an agreement that will serve the weak as well as the strong.

As delegates to the Conference you are laying the foundation of an international peace structure that is to be the first of its kind in history. Its superstructure can be only as sturdy and as lasting as the foundation you build at Bretton Woods. At last the nations of the world are working together for a peace that will rest on policies that are cooperative, not punitive; policies that can operate only through the application of mutual trust and assistance; policies that will encourage self-government, stiffen national independence; policies that by their very nature will militate against

exploitation and imperialism everywhere in the world.

It is realized that as delegates you are confronted with many complicated problems. Not the least of these are age-old ambitions and greeds. Pressure will be brought to bear on you by special private and national interests to jeopardize the life and service of the new economic union by adherence to the status quo. Fully aware of the magnitude of these difficulties may we nevertheless point out the unwisdom of a policy which does not face the facts, and which creates an organization without jurisdiction over blocked balances, and other barriers to international economic collaboration. Because of the benefits to be derived by all from a multilateral international monetary and financial agreement, each nation will find it worth while to make some concessions, some sacrifices, if necessary.

We in the Citizens Conference have genuine appreciation of your task. We send you every good wish for success.

Yours very sincerely,

*Louis Heaton Pink*  
Louis Heaton Pink, Chairman

*Helen Alfred*  
Helen Alfred, Secretary

Citizens Conference on International Economic Union, Inc.

CITIZENS CONFERENCE ON INTERNATIONAL ECONOMIC UNION  
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 WILLIAM L. WHITE, Editor, Emporia Gazette

7/13/44-

Financial Settlement  
with Chinese

July 13, 1944

Secretary Morgenthau

D. W. Bell

Subject: Financial Settlement with the Chinese on U.S.  
Army Expenditures.

1. The problem to be settled.

An attempt to reconcile Chinese figures with those of the United States Army indicates that the Chinese have advanced and spent for the United States Army about 20.7 billion yuan up to July 30, 1944. About one-fourth of these expenditures was claimed by the Chinese, but the U.S. Army has no confirmation of the actual amounts.

These 20.7 billion yuan were used for the construction of airfields, roads, barracks, radio towers and maintenance; but of this sum the Chinese have agreed to bear all expenditures for food and lodging, which amount to about 2 billion yuan up to July 30, 1944. The U.S. Army wants the Chinese to assume the burden of expenditures to the extent of 5.1 billion yuan. These expenditures were incurred by the Chinese in the construction of airfields before our army entered China and the Chinese have now turned the airfields over to us. Both of these items, totalling 7.1 billion yuan, will be credited to reverse lend-lease and at the official exchange rate will amount to about \$350 million.

This leaves 13.6 billion yuan for which we are to settle with the Chinese.

2. Status of Negotiations at the Present Time.

The Chinese have offered to settle the past and future yuan obligations of our Army on a basis of an exchange rate of 1 dollar to 60 yuan. However, they propose that for each 60 yuan for which we pay them in dollars they

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would credit 40 yuan to reverse lend-lease. To settle on this basis would mean a dollar settlement amounting to \$227 million for our past obligations, and the equivalent, at the official rate of exchange, of about \$454 million credited to reverse lend-lease.

This proposal is unacceptable because it involves an unreasonably large amount of dollars to be paid to the Chinese, and in addition would permit the Chinese to claim a total reverse lend-lease contribution of more than \$800 million. Up to this date we have given the Chinese about \$450 million in lend-lease aid.

3. The objectives of a settlement with the Chinese are:

- (a) It is desirable to fulfill the commitment that the President made in his message to Generalissimo Chiang Kai-shek in January, 1944, that "furthermore, since you say that your Government is not in a position to continue any direct maintenance of American troops in China, this Government, in order to cover all of its military expenditures in China, including such maintenance as well as construction, is prepared to place to your account the United States dollar equivalent of any Chinese funds made available under general arrangements that will be suggested by General Stilwell and the Ambassador."
- (b) The Chinese should not be in a position to claim that they have made a large uncompensated financial contribution to our war effort. Thus, it would be undesirable for the Chinese to build up a huge yuan figure as their contribution to us under reverse lend-lease.
- (c) The sum of dollars that we agree to give to China in settlement of Army obligations in full should be reasonable. Such a figure might be

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\$115 million, or the equivalent of an exchange rate of about 1 dollar to 120 yuan or 13.6 billion yuan. We have already paid to the Chinese \$25 million, leaving on this basis \$90 million still to be paid.

4. Basis of approach.

It is suggested that a settlement be reached on the following terms:

- (a) The United States will agree to pay a lump sum to China in full compensation for the services China has rendered the United States Army for construction and maintenance.
- (b) This lump sum settlement will be full compensation up to July 30, 1944, and after three months or six months, negotiations will be held again to determine a similar settlement for China's services during the period.

The theory of this approach is to negotiate with the Chinese on the basis of their contribution to our war effort in China, without any reference to an exchange rate between the dollar and the yuan.

Background of yuan  
expenditures

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 28, 1944

TO Mr. D. W. Bell

FROM Mr. Glasser

Subject: Background of negotiations with China on dollar cost of yuan expenditures by U.S. Army in China

When our Army sent forces to China in the early part of 1942, the Chinese were already constructing military installations for their own use. At the request of our Army, these military installations were enlarged, and the Chinese began to spend yuan on our behalf through their own agencies. At the same time, the Army bought directly from China at the official rate of exchange the yuan it needed for procurement purposes.

The problem of the rate at which we buy yuan for our military needs in China began to assume serious proportions in September 1943. During the entire year 1942, dollar expenditures in China for procurement purposes totaled only a little more than \$1 million but for the first eight months of 1943 exceeded \$58 million. These expenditures were made at the official exchange rate of \$1 to 20 yuan.

There was no exchange rate problem for payment of American troops in China, since General Stilwell had paid (and is still paying) his troops with American currency since about June 1942, which the soldiers sold on the open market. In November 1943, the State Department began to use U.S. currency to pay Embassy personnel and to meet operating expenses. This currency, of course, was sold on the open market. At the present time practically all the civilian governmental agencies in China sell currency on the open market to obtain yuan.

Up to January 1944, the various missionary, relief, and other philanthropic organizations in China were obtaining their yuan at the official rate of \$1 to 20 yuan plus 10 yuan which China granted as an "exchange supplement" — an effective rate of \$1 to 30 yuan. In January, the Chinese Ministry of Finance increased the "exchange supplement" to 20 yuan, so that for every dollar spent in China the philanthropic organizations received 40 yuan. In May, Dr. Kung gave his consent to the sale by these organizations of dollar drafts on the open market.

There is, therefore, no immediate exchange rate problem in China except for the yuan requirements of the Army for procurement purposes.

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Research

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1. We have been negotiating with the Chinese since October 1943, on the rate at which we would buy yuan for our military needs in China, although up to February 1944, the Army bought yuan from China for procurement purposes at the official rate of exchange. In October 1943, the so-called Clay-Somervell proposal was sent to Dr. Kung. This proposal specifically provided that for every 20 yuan we bought at the official rate of exchange the Chinese Government would furnish an additional 80 yuan.

Dr. Kung replied that he would consider this proposal.

2. In a cable dated December 30, 1943, (See appendix 4) Ambassador Gauss reported that Dr. Kung said he had proposed to his Government that for some U.S. Army expenditures a rate of \$1 to 40 yuan be used, while for other expenditures a rate of \$1 to 60 yuan be used. All yuan over 20 per dollar, however, were to be credited to China as reverse lend-lease.

3. In a telegram dated January 16, 1944, Ambassador Gauss transmitted a message from Generalissimo Chiang Kai-shek in which the Generalissimo demanded that either we grant China a \$1 billion loan or that we continue to finance our Army expenditures in China at the official rate of exchange. (See Appendix A.) The Generalissimo made no reference to reverse lend-lease grants of yuan.

This reply had been prompted by the Treasury's memorandum of December 18, which the President had sent to the Generalissimo as the negative response of the U.S. Government to the request of the Generalissimo at the Cairo Conference for a loan of \$1 billion.

4. The President, in his reply to the Generalissimo, which Ambassador Gauss said he had transmitted to the Generalissimo in his cable dated January 28 (See Appendix B) suggested that the formula which General Stilwell and Ambassador Gauss were authorized to propose -- the Somervell-Clay rate of 100 yuan to \$1 -- be adopted tentatively on the understanding that our Army expenditures in China during the next few months could be expected to be somewhere in the neighborhood of \$25 million each month. The President went on to say that this Government was prepared to bear the costs of its military effort in China, including housing and subsistence of troops as well as construction. (See Appendix B).

5. Accordingly, General Stilwell asked the Chinese Government to sell the yuan equivalent of \$25 million at a rate of 100 yuan to \$1. The Chinese made a counter proposal to the Somervell-Clay proposal, offering a rate of 30 yuan to \$1, of which 10 yuan were to be credited to the Chinese as reverse lend-lease. Ambassador Gauss in his cable of February 3, reported that he had told Dr. Kung that this rate was unsatisfactory. (See Appendix C).

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6. At a meeting held in Mr. Bell's office, together with representatives of the State and War Departments on February 9, it was decided that the State Department would send a cable formally refusing the Chinese offer of 30 yuan to \$1. In a cable dated February 19, to Ambassador Guass, he was instructed to advise Dr. Kung that the exchange rate offer was not satisfactory or reasonable. (See Appendix D.)

7. After we had refused the rate of \$1 to 30 yuan, negotiations with the Chinese continued. Mr. Acheson had arrived in Chungking on January 15, and he, together with Ambassador Gauss and Treasury representative Adler, were holding discussions with Dr. Kung.

On February 14, a meeting was held in Mr. Bell's office together with representatives of the War and State Departments at which General Clay reported that General Hearn in Chungking had proposed to the Chinese that they make directly available to the Army 1 billion yuan per month. In return for this 1 billion yuan the U.S. Government would credit \$25 million a month to China.

The Chinese Government on February 10 had advanced 1 billion yuan to the Army, which represented the first direct receipt of yuan from China by our Army for procurement purposes not purchased at the official rate of exchange. It was agreed that \$25 million would be deposited to the account of the Chinese Government and a cable dated February 20 was sent to General Hearn which stated that the deposit would in no way imply acceptance of a rate of 40 to 1. On March 2, \$25 million was deposited to the credit of the Chinese Government at the Chase National Bank.

8. A meeting on February 29 was held in Mr. Bell's office with representatives of War and State Departments to discuss a cable from General Hearn supporting a proposal made by Dr. Kung that U.S. currency be made available to the Chinese to help drive down the open market price. Serious doubts were expressed by Treasury representatives as to the desirability of acquiescing to this request. But it was finally agreed that \$20 million would be sent to India and of this amount \$5 million would be made available to Dr. Kung in China for experimental purposes. A cable was received from Adler dated February 29 informing Treasury that Dr. Kung had indicated that the sale of U.S. currency should be on joint account of China and the United States.

9. During the month of March, the Chinese Government continued to advance yuan to our Army. In this month our Army receipted for approximately 2.7 billion yuan. In April, the Chinese Government advanced about 3 billion yuan, and in May about 3.4 billion yuan. Up to the end of May the total yuan advanced directly to our Army by the Chinese Government amounted to over 10 billion yuan.

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10. The last formal proposal of the Chinese came with Dr. Kung's Aide-Memoire handed to Secretary Morgenthau by Ambassador Wei on May 19. (See Appendix H). Dr. Kung offered a rate of \$1 to 60 yuan, of which 40 yuan were to be credited to reverse lend-lease. In his letter to Secretary Morgenthau, also handed to the Secretary by Ambassador Wei on May 19. (See Appendix G), Dr. Kung pointed out that only \$25 million had thus far been given to the Chinese for the advances of yuan.

11. At a meeting in Mr. Bell's office on June 22, with representatives of War and State Departments, it was stated by Mr. Acheson that the last proposal informally made by Dr. Kung to him was a rate of \$1 to 80 yuan. Apparently Dr. Kung said that either 40 yuan could be credited to reverse lend-lease, the other 40 yuan to be the supplemental rate of 40 yuan now in effect for remittances to China by philanthropic organizations, or 60 yuan could be credited to reverse lend-lease, the other 20 yuan being the official rate. Mr. Acheson submitted a draft of a proposed agreement between China and the United States. (See Appendix J and also memorandum summarizing Acheson's proposal).

Draft proposal submitted by Acheson

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 28, 1944

TO Mr. D. W. Bell

FROM Mr. Glasser

Subject: Draft proposal of an agreement between China and the United States submitted by E. C. Acheson regarding U.S. Army expenditures in China

At a meeting held in your office on June 22, you recall that Mr. E. C. Acheson submitted a draft proposal of an agreement between China and the United States regarding U.S. Army expenditures in China. (See Appendix J).

The main provisions of this agreement, with some comments thereon, are summarized below.

1. Agreement for exchange rate to apply to yuan received by U.S. from China from January 1 to June 30, 1944.

It is proposed that for the Chinese yuan spent by the U.S. Army from January 1 to June 30, 1944, that we give to the Chinese U.S. dollars at an effective rate of \$1 for 120 yuan.

Of these 120 yuan for \$1, 60 yuan will be considered a special rate for military expenditures and can be publicized by China if China so desires. The additional 60 yuan will be credited to reverse lend-lease as a "financial service" and not as cash advanced, with the purpose presumably of avoiding any future Chinese claim that we owe them dollars at the official exchange rate for the additional 60 yuan advanced. The arrangements for China paying these 60 yuan to us will be accomplished by an exchange of letters which will be kept secret. That is, Dr. Kung should be asked to agree that when we request the additional 60 yuan as a reverse lend-lease "financial service" by letter, his response will be in the affirmative.

2. Agreement for exchange rate to apply to yuan received by U.S. Army after June 30, 1944.

Since our basic reason for requesting the Chinese government to alter the present official rate of \$1 to 20 yuan is due to the deteriorated economic situation in China, which results in the yuan being less valuable, it is desirable that if the Chinese economic situation still further deteriorates, the additional 60 yuan which the U.S. receives as a "financial service" should be adjusted to take into account the changed economic circumstances.

Therefore, it is to be suggested to Dr. Kung that American representatives in China in consultation with Chinese authorities should, every three months, decide if Chinese economic conditions warrant an increase in the 60 yuan "financial service". The gauge of any change in economic conditions is to be a price index.

3. Proposal for reverse lend-lease agreement with China.

It is proposed that a reciprocal lend-lease agreement be signed and implemented. It will provide that all military expenditures made by China before the President's January letter to the Generalissimo will be recorded as reverse lend-lease (to January 24, 1944 this sum, according to Dr. Kung, totaled about 5-1/2 billion yuan).

In addition, all services rendered by the War Area Service Corps (these services are practically all food and lodging), repairs to U.S. airplanes and like services, as well as the so-called "financial service", will for the future be recorded as reverse lend-lease. In his Aide-Memoire to the Secretary of April 19, Dr. Kung proposed that board and lodging of the U.S. Army in China be credited to reverse lend-lease and that China would pay itself for the land needed for the construction of airfields.

