

DIARY

Book 770

September 7-8, 1944

- B -

Byrnes, James F.

See Post-War Planning: Reconversion

Book Page

- C -

Correspondence

Mrs. Forbush's mail report - 9/8/44..... 770 222

- D -

Distillers (National)

See Liquor

- F -

Financing, Government

Haas memorandum on problems during next few months,
extensively documented with supporting data - 9/8/44... 151

War Savings Bonds: Stimson thanked for use of captured
enemy materiel and asked for more - 9/7/44..... 95

France

See Lend-Lease

- G -

Germany

See Post-War Planning

- H -

Hull, Cordell

Confides to HMJr his troubles within the Department -
9/8/44..... 120

Lend-Lease

FDR instructs that there shall be no individual departmental action after collapse of Germany - 9/9/44..... 770 232

a) State Department letter to FDR concerning negotiations now in progress with U.S.S.R. and France; understanding is these negotiations are to go forward - 9/15/44: See Book 772, page 27

1) State Department memorandum on French Lend-Lease Agreement - 9/11/44: Book 772, page 36

a) Hopkins message of transmittal to FDR in Quebec: Book 772, page 35

b) FDR asks HMJr to handle with Hopkins and Hull: Book 772, page 34

c) Treasury memorandum on status of French negotiations sent to HMJr in Quebec: Book 772, page 31

d) HMJr recommends postponement: Book 772, page 30

1) FDR OK's: Book 772, page 213

b) Discussion by Treasury group - 9/19/44: Book 772, page 214

United Kingdom: Aircraft despatched, weeks ending August 18 and 25 - British Air Commission report - 9/7/44..... 103

Liquor

National Distillers' desire to convert brands of straight whiskey into blends discussed by Treasury group - 9/8/44..... 125

a) Treasury memorandum (Sullivan, Gaston, and O'Connell) - 9/18/44: See Book 772, page 91

Post-War Planning

Germany

See also preceding books

"Suggested Recommendations on Treatment of Germany" Hull-HMJr conversation - 9/8/44..... 120

a) Quebec conference discussed; Hull hoped FDR would confine conference to military matters

Reconversion: Status of programs reported by Director of War Mobilization Byrnes - 9/7/44..... 107

Reconversion

See Post-War Planning

- U -

Book 770

U.S.S.R.
See Lend-Lease

- W -

Whiskey
See Liquor

September 7, 1944
9:10 a.m.

GERMAN SURRENDER DOCUMENTS

Present: Mr. Gaston
Mr. White
Mr. D.W. Bell
Mr. Pehle
Mrs. Klotz

H.M.JR: (Reads from letter to Mr. McCloy, attached):
"Besides the general tone of the documents--"

DR. WHITE: It needs a comma after "documents."

H.M.JR: That doesn't even do it. Do you think
it is all right if you have a comma there?

MR. GASTON: Is it documents, plural, or one docu-
ment?

DR. WHITE: Two.

H.M.JR: What about that last part? You criticize
it, but you don't say anything.

MR. PEHLE:.. The Proclamation?.....

H.M.JR: "I should also like to point out that in
my judgment, it would be most unfortunate if Proclama-
tion I is permitted to be issued as presently drafted."
I should leave out the next sentence.

DR. WHITE: That is Proclamation I which he publishes
as soon as he goes in.

MR. PEHLE: Just say, "This Proclamation begins with
the following lines:"

MR. BELL: Is the Proclamation part of the document
you referred to in the previous pages?

DR. WHITE: Yes.

MR. BELL: You say they ought to be rewritten, don't you?

DR. WHITE: Well, we wanted to call attention to that particular one, because we all felt that should be rewritten at once.

MR. BELL: I was answering the Secretary's criticism that you didn't comment on Proclamation I. Isn't that part of the document on page one that you say should be rewritten and reviewed here?

DR. WHITE: Yes. In fact, it was up nearer and we moved it toward the end.

MR. GASTON: Don't you think you ought to have a sentence after that quote there to close up your letter and point out the fact that in that one sentence--

DR. WHITE:that you have come to liberate Germany from Naziism?

MR. GASTON: That is the point. Don't you want to say that in a sentence or two?

DR. WHITE: Yes.

MR. BELL: ...There is one sentence on page one. I'd like to ask about--third paragraph, second sentence: "The general tone of these documents is still not in accord with the view of this Government." This is the Secretary of the Treasury speaking. Is that right, in view of your conference yesterday?

MR. PEHLE: We can say, "We understand--" if we want to.

MR. BELL: Do we know what the policy of this Government is, yet?

H.M. JR:"with the view of this Government."

- 3 -

MR. PEHLE: "As we understand it--".

MR. BELL: You would say, "In my opinion," or, "In the opinion of this Department."

H.M.JR: "As I understand it."

I'd like to throw a sentence in. This second attempt at doing the Handbook ought to convince everybody that this thing must be done here in Washington.

DR. WHITE: I think it should be done here in Washington.

H.M.JR: I'd like to throw two ideas into this picture; one, that this must be done here, because evidently the people abroad that you have picked in AMG do not represent the attitude towards Germany that has been expressed in various discussions which have taken place during the last ten days.

DR. WHITE: Well, the unfair part of that is that they should have received directives, and they haven't. That is the fault here; not there.

H.M.JR: Then I'd simply say I think that the job should be done here.

DR. WHITE: I think we can work that in where we say we think it should be reviewed here. In fact, we can say we think it would save time if it were done here.

H.M.JR: Yes. Now, I think I'd say something like this, that nothing can demonstrate more the need of a clear directive as to our attitude towards Germany than the Proclamation which was drafted for Eisenhower to issue - Proclamation I. "And may I suggest that this Proclamation be completely done over here in Washington." That is the way I would approach it.

DR. WHITE: The rest of the Proclamation refers to details of technical character, so we might suggest a re-write right now.

- 4 -

H.M.JR: Yes.

MR. PERLE: You mean rewrite it ourselves?

H.M.JR: Sure, and I am suggesting that.

MR. WHITE: Say it is a possible suggestion that would be more nearly in accord with what we think the policy is.

H.M.JR: How soon can we get over the part of the leaflet with those suggestions? That comes next.

MR. WHITE: That is next. (Refers to Flyleaf attached)

H.M.JR: Look, gentlemen, might I suggest renumbering these things? I could like number four, one; number five I would make number two; I would make number seven, three; number six I would make number four; and then one would be five; two would be six; and three would be seven.

MR. WHITE: We tried to keep their order; that is why the one, two, and three is in that order. Do you want to put that emphasis - that number one would be--

H.M.JR: Sure. That would please Stimson, do you see? That is the way he puts the emphasis. I mean, if Stimson sees this economic thing, he won't read any further than that. Number one is your objective; number one is apprehension of all officials. I would do it - five, six, and seven.

MR. WHITE: I would suggest, Mr. Secretary, that seven be last because it applies to everything.

H.M.JR: Last? That is all right. I accept that. Make seven, seven. As to the context of it, I compliment you people.

MR. WHITE: We would like you to focus on a couple of things they are going to object to.

H.M.JR: That is all right. I know about it.

- 5 -

MR. WHITE: One of the things I might mention, that we learned from the Germans who were here - at least it was their opinion - McCloy and Hilldring took the view that the SS, which includes what is called the Waffens SS - the troops who do the fighting - they say they are just soldiers and shouldn't be treated as SS; the Germans think that is errant nonsense. They say those SS were SS before they were soldiers; that they are the pick SS who were thrown into the line to bolster up the others; and that they are primarily political SS.

MR. GASTON: Yes, I think they are the younger, more physically able-bodied.

MR. WHITE: Tougher, more fanatical - more gangster. To leave them out is to leave the kernel out.

H.M.JR: It is like the story he told. They all sat around the room - who would be punished? When it came to diplomats being punished, the State Department said, "Oh, oh, that is a bad precedent." When it came to newspapermen being punished, they said, "It couldn't affect the freedom of the press." Finally they said, "My God, we forgot the lawyers."

MR. PEHLE: In the excerpts you will find a statement about the lawyers that is the most ridiculous thing I ever saw in my life. (Refers to list of excerpts, attached)

H.M.JR: Stimson pulled an original thing. He got on this thing about the economy; he asked the President if he had heard the definition of an economist. He says it is a man who has on one end of a watch chain the Phi Beta Kappa key, and on the other, no watch! Is that original?

MR. WHITE: It is to me. I shall use it!

These excerpts seemed to impress us as being good illustrations, but I think we ought to go over them, because I am not sure others will react the same way.

H.M.JR: Excerpts from Handbook II?

- 6 -

MR. WHITE: Handbook and directive. We picked them from both.

H.M.JR: What is the matter with the impounding of the radio?

MR. PEHLE: ...by the German police.

MR. WHITE: They were going to have the German police arrest everybody.

MR. BELL: These are just excerpts?

MR. PEHLE: That is right.

MR. BELL: By "the rest of the bar" - you mean the legal profession?

MR. PEHLE: Yes.

H.M.JR: This on page two, "...Supreme Commander to provide for the restoration and control of transport facilities--" I suppose it is the restoration. That is all right.

Look, I think, instead of studying this thing cold, I think you ought to get McCloy on the telephone and ask him when he could see some of you boys, and when he wants to come over here, and how he wants to do it.

MR. WHITE: On the flyleaf?

H.M.JR: Yes.

MR. WHITE: You just want to send a copy over?

H.M.JR: That isn't enough; that is too cold.

MR. WHITE: Some of these are really subtle and have to be pointed out.

H.M.JR: I am not going to take the time. I know what you people are doing. I am in good shape today to take this on myself with him.

MR. GASTON: McConnell has a couple of copies of the book which is to be published by Brookings Institute in the next few days.

H.M.JR: By a Frenchman.

MR. GASTON: And Harold G.Moulton of Brookings. Have you seen it?

H.M.JR: No, but the Frenchman came in last night at supertime at General Greenbaum's to give him a letter. He said, "Oh, I have just sent you my book."

MR. GASTON: I think you would do well to look at that book, because I think it is a book which talks about the impossibility of doing anything important to prevent the Germans from rebuilding. I don't think it is mere failure to find out what can be done. I think it is deliberate sabotage. I think the purpose of the book is to create the feeling that we cannot do anything to prevent the economic rebuilding in Germany. I think it is deliberate propaganda.

H.M.JR: I will have to see that.

McCloy is on the White House phone. Why don't you people get this started. I will try to get an appointment at which I can be present with McCloy to go over this leaflet. I think it is important enough.

Is that all?

MR. WHITE: I have a memorandum here which we can improve. I am only suggesting it to you - if you wanted to use it this morning when you are talking with Hopkins - this is "Is European prosperity dependent on the continuation of German industry?"

That is a hurried job, and we can do a better job on
it.

H.M.JR: I am anxious that you fellows get those letters
redrafted.

I will read this thing.

11

September 7, 1944

Dear Jack:

We have redrafted the proposed flyleaf in the draft cable to General Eisenhower. We believe that as redrafted, the flyleaf will tend to avoid serious misinterpretations of the Administration policy with respect to Germany. The redraft is appended.

We have returned to the War Department this morning the Directive and Handbook received last night from Major Beettiger. In the brief time available, we have made an examination of these documents and have the following comments.

We agree with you that the Directive and Handbook, although improved, are still unsatisfactory. The general tone of these documents is still not in accord with the view of this Government. Civil Affairs Officers and military personnel operating under the guides of the Handbook and Directive cannot but help perform many functions which it is not intended they should perform, and fail to perform other important acts which should be performed. The material included on the flyleaf, even as redrafted, only partially remedies this defect.

Besides the general tone of the documents a great many of the specific provisions are unsatisfactory. Examples of some of these provisions are included in the appended list.

Accordingly, we agree that the Handbook and Directive should be re-written as promptly as possible and we suggest that these documents be reviewed in Washington prior to adoption. If, because of military expediency, it is necessary to put such documents in effect immediately, the existing documents with the flyleaf suggested could be used in the interim period.

- 2 -

I should also like to point out that in my judgment, it would be most unfortunate if Proclamation I is permitted to be issued as presently drafted. This Proclamation sets the tone of the military occupation in the following language:

"The Allied Forces serving under my command have now entered Germany. We come as conquerors; but not as oppressors. In the areas of Germany occupied by the forces under my command, as in other countries liberated from the horrors of Nazi Tyranny, we shall overthrow the Nazi rule, dissolve the Nazi Party and abolish the cruel, oppressive and discriminatory laws and institutions which the party has created. Party leaders, the Gestapo and others suspected of crimes and atrocities will be tried and, if guilty, punished".

Very truly yours,

Secretary of the Treasury

Honorable John J. McCloy,

Assistant Secretary of War.

Enclosure

9-6-44

PROPOSED TEXT OF FLYLEAF

1. No steps looking toward economic rehabilitation of Germany are to be undertaken except as may be immediately necessary in support of military operations. The Allied Military Government shall not assume responsibility for such economic problems as price controls, rationing, unemployment, production, reconstruction, distribution, consumption, housing, or transportation, or take any measures designed to maintain or strengthen the German economy, except those which are essential to military operations. The responsibility for sustaining the German economy and people rests with the German people with such facilities as may be available under the circumstances.

2. No relief supplies are to be imported or distributed beyond the minimum necessary to prevent disease and such disorder as might endanger or impede military operations.

3. Allied forces shall not be concerned with restoring any physical destruction caused during hostilities, except as absolutely essential to military operations.

4. It shall be one of the important objectives of military government to remove immediately from all government office and leading positions in industry, banking, education, judiciary and other public services members of the Nazi party and active supporters of Nazism. These shall be removed forthwith without regard to administrative or other expediency.

5. Another important objective is the immediate apprehension and detention of (a) all officials of the Nazi party down to secretaries of local party units, (b) all members of the Gestapo and other security organizations, (c) S.S. (including the Waffens SS.), (d) all high officials of the police, the S.A., (e) all high government officials and leading public figures identified with Nazism.

6. Military administration shall be directed toward the promotion of the decentralization of the political structure of Germany. All dealings in so far as possible should be with municipal and provincial government officials rather than with Federal government officials.

7. It is vital that every violation by the Germans of orders of the Allied Military authorities, however slight, be punished immediately and with severity. Any tendency toward leniency will be misinterpreted by the Germans as a sign of weakness.

7-0-44

Fire arms, ammunition, explosives and radio transmitting equipment in the possession of civilians will be impounded by the German police.

With regard to the rest of the bar, the standard to be generally applied should be one of professional integrity. Attorneys in Germany have traditionally been free to hold their own political beliefs and this freedom should be respected, provided that adherence to Nazi ideology has not led to a lowering of professional standard.

Prevent activities of all party organizations except those which may be required to continue to function for administrative convenience.

As to other officials, the general rule should be that no holder of office in the Nazi party organization should be continued in a governmental position unless there are compelling reasons for his retention.

In general, the entire Nazi leadership will be removed from all posts of authority and no permanent member of the German General Staff or of the Nazi Hierarchy should occupy any important government or civil position. Even the lesser Nazi officials will not as a rule be employed, but Army Group Commanders may make exceptions on the grounds of expediency or administrative necessity.

You will re-establish existing forestry control agencies and direct them to proceed with needed timber cutting operations so as to obtain maximum results.

Military Government in Germany will have to deal with Public Welfare programs and organizations which have a long historical development, employ a large number of persons, expend a substantial portion of the National Budget, are considered by the Germans to be extremely important and touch intimately the lives of almost every German. Because of their importance, it is imperative that they be rigidly controlled and utilized to facilitate the orderly functioning of Military Government by preventing a general breakdown of civil life, maintaining the working capacity of the civil

population, caring for those elements of the population unable to care for themselves and restoring reasonable conditions of life for the civilian population.