4. Agreement to make U.S. dollars available to the Chinese Government for yuan advanced from January 1 to June 30, 1944.

It is proposed that U.S. dollars be placed to the credit of the Chinese Government for the yuan which has been advanced thus far by that Government. It has been suggested that in addition to the \$25 million already placed to the account of the Chinese Government that \$48 million more be paid to China. This total sum of \$73 million would include, at a rate of \$1 for 120 yuan, payment for all Chinese yuan directly received by the U.S. army (3.85 billion yuan) and 50 percent (4.88 billion yuan) of the total yuan (9.76 billion) expended on our behalf by China. Only 50 percent is to be paid because it is not yet clear what the exact total of the yuan spent by China on behalf of our Army will be.

5. Proposal to control currency black market in China.

It has been suggested that the U.S. Government participate with the Chinese in selling gold and currency in China in order to control the currency black market.

There follow what are thought to be the principal reasons why this proposal may not be satisfactory:

(a) Treasury agreement in the past to participate with the Chinese jointly in the sale of gold and currency in China was conditioned by the fact that no headway was being made in obtaining yuan for our expenditures at a reasonable rate of exchange. If, however, a rate of \$1 to 120 yuan is agreed upon by the Chinese Government, then this reason for participating with the Chinese in the sale of gold and currency disappears;

(b) In view of the fact that there is a net sale of U.S. dollars in China amounting monthly to about \$200,000 (according to E. C. Acheson) which Americans, including members of our armed forces and U.S. civilian government agencies, place on the black market, it would not seem to be necessary to participate in this scheme solely for the purpose of financing these expenditures;

(c) The Army has indicated in the past that it is not prepared to transport gold to China which the Chinese have requested be shipped to them out of their dollar assets in the United States. The Treasury, moreover, does not wish to send gold to China by water transport;

(d) The United States could be charged with meddling in the internal affairs of China if an agency is set up for the purpose of controlling the black market for currency.

There follow what are thought to be the principal reasons why this proposal may be satisfactory:

(a) If Dr. Kung himself desires that we sell gold and currency jointly with China, after a satisfactory agreement on the exchange rate has been reached, and subject to the Army's providing transportation facilities, there is no compelling reason why we could not acquiesce to his request;

(b) If China sells the gold and currency through its own selling mechanism on our joint account, U.S. civilian government agencies in China would be getting out of the black market and the Chinese Government would take over these operations.

Arguments set forth by  
Dr. Kung

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 6/27/44

TO Mr. D. W. Bell

FROM Mr. Glasser

Subject: Arguments which Dr. Kung has used in exchange rate negotiations.

It may be of assistance to you to have a description of the arguments which Dr. Kung has advanced against making any alteration in the present official rate of \$1 to 20 yuan. There are also included the replies which have been made to these arguments by the American negotiators in Chungking.

- (1) Dr. Kung has argued that any decrease in the official yuan-dollar exchange rate will cause prices to rise immediately and in the same proportion.

The American negotiators have replied that the economic theory on which this argument is based had been discredited. The internal price level in China is no longer dependent upon the official exchange rate. They have pointed out that in 1933-34 the United States devalued its currency in terms of gold and that it is well agreed that there was no direct effect upon internal prices in the United States from this action.

- (2) Dr. Kung has argued that China must have adequate reserves behind its currency and that China cannot go on printing currency without building up its foreign exchange reserves.

The American negotiators have replied that the American Army is not the agency which should supply the reserves for China's currency system by buying yuan for its needs in China at an unrealistic exchange rate.

- (3) Dr. Kung has argued that the value of the U.S. dollar is the amount that can be obtained for it by free sale in the open market in China.

The American negotiators have pointed out that owing to China's economic isolation, and therefore that there is no trade going on between China and the outside world, that it is not possible to determine accurately the value of the U.S. dollar in terms of yuan, no matter what prices are paid for the dollar on the black market in China. They further pointed out that should it be admitted that the U.S. dollar was worth only the black

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market rate that by a proper sales program of gold and currency the value of the U.S. dollar probably could be driven down to any predetermined level.

- (4) Dr. Kung has argued that the purchasing power of the yuan and the dollar in their domestic areas has nothing to do with the rate at which they should be exchanged.

The American negotiators have replied that since the only practical use for dollars now in China's possession is as a store of value against post-war purchases, the only relevant consideration is, in fact, the purchasing power of the two currencies compared to each other.

- (5) Dr. Kung has argued that the external value of the yuan will rise enormously at the end of the war because the price level in China will fall at that time. He contends that this will tend to wipe out the present overvalued position of the Chinese yuan and that the present exchange rate of the two currencies should therefore remain unchanged.

The American negotiators have replied that the external value of the yuan probably will fall at the end of the war, rather than rise as Dr. Kung contends, because there will be a great demand in China for American exports, i.e. the demand for American dollars to pay for American exports will be so great that Chinese will pay more and more yuan in order to obtain U.S. dollars. They further have argued that no change in the price level downward at the end of the war can justify paying for Army expenditures at the present highly overvalued rate for the Chinese yuan.

- (6) Dr. Kung has argued that behind the plans for an International Monetary Fund supported by the U.S. Treasury is "sound money." He therefore has contended that the U.S. Treasury is urging him to keep the Chinese exchange rate stable and to conserve gold for China's quota in the Fund, while on the other hand the U.S. Army is pressing him to revise the exchange rate and urging him to sell his government's gold internally (to retard inflation).

The American negotiators have replied that no advocate of stable exchange rates would be willing to support a monetary position such as China's, where the internal value of the currency is so much lower than the official foreign exchange value.

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Arguments set forth by  
Dr. Kung

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 6/27/44

TO Mr. D. W. Bell

FROM Mr. Glasser

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Purchasing power par  
between U.S. and China

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 6, 1944

TO Mr. D. W. Bell

FROM Mr. Glasser *HGS*

Subject: Purchasing power par between U. S. dollar and Chinese yuan

This study of the purchasing power par between the Chinese yuan and the U. S. dollar has been prepared in connection with the problem of the rate at which we buy yuan for our military needs in China.

1. Since our main interest in the exchange rate arises out of the Army's yuan expenditures in China, the purchasing power parity rates are based upon retail prices and cost of living indexes. Thus, the bulk of our yuan expenditures are incurred for the payment of Chinese labor, and this labor cost is closely related to the height of retail prices and the cost of living in China, particularly the price of rice. It is not definitely known if the retail prices and cost of living indexes include rice, but since these indexes follow quite closely the pattern and magnitude of the rice index, they alone have been used, since they include more commodities than the rice index.

2. The attached tables of price indexes and purchasing power parity rates of the yuan as compared with the U. S. dollar should be considered only as a series of very rough approximations. The rates are only meant to show in a very general way the steadily increasing disparity between the official rate, the open market rate, and the rate which may be reflective of the relative purchasing power values of the currencies in China and the United States. Because there is no trade now between China and the United States the purchasing power rates should be viewed with great caution. It should be stressed, in addition, that the Chinese indexes are not reliable nor are they comparable to our indexes. The calculations of purchasing power parity, therefore, should not be taken too literally.

3. On the basis of the calculations made, the Chinese yuan - in terms of relative purchasing power - was worth about one-fourth of a cent at the end of 1941; about one twenty-fifth of a cent at the end of 1942; about three five-hundredths of a cent at the end of 1943, and at the end of April, 1944, the yuan in terms of relative purchasing power was worth about one five-hundredth of a cent.

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During this same period, from the end of 1941 to April, 1944, the official rate for the yuan was five cents. The open market rate for the yuan, however, declined from about four and three-fourths cents at the end of 1941 to two and one-half cents in 1942; at the end of 1943 the open market rate for the yuan was a little over one cent and in April, 1944, was about one-half of a cent.

4. Below is a summary of the purchasing power parity rates for Chinese yuan which shows that the open market value of the yuan has fallen from about 29 cents in 1937 to one-half of a cent at the end of April, 1944. Also is shown the decline in value of the yuan in terms of relative purchasing power from 25 cents in 1937 to one five-hundredth of a cent at the end of April, 1944. The assumption has been made that the rate of approximately 29 cents for the yuan in 1937 reflected the real price situation between China and the United States.

Year	Actual open market rate of yuan in U.S. cents per yuan	Purchasing Power Par between yuan and dollar in U.S. cents per yuan
1937	29.31	25.000
1938	21.15	11.160
1939	11.29	3.150
1940	6.12	0.750
1941	4.72	0.240
1942	2.50	0.040
1943 Dec.	1.16	0.006
1944 Jan.	1.15	0.006
Feb.	0.50	0.002
March	0.40	0.001
April	0.50	0.002

TABLE A

Retail Prices and Cost of Living for China  
and the United States, 1937 to April, 1944

(Jan. - June, 1937 = 100)

Year	Retail Prices in 14 Leading Cities of China*	Cost of Living in Chengtu	Cost of Living in Chungking	Cost of Living in the United States
1937 Dec.	118	96	112	100.7
1938 Dec.	183	109	144	96.7
1939 Dec.	344	206	260	96.1
1940 Dec.	800	779	1,120	97.6
1941 Dec.	2,057	2,069	2,840	105.9
1942 Dec.	6,957	4,806	6,190	114.9
1943 Jan.	7,380	4,950	6,700	115.3
Feb.	8,130	5,720	7,800	115.8
March	8,820	6,290	7,810	117.0
April	9,950	7,390	8,100	118.2
May	11,630	8,900	9,350	118.4
June	14,190	10,850	10,800	118.5
July	17,120	14,990	11,700	117.2
August	18,680	15,030	13,500	116.8
Sept.	19,650	15,190	14,200	117.2
Oct.	20,420	14,990	15,300	117.8
Nov.	22,170	16,130	16,800	117.8
Dec.	23,890	18,490	17,900	118.0
1944 Jan.	26,300	22,700	18,800	118.0
Feb.	30,700	30,400	21,700	117.5
March	34,800	33,700	27,700	117.5
April	39,000	38,900	32,300	118.3

\* Low and high price areas are included in these 14 cities.

TABLE B

Purchasing Power Parity Rates for Chinese Yuan.  
1937 to April, 1944

(in U. S. cents per yuan)

Year	14 Leading Cities of China P.P.P. Rate	Chengtu P.P.P. Rate	Chungking P.P.P. Rate	Actual Rate in China	
1937	25.000	30.770	26.380	29.31	
1938	11.160	18.760	14.170	21.15	
1939	3.150	5.260	4.170	11.29	
1940	0.750	0.770	0.550	6.12	
1941	0.240	0.240	0.180	4.72	
1942	0.040	0.060	0.050	2.50	
1943	Jan.	0.030	0.050	0.040	2.10
	Feb.	0.030	0.050	0.040	2.00
	March	0.030	0.050	0.040	2.00
	April	0.020	0.030	0.020	1.60
	May	0.020	0.020	0.020	1.60
	June	0.010	0.020	0.020	1.57
	July	0.008	0.009	0.010	1.16
	Aug.	0.007	0.009	0.010	1.15
	Sept.	0.007	0.009	0.010	1.11
	Oct.	0.007	0.009	0.010	1.14
	Nov.	0.007	0.009	0.008	1.30
	Dec.	0.006	0.007	0.007	1.16
1944	Jan.	0.006	0.006	0.007	1.15
	Feb.	0.002	0.002	0.003	0.50
	March	0.001	0.001	0.002	0.40
	April	0.002	0.001	0.002	0.50

Negotiations on  
reciprocal lend-lease

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 28, 1944

TO Mr. D. W. Bell

FROM Mr. Glasser

Subject: Chronology of negotiations with China on reciprocal lend-lease and exchange rate.

The following chronology of negotiations with China on reciprocal lend-lease aid and the exchange rate may be of assistance in the discussions with Dr. Kung. For your information there are included as appendices the most significant documents bearing upon the course of these negotiations.

1942

- July 25 General Stilwell, in a cable dated July 25, replying to cable from the War Department of July 14 on reverse lend-lease said that he did not believe reciprocal lend-lease was practical in China. Among other reasons given was that it might engender ill-will and the feeling that the Chinese were supporting the Americans.
- December 2 In cable dated December 2, General Stilwell reported that he had received information that the Chinese Government had approached the War Department with the idea that the United States forces in China be given subsistence (board and lodging) at the expense of the Chinese Government. General Stilwell recommended that before any special agreement be signed that he be informed in every detail.
- December 12 In cable dated December 12, Adler reported that the adoption of reverse lend-lease for the United States air forces was being considered by the Chinese Government.
- December 31 On December 31 a cable was sent by the War Department to General Stilwell suggesting that the Chinese Government might be disposed to turn over to United States agencies in China sufficient currency to equalize the difference between the official rate of exchange and the cost of living in China, in order that our troops might be paid sufficient local currency to meet actual conditions. This difference could be charged as reverse lend-lease.

1943

- January 5 General Stilwell in cable dated January 5, in response to War Department's cable of December 31, pointed out that crediting the difference between the official rate of exchange and actual

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1943

cost of living in China still left the United States paying the bill eventually. If, however, it was assumed that loans extended to China by the United States were gifts, he had no objection to crediting cash differences as proposed.

- January 29 In cable dated January 29, Adler reported that Dr. Kung said that sympathetic consideration was being given to a plan for reverse lend-lease to cover air force expenses in China. The Generalissimo had already approved the plan with the provision that not over 10 million yuan a month would be involved.
- February 15 On February 15, the State Department submitted to Treasury a preliminary draft of the Chinese reciprocal aid agreement.
- April 6 On April 6 State Department sent a final draft of the reciprocal aid agreement to the Treasury to be submitted to the Chinese. State Department said that General Stilwell and the Embassy in Chungking approved of the provisions of the draft. (See appendix 1.)
- April 14 In a series of telephone calls between Treasury and State, the State Department was informed that Treasury objected to the inclusion of civilian establishments as recipients of lend-lease in the reciprocal aid arrangement.
- State Department was informed that the Treasury's principal objection to the inclusion of civilian establishments was the fear that the Chinese might use such action as a basis for future requests to have the U.S. Government pay for Chinese civilian establishments in the U.S. as lend-lease aid to China.
- April 29 Mr. Kermit Roosevelt, Jr., telephoned Treasury to say that the State Department had decided that it would include civilian establishments as recipients of reverse lend-lease aid.
- May 15 On May 15 a draft note on a reciprocal lend-lease agreement was handed to T. V. Soong by Mr. Dean Acheson of the State Department. This draft note provided for the supplying of materials, services and currency for the use of the armed forces and civilian establishments of the United States in China.

It was contemplated that against the amounts of Chinese currency delivered to the United States authorities in China the Chinese Government would receive dollars computed at the official rate of exchange for portion of the dollars so delivered, and the remaining portion would be credited to China on reverse lend-lease account.

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1943

May 21

In a meeting between Dr. Lui Chieh, Chinese Minister and Consul of the Chinese Embassy, and State Department officials, an informal memorandum clarifying certain aspects of the draft note on Chinese reciprocal aid (handed by Mr. Dean Acheson to T. V. Soong on May 15) was given to Dr. Lui Chieh. In the course of the conversation it was emphasized that the amounts of Chinese currency to be received by United States authorities and amounts of American dollars to be turned over to Chinese authorities was to be the subject of joint consideration. (See appendix 2.)

July 9

A memorandum was received from the State Department by Treasury on July 9 which gave the State Department understanding of the principles which were to govern the disposition and use of Chinese yuan received as reverse lend-lease aid. Among other things, the memorandum provided that if sufficient Chinese currency was provided to make possible reasonable compensation of American civilian establishments personnel in China, the United States Government would take steps to keep Americans out of the black market.