All Nazi leaders and other persons named or designated by rank, office or employment will be apprehended and surrendered into the hands of the Supreme Commander's representatives; the same shall apply to any national of any of the United Nations who is alleged to have committed an offence against his national law. The primary responsibility for apprehending and surrendering such persons will rest with the German authorities (sic) without prejudice to the rights of the Supreme Commander.

It is the policy of the Supreme Commander to provide for the restoration and control of transport facilities and services in GERMANY including railways, road transport, inland waterways as well as Ports and merchant shipping in order to attain all military objectives and to meet such essential civilian transportation requirements as the military situation will permit.

As soon as possible after occupation, the German authorities will be directed to check consumers through re-registration, or by calling in outstanding ration cards for re-stamping or replacement.

All special relief, pensions, and privileges, other than regular military pensions, granted to members of Nazi military or para-military organizations shall be terminated, and such members shall be entitled only to those benefits granted to all German nationals.

The para-Military organizations listed below (SA, SS, etc., etc.) *** will in due course be dissolved. * * *
No further recruiting is permitted.

September 7, 1944
9:41 a.m.

John
McCloy: Sorry, I was on the other phone.

HMJr: I suppose -- I didn't ask, but I suppose you were talking with Hopkins.

M: Yeah, I was on the phone with Harry Hopkins.

HMJr: Now, look, in about a half an hour

M: Yes.

HMJr: or an hour, we will have our suggestions as to what's to go into that fly leaf.

M: Oh, good.

HMJr: Now, I'd like to go over that with you myself.

M: Right.

HMJr: And anybody else that is working on it with you.

M: Well, I'll bring Hilldring.

HMJr: That will be wonderful. Well, when could you come?

M: Well, I've got -- I've got a meeting at ten o'clock. It's very difficult for me to get out of but it won't take more than fifteen minutes. And then I'm free for the rest of the day.

HMJr: Well, I'll tell you, Hopkins is coming over to see me at ten.

M: Yes.

HMJr: And if he will stay that long, I would like to have him here when we go over it.

M: Okay.

HMJr: How would that be?

M: That will be okay.

HMJr: I mean, I -- has he seen this?

M: No, I don't think he has ever seen this.

HMJr: Well, I think it would be helpful.

M: Yeah.

HMJr: And so, if when you and Hilldring are through, if you'll come over

M: Right.

HMJr: I'll try to hold Hopkins.

M: You try to hold him and then when -- then we'll be along as soon as we can.

HMJr: And then instead of writing you a -- I've written you a formal letter but, I mean I think we could come to an agreement

M: Right.

HMJr: in the room here.

M: Right. Fine.

HMJr: How's that?

M: That's good. When are you going to see the President?

HMJr: Well, I've got a request in now on this exchange thing.

M: That's what I mean.

HMJr: I've made it most urgent.

M: Yeah. Yeah.

HMJr: And Watson said he couldn't talk to him last night. He was going to try to ask him this morning.

M: Yeah.

HMJr: But I couldn't make it any more urgent than I have.

M: Okay.

HMJr: But when I see him, I don't know.

M: Yeah.

HMJr: But I certainly emphasized the urgency of it.

M: Right. Okay.

HMJr: Thank you.

M: All right.

September 7, 1944
10:30 a.m.

REVISION OF GERMAN SURRENDER DOCUMENT

Present: Mr. D. W. Bell
Mr. White ✓
Mr. Gaston ✓
Mr. Pehle ✓
Mr. McCloy ✓
Mr. Hopkins ✓
General Hilldring ✓
Major Boettiger ✓
Mrs. Klotz

H.M.JR: Now in talking this thing over with Mr. Hopkins, he raises the point that if there are a dozen or so objectionable things in this handbook which we would like to point out, couldn't those be changed here?

GEN. HILLDRING: We could tell Eisenhower to change them, Mr. Secretary.

H.M.JR: I think the first thing to start with is our suggested changes for the flyleaf.

MR. McCLOY: You understand the situation. If he brought the draft over here or sent a draft over here, we wouldn't have seen this draft in the normal course, in any event. We send him his directive, and then he acts in accordance with that directive, but he was lacking a directive so he started out on his own.

Now, we have had this to-do about this handbook, and he has seen the draft of the handbook here, which as I understand it, although it has had many modifications since the one that you saw, it is still, in our judgment, not adequate to meet the situation. But Eisenhower screams for a handbook because he wants something right away. So we are trying to patch up a job for an interim period so that we can let him go, taking the factual data in the main, which is in that handbook, and the warning on the

- 2 -

flyleaf that he is not to do anything that contravenes these general ideas, so that he can have something to send out immediately to people who are today in Germany. The idea that we can patch it up, as I say, whenever we--

H.M.JR: That is the procedure we have been working on. Knowing you had time, I thought if you came over here, rather than back and forth, we would have to come to an agreement.

MR. McCLOY: But the complete revamp of the handbook is another process.

H.M.JR: There are two things we would like to show you. One is suggestions for the flyleaf, and two, Proclamation One for Eisenhower which we think is God awful and should be rewritten, the one that Eisenhower was to issue. I think it is just God awful. Now, if you could get together on that, that sets the tone for the whole thing.

MR. PEHLE: It is in the directive, Mr. McCloy. Here is a copy (hands copy of directive to Mr. McCloy).

MR. McCLOY: The handbook or the directive--

H.M.JR: Do you want to do the proposed text of the flyleaf first?

MR. McCLOY: Yes, all right.....

(Dr. White distributes copies of attached Flyleaf text.)

MR. HOPKINS: Do you mind discussing this paragraph by paragraph?

H.M.JR: That is perfectly all right. You don't like it?

MR. HOPKINS: It looks all right to me. Is this the same as you fellows want?

MR. McCLOY: We don't know yet. Well, I have these thoughts about it. I think you have confused two things here pretty clearly. We are not at this minute writing a directive for Eisenhower. We are trying to do that on a

- 3 -

parallel line. There are a number of things that we have to work out on the directive procedure before they can be incorporated in our instructions to him on this handbook. Later on there can be a handbook prepared which will conform to the directive, but there are a number of principles that we have to debate out, particularly not only among ourselves, but with the British, before we can tell Eisenhower to put these into this immediate handbook. If there is anything in the handbook which is contrary to what we know we are going to put into effect, we are going to try to correct it on the flyleaf.

Now on one--the substance of one we tried to cover in our flyleaf; there is one point, however, in connection with that that we don't feel we should go quite as far as you suggest. But we can come back to that. That is this business of the removal of all members of the Nazi Party who are mere stenographers and people who are by force compelled to hold their jobs, and whom you can't throw out and immediately replace. All active members, or all officials--I would limit the instructions that you have in one, the entire elimination of every member of the Nazi Party. It is the same problem we had with the Fascists in Italy.

H.M.JR: What you didn't do in Italy is what I had hoped to do in Germany.

MR. McCLOY: Oh, well, there may be arguments as to how far down you should go, but we can't undertake to eliminate immediately every member of the Nazi Party.

H.M.JR: Why not?

MR. McCLOY: Because there are too many of them; I think there are thirteen million.

H.M.JR: Oh, no, the top figure I have heard is five.

MR. McCLOY: Well, I don't know. I have heard there are thirteen million; there are all sorts of grades, but one way or another they are all affiliated with the Nazi Party. They consist of stenographers, laborers, and clerks.

If we could find enough to merely stick them in, it might be a good idea. But we have a real manpower job. We are going to run a country. We are going to run an entire nation, and we haven't the officers to do it, nor have we immediately the means of finding out who the other fellows are. You have a practical problem to deal with.

H.M.JR: You don't mind if I don't agree with you?

MR. McCLOY: No, but I am telling you from my practical military administration experience that we have something to deal with there, and I can't tell Eisenhower that he must do something which is impractical. The Combined Chiefs of Staff can't, unless we are ordered to do it. We will do a thorough job of cleansing and purging, but--

MR. WHITE: Aren't you exaggerating somewhat the difficulty you will have? You will have a terrific amount of unemployment in Germany merely by virtue of the circumstances. There will be lots of people looking for jobs. You are not taking people out of jobs that they have for private industry, you are merely taking them out of important jobs, leading jobs, and government jobs. Now, the number of people who work for the government--

MR. McCLOY: Does it say so here?

GEN. HILLDRING: All government offices.

MR. WHITE: The number of people who work in the government are much smaller than the total Nazi Party in the first place. And in the second place, you will be able to replace a lot of them. In the third place, the government is going to break down in a great many spots and you are not interested in a great many government activities; so to be sure, you are not going to run nearly as efficiently as would be the case if you left the services there. But isn't it more important to start off by ruling these fellows out than it is by obtaining a little more administrative efficiency in the government, not in military operations, but in government.

- 5 -

GEN. HILLDRING: The most important thing, Doctor White, is to beat the German Army. That is the most important thing to do now from our point of view.

MR. WHITE: That goes without saying.

GEN. HILLDRING: Then follow the political objective to the extent that we can without precipitating chaos. It seems to me that as Eisenhower is moving in the future in a hostile territory he is going to be confronted with the most difficult problems behind these lines that he has yet encountered, and it seems to me that if he deliberately undertakes in each village he goes through to destroy all governmental authority, which is what he will do, because all these office-holders are Nazis, he is going to be contributing chaos, fomenting it behind his lines, because he is not going to have any governmental organization at all. He is not going to have anything in the Gemeinde. He is just going to destroy it as he proceeds under this directive.

MR. HOPKINS: This document refers to that.

GEN. HILLDRING: Yes, sir, and it is a formula for that paragraph, as I read it, a formula for creating pandemonium behind his lines, which I think is going to be a very great handicap to Eisenhower in defeating the German Army, which is really what his first job is.

H.M.JR: Look what you sent over here yourself, "Under no circumstances shall active Nazi or ardent sympathizers be retained in office, nor shall any Nazi organization be permitted to continue in existence for the purpose of administrative convenience or expediency."

MR. McCLOY: That is right. That is different from what you said.

H.M.JR: What is an active Nazi or ardent sympathizer?

MR. McCLOY: That is the fellow you are really trying to get, the fellow you are really shooting at, and not the innocent.

- 6 -

MR. WHITE: That is an important misunderstanding, Mr. Secretary. I thought this was phase two. Phase two is after the cessation of hostilities.

MAJ. BOETTIGER: This phrase, "Ardent sympathizers" comes out of the suggestions made by the Treasury Department.

MR. WHITE: It can.

MAJ. BOETTIGER: The Treasury's phrase, "Under no circumstances shall Nazi officials or ardent sympathizers be retained in office even if it be necessary to sacrifice administration to obtain the objective"--we picked up the Treasury's language.

MR. McCLOY: That is a very good argument, but it is sound, irrespective of that.

H.M.JR: White, now that you know this is phase one rather than phase two--

GEN. HILLDRING: What we are trying to do with this handbook, Mr. Secretary, is to give Eisenhower something to put in the hands of his troops today--tomorrow at the latest--to cover the breach until the hour has arrived when we back here have decided what our governmental policy is with regard to the treatment of Germany for the long pull and have gotten that coordinated with the British. This is purely to breach that gap until we can give him a possible surrender document. What we want to do now is to give him an interim document--handbook--that is in general line with that to the extent that we can in the absence of firm directives. Do you see?

H.M.JR: Is this phase one or phase two?

GEN. HILLDRING: Phase one, sir; it is the book that he is going to use tomorrow and the next day.

MR. HOPKINS: And until Germany surrenders.

MAJ. BOETTIGER: As I indicated to you yesterday, he has these handbooks in France with him now and is anxious to put them in the hands of the soldiers.

- 7 -

GEN. HILLDRING: He is in Germany; he has Civil Affairs officers there and they have no guidance, no books.

MR. WHITE: That can be modified in such a way as to take care of the General's points and Jack's very cleverly with some minor modification by saying, "Except where the military necessarily requires otherwise."

H.M.JR: Would that help any?

MR. McCLOY: Well, the point is--

H.M.JR: Look, could we work this way, if it is agreeable to you? I have to leave here in ten minutes. I have an appointment with the President on this exchange rate. I will leave you people here, if you are willing, and I will come back and give you the good or bad news. My thought is, I have nothing as important as this. I will stay with this until we come to an agreement. How is that?

MR. McCLOY: Fine.

H.M.JR: We never do have our own way; we will give and take. Is that all right?

MR. McCLOY: Fine.

H.M.JR: As far as you are concerned, by the time you leave here you will know where you stand on the mark, and we will come to an agreement on this.

MR. HOPKINS: It seems to me that this alters this a great deal. If this document as it is is for Eisenhower to use up until Germany falls, then I do not think you can take a lot of other things here which relate to this post-war directive.

Now let me ask you this, Jack: Should that post-war directive, as far as the U.S. side is concerned, be finished by Saturday noon?

MR. McCLOY: Yes, we ought to finish it as far as we are concerned and then negotiate with the British.

- 8 -

MR. HOPKINS: Do you negotiate with the British here?

MR. McCLOY: Yes.

MR. HOPKINS: Would you visualize your negotiations with the British finished by the week end?

MR. McCLOY: We ought to be able to begin Monday. I don't know. It depends on how long we take with the Treasury on the directive itself, because the day after we do that we can begin with the British.

MR. HOPKINS: You mean by the directive, this thing we are talking about now?

MR. McCLOY: No, this thing. (Points to directive.)

MR. HOPKINS: I am assuming this handbook will be finished this morning. That piece of paper you gave to me, when do you want anything I might have to say on that, tonight, six o'clock tonight?

MR. McCLOY: Yes, that is right.

Then I want to get just as quickly as I can the Treasury agreement.

Then I want to go to the British and begin my regular negotiations with the British, at which you can have your representative on my committee to dicker with.

H.M.JR: How fast is Mr. Hull going to work?

MR. McCLOY: There will be no problem with him. It will be sooner than I get through with you.

H.M.JR: I have been getting so many compliments these last few days.

MR. HOPKINS: Look out for that.

MR. WHITE: Harry, this all can be taken through by putting in the phrase there in each one of these, "Excepting

- 9 -

requirements of military necessity." That is all you need. But there is a lot that goes on behind the lines that I think they would agree cannot be closely related to military necessity. The same thing is true in Italy. There is fighting in one part, and the rest of it is quite different.

MR. HCPKINS: I assure you that until this damned German outfit gives up Eisenhower isn't going to be brought in on this thing. I think he will do all he can to implement that directive, but God almighty, they will be fighting like hell, and Eisenhower isn't going to waste much time thinking about this in terms of the battle. He will be thinking about it in terms of this post-directive thing very much.

MR. WHITE: Yes, but others can think of this; he has a whole staff.

MR. HOPKINS: Don't you think you get pretty good protection right there, in those reservations?

MR. WHITE: I don't think it is good enough, no, without again interfering with the military efficiency, because that is always the choice.

MR. HOPKINS: You mean put that language in all the way along.

MR. WHITE: But it is not him, it is the whole Civil Affairs staff that he leaves behind.

MR. HOPKINS: I think you are going to get an argument over this thing, number four. It seems to me that that thing ought to be argued out in this post-war directive which you are going to get at in the next twenty-four hours.

MR. WHITE: It is much more important.

MR. HOPKINS: As I see it, it is the most important document.

GEN. HILLDRING: With respect to this paragraph four, Mr. Hopkins, we couldn't get any Britisher in Washington

- 10 -

to decide that. He would say, "Well, God, that has to go to the Prime Minister.

MR. HOPKINS: Could I see that Eisenhower speech that you say is so terrible?