July 17

On July 17 a revised memorandum on reciprocal lend-lease aid was received by the Treasury from State Department. (See appendix 3.) This memorandum embodied various suggestions made by Treasury at a meeting at State Department on July 14.

September 18

A copy of a cable to the War Department dated September 4 was left with the Treasury by Colonel Foster on September 18. According to this cable the Chinese seem to be thinking in terms of a 200 million yuan reciprocal lend-lease fund.

October 20

An embassy report from Chungking dated October 20 and received November 15 of a conversation between Dr. Kung, General Clay and Mr. Acheson stated that the problem of reverse lend-lease had been discussed along the lines of the letter of October 17 addressed to T. V. Soong by General Somervell. In effect, this letter asked the Chinese for an exchange rate of \$1 to 100 yuan.

In response to Dr. Kung's unfavorable reaction, Mr. Acheson suggested that the proposal did not actually have any relation to the question of an exchange rate as it could be regarded in the light of a reverse lend-lease arrangement. Mr. Acheson said that the U.S. would place to the credit of China the number of dollars which the armed forces would expend in China under normal conditions and that the sums in Chinese yuan desired by the Army would merely be reverse lend-lease aid granted by China.

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- November 12 In a cable from the Ambassador to the State Department dated November 5, it was reported by the Ambassador that in conversation with Dr. Kung he had been given no indication that reverse lend-lease was being given serious consideration.
- November 24 In a cable from Adler to the Treasury dated November 24 it was reported that Dr. Kung was willing, subject to the consent of the Generalissimo, that one-half of the shipments of gold currently being made to China for sale in China should be for the account of the U.S. Government; and that the United States needs for yuan above the amount obtained through gold sales would be furnished by China at a rate of \$1 to 40 yuan. Dr. Kung stated that he was going to go over U.S. Army expenditures with the Generalissimo and General Stilwell to bring a portion of them under reverse lend-lease.
- November 25 In cable from Adler dated November 25, Adler stated that Dr. Chi called on him the previous day and that he (Dr. Chi) had been instructed by Dr. Kung to clarify, among other matters, that in connection with his offer of 40 to 1 that what Dr. Kung had in mind was China's eventually crediting the amount over and above the official rate of 20 yuan to \$1 to reverse lend-lease.
- November 25 Adler instructed by Treasury to obtain a quotation from Dr. Kung on the price of which China would be willing to make 4 million yuan per month available to the U.S. Government to meet U.S. military and civilian governmental expenditures. It was indicated that the Treasury would be willing to pay either with (a) U.S. dollars, (b) gold on earmark at the Federal Reserve Bank, or (c) by having one-half of the shipments of gold currently being made to China for sale in China be for the account of the U.S. Government.
- December 11 Treasury instructed Adler to inform Dr. Kung that if the Chinese Government was not willing to make available in the immediate future the requested 4 million yuan per month at a cost of U.S. \$4 million the Treasury saw no available alternative to meet the immediate situation except for all U.S. governmental agencies to use U.S. currency shipped to China to meet expenditures in China until a more satisfactory arrangement had been worked out with the Chinese Government.
- December 14 In cable dated December 14, Ambassador Gauss reported that the Chinese Government would like to sign a reverse lend-lease agreement.
- December 14 Adler reported that Dr. Kung said that a price of \$1 to 100 yuan (4 million yuan for \$4 million) was out of the question.

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1943

December 16 In cable from Ambassador Gauss the suggestion was made that the Chinese offer to sign reverse lend-lease agreement was principally motivated by desire of the Chinese to make a gesture. Ambassador Gauss proposed informing the Chinese orally that we agree to enter into the agreement but that the actual signing be timed to coincide with conclusion of appropriate detail arrangements to implement it.

December 23 At a conference held in the Secretary's office at which Generals Somervell and Clay were present, the question of reverse lend-lease was discussed. General Somervell outlined to the Secretary the proposal which he had discussed with Dr. Kung regarding the obtaining in effect of a special rate of 100 yuan to \$1, of which 80 yuan would be regarded as reverse lend-lease.

The Secretary informed those present regarding the Chinese request for a \$1 billion loan and the Treasury's negative reply. The Secretary said that he felt that nothing should be done until a reply had been received to the message from the President to the Generalissimo.

December 30 In cable dated December 30, Ambassador Gauss reported that Dr. Kung had indicated that the Chinese Government was surprised that the U.S. Government had not shown immediate favorable reaction to his suggestion that reverse lend-lease agreement now be signed.

In response to query whether Chinese Government had any plans to implement reverse lend-lease agreement Kung indicated that he had proposed to the Chinese Government that for some American Army expenditures special exchange rates would be provided of 40 and 60 yuan to \$1 with the excess of 20 yuan to \$1 to be credited to China as reverse lend-lease. (See appendix 4.)

1944

January 15 Cable from General Somervell to Stilwell dated January 15 stating that State and War Departments had been released by the Treasury Department, permitting them to proceed with other means in meeting the exchange problem connected with U.S. military expenditures in China, since Treasury negotiations were not meeting with success. General Stilwell was to present to the Chinese the Somervell-Clay proposal which provided for an effective rate of 100 Chinese yuan to US\$1 for U.S. military expenditures in China.

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- January 16 Message from Generalissimo Chiang Kai-shek to President Roosevelt in which the Generalissimo said that if the United States could not lend China \$1 billion the United States should then incur its military expenditures in China at the official rate of \$1 to 20 yuan. (See appendix A.) This reply had been prompted by the Treasury's memorandum of December 18 which the President had sent to the Generalissimo as the response of the U.S. Government to the request of the Generalissimo at the Cairo Conference for a loan of \$1 billion.
- January 28 Message from the President to the Generalissimo which the Ambassador in his cable dated January 28 said he had transmitted to the Generalissimo. The President suggested that the formula which General Stilwell and Ambassador Gauss were authorized to propose (i.e., a rate of 100 yuan to \$1) be adopted tentatively on the understanding "that our Army expenditures in China during the next few months can be expected to be somewhere in the neighborhood of \$25 million each month .... this Government, in order to cover all of its military expenditures in China, including ... maintenance as well as construction, is prepared to place to your account the U.S. dollar equivalent of any Chinese funds made available under general arrangements that will be suggested by General Stilwell and the Ambassador." (See appendix B.)
- February 1 Received copy of cable dated January 30 from General Stilwell indicating that proposal had been made to the Chinese Government that U.S. purchase the equivalent of \$25 million of yuan at a rate of 100 yuan to \$1.
- February 7 Received copy of cable dated February 3 from Ambassador Gauss giving Chinese counter-proposal to the Somervell-Clay proposal. The Chinese wanted to give a rate of 30 yuan to \$1, of which 10 yuan would be credited to the Chinese as reverse lend-lease. The Ambassador told Dr. Kung that this rate was unsatisfactory and that it was useless to enter into a reciprocal aid agreement unless the Chinese were willing to enter into a reasonable financial agreement in regard to U.S. military expenditures. (See appendix C.)
- February 9 Meeting held in Mr. Bell's office together with representatives of State and War Departments. It was decided that the State Department would send a cable indicating the refusal of this Government to accept the rate of 30 yuan to \$1. (See appendix D.)

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- February 12 Received extracts from a message sent to the President by the Generalissimo dated February 3 in which the Generalissimo said that he trusted that very shortly a solution satisfactory to both the United States and China would be reached in the current financial negotiations. (See appendix E.)
- February 12 Received cable dated February 8 transmitting message to Secretary Morgenthau from Dr. Kung in which Dr. Kung argued against any reduction in the official exchange rate.
- February 14 Meeting held in Mr. Bell's office together with representatives of the War and State Departments. General Clay said that General Hearn in Chungking had proposed to the Chinese that they make available to the U.S. Army CN \$1 billion per month and that the U.S. Government would credit \$25 million a month to the Chinese, but that this would not imply acceptance of a 40 to 1 rate.
- February 29 Meeting held in Mr. Bell's office together with representatives of War and State Departments. General Clay read a cable from General Hearn supporting a proposal made by Dr. Kung that U.S. currency be made available to Dr. Kung to help drive down the black market price for U.S. dollars.
- Serious doubts were expressed by Treasury representatives as to the desirability of acquiescing to this request, but it was finally agreed that \$20 million would be sent to India and of this amount \$5 million would be made available to Dr. Kung in China for experimental purposes.
- March 2 On March 2, \$25 million were deposited to the credit of the Chinese Government at the Chase National Bank.
- March 3 Received cable from Adler dated February 29, informing Treasury that Dr. Kung had indicated that the sales of U.S. currency should be on joint account of China and the United States.
- March 29 Received copy of cable from General Stilwell which asked for permission to explore with the Chinese the plan which provided that at the beginning of each three-month period the United States was to decide on a sum of U.S. dollars to be advanced to the Chinese during the period. The Chinese would in turn continue to advance yuan to the U.S. Army according to the Army's needs.

For the next three-month period the exchange rate for the respective sums advanced by each government was to be figured

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between 100 to 200 yuan per \$1. The U.S. requirements for Chinese yuan were to be kept secret while the Chinese could publicize if they so wished the U.S. "contribution", if they thought it advisable for stabilization purposes.

To raise a portion of their contribution in the least inflationary manner the Chinese were to be urged to sell gold and U.S. dollars upon joint account, this procedure being preferable to sales on our own account since the sales would probably produce only 20 percent of the U.S. Army's requirements. (See appendix F.)

March 30

Meeting in Mr. Bell's office together with representatives of War and State Departments. The State and Treasury representatives agreed that the "tri-monthly" proposal was satisfactory and it was further agreed that General Clay would send a cable to General Stilwell indicating that the matter had been discussed among War, Treasury and State, and that all were in agreement with the proposal.

During the discussions the point was made by Treasury representatives that the sale of gold could be used as a means of obtaining Chinese currency to be used to cover all U.S. governmental expenditures in China, except Army expenditures. In this way U.S. civil governmental agencies would be getting out of the black market and instead the Chinese Government would take over the operations.

May 19

Received letter and Aide-Memoire from Dr. Kung to Secretary Morgenthau dated April 19, both of which were handed to the Secretary by Ambassador Wei. Dr. Kung in his letter said that only \$25 million had been advanced to the Chinese as counterpart of the yuan thus far advanced to the U.S. Army in China. (See appendix G.)

He proposed in the Aide-Memoire that the reverse lend-lease agreement be signed and implemented and that U.S. Army expenditures not met under reverse lend-lease be met either by (a) an exchange rate of 60 yuan to \$1, of which 40 yuan were to be credited to reciprocal aid, or (b) China's allowing the United States to sell gold and U.S. currency in China. (See appendix H.)

May 26

Meeting in Mr. Bell's office together with representatives of War and State Departments where it was agreed that the Army would cable to China to find out whether the financial negotiators there had any objection to our placing an additional \$25 million to the account of the Chinese Government.

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- May 31 Cable to Dr. Kung from Secretary Morgenthau dated May 31, which stated that very careful consideration was being given to Dr. Kung's letter and that it was hoped that a reply could be communicated to Dr. Kung in the very near future.
- June 7 Meeting in Mr. Bell's office together with representatives of War and State Departments. It was agreed that Treasury would send a cable to its representative in Chungking telling the representative about the reply which had been proposed to send to Dr. Kung before it was known he was coming to the Monetary Conference.
- It was proposed not to mention reverse lend-lease in the reply but to accept Dr. Kung's offer to sell gold and currency in China, but on joint account of China and the United States, since the exchange rate of \$1 to 40 yuan offered by Dr. Kung in his Aide-Memoire to Secretary Morgenthau was unacceptable.
- June 16 Received letter from Dr. Kung to President Roosevelt dated April 19, 1944, in which Dr. Kung reiterated familiar argumentation about Chinese inflation, United States military expenditures and the exchange rate. Dr. Kung said China was no longer looking for a \$1 billion loan from the United States. (See appendix I.)
- June 23 Meeting in Mr. Bell's office together with representatives of War and State Departments, including Mr. Edward Acheson who had just returned from China. It was agreed that Mr. Bell would handle the forthcoming financial negotiations with Dr. Kung. Mr. Acheson submitted a working draft of a contemplated proposal to be made to the Chinese for consideration of State and Treasury. (See appendix J.)

Appendix 1

## APPENDIX 1

COPY

DEPARTMENT OF STATE  
WASHINGTON

My Dear Mr. White:

I am sending by special messenger copy of the final draft of the note which we propose to suggest to the Chinese be submitted by them to the Secretary of State (marked A). For your convenience I am sending you another copy of the earlier draft which we sent you on February 15 (marked B). You will observe that the only changes have been minor ones, chiefly matters of wording.

General Stilwell and our Embassy in Chungking have approved the draft.

Sincerely yours,

/s/ Kermit Roosevelt, Jr.  
Assistant to the  
Assistant Secretary

Enclosures:

1. Draft marked A.
2. Draft marked B.

Mr. Harry D. White,  
Assistant to the  
Secretary of the Treasury,  
Washington, D. C.

Received April 6, 1944

Sir:

In the United Nations declaration of January 1, 1942, the contracting governments pledged themselves to employ their full resources, military and economic, against those nations with which they are at war; and in the agreement of June 2, 1942 the Government of the Republic of China and the Government of the United States undertook to provide each other with such articles, services, facilities or information useful in the prosecution of their common war undertaking as each might be in a position to supply. It is further the understanding of the Government of the Republic of China that the general principle to be followed in providing mutual aid as set forth in the said Agreement of June 2, 1942 is that the war production and the war resources of both Nations should be used by the armed forces of each and of the other United Nations in ways which most effectively utilize the available materials, manpower, production facilities and shipping space.

With a view to supplementing Article 2 and Article 6 of the Agreement of June 2, 1942 between our two Governments for the provision of reciprocal aid, I have the honor to set forth below the understanding of the Government of the Republic of China of the principles and procedures applicable to the provision of aid by the Government of the Republic of China to the United States and the manner in which such aid will be correlated with the maintenance of its forces and establishments by the United States Government.

1. While each Government retains the right of final decision, in the light of its own potentialities and responsibilities, decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war.

2. The Government of the Republic of China will provide the United States, its armed forces and establishments with the following types of assistance as reciprocal aid, when it is found that they can most effectively be procured from the Republic of China.

(a) Military equipment, munitions, and military and naval stores.

(b) Other supplies, materials, facilities and services, including financial services, for the United States forces, and other official United States establishments in China, except for such purchases as those forces and establishments may make pursuant to clause (d) below, or apart from the arrangements covered by this agreement.

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(c) Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort to the extent that the Republic of China is a more practicable source of supply than the United States or another of the United Nations.

(d) To enable the United States authorities, where they deem it advisable, to obtain supplies, materials, facilities and services such as those specified under items (a), (b) and (c) above by direct purchases, and to meet other essential United States governmental and military needs for Chinese currency, the Government of the Republic of China will provide funds of its currency, in amounts and at intervals to be mutually agreed upon, to the duly authorized authorities of the United States.