MR. McCLOY: Mind you, that is not a post-surrender directive.

MR. HOPKINS: But when does he make this speech?

MR. McCLOY: That is supposed to be the first proclamation that comes out.

MR. HOPKINS: Comes out when?

MR. McCLOY: When he comes into Germany.

MR. HOPKINS: That is not what he said the other day over the radio.

MR. McCLOY: No, this is a draft. I never saw it before.

MR. PEHLE: It is in the interim directive.

GEN. HILLDRING: Yes, sir.

MAJ. BOETTIGER: No sir, it is not in the interim directive; it is in General Eisenhower's directive.

MR. PEHLE: What does it say in front of that directive?

MAJ. BOETTIGER: It is from General Eisenhower to the Army Commanders.

MR. McCLOY: Now, I can't send a directive to General Eisenhower today which instructs him to do number two, nor can I send him a directive today which instructs him to do three or four. Five, yes; six, yes. Seven is something for him. To take the time to punish violations of his own orders is something you just don't do in military philosophy. It is like having General Marshall saying,

- 11 -

"This order shall be obeyed; and if it isn't obeyed, you shall be punished."

MR. WHITE: The significance lies not in General Eisenhower or the under-staff, it is that the Civil Affairs staff treats this as a bible. They look it up, their policy is shaped by it, they are influenced in their actions by it.

MR. HOPKINS: I have two criticisms in this Eisenhower speech. I certainly wouldn't say, if you can help it, that the courts are out. And the last sentence says, "Closing the criminal and civil courts;" he could say that later. And there it seems to me where you say, "All officials," you tell everybody to stay at their jobs, when actually he is going to throw them out right away.

MR. McCLOY: He says, "Until further orders--"

MR. HOPKINS: I just think you are going to get in a jam. If Eisenhower makes a speech to say all Nazi officials are going to stay on their job, the first thing the newspapers are going to crack at is, "What do you mean? Is Eisenhower going to keep all these Nazis in office?"

MAJ. BOETTIGER: If you don't do it, people will scatter. That is the only way you can get them all to stay there.

MR. HOPKINS: Just think of your publicity kickback on that.

MAJ. BOETTIGER: If he says, "I am going to"--well, we will talk about that.

(The Secretary, Mr. Hopkins, and Mrs. Klotz leave the conference.)

MR. WHITE: That does not refer to the interim document, does it? If it is clear in your mind and clear in their mind, I say that reading that document and reading anything that appears in that document, there is nothing to indicate that that doesn't continue until the Allied Commission. On the contrary, it says specifically it shall.

- 12 -

MR. McCLOY: But look, Harry, we are going to take care of that. We are going to take care of it tomorrow. The immediate thing we want to do is to serve Eisenhower's cry for a handbook. There isn't any fundamental principle there.

MR. WHITE: Look, Jack, if it is a question of a week or two or three, we don't give a damn what they do in time of battle.

GEN. HILLDRING: That, Doctor White, is what we are trying to prove.

MR. WHITE: We are interested in the administration of civil affairs

MR. McCLOY: Let's say, "Eisenhower, you have what you want; go ahead, and don't hold it up. Tomorrow let's get down to the guts of this thing."

MR. WHITE: Speaking for myself, Jack, the important thing, as you have already indicated, is an interim document will replace this, and make clear that it goes into effect the minute major hostilities cease; that is, assuming the thing is not going to collapse tomorrow. And if it does, you can send a cable saying, "Do this until you receive more detailed directions."

MR. BELL: With that explanation, why can't we change that document around?

MR. McCLOY: Why don't you do this, Dan: Why don't you just, say, take your suggested change in the flyleaf and go off and cable it to Eisenhower?

MR. WHITE: Would it be possible to do this, or is it desirable or feasible, bearing in mind that this directive will be replaced by another one to take its place? If they knew this was merely for during the fighting phase--

MR. McCLOY: We can certainly say that.

GEN. HILLDRING: Oh, yes, indeed.

- 13 -

MR. WHITE: For example, I will tell you why it would be absurd for us to cable that, because supposing the fighting takes on a character in which a fourth of Germany comes under control of the American Army and they are operating under this fighting objective. I am sure that they will listen to our views. We think that in these areas they ought to be functioning under a somewhat different document. There is no difference.

MR. McCLOY: That is right.

MR. WHITE: But our misunderstanding cropped out of the reading of the directive.

GEN. HILLDRING: Of the handbook.

MR. PEHLE: These were written with more than the wake of battle in mind. They were talking about the possible surrender, though you don't want them to use it that way.

MR. WHITE: I can speak for myself; there should be no difference.

MR. McCLOY: Let us put those three things in there and get the thing moving.

MR. WHITE: That is all right. You see, there is another thing there; you say "military operations," another thing that threw us off in the document. I remember that I commented on it. Somebody added the word "occupation." I thought what they meant by that "occupation" was after military operations ceased, because otherwise it seemed to me that they include everything under the term "military operations," because as long as an army is fighting I gather it is a military operation, as distinguished from an occupation when the fighting stops. That came up last night, and I said that they must have in mind applying this to a later period. So if you delete the penciled word "occupation," it would seem to be a little clearer that what you have in mind is the fighting stage. And if you added that other statement--I don't give a damn what you put in or what you have there--personally, I would approve in a moment.

- 14 -

MR. GASTON: I take it that right behind the armies, the American and British, the Allied Civil Government officials will be pretty active, won't they? They will be pretty close to the armies. You won't be leaving much authority and power to the Germans in there?

GEN. HILLDRING: We will establish a complete military government where the military authority is supreme.

MR. GASTON: Then if this thing hangs fire, which, of course, we have to consider possible, so that you have a situation of three, four, or five months in which we have a very considerable area that requires civil government, as Harry says, the thing could be re-opened.

MR. McCLOY: We are going to do that right away.

GEN. HILLDRING: We hope to do that starting tomorrow.

MR. WHITE: I think what Herbert is pointing out is that it is like the Italian situation, what does the southern half of Italy have to do with the military situation?

MR. GASTON: If we should be hung up there.

MR. McCLOY: Oh, we will change that, too. We are going to change this damned handbook. We are going over the handbook with a fine-toothed comb.

MR. GASTON: I think we are being too damned particular.

MR. PEHLE: We are all agreed with that.

GEN. HILLDRING: I think it would be a good thing, John, to put in this cable to stamp these books "Pre-surrender handbooks," or "Pre-defeat handbooks."

MR. PEHLE: That would go a long way.

MR. WHITE: "Pre-defeat"--is a surrender a defeat?

MR. GASTON: I wouldn't hand anything to an American soldier that says "Defeat instructions," or "Pre-defeat instructions." From our point of view it is victory.

- 15 -

MR. WHITE: That is why I thought it could be encompassed under defeat.

GEN. HILLDRING: We have used the jargon, "Pre-surrender," and "Pre-defeat." They know what we mean.

MR. McCLOY: This isn't anything that goes to the soldiers.

MR. GASTON: How far does it go, Civil Affairs officers, commanding officers?

MR. McCLOY: Yes.

MR. WHITE: If you stamp it that way and you could see your way clear to deleting "occupation," we will--

MR. McCLOY: How about deleting "occupation"?

GEN. HILLDRING: We have no objection to that.

MR. McCLOY: I stuck in the word "occupation" on that because I had this idea.

MR. BELL: It is in both places, in one and two.

GEN. HILLDRING: Was it added by them or us?

MR. McCLOY: It was added by me.

- 16 -

MR. WHITE: Jack, I think we thought that it therefore was to apply--

MR. McCLOY: I was thinking, suppose it is part of the purpose of the Commander that he shall maintain order in a certain place, or shall avoid disease in a certain place in order to protect his own troops; that isn't quite military operations, but it is in the purpose of the objectives of his occupation.

MR. WHITE: Except, Jack, isn't it generally assumed that when troops occupy - an occupation by troops is not fighting, but you know more about that than I - that would be my lay interpretation of that, as distinct from military operations. As long as there is a danger of misunderstanding--

MR. McCLOY: Well, I can see that. But you see, what I am getting at - let's suppose there is no shooting; let's suppose that the surrender has taken place. He has a military job to accomplish and he is told to effect a certain kind of occupation. Well, he has to be governed - what is the phrase we are objecting to? What does it say?

MR. BELL: It is just military occupation and operations.

MR. McCLOY: "No steps looking toward the economic rehabilitation are to be undertaken except in support of military operations or occupation."

Suppose he has to see that the water in the town is purified, because his troops are billeted in the town, although it is peace; suppose he has to put a mill in, or a dam, or something like that--

MR. WHITE: There can be no question there.

GEN. HILLDRING: But Mr. McCloy, can't we get over that hurdle without putting the word occupation in there - simply by deciding that we have got to write another handbook?

- 17 -

I am going over there next week. A week from now I will be on my way. I have told them over the telephone they would have to write a new handbook, that they can't do anything with this handbook with regard to possible defeat conditions.

MR. McCLOY: We are going to pull it back and put out a new one. We tried the idea of blocking out, and inking out. He let out a yell on that. He said, "I can't do it; I haven't got the ink."

GEN. HILLDRING: But when we get all through with these palliatives we are still going to have a lousy handbook as far as possible defeat and possible surrender is concerned.

MR. WHITE: Is there any possibility of drafting that handbook in Washington?

MR. McCLOY: It violates all our principles. The trouble with this was that he didn't have the thing that we are trying to work on now.

MR. WHITE: You mean if they had that, they--

MR. McCLOY: They just went off and used their own theories. They got down with the British and got astray. That is the reason I went to Harry Hopkins.

GEN. HILLDRING: That isn't the only reason they went astray, Mr. McCloy. They were following some good American policy.

MR. McCLOY: The PWC business, which was completely repudiated at this talk the other day when Mr. Stimson and Mr. Hull and Mr. Morgenthau were together, when they were chiding Mr. Stimson with being too soft - Mr. Hull was - he turned on Hull and said, "Why, I couldn't stand for your PWC documents. What are you putting me in the corner now for?" So Mr. Hull threw it out the window and said, "Oh, well, it just meant contemporaneous thinking"! Those went to the EAC and were sort of bootlegged from there over to SCAEF.

- 18 -

MR. WHITE: I don't see that there is any difference among us at all.

GEN. HILLDRING: I don't, either, Dr. White. We will make this perfectly clear in our cable that this is to say pre-surrender and pre-defeat conditions.

MR. BELL: You say it should be rewritten to give effect to the principles hereinafter stated. They are going to be rewritten over there?

GEN. HILLDRING: That is right.

MR. McCLOY: We have a fellow over here, now.

MR. BELL: On pre-surrender operations.

MR. McCLOY: Brigadier Foster, who used to be over at the Embassy. He brought this thing over, and he had the changes which were agreed on over there before he would come over. Then we came back at him - correct me if I am wrong - and we said they still do not go far enough, and let's sit down and go through them. He rather agreed to that. And we are, as a practical matter, sort of working on that handbook right here, but it is on a bootleg, unofficial basis, because we have to let them do it on that side. But he will get all the documents.

MR. BELL: What do you consider that? That is military operations right on the spot?

MR. McCLOY: Yes, that is down on a different level from the stuff we have any jurisdiction over on this side. If we began to hen-peck Eisenhower's orders too badly, after we have given orders to Eisenhower, we would get in a terrible mess.

MR. WHITE: Couldn't we just go along with that, Danny?

MR. BELL: It looks all right to me. How about you, Herbert?

MR. GASTON: Did you want--

- 19 -

MR. McCLOY: Now then, the proclamation we have got to talk about. If that is God awful--

MR. PEHLE: He may have already given it.

MR. WHITE: If he has, it has settled the problem.

GEN. HILLDRING: I don't know whether he has put any proclamations out - he has only put his toes out.

MR. McCLOY: If he is in Saarbrucken he has put a proclamation out. That is a big town.

MR. WHITE: We are starting a re-draft of the first paragraph of the proclamation. Shall I get it?

MR. McCLOY: Yes.

MR. BELL: I think if you make it clear that this is a temporary thing and pre-surrender, that is all right. I will have it cleared by the Secretary, but it looks all right to me - if it looks all right to everybody else.

Doesn't it look all right to you, John?

MR. PEHLE: Yes, sure.

MR. BELL: It is a good thing we had the meeting!

MR. GASTON: Did you want to say anything in this cable to the effect that these are not complete instructions so far as the revision of the handbook is concerned?

(Mr. White leaves the conference temporarily)

MR. McCLOY: The interim directive, primarily, has to be something to keep the situation pretty much in status quo. You can't tell him - you can't take a definitive attitude, for example, on partition, because you can't take partition until you have worked it out with the Russians and British. There are a lot of things like that. So the idea of the interim directive is to keep it fluid, so it can move in any direction desirable.

- 20 -

MR. WHITE: We have gone over that directive. We are not quite through, but if any time you want to get our views, give us any time from this afternoon on.

MR. McCLOY: Tomorrow we will begin it.

MR. BELL: What directive is that?

MR. McCLOY: That is the possible surrender directive.

MR. BELL: He has already gotten his directive going into Germany. That can't be changed.

MR. McCLOY: He has got that.

MR. GASTON: Mr. McCloy, I started to say - this message that goes with these one, two, three, things says that these principles should cover the reorganization of the handbook, but I suppose these three points--

MR. McCLOY: You want a little bit more?

MR. BELL: You are going to rewrite the handbook.

MR. McCLOY: That is right. We don't want to take the concept that we are rewriting the handbook here. We are going to say, "Here is our principle; we make these suggestions. Now, you go back and rewrite it."

MR. GASTON: But in these details here you are only dealing with three things; the removal of the Nazis, economic reconstruction, and relief supplies. There may be others.

(Mr. White distributes copies of draft of proclamation)

MR. WHITE: That would be the first paragraph of the first proclamation which Eisenhower would issue.

MR. BELL: "Allied forces under my command have now entered Germany."

MR. GASTON: It is a public proclamation.

- 21 -

MR. BELL: (Reading) "We come as militant victors to insure that Germany shall never again plunge the world into war. The German people must never again become the carriers of death, horror, and wanton destruction to civilization. As conquerors, our aim is not oppression but the obliteration of every vestige of Nazism and militarism from Germany. The cruel and barbaric laws and institutions of Nazism will be abolished. Party leaders, the Gestapo and those guilty of crimes and atrocities will be punished. Hitler and the other arch criminals of this war will be put to death."

MR. GASTON: Is this to be a proclamation to the German people?

MR. WHITE: To the whole world.

MR. McCLOY: We post it up.

MR. PEHLE: You see what we objected to, Mr. McCloy, in that paragraph - it says we are going to relieve them of the cruel laws that have been imposed on the German people. Do you see? The tone, it seems, is very bad.

MR. WHITE: You said the same thing coming into France - "...relieve you of German oppression." It sets off the whole of Germany as being not responsible. They are occupied by the Nazis.

Some of those, of course, are minor things, but they give a picture of the slant of the document.

GEN. HILLDRING: That line is bad.

MR. McCLOY: I do think you have, in the first instance, though, you have to first say, "Stay on your job; stay at your post."

MR. PEHLE: We were worried about that - just that one paragraph. That is the thing that Mr. Hopkins objected to later on in the proclamation, about staying at your post. That doesn't bother me, particularly.

- 22 -

GEN. HILLDRING: I think he will have to do that, because otherwise they will all run to the hills.

MR. WHITE: The only fellow who runs to the hills is the fellow who is pretty guilty.

MR. McCLOY: You take the innocent little fellow--

MR. WHITE: He will stay at his job, anyway; that is his living. Why should he run? People don't leave their jobs that easy. The fellow who leaves his job is the fellow how is going to lose his neck.