3. The practical application of the principles formulated in this note, including the procedure by which requests for aid by either Government are made and acted upon, shall be worked out as occasion may require by agreement between the two Governments, acting through their appropriate military or civilian administrative authorities. Requests by the United States Government for such aid will be presented by duly authorized authorities of the United States to official agencies of the Republic of China which will be designated or established in Chungking and in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

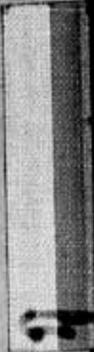
4. It is the understanding of the Government of the Republic of China that all such aid, as well as other aid, including information, received under Article 6 of the Agreement of June 2, 1942, accepted by the President of the United States or his authorized representatives from the Government of the Republic of China will be received as a benefit to the United States under the Act of March 11, 1941. In so far as circumstances will permit, appropriate record of aid received under this arrangement will be kept by each Government.

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honor to be, etc. etc.

The Honorable  
Cordell Hull,  
Secretary of State.

Appendix 2



5-21-43  
A-A:LDeP

## INFORMAL MEMORANDUM

C O P Y

The general theory underlying the so-called "reverse" Lend-Lease Agreements is similar to the general theory underlying the master Lend-Lease Agreements themselves. In both cases the agreements merely provide general principles under which the war resources of the contracting governments can be most effectively utilized for the joint war effort. It is contemplated under both types of agreements that specific transactions to be effectuated under the agreements will be carried out on the basis of mutual agreement as to details.

In the draft of a proposed "reverse" Lend-Lease Agreement handed to Dr. Soong by Mr. Acheson on May 15, 1943, provision is made for several possible ways by which the government of the Republic of China may, according to future circumstances as they arise, give assistance to the armed forces and other official agencies of the United States Government. Those various types of assistance may be roughly grouped as follows:

1. The direct supplying of materials or services for the use of the armed forces and establishments of the United States.
2. The supplying of Chinese currency, such currency to be used by the armed forces and establishments of the United States in procuring supplies and services and for other payments by them in the areas under the control of the Government of the Republic of China. The United States would in turn from time to time deliver to the Chinese authorities amounts of United States dollars allotted for such procurement and for such other payments.

The specific terms and procedures to be followed with respect to transactions of the above types would, of course, be worked out by mutual agreement between the appropriate Chinese and American authorities. It would be contemplated that with respect to the first type of transaction the Chinese Government would be credited on Lend-Lease account with the materials or the services supplied to the United States. In the case of the second type of transaction it would be contemplated that against the amounts of Chinese currency delivered to the United States authorities in China, the Chinese Government would receive dollars computed at the official rate of exchange for such proportion of the total Chinese currency delivered as shall be agreed upon from time to time and that the remaining portion or quota of the Chinese currency so delivered would be credited to the Chinese Government on Lend-Lease account.

It is, of course, to be understood that the whole nature of Lend-Lease aid is one of voluntary not obligatory assistance. Lend-Lease Agreements merely specify the general principles which it is agreed will be followed in those cases in which the Government requested to supply goods or services under the Agreement considers that it is in a position to supply such goods or services. Lend-Lease Agreements do not, of course, in any way prevent the continuance of other procedures of procurement outside the scope of Lend-Lease arrangements.

Appendix 3

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## APPENDIX 3

NOTE:

It is suggested that, in the event that the interested agencies are in agreement with the attached outline of the operation of the proposed reverse lend-lease arrangements with respect to currency, it might be advisable were the War Department to communicate it to General Stilwell with the request that he consider it and comment thereon.

Received July 17, 1943

July 8, 1943.

Informal statement of the understanding of the Department of State as to the principles which are to govern the disposition and use of Chinese currency received as reverse lend-lease.

Note: The purpose of the present memorandum is to serve as background for use by officers of the Department of State and other officers of the United States Government who may participate in negotiations with representatives of the Chinese Government for a reverse lend-lease agreement along the lines of the draft agreement handed to Dr. T. V. Soong by Assistant Secretary of State Dean Acheson on May 15, 1943.

Category I. Chinese currency to be used to provide compensation adjustment for American civilian officials and military personnel in China.

1. The Treasury Department has already drawn up a definitive draft of the necessary legal document to provide authorization for the payment of Chinese currency as an adjustment of the salaries of American civilian officials and of the pay of American troops in China.\*

2. The Chinese currency utilized for compensation adjustment is to be regarded by the United States as being received from the Chinese Government as exchange adjustment, such currency (together with other currency to be received under reverse lend-lease arrangements [see category II infra]) to be credited to the Chinese on lend-lease account in terms of Chinese currency, final adjustment of the account to be made at some future date after the termination of the war. For its part the United States Government will deliver to the Chinese Government dollar exchange to the amount provided by statute and regulation for regular salaries and troop pay, not including compensation adjustment, to the extent that such regular salaries and pay are paid in Chinese currency.

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\* It is understood that the Treasury Department is prepared to collaborate with the War Department, the State Department and the Lend-Lease Administration in the prompt formulation of the procedural steps which are to be adopted to carry out the contemplated receipt and distribution of Chinese currency under this category. It is suggested that the agencies mentioned undertake to draw up such procedural plans as may be called for to insure successful operation of this part of the proposed arrangements.

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3. Under the contemplated procedure the Secretary of the Treasury will fix a compensation factor to be used as the basis for determining the amount of Chinese currency to be paid as compensation adjustment with respect to civilian salaries and troop pay. It is understood that as a practical matter the Treasury Department will take into account all appropriate factors and opinions including, of course, the opinions of the appropriate military authorities and appropriate representatives of the other civilian agencies interested. It is to be understood that if General Stilwell should not be satisfied that the compensation adjustment computed on the foregoing basis was adequate for any given period of time, the operation of this part of the proposed arrangements would in fact not be practical. Since the entire purpose of this category of the proposed reverse lend-lease currency arrangements is to ease the exchange difficulties of Americans officially stationed in China, of whom the great majority are Army personnel, General Stilwell must maintain freedom of action to determine whether the proposed exchange relief measures constitute in fact an improvement or an impairment of the present status of his forces and to accept or reject relief accordingly.

4. The Department of State considers that in order to be in position to request the Chinese Government to advance currency for the purpose under reference, the Government of the United States will for its part have to be able to give assurances that, provided sufficient Chinese currency is obtained to make a reasonable adjustment of the compensation of American official personnel and American forces stationed in China and subject to the imperative requirements of major military exigencies (which are not now in fact foreseen as likely to arise), the United States Government will take steps reasonably calculated to prevent American official personnel from resorting to the so-called "black market". To this end, subject to the conditions recited in the preceding sentence, it is anticipated that the payment of salaries and troop pay in currency other than Chinese currency will be discontinued or appropriate safeguards will be established to insure that any such payments made in United States currency can be exchanged only under such conditions as will not unduly hamper the efforts of the Chinese Government to control the "black market". Similarly it is to be anticipated that steps will be taken to see to it that such remittances or allotments as American official personnel may make of their own funds from China will be on a basis which is in accord with the foregoing.

5. All the foregoing, of course, will be subject to any changes brought about in the light of experience by agreement between authorized American and Chinese representatives.

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Category II. Chinese currency to be utilized for purposes other than the adjustment of compensation.

1. It is anticipated that Chinese currency made available under reverse lend-lease in amounts additional to the requirements for compensation adjustment will be utilized primarily by authorized representatives of the United States Army for such official purposes as the Army may deem proper in connection with its activities in China. The civilian agencies will also desire to utilize certain of these funds for official purposes, for example payment of rent and acquisition of supplies—especially the payment of rent. It is understood that in any instances in which currency of the category under reference is utilized without any concomitant expenditure of United States dollars, the articles acquired or benefits received by the United States in return for such expenditure shall in fact be regarded as a complete Chinese contribution under reverse lend-lease. It is understood that, so far as the Army now sees, all of the Chinese currency received by the Army for category II purposes will be utilized only in conjunction with the expenditure of the United States dollars in China and such Chinese currency will be regarded by the War Department as merely in the nature of exchange adjustment supplied by the Chinese Government, the Chinese Government to receive credit, in terms of Chinese currency, on its lend-lease account simply for the currency furnished by it, final adjustment of the lend-lease accounts to be made at some future date after the termination of the war.

2. It is understood that, subject only to major military exigencies (which exigencies are not in fact now foreseen), Chinese currency received under reverse lend-lease will be used for category II purposes only to the extent that such currency is available over and above the requirements for compensation adjustment (category I). This limitation is not a limitation upon any existing authority of General Stilwell's. It is merely a definition of the nature of an additional facility that it is proposed will be made available to the United States Army in China. With the exceptions envisaged in this memorandum, the limitation does not restrict General Stilwell's freedom of action. Without the limitation the Department of State seriously doubts the possibility of working out any satisfactory arrangement; with the limitation there becomes possible the adoption of a broad arrangement which would be of significant benefit to the Army not only in the field of troop pay but also in the general field of procurement and construction. This limitation is moreover, of course, subject to change by agreement between appropriate American and Chinese authorities and is, furthermore, to be interpreted in the light of actual circumstances as they arise. For example, if it should happen that Chinese currency received under reverse lend-lease is available in amounts insufficient to meet requirements of compensation adjustment for

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any particular period, it would be expected that the proposed arrangements as to compensation allowances would be inoperative so far as the Army is concerned for such period and it might be that the Chinese authorities would have no objections to the utilization of such currency for purposes other than compensation allowances.

3. In general it is to be emphasized that the primary purpose of the currency provisions of the proposed agreement (and indeed of the entire agreement) is to provide an extremely flexible framework under which the United States Army authorities in China by process of agreement with appropriate Chinese officials can arrange for the progressive development of Chinese reverse lend-lease assistance.

#### Reciprocal Aid Fund

As a procedural matter it is anticipated that a representative of the Lend-Lease Administration will be designated to receive from the American military forces and civilian agencies in China estimates of their reverse lend-lease currency requirements under categories I and II, to present a request for a "lump-sum" total amount of Chinese currency to the Chinese authorities and to receive such currency as is subsequently made available by the Chinese Government. It is understood that there is general agreement among the interested agencies that reverse lend-lease currency received from China shall constitute a "reciprocal aid fund" and that the necessary accounting and other procedures for the operation of this fund will be drawn up by the Lend-Lease Administration and the War Department in consultation with the Treasury and State Departments.

Comment with respect to present plans of the War Department as to utilization of Chinese reverse lend-lease currency for purposes other than compensation adjustment.

It is felt that the War Department's present intentions with respect to utilization of Chinese reverse lend-lease currency for construction projects, purchase of materials, etc. may not prove practicable. It is understood that the War Department contemplates that there would be no uniform rule as to the amounts of Chinese reverse lend-lease currency to be so utilized—in one project such currency may represent 10 per cent of the total costs in China, in another 20 per cent, and so on. The Army's present intention is understood to be to estimate what the project would cost in the United States, allocate a corresponding amount of United States dollars for it and then utilize Chinese reverse lend-lease currency to such extent as may be necessary to carry out the project.

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If China could be frankly credited with having furnished under reverse lend-lease that proportion of the completed project represented by the proportion of Chinese reverse lend-lease currency to the total cost (the Chinese currency to be computed at some basis similar to the "compensation factor" mentioned under category I), the proposal would, it is believed, be made more attractive to the Chinese. To insist that the Chinese contribution in this category as in category I is merely in the nature of exchange adjustment and hence has no measurable value, while at the same time determining the Chinese contribution by factors not specially related to exchange questions, is likely to seem arbitrary to the Chinese and may not be acceptable to them. On the basis of its present understanding the State Department would find it difficult to justify the War Department's proposal to the Chinese because the anticipated lack of uniformity in application of the proposal minimizes its relationship to exchange adjustments.

Appendix 4

*[Handwritten text, partially obscured]*



## APPENDIX 4

FROM: AMERICAN EMBASSY, CHUNGKING  
TO: Secretary of State, Washington  
DATED: December 30, 1943  
NO.: 2514

## SECRET

Reference is made herein to our message of December 22, no. 2478.

1. On December 29, in pursuance of Chiang's request, and by appointment, I interviewed Kung. Acheson accompanied me. It was mentioned to Kung that we had discussed with Generalissimo the question of reverse Lend-Lease and that I see Kung again on this matter was requested by him. Any comment or proposal Kung might wish to make, I stated, I would be glad to communicate to the Department.

It was indicated by Kung that the Chinese Government was surprised the American Government had not shown immediate favorable reaction to suggestion by Foreign Office that May 15 draft of reverse Lend-Lease agreement now be signed at Chungking (see our 2404, December 14), as draft had been proposed by the American Government, had been studied by Chinese Government which had dropped its suggested changes, and the Chinese Government had agreed to it. It was stated by me that we had not yet received instructions and the place of signing was, of course, immaterial. It was suggested by Acheson that the draft had been proposed many months ago and since that time General Somervell had come here with his proposal in regard to U.S. Army expenditures and there had come up for discussion various related questions. Whether the Chinese Government had any plans, to implement reverse Lend-Lease agreement was an inquiry put by me.

In vague terms Kung replied that China's vital economic problem was maintenance of the currency, mentioning that Japan was waging economic as well as military warfare on China and he said that everything would collapse if the currency did not stand up. Accordingly, he stated that he had proposed to the Chinese Government that American Army expenditures here be matched dollar by dollar with some of such expenditures matched by two dollars, and that the Chinese Government approved was indicated. (Of course, he referred to Chinese dollars.) He confirmed, in response to inquiry, that such proposal involves provision of Chinese currency in ration equivalent to exchange rate of 40 to 60 to 1. It was stated by him that Chinese currency so provided would of course be credited to Chinese reverse Lend-Lease account (assumably at 20 to 1 for currency provided over and above the official rate of 20 to 1). A letter to him from the President, dated November 26, was shown to us which he thought had been written in Cairo and mailed in Washington (mentioning that Generalissimo and Mae. Chiang had approached the President in regard to the question of inflation in China and that the President had

- 2 -

made some suggestion to them which he contemplated discussing with Treasury. The President will understand China's difficulties, Kung said, and I replied that we endeavored to keep him and our government in general fully informed of developments as they occurred.

We were in no position to make comment other than that outlined above, in light of Department's 1841, December 22, and I merely stated that I would let Kung know as soon as instructions were received. Throughout the conference, Kung was most cordial and affable.

2. General Hearn has informed us that an army "financial adviser named Atcheson" is shortly coming here and that accordingly "things will soon begin to happen." in connection with this matter. It is stated by the local representative of the Chase National Bank that he has been instructed to remain in Chungking until arrival of Professor Edward Atcheson and has asked for information as to prospective dates thereof and as we have not been advised this was of course information which we could not furnish. If Professor Atcheson is being sent here by the (\*) for the purpose indicated by Hearn, it is our hope that he will have full authority to speak for all concerned agencies and thus tend to resolve the deplorable confusion of this matter which has been the result of the incoordinated approaches made by representatives of the various departments interested.

GAUSS

(\*) Apparent omission

Appendix A

Handwritten notes on the right margin, including the number "11" and some illegible scribbles.



## APPENDIX A

PARAPHRASE

Ambassador Guass in a telegram of January 16, 1944 addressed to the Secretary of State, reports that at the request of President Chiang he and Mr. Acheson called on the Generalissimo. The only other person present was Madame Chiang, who acted as interpreter. President Chiang asked the Ambassador to communicate the following telegram to the President in reply to the President's message:

I have received your recent telegram forwarded through Ambassador Guass and am happy that you have recovered from your indisposition. I appreciate the fact that you have been endeavoring to find a solution to the economic problems of China even during your illness.

To my mind the proposals made by the Treasury Department are not those of one allied nation to another but rather are in the nature of a commercial transaction. If put into practice these proposals would not increase China's economic strength in the prosecution of the war. On the contrary the impairment of the Chinese people's confidence in fapi would only add to her economic difficulties. I would not make this urgent appeal to you were it not for the fact that we are entering a most critical stage. I have reached the following conclusions after giving mature consideration to the future perilous economic situation in this war theater:

(1) An out and out loan of one billion dollars from the United States would enable us partly to meet the deficit of the coming war budget and also through reciprocal aid to meet a part of American military expenses in China, such as the repair and construction of airfields and necessary installations, the feeding of American troops and the transportation of war materials, et otera.

(2) If it is the opinion of the Treasury Department that it is not able to accept the above proposal I suggest that such expenditures as are incurred by United States forces in China should be borne by the American Government. The Central Bank of China will facilitate exchange at the official rate of US\$1 equals 20 yuan. The rate is unalterable in as much as we cannot afford to shake the confidence of the people in fapi, which is a stabilizing factor amidst a world of uncertainty brought about by the vicissitudes of war. It is only thus that we can directly maintain the credit of fapi

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and indirectly save China from economic collapse. Such collapse would seriously affect the whole military position of the Allies because of China's inability to continue resistance for any considerable length of time.

The second of these proposals is outright help which the Chinese people and army would appreciate and when it is considered that the United States has been feeding even British and Russian civilians this would be entirely in accordance with the Allied strategy of pooling resources. As an example, I might point out here that following the battle of Changteh 300,000 houses in that area were left in ruins and less than 10 buildings still remain. In this respect the people of China have suffered incalculable losses since the commencement of our war of resistance seven years ago. Our sacrifice in men and materials both civil and military is convincing proof of our willingness to give all that we are and everything that we have to the Allied cause. One of the crack units of China, 57th Division, has been entirely sacrificed.

I felt keenly when I saw you in Cairo that with your vision and wisdom you completely comprehended the critical situation which now faces this country and that you were eager to extend to our people every means of practical help in order to enable them to march forward shoulder to shoulder with the American people to common victory. I was so encouraged that I hastened to reassure the Chinese people of the solidarity and strength of our united efforts. I still feel sure that as leader of the Allied nations you will do all in your power to help China to continue her resistance and to do her full part in the global war. You realize, I am sure, that I will do all in my power to rally the support of the Chinese nation to bring about speedy victory and that I have even gone to the length of delaying the reopening of the Burma route so that essential amphibious equipment might be diverted to the European theater, thereby disappointing all classes of my countrymen who still bear in their memories the scar of the defeat suffered in the last Burma campaign as a result of which China lost large quantities of men and equipment through no fault of her own.

In the event that the Treasury Department feels unable to agree to either of the above two proposals then China will be compelled to pursue the only course open to her, namely, to continue resistance against our common enemy Japan with all her available strength and for as long as possible, thus in a way discharging her responsibilities as a member of the United Nations. In that eventuality she would have to permit her war-

- 3 -

time economy and finances to follow the natural course of events. In such a case the Chinese Government would have no means at its disposal to meet the requirements of United States forces in China and consequently the American Army in China would have to depend upon itself to execute any and all of its projects, for to our great regret we would be placed inevitably in a position in which we could not make any further material or financial contribution, including the construction of works for military use.  
Signed Chiang Kai-shek.

Appendix B

## APPENDIX B

MESSAGE FROM THE PRESIDENT TO  
GENERALISSIMO CHIANG KAI-SHEK

I have carefully studied your recent message transmitted through Ambassador Gauss, and I fully recognize the extent to which China's resolute war stand has rendered her economic situation acute. I am fully mindful of the importance of taking every practical cooperative step to make possible the most active prosecution of the war as well as to make possible an orderly development of industry and trade after the war.

I think it important that you should understand our special problems over here. I cannot escape the feeling that because of the distance between us there may be danger that we may fail adequately to work out our common problems and may rush into decisions which would not be in the interests of either of our peoples.

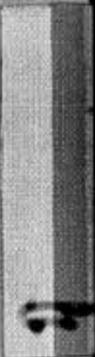
I think that your suggestion transmitted to me by Madame Chiang that Dr. Kung be sent to Washington is a good one. If he were here the various financial and economic problems involved in the situation could be fully discussed to the mutual advantage of both countries.

Meanwhile, I should like to make this specific suggestion: Just before receiving your message I had approved instructions to General Stilwell and to Ambassador Gauss to take up urgently with your Government the question of our military expenditures in China. I should like to suggest that an arrangement such as General Stilwell and Ambassador Gauss are authorized to propose be adopted tentatively on the understanding that our Army expenditures in China during the next few months can be expected to be somewhere in the neighborhood of twenty-five million U.S. dollars each month.

Furthermore, since you say that your Government is not in a position to continue any direct maintenance of American troops in China, this Government, in order to cover all of its military expenditures in China, including such maintenance as well as construction, is prepared to place to your account the U.S. dollar equivalent of any Chinese funds made available under general arrangements that will be suggested by General Stilwell and the Ambassador.

(In cable dated January 28, Ambassador Gauss said he had transmitted this message to the Generalissimo.)

Appendix C



## APPENDIX C

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking  
TO: Secretary of State, Washington  
DATED: February 3, 1944  
NUMBER: 233

SECRET

Chinese counterproposals have been presented by the Minister of Finance, which provide, in effect, that for each U. S. dollar that we shall receive 20 dollars CN at official rate and China will add 10 additional dollars CN which shall be credited as reverse Lend-Lease. I informed Kung that while his proposal would be reported to Washington, I was certain that it could not be considered satisfactory or reasonable and that while we are prepared to enter into reverse Lend-Lease agreement, it seems useless to do so unless some agreement is implemented by realistic and reasonable financial agreement along lines which our proposal contemplated.

The above message refers to our telegram of January 29, no. 189. There will follow a more detailed report.

GAUSS

Appendix D

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## APPENDIX D

## PARAPHRASE OF TELEGRAM SENT

FROM: Secretary of State, Washington  
TO: American Embassy, Chungking  
DATED: February 19, 1944  
NUMBER: 251

## CONFIDENTIAL

1. It is requested that you advise Dr. Kung that his counter-proposals reported in your telegram of February 3, 1944, No. 233 have been carefully studied by this Government and it does not regard those proposals as satisfactory or reasonable.

2. The War Department has informed the Department that the sum of 25 million U.S. dollars is being credited to the Chinese, as General Hearn suggested, on the understanding that one billion CN dollars have been advanced by the Chinese to our military authorities in China. General Hearn is being notified to this effect by the War Department. No objection is perceived by the Department to your referring to this in your conversation with Dr. Kung. If you do so, however, it should be made clear that these two transactions must be regarded as separate transactions and as in no way constituting an agreed ratio between American and Chinese currency for our military expenditures in China. The necessity of General Hearn's obtaining the best possible interim arrangements is recognized by the Department but it considers it desirable that no indication be given by the Embassy that this Government regards such arrangements as definitive or as in any way constituting adequate cooperation in the war effort by the Chinese Government.

3. You are informed that all relevant political and military factors involved in this situation are being carefully evaluated by this Government with a view to issuing appropriate instructions to its representatives in China. Should the Chinese authorities inquire as to the attitude of this Government with respect to future developments, we authorize you to inform them that all aspects of the problem are being thoroughly studied by us.

STETTINIUS

Appendix E

## APPENDIX E

THE WHITE HOUSE  
WASHINGTON

12 February 1944

SECRET

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Forwarded herewith for your information are extracts from a message sent to the President by Generalissimo Chiang Kai-shek, dated 3 February 1944, which Admiral Leahy directed be sent to you.

A similar copy is being furnished the State Department.

/s/ L. Mathewson

L. MATHEWSON  
Colonel, General Staff.

1 Incl -  
Msg, Chiang Kai-shek to  
President, 3 Feb. 44.

- 2 -

3 February 1944

SECRET

From: Generalissimo Chiang Kai-shek  
To : President Roosevelt

I have received your message dated 26th January transmitted by Ambassador Gauss and I deeply appreciate your efforts to help me and my government. I have consulted with Dr. Kung regarding the suggestion contained therein and have requested him to acquaint the Ambassador and General Stilwell's representative with the decisions he and I have agreed on. I trust that very shortly a solution satisfactory to both our countries may be reached, I wish to assure that Dr. Kung and I have exerted our utmost to meet your wishes short of jeopardizing China's economic front to the breaking point, and short of endangering the morale of our people in the prosecution of continued resistance.

Regarding the proposals of the American Treasury Department embodied in a previous telegram you sent to me, Dr. Kung has replied directly and in detail to Mr. Morgenthau. I shall be glad if you could find time to look over them, for they give a concise picture of China's financial and economic situation.

Appendix F

## APPENDIX F

SECRET

Paraphrase of message No. CFB 15326, 27 March 1944,  
Corrected Copy, to General Somervell from General  
Stilwell.

We are now hoping that the Chinese may take a more realistic attitude on money matters, provided we can save their faces. The GMO is pressing Kung to effect agreement although mention of the phrase "exchange rate" sends the GMO into a tailspin. We would like to have permission to explore the possibilities of the following plan, the only one which has a chance of success at the present time.

That the Chinese continue to advance CN to U.S. Army according to our needs and their ability. At the beginning of each three-month period, the U.S. to decide on a sum of U.S. dollars which will be advanced to the Chinese during the period. For the next three-month period this sum to be figured between 100 and 200, probably between 125 and 165, U.S. requirements in CN to be kept secret, while the Chinese may publicize our "contribution" if they think wise for stabilization purposes. The rate of exchange will not come into the transaction, and the decision on final benefit derived by the Chinese and U.S. respectively will be left to postwar negotiation.

We think that the "tri-monthly ratio" between the two contributions will become the *de facto* rate of final settlement, since postwar stabilization of rate must certainly be at a much lower figure. To raise a portion of their contribution to U.S. in the least inflationary manner the Chinese to be urged to sell gold and U.S. dollars on joint account. This procedure is preferable to our sale on our own account since the sales will probably produce only 20% of our requirement. We fully realize the disadvantage of postwar negotiation on final rate, but think that the dangers are more imaginary than real. The proposal has tremendous face saving advantage for GMO. The Ambassador and Adler have seen this cable and indorse the scheme, and request copies of this telegram to be furnished State and Treasury Departments.

We request no action be taken in Washington on our radio CFBX 15225, dated 24 March until initial steps in present negotiations are concluded.

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Appendix G

## APPENDIX G

MINISTRY OF FINANCE  
NATIONAL GOVERNMENT  
OF CHINAPrivate & Confidential

Chungking, April 19, 1944

The Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
The United States Treasury,  
Washington, D.C., U.S.A.

Dear Mr. Secretary,

I am in receipt of your letter of March 14 and am taking the opportunity of Ambassador Wei's return to send you a reply. Needless to say I profoundly appreciate the contribution made by the Americans associated with the Stabilization Board of China to Sino-American financial cooperation and understanding and am sure that your representative in Chungking and our representatives in Washington will continue to serve the same cause as effectively as before.

Ambassador Wei and Mr. T.L. Soong reported to me your conversation at the farewell dinner you gave them immediately prior to their return, in which you asked them to convey to me your desire for a speedy settlement of the question of U.S. Army expenditures in China. I deeply appreciate your concern over this matter and, therefore, would like to take this occasion to mention that the problems to which I called your attention in my communications to you of January 24 and February 6 have increased, are increasing, and in all likelihood will continue to increase, in acuteness and severity. China's economic difficulties have now become almost her major problem and preoccupation, and it would be impossible to maintain our armies in the field and to prosecute the war against the common enemy without the maintenance of confidence in our currency which has become increasingly threatened and undermined by the exigencies of war and the unique obstacles in our path. We had all been hoping for the removal of China's blockade some time in 1944, but now that appears to be a remote contingency and no immediate relief can be expected from that quarter.

However, despite great difficulties created by the shortage of notes, which have already compelled us to restrict cash outpayments by the banks for commercial and industrial purposes, we are doing our best to keep the U.S. Army supplied with notes so that their activities can continue without interruption. It is to be regretted

- 2 -

that we have not yet been able to arrive at an agreement with the American Army authorities here as to the conversion rate for U.S. Army expenditures in China. Nevertheless, we are resolutely determined that nothing should be allowed to interfere with the present and contemplated operations of the U.S. Army in the China Theatre. We have therefore continued to advance all the Yuan needed to cover U.S. army requirements in spite of the absence of such an equivalent in U.S. currency and in spite of the fact that except for the US\$25 million received in March, we have not received any U.S. dollar counter-part of the Yuan which we advanced. Over 10 billion Yuan was paid out by the National Treasury, Ministry of Finance, up to the end of March. A further 7 billion Yuan was advanced by the Central Bank of China, of which 4.2 billion Yuan was for the construction of airfields and 2.25 billion Yuan for the account of the U.S. Army in China. I am appending a detailed list of these expenditures for your reference.

However, we should be courting disaster if we continue to issue currency notes for the U.S. Army needs without at least a minimum replenishment of our reserves in foreign exchange, gold and silver. The U.S. Army would appear to overlook this consideration in desiring that we furnish it with Yuan on terms involving a sharp revision of the exchange rate. Were we to accede to this desire to revise the rate at 100 Yuan to 1 U.S. dollar, we would be depreciating our currency by 500 percent which would be fatal in our present situation. The psychological effect alone of such a sharp reduction in the exchange rate would be very serious and would, of necessity, lead to a rise in prices and dangerous loss of confidence in the Yuan. Since the basic idea behind the plan for a United Nations Monetary Conference, which is being prepared under your leadership, is sound money and stable exchange rates, I am sure you appreciate the reasons why we are unable to take steps to depreciate our currency.

We are not making any request for a new loan because we are well aware of the difficulties that may encounter in granting of a loan at the present time. We are doing our best to contribute our share in facilitating the work of the U.S. Army in China by advancing large sums for the payment of construction and other activities, and by providing land for the construction of airfields. As President Roosevelt has informed President Chiang, the United States, in order to cover all of its military expenditures in China, including such maintenance as well as construction, is prepared to place to China's account the U.S. dollar equivalent of any Chinese funds made available under general arrangement with U.S. representatives in China.

- 3 -

The only difficulty in the way of our reaching full agreement in currency negotiations is the rate of conversion. Since, for reasons stated above, we cannot depreciate our currency, we have been trying to find other ways of solving the problem. My basic approach to this whole matter is that it is not a subject for bargaining. We have already fought shoulder to shoulder for over two years. We have shared considerable sacrifices and, I am sure you agree with me, we should each contribute according to our capacity for the common victory.

I wish to convey my best wishes for your continued good health. With kindest personal regards.

Yours sincerely,

/s/ H.H. Kung

H. H. Kung

- 4 -

Table of Total Payments Made by the Chinese Government at the Request of the United States Army Authorities (From September, 1942 to April 19, 1944).

A) Paid out by the National Treasury,  
Ministry of Finance.