MR. McCLOY: No, when an army comes in, the first instinct is to pack up your lares and penates and get going.

MR. WHITE: The army has passed you by in this case. Where are you going to go? You are already behind the army. The fighting has gone beyond you. Anyway, I don't give a damn what you do when the fighting is on.

MR. McCLOY: He says that all officials are charged with staying with their duties until further orders, and so forth.

MR. WHITE: We didn't object to that. The only thing we objected to was the tone of the first statement.

GEN. HILLDRING: We will tell him that and get that changed.

MR. BELL: If it hasn't already been issued.

GEN. HILLDRING: If it has been issued, that wouldn't make any difference. He hasn't issued it in many towns.

MR. McCLOY: We will send a cable off today on that.

Now, do we have to wait until Mr. Morgenthau comes back?

MR. BELL: I don't know that you have to wait, but we have to clear it with him.

- 23 -

MR. McCLOY: If there is no use in our sitting around - we are very intensely interested in what the answer is over there.

GEN. HILLDRING: We will add this: "This handbook will not be used during the post-military government of Germany. Meanwhile, the basic principles will apply to pre-surrender, or pre-defeat conditions, and shall supersede any other considerations."

MR. PEHLE: Will not be used - what?

GEN. HILLDRING: Will not be utilized during the post-defeat military government of Germany.

That is the thing that has gotten them into all this trouble, as a matter of fact. And as I say, there is something to be said in their favor.

Eisenhower has been saying to these boys, "Are you ready to handle Germany?" And they say, "In the pre-defeat period - in the pre-surrender period, yes."

Not a word have we gotten from our betters as to the long-term policies in Germany.

Every time he thinks about it he will point his finger at them and say, "How about it?"

They say, "Well, we are cooking up something."

MR. WHITE: You have much to be thankful for that military policy is not made that way.

GEN. HILLDRING: This is really none of my business; mine is just to carry out the orders.

MR. WHITE: This is as much your business as it is our business. Don't start that!

PROPOSED TEXT OF FLYLEAF

1. It shall be one of the important objectives of military government to remove immediately from all government office and leading positions in industry, banking, education, judiciary and other public services members of the Nazi party and active supporters of Nazism. These shall be removed forthwith without regard to administrative or other expediency.

2. Another important objective is the immediate apprehension and detention of (a) all officials of the Nazi party down to secretaries of local party units, (b) all members of the Gestapo and other security organizations, (c) S.S. (including the Waffen SS.), (d) all high officials of the police, the S.A., (e) all high government officials and leading public figures identified with Nazism.

3. Military administration shall be directed toward the promotion of the decentralization of the political structure of Germany. All dealings in so far as possible should be with municipal and provincial government officials rather than with Federal government officials.

4. No steps looking toward economic rehabilitation of Germany are to be undertaken except as may be immediately necessary in support of military operations. The Allied Military Government shall not assume responsibility for such economic problems as price controls, rationing, unemployment, production, reconstruction, distribution, consumption, housing, or transportation, or take any measures designed to maintain or strengthen the German economy, except those which are essential to military operations. The responsibility for sustaining the German economy and people rests with the German people with such facilities as may be available under the circumstances.

5. No relief supplies are to be imported or distributed beyond the minimum necessary to prevent disease and such disorder as might endanger or impede military operations.

6. Allied forces shall not be concerned with restoring any physical destruction caused during hostilities, except as absolutely essential to military operations.

7. It is vital that every violation by the Germans of orders of the Allied Military authorities, however slight, be punished immediately and with severity. Any tendency toward leniency will be misinterpreted by the Germans as a sign of weakness.

~~September 1948~~
Prepared for meeting with Mr. Hopkins,
Mr. McCloy, in Secretary's office this morning
at 10:00.

Letter was never submitted.

Proposed text of the Flyleaf was discussed
and it was decided it would apply to the interim
document rather than the Pre-Surrender Document.

Copy of the excerpts was given General
Hildring, and Mr. McCloy stated that they would
see to it that the first paragraph of Eisenhower's
Proclamation No. 1 would be changed. They agreed
it was bad.



THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Jack:

We have redrafted the proposed flyleaf in the draft cable to General Eisenhower. We believe that as redrafted, the flyleaf will to some extent avoid serious misinterpretation of the Administration policy with respect to Germany. The redraft is appended.

We have returned to the War Department this morning the Directive and Handbook received last night from Major Boettiger. In the brief time available we have made an examination of these documents and have the following comments.

We agree with you that the Directive and Handbook, although improved, are still unsatisfactory. The general tone of these documents is still greatly at variance with the policy of this Government as I understand it. Civil Affairs officers and military personnel adhering to the policies set forth in the Handbook and the Directive as now drafted will inevitably attempt to perform many functions which should not be their concern and at the same time fail to perform other acts which it is important that the Allied Military authorities undertake. The material included on the flyleaf, even as redrafted, only partially remedies this defect.

Besides the general tone of the documents a great many of the specific provisions are unsatisfactory. Examples of a few of these provisions are included in the appended list.

Accordingly, we agree that the Handbook and Directive should be rewritten as promptly as possible and reviewed in Washington prior to adoption. In fact, we think much time will be saved and further misunderstanding of our policy avoided if the revision of these documents would be undertaken in Washington where the policy of this Government is being shaped.



- 2 -

I should also like to point out that, in my judgment, it would be most unfortunate if Proclamation I is permitted to be issued as presently drafted. The first paragraph of this most important proclamation reads as follows:

"The Allied Forces serving under my command have now entered Germany. We come as conquerors; but not as oppressors. In the areas of Germany occupied by the forces under my command, as in other countries liberated from the horrors of Nazi tyranny, we shall overthrow the Nazi rule, dissolve the Nazi Party and abolish the cruel, oppressive and discriminatory laws and institutions which the party has created. Party leaders, the Gestapo and others suspected of crimes and atrocities will be tried and, if guilty, punished."

Very truly yours,

Secretary of the Treasury

Honorable John J. McCloy,

Assistant Secretary of War.

Enclosure

PROPOSED TEXT OF FLYLEAF

5. ~~1.~~ No steps looking toward economic rehabilitation of Germany are to be undertaken except as may be immediately necessary in support of military operations. The Allied Military Government shall not assume responsibility for such economic problems as price controls, rationing, unemployment, production, reconstruction, distribution, consumption, housing, or transportation, or take any measures designed to maintain or strengthen the German economy, except those which are essential to military operations. The responsibility for sustaining the German economy and people rests with the German people with such facilities as may be available under the circumstances.

6. ~~2.~~ No relief supplies are to be imported or distributed beyond the minimum necessary to prevent disease and such disorder as might endanger or impede military operations.

7. ~~3.~~ Allied forces shall not be concerned with restoring any physical destruction caused during hostilities, except as absolutely essential to military operations.

1. ~~4.~~ It shall be one of the important objectives of military government to remove immediately from all government office and leading positions in industry, banking, education, judiciary and other public services members of the Nazi party and active supporters of Naziism. These shall be removed forthwith without regard to administrative or other expediency.

2. ~~5.~~ Another important objective is the immediate apprehension and detention of (a) all officials of the Nazi party down to secretaries of local party units, (b) all members of the Gestapo and other security organizations, (c) S.S. (including the Waffens SS.), (d) all high officials of the police, the S.A., (e) all high government officials and leading public figures identified with Naziism.

4. ~~6.~~ Military administration shall be directed toward the promotion of the decentralization of the political structure of Germany. All dealings in so far as possible should be with municipal and provincial government officials rather than with Federal government officials.

3. ~~7.~~ It is vital that every violation by the Germans of orders of the Allied Military authorities, however slight, be punished immediately and with severity. Any tendency toward leniency will be misinterpreted by the Germans as a sign of weakness.

9-6-44

Fire arms, ammunition, explosives and radio transmitting equipment in the possession of civilians will be impounded by the German police.

With regard to the rest of the bar, the standard to be generally applied should be one of professional integrity. Attorneys in Germany have traditionally been free to hold their own political beliefs and this freedom should be respected, provided that adherence to Nazi ideology has not led to a lowering of professional standard.

Prevent activities of all party organizations except those which may be required to continue to function for administrative convenience.

As to other officials, the general rule should be that no holder of office in the Nazi party organisation should be continued in a governmental position unless there are compelling reasons for his retention.

In general, the entire Nazi leadership will be removed from all posts of authority and no permanent member of the German General Staff or of the Nazi Hierarchy should occupy any important government or civil position. Even the lesser Nazi officials will not as a rule be employed, but Army Group Commanders may make exceptions on the grounds of expediency or administrative necessity.

You will re-establish existing forestry control agencies and direct them to proceed with needed timber cutting operations so as to obtain maximum results.

Military Government in Germany will have to deal with Public Welfare programs and organizations which have a long historical development, employ a large number of persons, expend a substantial portion of the National Budget, are considered by the Germans to be extremely important and touch intimately the lives of almost every German. Because of their importance, it is imperative that they be rigidly controlled and utilized to facilitate the orderly functioning of Military Government by preventing a general breakdown of civil life, maintaining the working capacity of the civil

population, caring for those elements of the population unable to care for themselves and restoring reasonable conditions of life for the civilian population.

All Nazi leaders and other persons named or designated by rank, office or employment will be apprehended and surrendered into the hands of the Supreme Commander's representatives; the same shall apply to any national of any of the United Nations who is alleged to have committed an offence against his national law. The primary responsibility for apprehending and surrendering such persons will rest with the German authorities (sic) without prejudice to the rights of the Supreme Commander.

It is the policy of the Supreme Commander to provide for the restoration and control of transport facilities and services in GERMANY including railways, road transport, inland waterways as well as Ports and merchant shipping in order to attain all military objectives and to meet such essential civilian transportation requirements as the military situation will permit.

As soon as possible after occupation, the German authorities will be directed to check consumers through re-registration, or by calling in outstanding ration cards for re-stamping or replacement.

All special relief, pensions, and privileges, other than regular military pensions, granted to members of Nazi military or para-military organizations shall be terminated, and such members shall be entitled only to those benefits granted to all German nationals.

The para-Military organisations listed below (SA, SS, etc., etc.) *** will in due course be dissolved. * * *
No further recruiting is permitted.

September 7, 1944
12:06 p.m.

HMJr: Hello.

Operator: Mr. Brand.

HMJr: Hello.

R. H. Brand: Hello.

HMJr: Mr. Brand.

B: Yeah.

HMJr: In order to save time....

B: Yes.

HMJr: I have seen my superior....

B: Yes.

HMJr: and he has agreed to my proposal -- the one I said that I would make to him.

B: Yes.

HMJr: Hello?

B: Yes.

HMJr: You know -- you know what I mean?

B: Well, it was the original one.

HMJr: The one that I asked you to transmit to the Chancellor.

B: Yes.

HMJr: And which I hoped that you would -- the Chancellor would concur in.

B: Yes.

HMJr: So I'm giving you that for your information and I'm now telling the War Department.

B: Well, then -- but how do we -- there must be combined action, mustn't there?

Handwritten notes on the right margin, including a large scribble and some illegible characters.

HMJr: Well, we hope so.

B: Well -- I mean on -- I see -- well -- yeah.

HMJr: I explained to you I wasn't going to bargain.

B: Oh, I realized that.

HMJr: Yeah.

B: It wasn't on our side, of course.

HMJr: And this

B: No argument.

HMJr: And this is the arrangement that we'll have with our soldiers. And the

B: I see.

HMJr: the other part that I spoke to you about that the other arrangement for the -- is still in the debatable stage -- is still fluid.

B: You mean the dollars?

HMJr: Well, I mean the -- the ultimate. I don't know

B: The other, yes.

HMJr: Now, wait a minute. I don't know -- I'd better -- I think it's subject -- we're going to use those -- a military currency.

B: Yes.

HMJr: Hello?

B: The A.M. mark?

HMJr: That's right.

B: Yes.

HMJr: At a rate of ten to the dollar.

B: Yes.

HMJr: See?

- 3 -

B: Yes.

HMJr: And we sincerely hope that

B: I see.

HMJr: you'll go along

B: Yes.

HMJr: with us on that basis.

B: Well, then, I shall have to inform the Chancellor accordingly at once.

HMJr: That's right.

B: And if he -- if the British Government fall in with that, then, of course, there's got to be immediate cooperation with our -- between our military.

HMJr: That's right.

B: And as in regards to Russia.

HMJr: As regards the Russians?

B: Yes, I mean we have to notify them. See?

HMJr: Yes, well, we'll notify -- we -- I don't know whether we do that jointly or separately.

B: Well, I think we were going to do it jointly.

HMJr: Well

B: And perhaps if you will give me an opportunity, I could telephone to London....

HMJr: Right.

B: and see what they say.

HMJr: All right. Well, then let's say that we'll make up our minds this afternoon what we tell the Russians.

B: Well, if I can get on to London.

HMJr: Right.

B: Right.

HMJr: I'll hear from you, then, this afternoon.

B: I hope so, yes.

HMJr: I hope so, too.

B: Right.

HMJr: Thank you.

B: I'll do my best, of course.

HMJr: Right. Because I -- I'm

(Sentence not completed as Mr. Brand hung up.)

September 7, 1944
12:05 p.m.

WHITE HOUSE CONFERENCE - PROPOSED CABLE TO SCAEF

Present: Mr. D. W. Bell
Mr. Gaston
Mr. White
Mr. Pehle
Mrs. Klotz

MR. BELL: After the atmosphere was cleared as to the use of this document in a pre-surrender period instead of the post-surrender period, as the boys thought it was last night, we rather quickly got together on this cable with a few minor corrections. They are going to take out the written insertion, "occupation" in the two paragraphs-- one and two I think they are--and then they are going to make it clear that this is not to be used in a post-surrender period, and that the handbook must be rewritten.

Then they said they would get together here this afternoon and rewrite the handbook or at least make their suggestions that this fellow, General Foster, can take back. Then tomorrow they are going to work on--

MR. PEHLE: ...the new directive.....

MR. BELL: They will try to have that by the end of the week. We have agreed to that, subject to your approval. We will just have to telephone McCloy. He went to see the State Department people; he is probably over there now.

H.M.JR: If you are in agreement, I am.

MR. WHITE: We corrected "occupation," so the thing was all right.

H.M.JR: How did you fellows get off on the wrong foot in thinking it was phase two?

- 2 -

MR. PEHLE: It was phase two, but they are limiting it now.

MR. WHITE: They agreed with us--

H.M.JR: I couldn't understand how a smart bunch of boys like you--

MR. PEHLE: We were all right, Mr. Secretary. They kept saying, "We will leave this in effect so long." Now they are saying, "We are going to limit this to phase one."

H.M.JR: Are they going to say that?

MR. BELL: Yes, in that cable.

MR. PEHLE: They will have Eisenhower rewrite the Proclamation.

H.M.JR: Couldn't I see a clean copy before I say yes?

MR. WHITE: It will be the same as--

H.M.JR: I am going to ask for a corrected copy. It is pretty clear here.

MR. WHITE: It is combined with a lot of other things.

H.M.JR: On my own responsibility I want to see a clean copy.

MR. BELL: All right. Do you want to telephone McCloy? He may be at the State Department.

MR. WHITE: There will be no change in the addendum, but there will be other instructions.

H.M.JR: Now, I went overboard to the President on Proclamation One of Eisenhower's.

MR. WHITE: We had something drafted, but they said they are going to cable back merely to say that that

- 3 -

Proclamation is bad and should be withdrawn or should be changed. But they didn't seem to take to the idea of our helping to rewrite it. Ours was a little stiff--too stiff.

MR. BELL: Yes, it was pretty stiff.