1.- For construction of airfields.	Yuan 8,018,932,286.25
2.- For construction of barracks for Composite Wing in Air Force.	355,580,500.00
3.- For War Area Service Corps expenditures (mostly board and lodging for U.S. Air Force in China)	1,483,407,953.78
4.- For transport of U.S. Air Force supplies.	404,442,917.92
5.- For the improvement of roads at specific request of U.S. Army authorities.	<u>615,896,800.00</u>
<u>Total</u>	Yuan 10,878,260,457.95

B) Advanced by the Central Bank.

1.- Advanced for the construction of air bases:-

(a) March 11, 1944	Yuan 1,743,000,000.00
(b) April 7, 1944	1,000,000,000.00
(c) April 14, 1944	1,503,000,000.00
(d) April 19, 1944	520,000,000.00

2.- Advanced for the account of the U.S. Army:-

(a) February 10, 1944	Yuan 1,000,000,000.00
(b) March 6, 1944	1,000,000,000.00
(c) April 15, 1944	<u>250,000,000.00</u>

<u>Total</u>	Yuan 7,016,000,000.00
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GRAND TOTAL --- Yuan 17,894,260,457.25

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Appendix H



## APPENDIX H

AIDE MEMOIRE

To meet the requirements of the United States Army in China the Chinese Government has advanced in toto the sum of eighteen billion yuan.

The United States Government has signified its intention of paying for its military expenditure in China which is greatly appreciated by the Chinese Government. As a basis of settlement of the funds advanced by the Chinese Government, United States Army representatives in China have made proposals at different times since February for the conversion rate to be fixed variously at: U.S. \$1 to 100 yuan, 200 yuan, 120 yuan, and 150 yuan. The Chinese Government, however, is unable to consider these proposals to alter the exchange rate of 20 yuan to one U.S. dollar, because the lowering of the exchange rate under the present circumstances would further undermine confidence in Chinese currency, as well as stimulate the rise in commodity prices.

The Chinese Government, therefore, suggests the following solutions:

- (a) The agreement for Reverse Lend-Lease as proposed by the United States and agreed to by China shall be signed and implemented as soon as possible.
- (b) China undertakes to pay for land needed for the construction of air fields.
- (c) China undertakes to pay for the food and lodging of the United States Army in China, such payments to be credited under Reverse Lend-Lease.
- (d) For United States Army expenses other than those covered in (b) and (c) above, the Chinese Government offers the following alternative solutions:-
  - 1) China shall contribute twenty yuan as Reverse Lend-Lease, in addition to twenty yuan exchanged at official rate for every United States dollar credited to China. China is further prepared to raise such Reverse Lend-Lease contribution to forty yuan for each United States dollar placed to her credit.
  - 2) Alternatively, if the above arrangement (d.1.) is considered not satisfactory, the Chinese Government shall be prepared to permit the United States authorities in China to sell in

- 2 -

open market United States currency notes, United States Government bonds, gold, and commodities for the purpose of securing Chinese currency needed to meet United States Army expenditure.

The Chinese Government also believes that the most effective measure of controlling inflation in China is increased importation of commodities for daily use, especially if such importation is combined with the arrangements under (d. -1 or 2).

It is to be observed that for every yuan issued, the Chinese Government and banks assume the obligation of its redemption according to law. In comparing China's present foreign exchange accumulation to the amount of yuan issued China's exchange reserve is infinitesimal and far below her minimum requirements, not to mention China's postwar needs for rehabilitation and reconstruction, and her monetary stability which especially needs assistance. Hence any appreciable increase in China's foreign exchange and reserve would greatly mitigate her difficulties and be of vital importance to development of American trade with China.

Appendix I



CONFTHE EXECUTIVE YUAN.  
NATIONAL GOVERNMENT.  
CHINA."HJ to read  
and return  
for my file"  
F.D.R.Private & Confidential

Chungking, April 19, 1944.

The Honorable Franklin D. Roosevelt,  
President of the United States,  
The White House,  
Washington, D.C., U.S.A.

Dear Mr. President,

I am taking the opportunity of Ambassador Wei's return to the United States to send you my warmest personal greetings. I would also like to thank you for your kind invitation to me to visit your country. Although circumstances and the pressure of urgent duties unfortunately prevent me from leaving, I do hope that the day will soon come when I shall be able to do so.

I was very glad to hear from President and Madame Chiang on their return from Cairo of your great desire to assist us in the solution of our current problems. Therefore, it would not be amiss to bring you an account with respect to current economic and financial developments in China. Dr. Wei is supplied with detailed information which he will be glad to provide in order to supplement this letter. It is no exaggeration to state frankly that, in the economic and financial sphere, China is experiencing its most difficult year since the beginning of the war. The seven years of uninterrupted warfare with its attendant devastation, blockade and growing financial burden have taken their toll. As you are certainly aware the National Government, under the leadership of President Chiang, are doing everything within their power to intensify the common war effort. But our financial and economic problems are increasing in acuteness.

- 2 -

Had our position been less unfavorable, we should have gladly undertaken the burden of financing all United States Army expenditures in China as a voluntary contribution to the United Nations' war effort. As it is, the activities of the United States Army in the China Theatre, important and indispensable as they are for intensifying our war effort, are dangerously accelerating our inflation. To date we have appropriated over 17 billion Yuan for airfields and other military outlays for the American Army, of which 10 billion, a sum equivalent to the US\$500 million loan which was extended to us in 1942, was paid by February. I am appending a detailed list of such expenditures for your reference. The mere provision of currency notes for U.S. Army expenditures has exhausted our currency reserves in China and used up all notes shipped in from India. In order to keep the U.S. Army supplied with notes so that their activities can continue without interruption, we are compelled to restrict temporarily cash outpayments by the banks for commercial and industrial purposes pending the further arrival of new supplies of notes from America by air.

In order not to impair seriously China's effectiveness in the common war effort, it is essential that confidence in our currency be maintained. An essential precondition for the continuation of confidence in our currency is the maintenance of a minimum reserve of foreign exchange, gold or silver, against our currency. It would be most dangerous for us to continue to issue currency notes to cover current U.S. Army requirements without a minimum replenishment of such reserves. Unfortunately, this obvious consideration appears to have been overlooked by some who

- 3 -

apparently feel that we should provide the U.S. Army Yuan currency on terms which would involve an actual rate of 100 Yuan to 1 U.S. dollar. Such a course amounts to a depreciation of the external value of our currency by 500 percent and would be fatal to us in our present predicament.

Those who urge for a further depreciation of our currency were obviously misled by the comparatively high price commanded by U.S. dollar notes in the black market. It is important, however, to grasp the fact that the supply for U.S. dollar notes in the black market is very small and that the chief demand is created by the hoarders and speculators who smuggled U.S. dollar notes to Shanghai and by smugglers in China who find it profitable to acquire U.S. dollar notes even at high prices for the purpose of taking to India to buy rupees in order to bring contraband goods and gold from India. Thus the price the U.S. dollar notes command in the black market is fictitious and cannot be regarded as true indicator of the external value of Chinese currency. The Chinese Yuan was worth about 30 cents U.S. currency at the outbreak of the war in 1937. We maintained that free market rate at considerable sacrifice until March, 1938. Since then, it has gradually depreciated until the Stabilization Board of China fixed the rate at about 5 cents in August, 1941. Since the basic idea behind the plan for a United Nations' Monetary Conference which is being prepared under the leadership of the United States Treasury, is sound money, I am sure you appreciate our reluctance in taking steps to further depreciate our currency. I have explained in detail in my messages to Secretary Morgenthau dated January 6 and

- 4 -

February 25, about which I presume you were informed, the reasons for not changing our exchange rate. The psychological effect alone of such a drastic revision of the exchange rate as some contemplate would be very serious and would, of necessity, lead to an upward revision of internal prices and serious loss of confidence in the Yuan.

It is not generally realized and we do not wish it to be known that China has had to conduct her war effort with less aid in the form of materials and supplies than any major member of the United Nations, and this in spite of the fact that she is confronted with difficulties such as beset the path of no other belligerent country. The powers of endurance of the Chinese people have proven themselves under the tremendous strain of the seven long years of war. Since, according to this year's budget, nearly 50% of the expenditures is already covered by taxation, the National Government is extremely anxious to avoid taking these sacrificial powers beyond endurance, for the consequences might be disastrous both to China herself and to the United Nations as a whole. We had all been hoping for the removal of the blockade of China some time in 1944. Now that appears to be a remote contingency. If the present economic and financial difficulties continue and if we take steps that would drastically depreciate our currency, thus bringing about further inflation, the consequences may be grim indeed.

We are not making any request for a new loan because we are well aware of the difficulties that may beset the path for the granting of a loan at the present time. We are exerting our utmost to do our share in facilitating the activities of the U.S. Army in China by providing land

- 5 -

for the construction of airfields and by advancing large sums for the payment of construction and other activities. As you have kindly informed President Chiang, the United States, in order to cover all of its military expenditures in China, including such maintenance as well as construction, is prepared to place to China's account the U.S. dollar equivalent of any Chinese funds made available under general arrangement with U.S. representatives in China. The only difficulty that prevents us from reaching a complete understanding with respect to this matter is the rate of conversion. On account of this difficulty, except for the US\$25 million paid in March, none of the rest of the U.S. dollar counter-part of the billions advanced by China has yet been turned over to China. Since, for reasons stated above, we cannot depreciate our currency further without seriously jeopardizing our currency position, we have been trying to find other ways of solving the problem. Some time ago, we have informed your Government our agreement to the U.S. proposed arrangement for Reverse Lend-Lease and I hope the arrangement will soon be carried out. I am sure you will agree with me that this whole matter is not a subject for bargaining. We have already fought shoulder to shoulder for over two years. We have shared considerable sacrifices and, it appears to me, we should each contribute according to our capacity for the common victory.

It was with great pleasure that I learned of Vice-President Wallace's forthcoming visit to China in which event I am sure he will become fully acquainted with China's war effort and the problems incidental thereto.

- 6 -

We welcome such interchange of visits as a valuable means of exchanging mutual information and understanding between the Allies and also hope that some day in the not too distant future Mrs. Roosevelt will allow us to repay the hospitality so generously extended to Madame Chiang by you and your people.

With best personal regards,

Yours sincerely,

/s/ H. H. Kung

H. H. Kung

**Table of Total Payments Made by the Chinese Government at the Request of the United States Army Authorities (from September, 1942 to April 19, 1944).**

**A) Paid out by the National Treasury, Ministry of Finance.**

1. - For construction of airfields.	Yuan 2,018,932,286.25
2. - For construction of barracks for Composite Wing in Air Force.	355,580,580.00
3. - For War Area Service Corps expenditures (mostly board and lodging for U.S. Air Force in China).	1,489,407,993.78
4. - For transport of U.S. Air Force supplies.	404,442,917.92
5. - For the improvement of roads at specific request of U.S. Army authorities.	<u>615,894,800.00</u>
<b>Total</b>	<b>Yuan 10,876,260,457.95</b>

**B) Advanced by the Central Bank.**

**1. - Advanced for the construction of air bases:-**

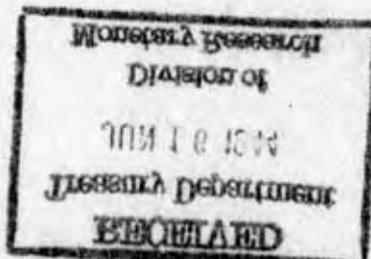
(a) March 11, 1944	Yuan 1,743,000,000.00
(b) April 7, 1944	1,000,000,000.00
(c) April 14, 1944	1,300,000,000.00
(d) April 19, 1944	<u>520,000,000.00</u>

**2. - Advanced for the account of the U.S. Army:-**

(a) February 10, 1944	Yuan 1,000,000,000.00
(b) March 6, 1944	1,000,000,000.00
(c) April 15, 1944	<u>230,000,000.00</u>

<b>Total</b>	<b>Yuan 7,016,000,000.00</b>
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**GRAND TOTAL — Yuan 17,892,260,457.95**



Appendix J

## APPENDIX J

D R A F T

It is agreed between the Republic of China and the U. S. Army that:

(1) The needs of the American Army in China are recognized as a special, extraordinary and temporary phenomenon, in no wise altering the established structure of exchange rates in China.

(2) That a Special Military Rate be established at CN\$60 to U.S.\$1 at which rate the U.S. Army undertakes to sell all (except dollars to U.S. personnel) its U.S. dollars to the Central Bank of China.

(3) The Chinese Government, for its part, undertakes to make additional funds available to the U.S. Army further to equalize discrepancies in prices between various parts of the country and between the internal and external value of the yuan.

(4) The United States of America and the Republic of China will sign immediately a Reciprocal Aid Agreement and the Republic of China may record as Reciprocal Aid all operational airfield construction previous to March 1st (except Cheng-tu) the service rendered by the WASC, repairs to U.S. airplanes, and like services, as well as the financial service rendered by the additional funds \* in (3) above.

(5) A Sino-American committee be set up to control the market for gold and U.S. dollars and the proceeds from these sales will be pooled and used in the common war effort.

(6) The U.S. Army will settle immediately for all money advanced to the Finance Officers of the Army and also immediately make a 50 percent advance payment for all money authorized by the U.S. Army and spent by the Chinese Government for American account to date (except those items entered as reciprocal aid under (4) above). In making this payment the U.S. Army will use the Special Military rate and additional funds specified in (2) and (3) above.

(7) This agreement is made for three months and renewable automatically thereafter unless questioned in writing one month in advance of the expiration date by either contracting party.

\* In an exchange of letters accompanying the Reciprocal Aid agreement, it will be stated explicitly that the "Additional Funds" provided by the Chinese Government shall be considered as a financial service further to equalize the discrepancy between the internal and external value of the fapi and will in no wise be considered as cash advanced.

- 2 -

## EXCHANGE OF LETTERS

It is further agreed that for all outstanding obligations and for those obligations to be incurred during the months of July, August and September 1944 the "additional funds" mentioned in paragraph (3) of the financial agreement shall mean that the Government of the Republic of China will make available to the U.S. Army CN\$1 for each CN\$1 purchased by the U.S. Army at the Special Military Rate, or the service equivalent thereto accepted by the Army.

In order to render automatic the adjustment in purchasing power of the U.S. Army funds in China and to eliminate renegotiation of this instrument, it is agreed that a committee of four be set up. This committee consisting of the Minister of Finance of the Republic of China, (Chairman), the Manager of the Central Bank of China, a representative of the U.S. Army and a representative of the U.S. Treasury will decide on an appropriate price index or devise one if none of the existing indices are deemed satisfactory. The fluctuations in this index will regulate the amount of "additional funds" advanced by the Chinese Government. If, for instance, a wholesale commodity index were selected and that index stood at 30,000 against a base year of 1937, "additional funds" in the ratio 1 to 1 could be considered appropriate. If the index moved to 40,000 two months later, "additional funds" would automatically move up by one-third, the appropriate rate becoming 1 to 1.33. A fall in the level of the price index will be likewise compensated in the volume of "additional funds" made available.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 13, 1944

TO Secretary Morgenthau

FROM Charles Bell

*Casey**AK*

I am still working with Olrich on the Procurement reorganization and have scheduled for tomorrow and Friday meetings with both the Bureau of the Budget and the Civil Service Commission. We have made considerable progress this week and I have now a report prepared by Olrich for you outlining some of his difficulties which I will bring up, together with a complete organizational set-up in chart form which is being prepared now. I feel that in another thirty days we will have for the first time a good clean-cut running organization in the Procurement Division embracing all of the functions in the Procurement Division and surplus disposal.

July 13, 1944  
12:30 p.m.

## CIRCULAR AIRGRAM

SUBJECT: AIR PRIORITY FOR MORRIS D. WALDMAN AND  
JACOB LANDAU, AMERICAN JEWISH CONGRESS, NEW YORK

TO CERTAIN AMERICAN DIPLOMATIC AND CONSULAR OFFICERS:

At the request of the War Refugee Board the Department is interested in facilitating the travel of Morris D. Waldman, Vice Chairman and Jacob Landau, a member of the Executive Committee of the American Jewish Committee, New York. Please give consideration to their applications for air priority when presented.

HULL

glw

Send to AMEMBASSY	Buenos Aires	Argentina
"	Rio de Janeiro	Brazil
"	Santiago	Chile
"	Bogota	Colombia
"	San Jose	Costa Rica
"	Habana	Cuba
"	Quito	Ecuador
"	San Salvador	El Salvador
"	Guatemala	Guatemala
"	Mexico, D.F.	Mexico
"	Managua	Nicaragua
"	Panama	Panama
"	Asuncion	Paraguay
"	Lima	Peru
"	Montevideo	Uruguay
"	Caracas	Venezuela
Send to American Consul	Port-of-spain	Trinidad, B.W.I.

HULL

glw

WRB:GLW:KG  
7/14/44

CABLE FROM WAR REFUGEE BOARD TO AMBASSADOR WILSON FOR SAXON, ALGIERS,  
ALGERIA.

Please refer to your 1790 of May 30 repeated to Madrid  
as 102 and our 1795 of June 6.

USCC advises us that it has disbursed 50,000 pesetas for  
port dues in Spain and inquires whether it should continue to hold  
open 50,000 peseta balance. Please advise whether you desire 50,000  
peseta balance to remain at our disposal.

Repeated to Madrid for Blickenstaff as \_\_\_\_\_.

THIS IS WRB CABLE TO ALGIERS NO. 33

1:10 p.m.  
July 13, 1944

MJMarks:ro 7/13/44

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, Quito  
TO: Secretary of State, Washington  
DATED: July 13, 1944  
NUMBER: 705

## SECRET

Again the Embassy has been shown a copy of the cable of the eighth of May which was dispatched to the Ecuadoran Consul in Geneva. This copy was shown to the Embassy by the Foreign Office and it contains instructions exactly as Embassy's Airgram A-252, dated May 10, 1944, reported. This is with reference to Department's cable 570, dated July 1, 1944.

The reported non-action vis-a-vis the Government of Switzerland has been under investigation by the Foreign Office. I will cable the Department such appropos data as may be secured.

SCOTTEN

DCR:MBD  
8/14/44

FROM  
LONDON.  
Dated July 13, 1944.  
RECD. July 19, 2 am

UNRESTRICTED.

SECRETARY OF STATE,  
WASHINGTON.

A-851.

FOR THE WAR REFUGEE BOARD.

Following is complete text from Hansard of the statement given in the House of Commons yesterday by Foreign Secretary Eden in response to a question on a haven for war refugees in Libya:

"EUROPEAN REFUGEES (CAMP, TRIPOLITANIA)

"Mr. Graham White asked the Secretary of State for Foreign Affairs if he can give the House any information with regard to arrangements for a haven for war refugees in Libya.

"Mr. Eden: Yes, Sir. In consequence of the increasing number of refugees arriving from various parts of Europe, His Majesty's Government have been concerned to find suitable places of temporary accommodation in addition to those already arranged. It has been decided to set aside a camp in Tripolitania where some 2,000 refugees can be accommodated until it is possible to send them back to their homes, or otherwise find them places of permanent residence. This, like all His Majesty's Government's activities in regard to refugees, was undertaken in consultation with the United States Government, who are co-operating fully in questions of staff and maintenance.

"Mr. White: Can the right hon. Gentleman say if the arrangements that have so far been made are temporary war-time arrangements, and there is no question of any permanent settlement: and I presume what he says also applies to the Russian front?

"Mr. Eden: I am not sure about the last part of my hon. Friend's supplementary question. This is a war-time arrangement."

MR. ALLISON  
JMA:LZ

WINANT

## ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington  
TO: AMEMBASSY, LONDON  
DATED: July 13, 1944  
NUMBER: 5504

## CONFIDENTIAL

TO WINANT, LONDON, FOR SIR HERBERT EMERSON FROM PEHLE.

Please deliver the following message to Sir Herbert Emerson from John W. Pehle, Executive Director of War Refugee Board:

"The text of this Government's reply to British Government's Aide Memoire of March 27, 1944, is now in London and, if not already seen by you will, I am sure, be made available by Winant.

Because of the urgency of the present situation particularly in the Balkans I earnestly hope that it will be possible to start at once credit scheme mentioned in the Aide Memoire, with IGC using JDC as its agent in the several countries where need is desperate.

In this connection JDC now has opportunity to spend at least four million dollars additional on productive rescue operations from Balkans. There is general agreement among all responsible agencies in Near East. now coordinating their rescue activities under one committee in Ankara, that substantial numbers may now be saved. There is further evidence of a growing willingness in Rumania to cooperate. Under these conditions I believe that IGC has an excellent opportunity to initiate credit operations. Immediate assurance that IGC will underwrite credit operations already organized, as described in cable from Baerwald to you, will enable JDC to proceed immediately with new rescue opportunities. I earnestly hope that IGC will find it possible immediately to underwrite credit operations to the extent indicated."

HULL

HMK - 347

PLAIN  
Lisbon  
Dated July 13, 1944  
Rec'd 11:50 p.m.

Secretary of State,

Washington.

2159, July 13, 4 p.m.

FOR EDWARD CAHILL UNITARIAN BOSTON FROM ELISABETH  
DEXTER WEB 101.

Your cable 205 received today, also cable with further information from field. Please communicate with James Mann, War Refugee Board, Washington early next week and discuss situation fields project. Important and urgent AM message Geneva pending your conference with Mann.

NORWEB

JJM WMB

CABLE FROM WAR REFUGEE BOARD TO AMERICAN CONSUL, JOHANNESBURG, UNION OF SOUTH AFRICA.

Board has received commercial cable dated July 7 from Red Cross requesting details of our assistance to Rumanian Jews. Cable makes reference to WR 692 which number is unknown to us.

Please find out specific information desired by Red Cross and reasons for its interest in above subject. Reply by pouch is suggested unless in your opinion cable would be desirable.

10:55 a.m.  
July 13, 1944

MJMarks:dh 7/12/44

## CABLE TO AMEMBASSY, MADRID, SPAIN

Reference is made to Department's 992 of April 10, 1181 of April 27, and 1889 of July 4, and to your 1397 of April 21, 2384 of April 24, 2459 of May 11.

Aembassies at La Paz and Asuncion report that Bolivia and Paraguay, whose interests are protected vis-a-vis Germany by Spain, have requested Spain to take steps for the protection of Jews and other persecuted individuals in German-controlled territory to whom passports of these countries have been issued.

Paraguayan note to Aembassy, of June 6, states in substance:

1. The Paraguayan Government recognized the validity of the passports granted by Paraguayan consular representatives in favor of Polish and Hebrew citizens and those of other nationalities now in German concentration camps, extending its protection in this manner to the persons holding them.

2. The Paraguayan Government has taken up through the Spanish Government the manner of obtaining the departure of such persons from European territory occupied by Germany.

3. The Paraguayan Government authorizes the United States Government to negotiate an exchange of the persons now detained in German concentration camps who hold Paraguayan passports.

Bolivian note confirms that Bolivia is complying with the following requests made by United States:

1. That Bolivia refrain from withdrawing the passports which have been issued and that if and when the protecting power at the request of the German authorities submits lists of persons with such passports Bolivia shall instruct the protecting power that the passports have been confirmed.

2. That Bolivia give its approval to the Government of the United States approaching the German government through appropriate channels with a view to initiating exchange negotiations in which persons to whom passports have been issued in the name of Bolivia would be eligible.

3. That Bolivia affirmatively approach the German government through the protecting power with a demand that the lives of all persons holding passports issued in its name or claiming its citizenship on the basis of consular documents be safeguarded and that they be given all rights, privileges and immunities accorded to civilian internees of enemy nationality to whom the Geneva Convention regarding the treatment of prisoners of war is currently applied by analogy.

- 2 -

In view of the foregoing, please approach Spanish officials and, if you consider it advisable, Bolivian and Paraguayan legations, and represent as strongly as you can the utmost interest which this Government has in speedy and continuing action being taken by the Spanish government along the lines of Department's 992 of April 10 with a view to carrying out the humanitarian objective of saving human lives. The Department and the Board are confident that Spanish foreign office will find a way to secure from the Germans adequate assurances for the safety of all persons to whom passports or other documents have been issued in the name of Bolivia or Paraguay whether such persons are in internment camps or elsewhere or have been in internment camps and removed therefrom.

Please discuss with Spanish officials informally the desirability of construing as liberally as possible, and of acting as speedily as possible upon requests or authorizations reaching them from the United States and other American republics on this subject. Spanish officials certainly understand that the sole object involved is to save people from unprecedented bestiality and that delays in action brought about by a strict adherence to technicalities proper enough under ordinary circumstances merely result, in these extraordinary times, in an additional number of innocent people being ruthlessly done to death.

In view of the situation in Hungary, special efforts should be devoted to obtaining German and Hungarian assurances with regard to the protection, eligibility for exchange, etc., of any persons in Hungary to whom documents in the name of an American republic have been issued. You are authorized to request Spanish authorities, and, if necessary, Bolivian and Paraguayan missions to make all necessary representations to this effect.

In addition to the above, please endeavor through any unofficial channels that may be available to you to convey the sense of the following to appropriate German and satellite officials in foreign offices and foreign police; Foreign office and other officials who bear any responsibility for the consignment of persons to whom documents have been issued in the name of an American republic to the general treatment accorded to eastern Jews or similar treatment must expect personally to bear the consequences. If American republics, horrified by the bestiality and brutality of Nazi mass-slaughter accord to some persons the protection of their passports or other documents, individual officials of the German and satellite foreign offices and foreign police ought to be anxious to avail themselves of such or any other opportunity to save innocent lives. If, instead, they indulge in fine reasoning and take action which is tantamount to sentencing such persons to persecution or death, they thereby assume the responsibility and invite the consequences therefor. Furthermore, their failure to seize every available opportunity to save lives will be considered as strong evidence of their concurrence with the policy of mass-slaughters of Jews and other civilian populations and their participation in such crimes, the consequences for which formed the subject of President Roosevelt's statement of March 24.

7/13/44

11:00a.m.

BAksintar 7/11/44

CABLE TO MINISTER JOHNSON AT STOCKHOLM AND OLSEN FROM THE WAR REFUGEE BOARD

The suggestion has been made to the Board from several sources that the issuance to Hungarian Jews, particularly children and families with children, of Palestine certificates, American and neutral visas in quantity might result in the saving of lives. The Board is considering the practicability of such a program in terms of the remaining balance of available Palestine certificates, 5,000 United States visitors visas, additional United States immigration visas to persons entitled to non-quota or preference status and to persons to whom United States immigration visas now expired were issued after July 1, 1941, and a comparable number of visas of the other American Republics, British dominions and neutrals. The suggested program has not (repeat not) as yet been cleared with the State Department. In view of your 2511 of July 7, the Board would appreciate receiving as soon as possible your views and recommendations as to the practicability of the suggested program based upon such information as is available to you. The Board would also appreciate the informal views of informed persons in the Swedish Foreign Office if you consider it appropriate to discuss this matter with them.

THIS IS WRB STOCKHOLM CABLE NO. 54

\*\*\*\*\*  
July 13, 1944  
2:50 p.m.

LSLesser:tmh 7/13/44

MS  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

July 13, 1944

7 p.m.

AMLEGATION,

STOCKHOLM.

1394

The following WRB cable no. 51 is for Olsen.

Please deliver paraphrase of following message to Rabbi  
Wilhelm Wolbe, 11 Olefgotten Strasse, Stockholm, from Vaad Hahatzala  
Emergency Committee:

QUOTE Have forwarded to Rabbi Chaim Szmulewicz Shanghai via  
Polish Consul and Sternbuch in Switzerland 214,300 Swiss francs  
for distribution among rabbis and rabbinical scholars in Shanghai  
Stop Contact Szmulewicz inquire if above sums received and distributed  
as instructed Stop Cooperate with Olsen and endeavor send courier to  
Lithuania with funds for rescue of great rabbis and religious leaders  
UNQUOTE.

HULL  
(GLW)

WRB:MMV:KG      S/CR      NOE      SWP  
7/13/44

JMB-140  
Distribution of true  
reading by special  
arrangement. (SECRET W)

Stockholm  
Dated July 13, 1944  
Rec'd 3:30 a.m.

Secretary of State,

Washington.

2602, July 13, 5 p.m.

(Department's 1368 of July 11, 2 p.m.)

Will discuss tomorrow with local Mosaic organization questions regarding Finnish refugees raised in WRB 50. Board should be informed however that Legation's 2466 of July 5, 4 p.m., was with reference to American and other evacuees and not stateless refugees, which are being maintained through separate arrangement with Mosaic community pursuant to guarantees provided by WRB. This is our No. 51 for WRB.

WSB  
BB

Johnson

## ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington  
DATED: July 13, 1944  
TO: AMLEGATION, BERN  
NUMBER: 2406

## CONFIDENTIAL

Please deliver the following message to Mrs. Fanny Hirsch, Comite Refugies Intellectuels, 7 Rue Gautier, Geneva, from Fred S. Weissman of Selfhalf of Emigres from Central Europe, Inc.:

"Cabled you another \$3,000. Enlist cooperation of Irmgard Weinberg, Luisenstrasse 21, Zurich 5; Emil Halle, c/o Otto Sonn, Spiegelhofstrasse 24, Zurich; Frits Rosenfelder, 9 Rue Ferdinand Hodler, Geneva; Rudolf Wenk, Friedrichstrasse 16, Basel. Expecting further details about your work".

THIS IS WRB CABLE TO BERN NO. 80.

HULL

## ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington  
TO: American Legation, Bern  
DATED: July 13, 1944  
NUMBER: 2407

## CONFIDENTIAL

FOR ATTENTION OF MINISTER HARRISON AND McCLELLAND, BERN,  
SWITZERLAND.

Reference is made to your 3871 of June 17. Please express Board's sincere appreciation to Foreign Office for its cooperation. The Board recognizes Switzerland's deep concern for the fate of victims of Nazi persecution and is confident that continued efforts of Swiss and American Governments must result in some degree of success.

1. In regard to renewal of passports held by persons in enemy territory, United States practice, as you are aware, is not to authorize their extension beyond their two-year period of validity. Nevertheless, Swiss authorities issue Swiss certificates of identity to holders of such passports. It is suggested that a similar practice, if necessary, be adopted in the case of passports issued in the names of other American republics whose interests are protected in enemy territory by Switzerland. The suggestion is based on the premise that while a passport's duration as a travel document is limited to the period of its validity, its value as prima facie evidence of nationality continues. Accordingly, it is our understanding that the request to Switzerland to extend protective action to all persons threatened with enemy persecution who hold passports and other documents issued in the name of the American republics until affirmatively advised to the contrary by the government concerned applies without regard to the time-limit indicated in any such passport. It is greatly hoped that, in the interest of avoiding delay, the Swiss can carry out the foregoing without communicating further with any of the governments concerned. Kindly advise concerning such governments and the changes of procedure needed to achieve the foregoing, however, if the Swiss cannot secure this result without instructions from the governments whose passports were issued.