MR. PEHLE: But they agreed that it was bad.

H.M.JR: The President said, "Who is this--Bedell Smith?"

I said, "I don't think Bedell Smith has ever seen this. I should think it would start at the level of General Holmes."

MR. BELL: Of course, they say this Proclamation might be out if they are up as far as Saarbrucken; that is a pretty good-sized city, and it may have been issued this morning.

H.M.JR: I certainly told the President, but there is only one like him.

(The Secretary holds a telephone conversation with Mr. McCloy as follows:)

September 7, 1944
12:13 p.m.

HMJr: Hello.

Operator: McCloy.

HMJr: Hello.

John
McCloy: Hello.

HMJr: Where are you Jack?

M: In my office.

HMJr: Well, I

M: How did you make out?

HMJr: Good.

M: Good. Fine.

HMJr: Ten cents.

M: Good.

HMJr: The President has initialled it. You can consider it official.

M: Right. Have you cleared with the British?

HMJr: I told the British.

M: You told the British? (Laughs)

HMJr: And they said they didn't know what to do and I said, "Well, that's very simple. Come along with us."

M: Yeah.

HMJr: And then they said, "What about telling the Russians?" So I said, "Well, I hadn't thought about that." So he's telephoning London now.

M: The British?

HMJr: Brand.....

M: Brand, uh huh.

HMJr: will get in touch with me as soon as he's talked to his home office.

M: Fine. Fine.

HMJr: As far as Mr. Roosevelt is concerned it's signed, sealed and delivered.

M: Well, that's fine. That -- that will fix it.

HMJr: And now

M: They won't go back on that.

HMJr: So I -- I want a good mark over there.

M: Yes, yes, I congratulate you. Did you hear what happened in your office after you left?

HMJr: Yeah.

M: Good. That's out of the way, apparently.

HMJr: The only thing that I would like -- before you -- before -- I mean, I agree in principle to what you people have done, but I would like to see a corrected copy of the cable.

M: Right. I'll see that you get it.

HMJr: I would like to see that.

M: Yeah.

HMJr: Now, one other -- and then if you want me to initial it, I'll be glad to.

M: Oh, no. No, that's all right.

HMJr: Before I say, "yes" can I have a clean copy? Because so many things happened here.

M: Clean copy of the

HMJr: Of the cable.

M: Of the cable? Right. Right. I'll get you a copy of the final cable.

HMJr: Now, I did tell the President about this Number One directive to Eisenhower and -- I mean, the proclamation.

M: Oh, yes.

HMJr: And I do hope you're going to do something about that.

M: We're going to ask him to change that.

HMJr: What?

M: We're going to ask him to change that.

HMJr: Because if you don't, I think you'll be hearing from the President about it.

M: Yeah. The -- the first paragraph of the -- the first paragraph of that is bad.

HMJr: Yeah.

M: And we'll change that. We'll get it changed. Of course

HMJr: Now....

M: I don't believe -- I hope he hasn't put it out already.

HMJr: Well

M: He may have -- I don't know. We -- we're sending a cable off today on that.

HMJr: Yeah, and then you might tell Mr. Stimson that I asked the President to see us again.

M: Oh, yes.

HMJr: He's going to see us again Saturday morning.

M: Saturday morning.

HMJr: Yeah. And I've asked for two hours.

M: Two hours? (Laughs)

HMJr: Yeah.

M: Well, do you think you'll get it?

HMJr: Yeah.

M: Good.

HMJr: Yeah.

M: Well, that's something.

HMJr: But I mean, Mr. Stimson may be making week-end plans.

M: Yes, he may. Yeah. Yeah.

HMJr: So, well, then, the next immediate move as far as I'm concerned is to get a corrected copy of that cable.

M: Right.

HMJr: And I will not keep it here more than five minutes.

M: I'll get it to you right -- as soon as it -- it comes off the cooker.

HMJr: And I'm very much pleased.

M: And I'm ever so much o'bliged to you. It's -- you've been very helpful.

HMJr: Well, I'm pleased at the general "give and take" evidently.

M: Yeah, we cleared it up very quickly after

HMJr: After I left.

M: After you left. (Laughs)

HMJr: (Laughs heartily) Okay.

M: Okay. I'll get this over to you right away.

HMJr: Okay.

M: I'll -- I'll get our cable -- can I cable to Eisenhower the rate?

HMJr: Yes.

M: Just cable him that that's what it's going to be.

HMJr: You tell him that -- if you want to -- that I saw the President

M: Yeah.

HMJr: and the President agreed to the ten-cent rate and that we have informed the British Treasury of that position and we're waiting to hear from them. But the President has agreed to it. I -- I'd get it off.

M: I -- because I'm always embarrassed about that combined business and Eisenhower always reacts.

HMJr: Well, that's your business.

M: Maybe I'd better wait until I hear -- Brand says all right.

HMJr: That's up to you.

M: Okay. All right. Ten o'clock -- what was it? Ten o'clock Saturday?

HMJr: He hasn't fixed the time yet.

M: Uh huh. Uh -- on this business of -- of this coming show, I don't know what we're going to take up up there but I -- I'm awful nervous about what goes on if they don't have somebody around that really knows some of the background of it.

HMJr: Yeah.

M: But the only thing you can do on that is to -- is to sit back here, I suppose, and wait until they raise a question.

HMJr: Who's your candidate?

M: Well, I think -- uh -- I, myself, would like to be snooping around to find out what's going on up there.

HMJr: You and me both.

- 6 -

M: But if it's in the -- just up -- if you're just up there for the air, but otherwise, they're awful apt to go off on tangents that they don't

HMJr: Well, if the Army's going to snoop, I want to snoop at the Army.

M: (Laughs) I know.

HMJr: (Laughs).

M: We're going to make you G-2

HMJr: Well, listen

M: On this business of

HMJr: Just remember this, old man, that when you work with us, it's all stuff from withinside. We're all together.

M: Oh, there's no

HMJr: You never -- you never read about it in the papers.

M: Right. I noticed that there was something in the paper this morning on that meeting that you had with the President.

HMJr: The -- well, the White House evidently gave out something in the Times.

M: In the Times, apparently, yeah.

HMJr: But nothing

M: There was nothing in there that was -- it was all right.

HMJr: Surely.

M: On this business of the Commissioner....

HMJr: Yeah.

M: that the State Department are pressing for, I understand that the State Department has suggested Jimmy Byrnes.

HMJr: Well, the President suggested Jimmy Byrnes yesterday.

M: Oh, he did?

HMJr: Yeah.

M: Oh, he did?

HMJr: Yep.

M: Well, I heard that the State Department suggested it.

HMJr: No, Mr. Stimson was there. The President suggested Jimmy Byrnes and

M: Yeah. Harry told me that. Harry told me that the State Department suggested Jimmy Byrnes. I think he -- and also there was talk about Judge Patterson.

HMJr: Ah

M: If you've got -- I don't know whether -- I don't know whether Jimmy Byrnes is interested or whether he isn't. I -- I imagine he'd be very good. It certainly is important that whoever goes over there has the confidence of the President.

HMJr: Yeah.

M: The full confidence of the President.

HMJr: Yeah.

M: So far as Patterson is concerned, he certainly -- he certainly will go right down the line. I mean he'll -- if you give him the line, whatever it is.

HMJr: That's right.

M: And he'll go right down, calling them as he sees them in accordance with that line.

HMJr: That's right.

M: And he's quite a different breed of cat than your friend Murphy on that.

HMJr: Murphy?

M: Yeah.

HMJr: My friend?

M: Your friend Murphy, yes. You know who.

HMJr: Have you been reading the Washington Post? -- The last two days?

M: Yes, I read the Washington Post.

HMJr: Yeah.

M: But I thought -- I thought they were a little bit extreme in that they sort of tuned his character there. I thought -- I feel that he -- he's not what you need as a man of principle who will go right down without bothering to fix up anything. And that's one of the advantages of Bob Patterson.

HMJr: Oh, well, there couldn't be a higher type person than Bob Patterson for this job or any other.

M: Yeah. Yeah.

HMJr: I'd be delighted if the President would give it to Bob Patterson.

M: Yeah.

HMJr: A hundred per cent.

M: Yeah.

HMJr: I told that to Hopkins when he first raised it with me.

M: Well, I haven't got any candidates but I just turned over in my mind what kind of people would be the right one to do -- to do the job.

HMJr: There couldn't be any better than Patterson.

M: Yeah.

HMJr: Yes.

M: The -- Jimmy Byrnes -- I don't know enough about him. I don't know -- it's -- it's a hard, taxing job. The suggestion was that Harry Hopkins might take it, but I think that Harry, although he has a great attribute of the confidence of the President which is an extremely important thing for that.....

HMJr: Yes.

M: he hasn't the strength, I don't believe, to do it, because I don't believe any job is going to be more taxing than that one.

HMJr: Yes. Well, just so that you and I -- there won't be anything -- I'm not telling all I know just now.

M: Oh.

HMJr: So, I -- while you've been fishing, I just want you to know that I -- I

M: Well, any -- that's the way I -- those three candidates -- that's about the way I rate on it.

HMJr: Well, I want to be very frank with you.

M: Yeah. Okay.

HMJr: But as far as Patterson is concerned, nothing would please me more.

M: Yeah. Okay.

HMJr: Thank you.

M: All right. Fine.

September 7, 1944
12:26 p.m.

General
Watson: Henry.

HMJr: Yes.

W: Look, here, about Saturday.

HMJr: Yeah.

W: I'll try to fix it up. Of course, he's got about six he's got to see.

HMJr: Yeah.

W: Now, I think maybe twelve to one -- would that -- would that suit you people?

HMJr: That's not enough.

W: Well, Christ, it wouldn't be any more, Henry.

HMJr: Yes, until you get Stimson and Hull to talk -- they didn't even get started yesterday.

W: Now, let me tell you who he's got to see.

HMJr: Yeah.

W: He's got a list here. He's got to see this fellow Murphy. He's got to see

HMJr: Murphy? What Murphy?

W: Huh? Huh?

HMJr: What Murphy?

W: The one he sent abroad. And then

HMJr: Oh.

W: And then Adolph Berle has been hanging around here for five days. I don't know whether he'll ever see him or not.

HMJr: Yeah.

W: J. David Stern has been waiting in town two days.

HMJr: Yeah.

W: He's got (Aside: Who else is there there?) Lord Halifax is trying to get in. And if -- if I got you an hour

HMJr: Well, give us the first hour.

W: Well, you never know when he's going to start.

HMJr: Well, but whatever it is, let's get in there first.

W: Yeah.

HMJr: If you do that

W: Yeah, well, I'll talk to him about it.

HMJr: I mean, let us be the first hour.

W: I didn't know you were going to do that this morning on me.

HMJr: What do you mean?

W: I didn't know you were going to get all my Saturday.

HMJr: Well, this

W: Once you get in there

HMJr: This is nothing personal for me.

W: I know, Henry. (Laughs)

HMJr: It's like the same thing on General DeGaulle. We let everything go until the last minute.

W: Yeah.

HMJr: And then the President gets the blame.

W: Yeah.

HMJr: Now, what I'm trying to do is to keep it so this German business -- he doesn't get the blame on that.

W: Well, it didn't look like to me they were settling much. I heard that oration Harry made. (Laughs)

HMJr: Well, I got him to settle the rate and the -- and the Army is very pleased on that.

W: Good. That's fine.

HMJr: That I got.

W: Now, tomorrow I'll let him see what his commitments are and we'll give you everything we can.

HMJr: But look

W: Yeah.

HMJr: get this group in because until Stimson

W: I think maybe we can get you in an hour -- a full hour or an hour and a half. An hour is all anybody can listen.

HMJr: Well, not with that group.

W: I know. You're right, too.

HMJr: Not with that group.

W: Yeah.

HMJr: I'm serious. It ought to be two hours.

W: Well, hell, you'll never get that. Because, my God, old Leahy and everybody around here -- he -- he -- that would get him the whole morning.

HMJr: Well

W: You know he won't do that.

HMJr: Well, let's start for two hours at -- in the beginning.

W: Oh, well

HMJr: And then I'll bargain with you.

- 4 -

W: He isn't going to give you any two hours. God!

HMJr: Well, ask for an hour

W: Oh, well, he

HMJr: but let it be the first hour.

W: Well, he'll -- he'll cut you down to thirty minutes, I'll bet you on it....

HMJr: No, I'll

W: when he starts making it up. When I talk about a two hours, why, he says, "Oh, Henry can go chase himself."

HMJr: When I bet, I want to be

W: That's what he'll say.

HMJr: Listen, when I bet you, I want to be present.

W: All right. All right. (Laughs)

HMJr: (Laughs)

W: Well, I -- I -- of course, you're going to get in, and I -- we'll give you the most we can. I just wanted you to know what I'm up against.

HMJr: Yeah, but now listen, old man.

W: Yeah.

HMJr: Whatever you do, for God's sake, make it the first appointment.

W: All right.

HMJr: See?

W: You mean you'll just hang on and take the other fellow's?

HMJr: That's right.

W: I know what you've got in mind.

HMJr: Then you can come in and lie down on the couch while we confer.

W: Yeah. I'll come in there and whisper in your ear like I did Harry.

HMJr: Yeah.

W: All right.

HMJr: Take care of yourself.

W: All right.

HMJr: Bye.

September 7, 1944
12:45 p.m.

GERMAN MARK RATE

Present: Mr. White
Mr. Brand

MR. BRAND: I just wanted to ask you, Mr. Morgenthau - I am telegraphing immediately to the Chancellor and I wasn't quite sure from your message whether you had come to the conclusion, after consideration of the Chancellor's message, that you could not put his proposal to the President and therefore only put what you first mentioned to me, or whether the President knew of the British view and rejected it.

I think it is important from the Chancellor's point of view that he should know exactly what has happened.

H.M. JR: Now, look; do you suppose I would not tell the President of the United States?

MR. BRAND: No, I did not. But on the telephone you said that you had put your proposition to the President.

H.M. JR: But can you imagine that I wouldn't tell him?

MR. BRAND: I wouldn't have thought so, but I wanted to be able to say so.

H.M. JR: Of course I told him.

MR. BRAND: That was the only point I had.

H.M. JR: What sort of a public servant do you think I am?

- 2 -

MR. BRAND: It was only the form in which you put the statement on the telephone to me. I wanted to be absolutely clear.

H.M.JR: The President had all of the facts. He had all of the information.

MR. BRAND: Well, I will immediately cable the Chancellor.

H.M.JR: It is written here in his own handwriting, "Ten cents. F.D.R."

MR. BRAND: Yes, I see.

Then the other points are these: You are now informing your soldiers, and I will telegraph to the Chancellor, because I suppose the Combined Chiefs of Staff must notify General Eisenhower.

H.M.JR: I have told Mr. McCloy of the decision of the President, and I told him that you were going to phone and he said--

MR. BRAND: I believe an immediate cable would be - there is a delay on the line.

H.M.JR: I told him it would be a matter of a couple of hours.

MR. BRAND: I think it would be more than that.

H.M.JR: Then I will tell him that. But from now on, the move is up to our Army. I mean, what they do and how they do it, and how they talk to them, and all the rest of it - that is up to them. I can't attempt to follow that through. But I do think that we should notify the Russians as soon as possible.

MR. BRAND: That is true, yes. Well, I can't do anything until I communicate with the Chancellor.

- 3 -

H.M.JR: You can't get through on the phone?

MR. BRAND: Well, I will try, but it is difficult.

H.M.JR: How many people are there ahead of you?

MR. BRAND: I can't tell that. He may not be there. But I will see what I can do.

You know, an immediate cable should get there most immediately, and if he is there he will, no doubt, immediately reply.

H.M.JR: All right.

MR. BRAND: I will do it the best way I can, you see.

Well, then, if I get in touch with Mr. White about the Russians, is that satisfactory?

H.M.JR: That is quite all right.

MR. BRAND: All right. Good bye.

(Mr. Brand leaves the conference)

H.M.JR: A couple more like that--

MR. WHITE: He is nothing but a fool.

H.M.JR: And he is going to be hoisted out of the window. I am not going to take much more of his - if you don't mind - God damned lip.

MR. WHITE: He is just a fool.

H.M.JR: He is not a fool.

MR. WHITE: I mean--

H.M.JR: To put over three questions like that to me - I am not going to answer any more of his questions.

- 4 -

MR. WHITE: I don't think he is likely to do it again. I think he got the point.

H.M.JR: It makes no difference to the man. I am just thinking of some way I can get word to Sir John Anderson to recall him. I don't want the fellow around.

MR. WHITE: I think I would wait until he did something real untoward.

H.M.JR: Tells me he has to see me right away! I was going to try to go downstairs and rest. What does he have to see me about? Look, he is all the time twisting what I say.

MR. WHITE: He is smart, but he is too smart for his own good.

H.M.JR: He is all the time taking what I say and twisting it.

MR. WHITE: He gives every evidence that he has complete confidence in you.

H.M.JR: And I, vice versa.

Should we notify the Russians jointly?

MR. WHITE: No, we will just call the Russians in and tell them what the State of the negotiations is, that we have decided on ten. That is all. The British still hope that it will be eight to the dollar, but we are adamant on it. I don't know why we can't tell them - just the same as the British know what we are doing.

H.M.JR: The more I think about it, I think it is one of the most impertinent performances I have ever seen.

MR. WHITE: If he has made as many foolish steps as this in the short time he has been here, he will make more foolish ones later. All you have to do is bide your time.

- 5 -

MRS. KLOTZ: Well, you were vague on the telephone, and it just shows that he is stupid, that is all. But you were vague - I mean, in fairness to him.

MR. WHITE: It is more than that. What he is suggesting there is that the Secretary is not letting the President know the pertinent facts. I agree with the Secretary being peeved.

H.M.JR: I said, "What kind of a public servant do you think I am that I would withhold information from the President of the United States."

MRS. KLOTZ: You gave him the right answer.

MR. WHITE: You have a right to be sore.

H.M.JR: O.K., you defend Mr. Brand.

MR. WHITE: No, I want to give him a real good time.

If I don't see you today - I am supposed to go to New York tomorrow with that Aldrich Committee.

OFFICE OF
THE SECRETARY OF THE TREASURY

73

September 8, 1944

Memorandum

To: Mr. Latta
From: Mrs. Klotz

For your records, I am sending you
herewith two photostats of a memorandum
which the President approved for Secretary
Morgenthau yesterday.



THE SECRETARY OF THE TREASURY
WASHINGTON

SEP 7 1944

MEMORANDUM FOR THE PRESIDENT

As the Allied Armies are already within a relatively few miles of Germany, it is essential that a currency program for Germany be considered to General Eisenhower as quickly as possible. The proposal that U.S. yellow seal dollars be used for the pay of U.S. troops in Germany, though it has its merits, has the following disadvantages:

a. American military penetration into Germany is imminent. There is a serious question whether adequate supplies of yellow seal dollars could be disbursed in time to army finance officers in the forward fighting areas and through them to the troops.

b. The German people would acquire dollar currency on a large scale, twenty to forty million dollars a month. It is extremely unlikely, even under a mandatory currency conversion program, that the U.S. could ever recover the yellow seal dollars from the German people in exchange for marks. The U.S. would then be compelled either to redeem or repudiate the yellow seal currency, either of which alternatives appears undesirable.

c. The use of dollars instead of marks by our troops would quickly create dissatisfaction among our troops because there would be no uniform rate of exchange. Some soldiers would get many more marks than others for their dollars. However, the Germans would soon be quoting their prices in dollars and thus taking advantage of the American troops. Under these conditions, the morale of our troops might be impaired. The benefits received by soldiers from their pay should be uniform and not dependent upon individual bargaining ability.

d. The British would strongly object to our use of dollars, inasmuch as such action on our part would force them to use sterling. Hitherto, all important



actions taken in Europe with respect to occupation has been the result of a bilateral or tri-partite decision. For us to use dollars in the face of strong British opposition would constitute the first important break in the Allied decisions. Unfortunately, from the British point of view, our use of dollars would virtually force the British to use sterling. In other words, action by us, though seemingly affecting only the U.S. Army would, in fact, force a similar action to be adopted by the British, which, in the case of Germany, they have indicated they would strongly resist.

e. The Russians might misunderstand our use of yellow seal dollars. Agreement has been reached with the Soviet Government to use Allied Military Marks in Germany. Moreover, the Soviet Government has already completed a large printing program of Allied Military Marks for the use of its own army. Some of these marks may already be in use in East Prussia. It would appear politically undesirable for the United States to breach this agreement by unilateral action.

For the above reasons we recommend that the Allied Military Mark be used by the U.S. Army in Germany both for the pay of troops and the purchase of local services and supplies. The question of the establishment of a general rate of exchange between the dollar and the mark need not be settled now but could be postponed until some time after surrender when there will be an opportunity to better evaluate the situation and to determine a rate more nearly in conformity with the actual conditions then existing. In the meantime, we recommend that a military rate of 10 to marks to the dollar should be employed exclusively for the pay of troops and military accounting purposes. JWP

The use of Allied Military Marks offers some positive advantages in addition to avoiding the undesirable features that would currently be associated with the use of yellow seal dollars.

a. It provides the simplest and most effective means of placing the financial burden of occupation on Germany, inasmuch as any future German Government will be compelled to assume responsibility for the redemption of the Allied Military Mark.

b. Use of the same occupation currency by the three occupying powers would aid in demonstrating Allied unity.

- 3 -

c. Adequate supplies of Allied Military Mark currency are already available at SMAEF headquarters in France for American and British troops and are also available in Russia for Soviet troops.

d. The Allied Military Mark currency is denominated in units already familiar to the local population and avoids the establishment of a two price system.

e. By using Allied Military Marks and establishing only a military rate of exchange the way is left open to review the question of the exchange rate when and as necessary, without precipitating a flight from the mark into foreign currencies, thus facilitating the secretion of assets by the Germans. If only mark currency is used, the foreign exchange regulations to be imposed upon a defeated Germany would be facilitated and strengthened.

J. M. Wuthaupt
Sept. 7th 1944

September 7, 1944
3:05 p.m.

REVISION OF HANDBOOK AND DIRECTIVE

- Present: Mr. D.W. Bell
- Mr. Gaston
- Mr. White
- Mr. Pehle
- Col. Chandler
- Mrs. Klotz

H.M.JR: This is the proposed cable to the Supreme Commander, AEF (reading): "Handbook and Directive brought over by Brigadier Foster greatly improved but not yet satisfactory. They should be rewritten to give effect to the principles hereinafter stated. If at all feasible, there should be no distribution until such revision has been made. However, if immediate distribution is absolutely essential, you are authorized to issue handbook in latest form for minimum essential distribution with a covering page attached as the fly-leaf to each copy of the handbook, stating that the following principles supersede all portions of the handbook which are inconsistent therewith.

"This handbook will not be used during the post-military government of Germany. Meanwhile, the basic principles will apply to pre-surrender or pre-defeat conditions, and shall supersede any other considerations."

That is a new term, isn't it - "pre-defeat"?

MR. BELL: We agreed on that.

MR. WHITE: They had "pre-defeat surrender," then we agreed surrender was equivalent to defeat and included surrender.

H.M.JR: I think it is very good terminology.

COL. CHANDLER: I think it is better than "surrender."

H.M.JR: They may not surrender.

- 2 -

H.M.JR: "No steps looking toward economic rehabilitation of Germany are to be undertaken except as may be immediately necessary in support of military operations."

That is good.

MR. WHITE: Good.

MR. BELL: That is the same as was in there.

H.M.JR: "2. No relief supplies are to be imported or distributed beyond the minimum necessary to prevent disease and such disorder as might endanger or impede military operations."

That is all right.

"3. Under no circumstances shall active Nazi or ardent sympathizers be retained in office, nor shall any Nazi organization be permitted to continue in existence for purposes of administrative convenience or expediency."

MR. WHITE: That has been changed, hasn't it?

MR. PEHLE: Yes, that is that third paragraph that Major Boettiger gave us a redraft of.

COL. CHANDLER: He has taken it from the cable which the Secretary has seen.

MR. WHITE: Does it mean the Nazi organizations will be permitted, for reasons of expediency - your understanding is, for purposes of administrative convenience or expediency?

H.M.JR: "Similar measures should be taken in connection with the issuance of the Directive, to indicate to commanders that the same principles stated above are applicable to it. However, it is essential that General Eisenhower's Proclamation I given on Page 12 must be ordered prior to issuance, publication, or posting. The following changes must be made: Paragraph one, the words 'as other countries

- 3 -

liberated from the horrors of Nazi tyranny' must be eliminated."

That is all.

MR. PEHLE: He eliminated that.

COL. CHANDLER: Yes.

MR. PEHLE: Well, that is good direction, but I don't think it is enough.

MR. WHITE: I thought they were in agreement with us.

COL. CHANDLER: That is what Boettiger said had been agreed.

MR. PEHLE: No, we had a rewrite which I have here. We suggested a rewrite of that to change the tone of it. They have taken out the worst dozen words, but the tone of it still remains.

H.M.JR: Explain it to the Colonel.

COL. CHANDLER: I see this one, now.

MR. WHITE: Incidentally, Colonel, I think if the General was to pronounce something like that it would have a terrific world effect. He would be like an outstanding figure. That statement would make America popular with Russia; it would make him popular with the people at home. I think it is a master stroke to have a statement of that kind in his first statement. Just cut out that last sentence.

COL. CHANDLER: Well, I have been told - Boettiger is trying to get the thing made up - we want to get the cable off tonight if we can - I talked to him and the General - I was told that that had been amended and that this was the amendment.

- 4 -

MR. WHITE: No, we didn't discuss the details beyond the agreement that the first paragraph was bad.

H.M.JR: Let me run through this.

Is it difficult for you to get McCloy on the telephone?

COL. CHANDLER: I shouldn't think so.

H.M.JR: Possibly you could do it from Mr. White's office. McCloy is familiar with this, isn't he?

MR. WHITE: Definitely. He was in agreement.

MR. BELL: I don't think so.

MR. PEHLE: I wouldn't say he agreed to substitute ours.

MR. WHITE: I said he was agreed the first paragraph should be modified.

MR. BELL: He said definitely that they would cable them asking them to modify the first paragraph, but there was no agreement on language.

COL. CHANDLER: What they said to me was - we didn't have the paragraph before us - he said the first paragraph of the Proclamation had stated they were taking the same steps against Naziism they had taken in other liberated countries, and that was what they were going to take out. I said, "Of course, it has to come out."

MR. WHITE: John was discussing it with Jack in the corner and was pointing out some of the difficulties.

H.M.JR: Let me go through this and then I think if you people could withdraw to Bell's room or White's room, or wherever it is convenient, and see if you can't get that thing in - somebody said, I can't remember who, that all we can do is to tell Eisenhower we don't like it, but we can't draft it for him.

- 5 -

I don't agree. As long as it has come over here, I don't see why somebody can't draft it for Eisenhower.

MR. PEHLE: At least they can give him a redraft for his consideration. You don't have to instruct him.

H.M.JR: I am not going to argue that. I am simply going to tell you I would like, as long as the War Department is consulting me, a suggestion to go to Eisenhower along these lines. I can't insist, and I am not insisting. Do you see? Just as a suggestion.

COL. CHANDLER: I see.

H.M.JR: My suggestion would be the following changes must be made in paragraph one. Isn't paragraph one the one we want them to drop out entirely?

MR. PEHLE: No, we wanted it rewritten.

H.M.JR: You could say that we would like to have it rewritten, and suggest this as a possible substitute. That is perfectly courteous to anybody. I wouldn't hesitate to write that to the President of the United States.

COL. CHANDLER: The trouble is, if that comes from the Combined Chiefs of Staff to Eisenhower, he considers it an order, and the Combined Chiefs of Staff, for that reason, would raise the dickens. It has to be approved by them and they will say, "What are you doing writing Eisenhower's Proclamation?"

MR. WHITE: But they did, already.

H.M.JR: These things that Eisenhower said to the French, and when he went into Africa, as I understood from the President, all of those things were written here, and I understand the President wrote some of them.

COL. CHANDLER: I wrote the one for Sicily, myself.

- 6 -

H.M.JR: I think the thing that went to Africa from here - I know the President had his hand in that.

Anyway, I am suggesting they drop that first paragraph and we are suggesting that this be brought as a substitute. Now, that is all I can do. But I would do it forcefully but courteously.

COL. CHANDLER: I understand.

H.M.JR: "The Handbook and Directive should be further revised to embody the above principles without delay. The distribution should be conducted in such a way as to permit the withdrawal of all copies of the present drafts and the substitution of the corrected and approved Handbook and Directive as soon as they can be made available.

"With reference to SCAF 68, it is intended that the above text will dispose of the issues therein."

See what you gentlemen can do, will you? The rest is all right.

Mr. McCloy said he didn't want me to initial it. The rest is all right. That, I think, is terribly important.

COL. CHANDLER: I think, sir, that I might be able to send over this unofficially, as a suggestion, to one of the people. I might get Foster, who is in G-5, and who is now here, to send this over to his people over there.

MR. WHITE: In addition to sending it over as a cable?

(Off the record discussion)

H.M.JR: The question McCloy raised was, it might be too late.

(To Mr. Pehle) Which is the paragraph we want to drop out? (Mr. Pehle hands the Secretary copy of Paragraph 1, attached)

- 7 -

MR. WHITE: It is the first paragraph in Proclamation I.

COL. CHANDLER: The point of my suggestion on the procedure was that Foster, as Chief Legal Officer of G-5, SHAEF, is the man who draws those papers.

H.M.JR: Is Foster Cambridge or Oxford?

COL. CHANDLER: I don't know.

H.M.JR: I think he is a great friend of Dr. Goodhart.

COL. CHANDLER: A very nice fellow. He is Oxford, because he is Recorder of Oxford. It is one of the honorary jobs he has. In fact, he was having me dine in London with him, but something happened.

(The Secretary holds a telephone conversation with Mr. McCloy, as follows:)

September 7, 1944
3:19 p.m.

HMJr: Hello.

Operator: Mr. McCloy is with Stimson. Shall I get him there?

HMJr: Yeah.

Operator: Right.

3:21 p.m.

HMJr: Hello.

Operator: McCloy.

HMJr: Hello.

John
McCloy: Yeah.

HMJr: Jack.

M: Yeah.

HMJr: Colonel Chandler is here and that cable is all right with one very important exception.

M: Yeah.

HMJr: The one paragraph in the proclamation of Eisenhower which starts, "The Allied Forces serving under my command have now entered Germany as conquerers but not as oppressors...."

M: Yeah.

HMJr: We wanted that whole paragraph dropped out.

M: Yes.

HMJr: And then -- which I understand that we were in agreement.

M: Yeah, well, we said that we would at least drop it out or modify it or urge the modification of it.

HMJr: Well, then -- then we had a substitute suggestion....

M: Yes.

HMJr: which we'd like to bring to Eisenhower's attention as a suggestion.

M: Yes.

HMJr: Now, couldn't that be done?

M: Well, the one that Dan Bell had there this morning, I thought was a bit lurid.