Please discuss this matter with appropriate Swiss authorities and endeavor to secure their cooperation in developing some procedure that will assure the continued protection of holders of expired Latin-American passports regardless of their extension.

2. It is understood that Paraguay requested Spain in May to extend protection to all holders of Paraguayan documents Spanish

-2-

assistance in bringing about the return of deportees from Vittel was requested by United States and certain other American republics. On April 19 Spanish Government assured us that it would attempt to learn the facts as soon as possible with a view toward endeavoring to arrange for the return of these refugees. Early in June, Spanish Foreign Minister, in reply to request by Nicaragua, offered to use his good offices to secure the return to Vittel of any bearers of Nicaraguan passports who might have been removed therefrom.

3. Please request assistance of Swiss authorities in ascertaining identity and whereabouts of all persons removed from Compiègne and Vittel and other civilian internment camps who hold passports or other documents issued in the name of any American republic, and their best efforts to secure the return of such persons to such camps.

4. Note is taken of German readiness to consider as eligible for exchange against Germans desiring to be repatriated all Jews interned in these camps who bear Latin American identity documents as well as those elsewhere known to the German Foreign Office, and of German readiness to accept the recognition by the United States of the status of such persons as a basis for their treatment and eligibility for exchange. It is consequently assumed that German authorities will henceforth refrain from passing on the validity of Latin American documents. Please confirm. It would also appear that United States recognition of status will alone suffice, and affirmative approaches by individual Latin American countries are not considered essential by Germans. On the assumption that we properly state German attitude, please explore with Swiss authorities the possibility of proceeding on this basis. We assume Swiss are fully aware of circumstances making action on this basis desirable in speedily achieving humanitarian results.

5. Honduras and Costa Rica have authorized this government to transmit to Switzerland their demands that persons holding passports issued in their names be protected. Refer to Department's 1632 of May 10 concerning Honduras, and 1993 of June 10 concerning Costa Rica, which we assume you have transmitted to appropriate Swiss authorities. A similar communication from Guatemala is on its way to you.

This government has been informed that a telegram was sent by Ecuador to Swiss Government early in May requesting safeguarding of persons claiming Ecuadorean nationality. It is also understood that similar instructions, with regard to persons holding Uruguayan documents, were cabled from Montevideo to Uruguayan Minister at Bern on June 15.

6. In connection with persons eligible for exchange, your attention is drawn to the problem of persons in enemy-controlled areas in whose names Latin American documents have been issued,

but who are not in physical possession of these documents because delivery has been impossible. In order that such persons may not be placed at any disadvantage because of circumstance beyond their control, please secure from available sources names, ages and last known addresses of such persons. On this subject please consult Sternbuch, Riegner, Saly Meyer, and other representatives of rescue organizations. Please notify Board when such list is secured, giving your views and informal opinion of Swiss authorities as to the advisability of making the same available to the Germans in an effort to protect such persons.

7. Please note that the term QUOTE German-controlled UNQUOTE territory or areas as used in this message and in all other communications dealing with protection of persons holding documents issued in the names of American republics includes Hungary. Should there be any possibility of doubt on this score, the Swiss authorities should be informed accordingly and requested to transmit said information to German and Hungarian authorities. In this connection, you are requested to inquire and report which American republics, if any other than the United States, are represented in Hungary and Switzerland.

THIS IS WRB CABLE TO BERN NO. 64.

HULL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern  
TO: Secretary of State, Washington  
DATE: July 13, 1944  
NUMBER: 4456

## CONFIDENTIAL

McClelland sends the following for WRB, from Curvic for Leo Wulmann, American OSE, 24 West 40th Street, New York.

We should like to know whether or not you are continuing to send medical packages to Soviet Russia for refugees there. All details possible would be appreciated. Is there possibility of contact on your part with Russian relief organizations with view to determining what became of transnistrian Jews and those of other areas which have been liberated? We should also like to be informed by cable whether it is possible to undertake rescue action on behalf of Hungarian Jews through medium of same organizations. Extremely important, particularly in organizing movement of refugees, consider enlisting support of these influential bodies.

HARRISON

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern  
 TO: Secretary of State, Washington  
 DATE: July 13, 1944  
 NUMBER: 4473

CONFIDENTIAL

McClelland sends following for WRB from Gerhart Riegner for the private and strictly confidential information of Nahum Goldmann, World Jewish Congress.

Czechoslovakian Minister Kopecky, Dr. Ullmann and I, having received most appalling news regarding situation of Jews in Hungarian dominated territories and deportation of 12,000 people daily, as well as detailed reports on death camps of Birkenau and Auschwitz, undertook a joint approach to International Red Cross on June 23, latter represented by Schwarzenberg as competent staff member, and Mr. Lombard member ICRC committee. Immediate action of Red Cross by any means was seriously urged with view to stopping extermination and deportation. Again on June 26, on basis of your various cables, we approached Schwarzenberg urging dispatch to Budapest of eminent Red Cross representative. Professor Guggenheim renewed demarche with Professor Burckhardt on June 30. Guggenheim called on Burckhardt on July 4 at latter's request and made energetic and serious representation warning Burckhardt of ICRC's responsibility and making clear to him the great dissatisfaction in Jewish circles with committee's great inactivity despite changed political situation and necessity of their rendering accounts when war is over. In particular he suggested personal handwritten appeal by Max Huber, ICRC President, to Horthy and dispatch of outstanding Red Cross representative, possibly one of their committee members, to Budapest at once, to do utmost last minute to save Jewry of Budapest at least. Promise to submit and recommend first suggestion to Huber was given by Burckhardt and latter also agreed to suggestion but stressed difficulties concerning visa for any of their prominent representatives to journey through Germany. Confidential information has been received to effect that on July 4 ICRC deliberated thoroughly on whole matter.

On July 10 learned officially from Professor Burckhardt that decision was made by ICRC on July 4 to dispatch handwritten letter to Horthy from its President Huber. This letter enumerated facts of anti-Jewish persecution and deportation which are known in Geneva and which documentation submitted by us included. Confirmation as to correctness of these facts was requested by the letter and also detailed reply eventually as to what is happening to people deported and where they are now. Equal offer was made in letter to dispatch special ICRC mission to Hungary which could be present at deportation, assist people with medicines and food, and supervise how and where people are brought to, and control what is happening to them at place of destination. On July 6

letter

- 2 -

letter was despatched to Budapest by special messenger. Please do not permit the publication of this information.

HARRISON

GEM-378

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

Ankara

Dated July 13, 1944

Rec'd 1:56 a.m., 14th

Secretary of State,  
Washington.

1271, July 13, 4 p.m.

FOR WAR REFUGEE BOARD FROM HIRSCHMANN.

Ankara No. 95.

I should appreciate it if you would take the necessary steps to arrange for the arrival in Turkey at the earliest possible moment of the two selected secretaries Miss Bixler and Mrs. Henderson. Their assistance is absolutely necessary in view of the pressure of activity here and further delay in their arrival will impair our efforts.

KELLEY

WSB  
CSB

## INCOMING TELEGRAM

DEPARTMENT  
OF  
STATE

division of  
communications and  
records

ARC-401

PLAIN

Bern

Dated July 13, 1944

Rec'd 4:55 a.m., 14th

Secretary of State,

Washington.

4468, thirteenth.

AMERICAN INTERESTS HUNGARY.

PESTER LLOYD article July 6th states on request  
Central Jewish Council, American and British Jews  
detained near central station moved to six villas in  
wooded suburban district; there bombed July 2. Legation  
awaiting detail Swiss report.

HARRISON

JJM

HTM

DEPARTMENT  
OF  
STATE

INCOMING  
TELEGRAM

274  
DIVISION OF  
COMMUNICATIONS  
AND RECORDS

PLAIN

EAG-260

London

Dated July 13, 1944

Rec'd 9:23 p.m.

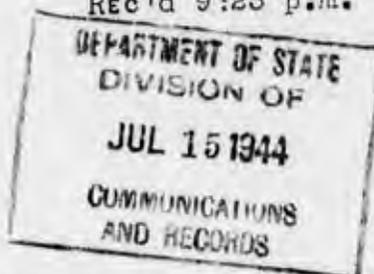
Secretary of State,  
Washington.

5547, thirteenth

FOR THE SECRETARIES OF STATE AND TREASURY

The London newspapers of July 13 report the Monetary Conference as follows:

The DAILY MAIL in an article by its New York correspondent reports that the conference has "reached a deadlock, with delegates anxiously awaiting a cable from Moscow which may resolve the situation". This writer states that despite all the preparations and efforts "the Conference is no nearer agreement" and goes on to assert that Russia's demands for an increase in its L 250 million quota, and a smaller gold contribution, followed by similar demands by other nations has produced "an almost childish situation ...in which the several countries vie with one another for increased representation on the International Stabilization Fund Committee as if this were a measure of their importance in world affairs" this article concludes by asserting that there



-2-#5547, thirteenth, from London

that there is growing pessimism that no stabilisation plan will be agreed on but only general principles defined at the present conference. He quotes a delegate who described the situation as "building a tower of Babel out of gold with each nation intent on using a different sized brick"

On the other hand, the only mention of the Monetary Conference in the DAILY EXPRESS is the following, which appears at the end of its "US newsfront" column: "With one week to go, it looks as if the United Nations Monetary Conference at Bretton Woods, New Hampshire will end after all in a spirit of agreement and harmony".

Robert Waithman in NEWS CHRONICLE "American Diary" reports Senator Taft's assertion that the plans will be rejected by Congress. Waithman opines that "his (Taft's) judgment has not been proved in the last few years to have been accurate"

Senator Taft's statements are also reported by the FINANCIAL NEWS at the end of its news item without comment; and by the TIMES Bretton Woods correspondent who opens his article by asserting that delegates "found it disturbing" when they read it in a New York newspaper; but this

-3- #5547, thirteenth, from London.

but this writer comments as follows: "There is no present reason to assume this to be the declaration of those whose duty it would ultimately be to shepherd through the Senate and the House any agreement reached here both on the monetary fund and the bank for reconstruction" this writer declares that the fund plan "after laboring through the committee rooms is approaching the home stretch" after having cleared the hurdles, while the bank project "now heavily weighted with amendments touching both substance and detail, is at least beginning". He reports that in some quarters talk of agreement in principle is heard "though it is difficult to discover what exactly this may mean" and expresses the opinion that the conflicting views seem, however, to be political rather than technical in origin. He further reports that an American spokesman said he had not been prepared for this but considerations of prestige, this correspondent asserts, "have been a factor in the deliberations from the beginning". He finds two things to have emerged clearly: "The first is that maximum agreement at the technical level is indispensable, and the

-4-#5547, thirteenth, from London

and the second is that without Anglo-American agreement at that level nothing effective can be done. Happily it is possible to report with reasonable confidence that the second of these conditions has, in substance, been achieved, with clear knowledge on both sides that its continuance is vital"

The FINANCIAL NEWS and FINANCIAL TIMES report statements by "spokesmen" that they are hopeful of formal approval of the fund today (FINANCIAL NEWS) or before the weekend (FINANCIAL TIMES). Both articles go on to mention the questions still not settled, namely, quotas, representation on the Executive Committee, gold contributions, and exchange rates. These newspapers also report the change in the Indian delegations stand on sterling balances, the FINANCIAL NEWS devoting a separate item to this news headlined "India gives way: both to back out of money fund: recognises Britain's sincerity". Both the financial papers quote the French Finance Minister's statement that "the Conference progressing favorable"

The DAILY TELE GRAPH correspondent Denys Smith discusses the bank plan declaring that the area of agreement is "far

-5-#5547, thirteenth, from London.

is "far wider than....differences" and that many of the suggested alterations are only to clarify the language. He states that "the American and British delegations are in general agreement that a borrower may secure a loan in any member country willing to lend, and may spend it in any member country willing to sell the capital goods required" he reports, however, that there is strong political pressure in the U S against this .

He thinks the British proposal for a flat uniform commission of say 1-0/0 on all loans will be accepted provided that provision is made that in certain cases special terms could be arranged

The sending of what is described as "virtually an ultimatum" to Russian representatives demanding a final answer on quotas, is mentioned in the TELEGRAPH the FINANCIAL NEWS and the DAILY MAIL.

WINANT

EDA  
EH

SECRET

OPTEL No. 228

Information received up to 10 a.m., 13th July, 1944.

1. NAVAL

HOME WATERS. 12th. All sailings to and from assault area resumed. One L.S.T. damaged by mine.

2. MILITARY

N.W. FRANCE. Advanced elements of U.S. Forces pushed south from LA HAYE DU PUIS, reached within 2½ miles of LESSAY and have taken VESLY and GERVILLE. Very strong resistance met in advance towards PERIERS and heavy armoured counter attacks driven off with considerable enemy loss. Advance on ST. LO continued and BERIGNY-ST.LO road crossed at several points. On British front very little change. Heavy fighting in area of HOTTOT and S.W. of CAEN. Extensive sabotage of enemy railway communications continues in BELGIUM as well as FRANCE. Telecommunications in BORDEAUX area are cut every three days and in some departments are being kept permanently cut.

ITALY. Enemy resistance continues stubborn and little change in situation. In centre our forces are within sight of GUBBIO.

RUSSIA. North of POLOTSK Russians have advanced to an average depth of 20 miles on a 90 mile front occupying railway junction 60 miles west of VELIKIE LUKI and forcing River DRISSA, N.W. of POLOTSK. Advance continues in Central Front, captures including TROKI (13 miles west of VILNA, RADUM (20 miles N.W. of LIDA) and ZELVA (50 miles west of BARONOVICHI).

3. AIR OPERATIONS

WESTERN FRONT. 12th. U.S. heavy bombers (25 missing) dropped 2,813 tons in blind bombing attack on MUNICH. 946 tons dropped on flying bomb supply dump THIVERNY and 76 tons on launching site in PAS DE CALAIS. 408 tons on fuel dumps, MT parks and railway bridge south of battle area. 620 fighters flew armed reconnaissances and standing patrols over assault areas and bridgehead destroying 12 enemy aircraft, 8 locomotives, 23 M.T. and 52 railway wagons.

12th/13th. Aircraft despatched: 4 Flying bomb launching sites - 232; 3 railway centres - 285; synthetic oil plant HOMBERG - 8; sea mining - 12. Bomber support, leaflets and diversionary sweep - 272. 2 bombers missing 11 outstanding.

SOUTHERN FRANCE. 11th. 179 tons on TOULON. 12th. Railway centre at NIMES - 433 tons, MIRAMES (N.W. MARSEILLES) 243 tons, railway bridges 153 tons. Enemy casualties 14, 4, 4 for 13 Liberators and 1 Mustang missing.

4. GERMAN ACTIVITY

6 a.m. 11th to 6 a.m. 12th. Flying bombs launched - 116, destroyed by fighters 25, by anti-aircraft 12, by balloons - 6. During 24 hours ending 6 a.m. 13th, 137 flying bombs launched.