HMJr: Lurid?

M: Lurid, yes. It

HMJr: We cut out the last sentence.

M: You did?

HMJr: Yep.

M: Well, we were

HMJr: It would only take me a minute and a half to read it to you.

M: Read it. Read it to me.

HMJr: "The Allied Forces serving under my command have now entered Germany. We come as militant victors to insure that Germany shall never again drench the world with blood. The German people must never again become the carriers of death, horror and wanton destruction to civilization. As conquerors our aim is not oppression but the obliteration of every vestige of Nazism and militarism from Germany. The cruel and barbaric laws of institutions of Nazism will be abolished. Party leaders, the Gestapo and those guilty of crime and atrocities will be punished." Period.

M: Well, I think I'd -- what I'd -- I'd like to give that some thought. I think the President probably ought to pass on what that -- on the form of that. What I will do is this:

HMJr: I think it would be wonderful if somebody would put it up to him. I think he'd love it.

M: Well, maybe he would. What I would -- what I would suggest would be that we put in this cable

HMJr: Yeah.

M: that that first paragraph which indicates that we're coming in to treat Germany as we do all other liberated countries be changed.

HMJr: Yeah.

M: And that we'd like to have -- we -- we'll give them some suggestions and would like to have theirs. I don't like the form of -- frankly, I don't like that "drenching with blood" business -- uh -- in that -- in that proposal of yours, but I think we can get together on some effective language which changes the character of the first paragraph as it is now written, which I don't

HMJr: Well

M: like myself.

HMJr: Do you want -- how do you suggest that

M: I suggest that we add to this cable that -- that we think that proclamation -- the proposed proclamation -- certainly the first paragraph of it should be substantially modified so as not to indicate that we are moving into that country in any sense -- the same sense that we move into countries that are liberated.

HMJr: Yeah.

M: And I'd let it go at that. And then I think we can sit down and perhaps make another suggestion on it and perhaps get the President's thought on it. I don't like the closed door -- I don't like to give him anything as specific as that without further thought, and I don't like the death and destruction and drenching with blood business myself. I think we can be a little more effective in a different -- saying it a different way, yet of wording completely the connotation that he has in that first paragraph.

HMJr: Well, do you want Colonel Chandler to come back?

M: Well

HMJr: Do you want him to

M: If that -- if that's agreeable to you, he can come back and then we can shoot it off. What we'll do is add to that cable the suggestion that he change the tone of that first paragraph and then talk -- we'll talk about it again whether we want to rewrite the whole proclamation and -- and make a further suggestion to him, but I don't quite like to accept that -- that language even as a suggestion to him at this time.

HMJr: Well, through -- Colonel Chandler thought that through this English General....

M: Yes.

HMJr: they might send this through -- sort of around about and get it to him as a suggestion, but you don't even like it.

M: I don't like -- I think that you can do it in a better way than that. I think that

HMJr: Well, uh

M: I think you'll get your -- you'll get your -- get your idea with -- without quite all those gripping words.

HMJr: I like it but

M: Well, then we won't -- we rather -- well, there were some people who liked it, but most of the fellows there this morning didn't like it. They said that it didn't read very well, they thought.

HMJr: Well, it's a little dramatic and theatrical but that's

M: Yeah. Well, that was -- that was the thought.

HMJr: But that's the things that get across.

M: It was a little bit out of keeping with the proclamation that he's -- and the attitude that he's heretofore -- he writes pretty well

HMJr: Yeah.

M: when he really gets down to it himself. And he will -- he'll go over that proclamation himself and I feel that he's never, himself, given it any consideration.

HMJr: Who?

M: Eisenhower.

HMJr: Oh, I'm sure he hasn't.

M: And this is just somebody that wrote down the line. I'd rather let him -- because he's a very good writer.

HMJr: Yes.

M: That's my thought.

HMJr: All right. Well, I'll -- I'll suggest that Chandler come back to your office. Is that right?

M: Right. Fine.

HMJr: Thank you.

M: Okay.

- 8 -

H.M.JR: What he says is that they want to drop out this whole paragraph saying we are going to treat Germany like we have treated other countries.

MR. PEHLE: That is the language that is marked there, Mr. Secretary.

H.M.JR: He doesn't like that so much, but he says he thinks they could get that off. Then he said this thing could be rewritten here, and he wants to submit it to the President.

COL. CHANDLER: He wants to submit that to the President?

H.M.JR: Yes, but he would like to work on this some more with our people. Now, maybe you could take a few minutes before you go over there.

COL. CHANDLER: What do you want me to do?

H.M.JR: He didn't say. I am just suggesting that I think if you spend fifteen minutes here, maybe you could get together with our boys. I wouldn't spend more than that; I would get back to Mr. McCloy's office.

But as far as I am concerned, I have brought how I feel to his attention and that is all I can do.

MR. WHITE: Can't figure a thing like that being theatrical. It deals with very basic concepts.

MR. PEHLE: That element in it can be toned down.

H.M.JR: That is the kind of thing - the kind of radio speech that I give. They have been very effective.

MR. WHITE: That is what a Proclamation is for; it is an announcement.

H.M.JR: I go much further than that. I have talked about dripping of blood and bodies hanging on trees, and the people eat it up. My God!

- 9 -

MR. WHITE: That is not an over-statement.

H.M.JR: I don't know why we should be pussy-footed, particularly the Army. I don't understand it.

But anyway, as far as they are concerned, if you will just take fifteen minutes and see what you can do, then go back, and if Mr. McCloy wants to consult more, we are available. But whatever goes, finally, I would like to have a copy of it.

COL. CHANDLER: Yes. Did he say he wanted this preamble to go to the President?

H.M.JR: Yes.

COL. CHANDLER: What I think is, I think the one in the draft should be strengthened, no doubt about that. But whether we ought to do it in this cable - because of tying it up - it will be harder to get a thing like this cleared, I think, than the other.

H.M.JR: All I can do is to tell him how I feel; then what you people do from then on is up to you.

COL. CHANDLER: We send over whatever you want.

H.M.JR: Yes, but if you would take fifteen minutes now and see whether you can get together on something--

First paragraph of Proclamation No. 1 to be issued
by Eisenhower upon entering Germany.

(a) As drafted by Eisenhower's staff:

"The Allied Forces serving under my command have now entered Germany. We come as conquerors; but not as oppressors. In the areas of Germany occupied by the forces under my command, as in other countries liberated from the horrors of Nazi tyranny, we shall overthrow the Nazi rule, dissolve the Nazi Party and abolish the cruel, oppressive and discriminatory laws and institutions which the party has created. Party leaders, the Gestapo and others suspected of crimes and atrocities will be tried and, if guilty, punished."

After Treasury objection to the paragraph quoted above the War Department drafted a cable to Eisenhower which indicated that the following words in the above draft should be deleted:

"as in other countries liberated from the horrors of Nazi tyranny,"

(b) As redrafted by the Treasury:

"The Allied Forces serving under my command have now entered Germany. We come as militant victors to insure that Germany shall never plunge the world into war. again/drench the world with blood. The German

- 2 -

people must never again become the carriers of death, horror and wanton destruction. ~~to~~ civilization. As conquerors, our aim is not oppression but the obliteration of every vestige of Nazism and militarism from Germany. The cruel and barbaric laws and institutions of Nazism will be abolished. Party leaders, the Gestapo and those guilty of crimes and atrocities will be punished. Hitler and the other arch criminals of this war will be put to death."

93 9/17

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After Treasury objection to the paragraph quoted above the War Department drafted a cable to Eisenhower which indicated that the following words in the above draft should be deleted:

"as in other countries liberated from the horrors of Nazi tyranny,".

B. As redrafted by the Treasury and showing changes made during discussion with Colonel Chandler:

"The Allied Forces serving under my command have now entered Germany. We come as militant victors to insure that Germany shall never again, ^{plunge the world} ~~breach the world~~ into war. ~~with bleed~~. The German people must never again become the carriers of death, horror and wanton destruction ~~to civilization~~. As conquerors, our aim is not oppression but the obliteration of every vestige of Nazism and militarism from Germany. The cruel and barbaric laws and institutions of Nazism will be abolished. Party leaders, the Gestapo and those guilty of crimes and atrocities will be punished. Hitler and the other arch criminals of this war will be put to death."

September 7, 1944

I am now convinced that Harry Hopkins really wanted to go to Germany.

SEP 7 1944

My dear Harry:

As a result of your good help we have been able to make excellent use of captured enemy materiel during our War Bond Campaigns. Our State Chairmen are continually indicating to us that such displays have inspired substantial purchases of extra War Bonds.

While we have been enjoying the fullest cooperation of the Industrial Incentives Division of the Army, as well as of the Intelligence Division, the supply of materiel they have been able to make available is unfortunately not meeting the enormous demand which has pyramided in the light of great public interest. Not only are current requests pressing, but a large demand for such materiel for use during the Sixth War Loan Campaign is already evidencing itself.

Would it not be possible for shipments of small items such as helmets, shells, pistols, machine guns, sabres, insignia, uniform buttons, etc., to be sent back for War Bond promotion purposes. It would naturally be expected that lethal weapons would have firing pins or bolts removed or would otherwise be rendered harmless before distribution was made. If it can be arranged to have a large quantity of such materiel returned for this purpose, it will give a great lift to our program.

Information has also come to us that the Incentives Division of the Army has

-2-

requested the return to this country of a number of robot bombs. If we could have the privilege of touring these around the country during the Sixth War Loan Campaign, not only would they appeal strongly to the public imagination, but we are certain very substantial sales of War Bonds would result.

Thanking you for your constant consideration and valuable aid to our task, I am

Sincerely,

(Signed) Henry

The Honorable Henry L. Stimson
Secretary of War
Washington, D. C.

Typed 9/2/44
GSB:mt

9/7/44

Fred Smith
Secretary Morgenthau

In reply to your memorandum of September 4th about the "Washington Welcomes You" project, I will leave it up to Mr. D. W. Bell, Mr. Gaston and you to decide what to do about this.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

92 22
1047
Date
September 4, 1944

TO Secretary Morgenthau
FROM Fred Smith *FS*

The "Washington Welcomes You" project wants to do a sort of cavalcade about the Treasury on October 1 from the Treasury steps.

They have done such things from the Smithsonian Institute and from some other historic Washington landmarks and their spectacles have been pretty hammy. A Mrs. King runs this project in cooperation with the Evening Star. She already has secured permission from someone in the Treasury to put on the show; however, since it will be the story of the Treasury, I think it should be done right or not at all.

In order to do it right, we ought to have the bond people get us some script writers and actors, and thus provide a panorama that can be used in connection with bond promotion.

There is one distinct advantage of doing this, if we can get the proper help: since it will be sponsored by the "Washington Welcomes You" group, the background and virtues of the Treasury can be extolled without the whole project seeming to be self-serving.

One distinct disadvantage is that we don't have as much time as we should have. This date is set because it falls at the beginning of a special "good-will week" sponsored by the Board of Trade, in which the virtues of Washington will be extolled.

Do you think this is worth building into something or do you think we would do better to forget it?

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Sept. 7, 1944

TO: Secretary Morgenthau
FROM: Ted R. Gamble

The following persons are of interest in connection with our conversation:

HARRISON JONES - 55 years of age; President, Coca Cola Company, Atlanta; very well known nationally in business circles; of extremely strong connections throughout the South; born in Virginia; President of one Massachusetts corporation; made Chairman of the Board of the Atlanta Stove Works in addition to his Coca Cola connections; Director of the National Manufacturers and Trust Company and of the Fulton National Bank of Atlanta; Trustee of the University of Georgia Foundation; Colonel on the staff of the Governor of Georgia, 1923-26. Mr. Jones' business connections extend into every community in the country. His reputation for integrity is such as would place him in a particularly advantageous relationship with key people in all States.

CHRISTIE BENET - 65 years of age; nationally known lawyer; present South Carolina State Chairman of the War Finance Committee; life-long Democrat; particularly well known in Washington and throughout the South; (Barney Baruch's personal attorney). Mr. Benet's big strength would be his personal knowledge of influential individuals throughout the South and the access by virtue of his legal connections with key people throughout the Nation.

FRANK ISBEY - 45 years of age; millionaire through his own efforts in the production and marketing of produce; now head of a Detroit central fruit auction organization; very well known throughout the mid-West and Michigan; very strong in labor circles and approached by labor to run for Michigan Governor; hard-hitting and practical, with great reputation for rugged honesty. Mr. Isbey is a grand mixer and a terrific public speaker and would rapidly expand his personal influence from the mid-Western sphere to which it has been confined.

RICHARD C. PATTERSON, JR. - You know Mr. Patterson's weaknesses as well as I, but he is a top promoter, realistic and able to find where money is and the right approaches to get it. He is a religious Democrat and extremely practical on the financial side. His present connection is Vice Chairman of the Board of RKO Motion Pictures and personal representative in that enterprise of Floyd Odlum of the Atlas Corporation. In a pinch, it might be that Dick has exactly the right combination of qualities that would get the job done, and he would undoubtedly leap at the opportunity.

25

SEP 7 1944

My dear Mr. Acheson:

Reference is made to your letter of August 29, 1944, (FMA, Confidential) in which you suggest the desirability of having inter-agency discussions, in the near future, concerning ways and means of preventing the enemy from realizing on looted securities or other looted properties. This problem has long been of concern to the Treasury and I am in full agreement that this Government should do its utmost to implement Resolution VI of the Final Act of the United Nations Monetary and Financial Conference, held at Bretton Woods, New Hampshire. I am designating Mr. Orvis A. Schmidt, Acting Director of Foreign Funds Control, to represent the Treasury Department on this problem.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Dean Acheson,

Assistant Secretary of State.

OASchmidt:eps 9-5-44



DEPARTMENT OF STATE
WASHINGTON

In reply, refer to

CONFIDENTIAL

My dear Mr. Secretary:

For some time there have been exploratory discussions within this Department on the question of preventing realization by Axis nationals on securities which have been looted by the Axis from persons resident within the occupied countries. Discussions on the same subject with respect to tentative ideas developed in this Department have also been held with officials of the Securities and Exchange Commission, who have indicated a deep interest in the problem. It is understood also that preliminary and tentative conversations have been had between members of your staff and officials both of the Securities and Exchange Commission and of this Department.

As you know, Resolution VI of the Final Act of the United Nations Monetary and Financial Conference, held at Bretton Woods, New Hampshire, indicates that the United Nations are concerned with this problem and that they intend "to do their utmost to defeat the methods of dispossession practiced by the enemy." The Resolution also indicates the support of the United Nations for measures taken by any of the United Nations to prevent the liquidation of property which has been looted by the enemy.

It

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



It therefore seems appropriate and desirable at the present time that inter-agency consultations be held to determine what powers or controls the United States has which may be utilized toward the end of preventing realization by the enemy on looted securities and other similar properties. It has tentatively been suggested that certain of the powers granted to the Securities and Exchange Commission to regulate trading in securities may be utilized toward this end. It may also be possible to utilize certain of the controls administered by the Treasury Department over the importation of securities, both during and after the period of active hostilities, toward the same objective.

Mr. Seymour J. Rubin, Assistant Chief of the Division of Financial and Monetary Affairs, has been working on this problem for the Department. I am informed that Mr. Walter Louchheim, Assistant Director of the Trading and Exchange Division of the Securities and Exchange Commission, has been working on the problem for that agency. In view of the desirability of having exploratory discussions on this problem within this Government in the near future, you may feel it desirable to designate a representative of the Treasury Department to meet with these officials. Subsequent to such meetings it may also be desirable to initiate informal discussions with representatives of the British here in Washington.

Sincerely yours,

For the Secretary of State:



Dean Acheson
Assistant Secretary

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statements Nos. 151 and 152 --
Aircraft Despatched -- for the weeks ended August
13th and August 25th respectively.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D. C.

September 7, 1944.

STATEMENT NO. 151

Aircraft Despatched from the United States
 Week Ended August 18th, 1944

BRITISH/U. S. SECRET

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>	
<u>CONSOLIDATED</u>						
Liberator B VI	India	India		6		
Liberator GR VI	India	India		4		
Liberator GR VIII	U.K.	U.K.		1		
Liberator C VII	U.K.	U.K.		1		
<hr/>						
<u>GLENN MARTIN</u>						
Marauder III	M.E.	M.E.		21		
<hr/>						
<u>DOUGLAS</u>						
Dakota IV	U.K.	U.K.		14		
Dakota IV	M.E.	M.E.		2		
Dakota IV	India	India		9		
Dakota IV	S. Africa	S. Africa		2		
Dakota IV	Canada	Canada			2	
<hr/>						
<u>BOEING</u>						
Catalina IV B	U.K.	U.K.		1		
<hr/>						
<u>NORTH AMERICAN</u>						
Harvard	U.K.	U.K.	9			
Mustang	U.K.	U.K.	37			
<hr/>						
<u>VOUGHT-SIKORSKY</u>						
* Corsair	U.K.	U.K.		2		
Corsair (wooden replica)	U.K.	U.K.		1		
<hr/>						
<u>GRUMMAN</u>						
Hellcat	U.K.	U.K.		1		
Hellcat (wooden replica)	U.K.	U.K.		1		
* Wildcat	U.K.	U.K.		6		
* Avenger	U.K.	U.K.		1		
<hr/>						
<u>VULTEE</u>						
Vengeance	U.K.	U.K.		10		
<hr/>						
<u>NOORDUYN</u>						
Harvard	U.K.	U.K.		3		
<hr/>						
<u>STINSON</u>						
Reliant	U.K.	U.K.		3		
<hr/>						
				Total: 74	61	2

○ With Radio Equipment.

Movements Division
 British Air Commission

August 22, 1944

msh
 File V-17

STATEMENT NO. 152

Aircraft Despatched from the United States
Week Ended August 25, 1944.

BRITISH/US SECRET

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>LOCKHEED</u>					
Fortress III	U.K.	U.K.		8	
<u>CONSOLIDATED</u>					
Liberator B VI	M.E.	M.E.		11	
Liberator B VI	India	India		9	
Liberator B VI	Canada	Canada			1
Liberator GR VI	India	India		2	
Liberator GR VIII	U.K.	U.K.		7	
Liberator C VII	U.K.	U.K.		2	
<u>GLENN MARTIN</u>					
Marauder III	M.E.	M.E.		11	
<u>NORTH AMERICAN</u>					
Mitchell III	U.K.	U.K.		20	
Mustang	N.W. Africa	Casablanca	17		
Mustang	U.K.	U.K.	9		
Harvard	U.K.	U.K.	3		
Harvard	New Zealand	Wellington	5		
<u>DOUGLAS</u>					
Dakota IV	U.K.	U.K.		3	
Dakota IV	M.E.	M.E.		1	
Dakota IV	India	India		3	
<u>BOEING</u>					
Catalina IV B	U.K.	U.K.		4	
<u>WACO</u>					
Glider	India	Calcutta	30		
Glider	India	Karachi	20		
<u>STINSON</u>					
Reliant	India	Cochin	10		
Reliant	U.K.	U.K.	2		
<u>VOUGHT-SIKORSKY</u>					
Corsair	India	Cochin	4		
Corsair	U.K.	U.K.	2		
R-4-B Helicopter	U.K.	U.K.	1		
<u>BEECH</u>					
UC 45 Beechcraft	N.W. Africa	Brindisi	7		
<u>WILCOX</u>					
Vengeance	U.K.	U.K.	40		
<u>NOORDUYN</u>					
Harvard	U.K.	U.K.	3		
Harvard	New Zealand	Wellington	3		

- 2 -
(Cont'd)

BRITISH/U. S. SECRET

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>GRUMMAN</u>					
Hellcat	U.K.	U.K.		1	
* Avenger	U.K.	U.K.		1	

TOTAL: 158 81 1

* with Radar equipment.

Movements Division
British Air Commission

August 31, 1944

mmh
File V-17

107
9/7/44

RECONVERSION



OFFICE
SECRETARY OF TREASURY
11:16
1944 SEP 15 AM 8

A REPORT TO THE PRESIDENT
from
DIRECTOR OF WAR MOBILIZATION
JAMES F. BYRNES

OFFICE OF WAR MOBILIZATION

WHITE HOUSE

WASHINGTON, D. C.

JAMES F. BYRNES, DIRECTOR

SEPTEMBER 7, 1944.

Dear Mr. President:

For many months Government agencies have been making plans for a return to civilian production when Germany surrenders. Recently we have held conferences as a result of which the representatives of the departments directly concerned with reconversion problems are closely cooperating and synchronizing their programs.

This is a report upon the status of some of these programs and some recommendations as to future action.

CUT-BACKS

More than a year ago at the request of the Office of War Mobilization, the Army, Navy, Maritime Commission, and Foreign Economic Administration appointed committees to review their procurement programs to determine whether or not there could, at this time, be some modification either of the rates of production or of the total objective for the major items of procurement. Subsequently, at my request, the Joint Chiefs of Staff appointed a committee of four officers of high rank, two from the Army and two from the Navy, to review constantly the action of the several procurement agencies in the curtailment of procurement programs. They have been in daily touch with the procurement officials, who since that time have canceled more than \$18,000,000,000 of authorized expenditures.

Of course, while these curtailments and cancellations have been taking place, necessity has arisen for the expenditure of many other millions for certain additional munitions and supplies resulting from the change from a defensive to an offensive warfare. But the figures show that the procurement agencies themselves have tried to prevent the accumulation of unnecessary supplies while, at the same time, furnishing the weapons and supplies that have made possible the victories of our armed forces.

General Somervell, commander of the Army Service Forces, with the approval of the Chief of Staff, General Marshall, has directed—

(a) That the strategic reserve be immediately studied in the light of current production and strategic situation without delay.

(b) That authority be given him to immediately suspend procurement on not to exceed 50 percent of the matériel provided in the current strategic reserve.

This strategic reserve embraces supplies of initial equipment for an additional million men. The decision of General Somervell will not result in

cut-backs of existing orders but it will result in reducing by 50 percent orders placed after this date for supplies for these strategic reserves.

At the supply depots stocks heretofore have been authorized at 90 days of anticipated issue. In the light of current procurement and strategic conditions, General Somervell has ordered that the depot stocks be reduced to 60 days of expected issue for items vital to combat and 45 days for expected issue of other items. This will also reduce future procurement orders.

The ample supply of some munitions and some supplies will not, however, lessen the emphasis all Government agencies have been placing upon the necessity for overcoming the shortages in certain other critical supplies. They continue short. Reports continue of the short supply of certain artillery ammunition requiring our officers to restrict the number of rounds fired per day. For the last week the conduct of the war, fortunately, has lessened the demand upon the supply of heavy artillery ammunition. But no one can tell when demands will again increase. The Army cannot gamble as to the day of surrender.

AGENCY COOPERATION IN CUT-BACKS

Recognizing the need for an orderly shifting of facilities to meet changing requirements during the period of maximum war production, I directed the War Production Board on June 5, 1944, to establish an appropriate division with representatives from the procurement services and the War Manpower Commission to develop cut-back procedures, having in view that these cut-back procedures will be available to facilitate reconversion upon the defeat of Germany.

The current procedures for the administration of cut-backs are designed to provide for interim revisions in war requirements. Under these procedures, the procurement agencies determine the allocation of cut-backs among contractors under broad policies developed by the War Production Board to secure maximum production. The procurement agencies furnish the War Production Board with advance notice of any cut-back for an item or related group of items in which the value of the cut-back equals or exceeds \$1,000,000 in the current month or any of the next succeeding months.

As detailed plans are developed, these plans are also reported to the War Production Board. They include information with respect to the facilities involved, the labor employed, the labor area in which the work is located, costs, past production, future requirements, plant capacities, and the selection of facilities for retention and release.

The staff of the War Production Board assigned to the study of cut-backs reviews the detailed proposal and gives clearance or recommends changes which appear desirable. This staff is composed of representatives of the war procurement agencies, the War Manpower Commission, the Smaller War Plants Corporation, and various divisions of the War Production Board.

For cut-backs of over \$200,000 but less than \$1,000,000 in the current month or any one of the succeeding 3 months, modified information is made available to the War Production Board prior to final determination of the facilities to be cut back.

As a result of these procedures, the War Production Board, the War Manpower Commission, and the Smaller War Plants Corporation are advised before final notification is given to the contractor so that appropriate arrangements may be made for the use of the facilities for other war purposes or for essential civilian production. This also permits the development of a program for the utilization of the manpower made available by the cut-back.

V-E DAY

With the defeat of Germany, the requirements of the procurement agencies for matériel and supplies will be reduced by approximately 40 percent. The primary objectives in the cut-back procedure will differ somewhat from those now in effect. The need will still remain to give full protection to the necessary war programs for the conduct of the war against Japan, but, in so doing, every opportunity will be provided to permit the resumption of maximum civilian production without delay, thus preventing extended unemployment.

The procurement agencies confronted with major readjustments following the defeat of Germany have prepared special procurement programs for the continuing war with Japan which are ready for implementation immediately upon the defeat of Germany.

These agencies are now engaged in notifying prime contractors of their tentative plans under policies prescribed by the War Production Board. Moreover, the proposed contractual changes in major items have been or are in process of being submitted to the War Production Board for review and for the consideration of such changes as may appear desirable in the interests of the national economy.

The staff which has obtained experience in analyzing current cut-backs is being utilized to examine the tentative cut-backs which will result with the defeat of Germany. The factors for the selection of facilities to be released at this time will differ, obviously, from those used with respect to current production, as speed in reconversion to desirable civilian production now becomes a major factor.

CRITERIA FOR SELECTION OF CUT-BACKS AFTER V-E DAY

The factors being evaluated in the selection of facilities for the second phase of the war follow:

(a) The procuring agency will retain until final victory those contractors which it has found from experience to be capable of producing required items of desirable quality at the desired scheduled rates. The contractors retained in war production until the end of the war must be

the best qualified, and all other rules of selection are applicable only among those so qualified. No contractor, however, will be disqualified simply because he is a small contractor.

(b) As between qualified contractors, the following factors will be considered in selecting facilities to accomplish the necessary readjustment and curtailment of production:

(1) Privately owned plants, not normally engaged in production of a military character, will be given first priority of release from war production in order to facilitate their reconversion to civilian production, due consideration being given to the wishes of the contractors.

(2) Government-owned plants will be kept in operation or reserve until their production is clearly no longer required for military needs. This is subject to modification in the case of a plant located in an isolated section with no opportunity for displaced workers where the exercise of wise administrative discretion may prompt other action.

(3) Insofar as practicable, the release to civilian production of competing units of the same industry should be simultaneous.

(4) In scheduling the release of plants and industries, due consideration is to be given to cushioning the shock of unemployment.

(5) In scheduling the release of plants or industries, due consideration is to be given to—

(a) Security considerations;

(b) Considerations affecting public transportation, such as accessibility to the sources of labor, raw materials, components, depots or storage facilities, and ultimate destination;

(c) The relative unit cost to the Government;

(d) The welfare of smaller business.

(6) Where practical considerations make it possible, companies responsible for the development and engineering of specialized products will be retained in their manufacture in preference to those companies which are merely licensed for their manufacture.

As a result of advanced planning, representatives of the procurement agencies are today conferring with contractors, agreeing in advance of termination as to methods of accounting and settling such questions as the allotment of overhead expenses as between war production and civilian production.

The agencies will also notify their contractors by telegram, when the defeat of Germany is announced, of the curtailment of war production in the contractor's plant so that the contractor may start immediately with converting to normal civilian production that portion of his plant no longer required for war production.

The War Department personnel engaged in contract termination work now exceeds 6,500. Plans developed for the speedy termination of the contracts will require more than 25,000 persons. Additional personnel for this

work is being trained in special schools, and training courses are being provided for procurement officers and for employees of contractors.

NAVY CUT-BACKS

The plans of the Navy Department are necessarily different from those of the War Department. The Navy has a smaller number of contracts. The task of the Navy following the surrender of Germany will be just as great as before the surrender. A review of Navy plans indicates the same thoroughness as is evidenced by Army to do all possible to lessen the impact upon the civilian economy resulting from the curtailment or cancelation of contracts.

MARITIME CUT-BACKS

The Maritime Commission, like the Navy, has a tremendous task to perform in the war of the Pacific. The surrender of Germany will not lessen the necessity for the construction of certain types of ships, but it will make possible the cancelation of some ships. Plans have already been prepared to become effective upon the cessation of hostilities in Europe, listing the contracts to be canceled or curtailed.

WAR CONTROLS TO BE MODIFIED TO STIMULATE CIVILIAN PRODUCTION

There will be some time lag between the curtailment and cancelation of war contracts and the resumption of large civilian production. The length of that period may be lessened by the promptness with which wartime restraints are removed.

To insure the utmost speed in reconversion and to permit the prompt resumption of civilian production at least equal to the civilian production of the United States in 1939, controls now in existence will be released or modified to the fullest extent possible to permit manufacturers a freedom in planning for the resumption of civilian production and in ordering materials and components which will assure maximum speed.

The military needs for the war against Japan must be assured. Unquestionably there will remain areas of tight supply, which will necessitate war production receiving a preferential position. However, the Controlled Materials Plan, with its necessary but cumbersome paper work, will no longer be required, provided industry as a whole continues to recognize the importance of war and essential civilian production and the necessity for the protection of small business.

As the Acting Chairman of the War Production Board has announced, existing controls will be relaxed immediately after the defeat of Germany and the following controls substituted:

(a) The establishment of a new military preference rating to be assigned to the war procurement programs of the War Department, Navy Department, Maritime Commission, War Shipping Administration, and

military lend-lease. Contractors will be required to accept orders in this rating band and to fill these orders in preference to any other orders.

(b) The establishment of a new civilian production preference rating band subordinate to the military rating but superior to all other ratings to be used only if necessary to protect the more essential civilian programs. It is not anticipated that this rating band will be necessary, and it will be used only in the event programs in this category fail to meet schedules.

(c) The new rating structure will be placed in effect immediately following the defeat of Germany. It will automatically assign the new ratings to the prime contractors of the designated programs and these prime contractors will be directed to extend the ratings to their suppliers. After an appropriate period has elapsed to permit a rerating and rescheduling of orders, all other outstanding preference ratings will become void.

(d) The priority regulations now in effect will be amended to conform to these changes.

(e) The Controlled Materials Plan will be revoked immediately after the defeat of Germany, except that it will remain in effect for steel and copper during the remainder of the quarter in which the revocation is issued. In effect, orders under the Controlled Materials Plan become priority orders; however, suppliers will be permitted to receive and fill all orders placed after the defeat of Germany to the extent made possible by the cancellation of orders which they then hold under the Controlled Materials Plan.

(f) L and M orders will be revoked except for a few selected orders which must be retained as a mechanism for programming items which will continue in short supply, such as tires, batteries, motors, lumber, and some textiles and chemicals.

(g) The War Production Board will retain the authority which it now has to continue or to institute controlled mechanisms to cope with individual production and procurement problems, to include the authority to issue individual directives to manufacturers or suppliers to produce or deliver a product or products to a designated purpose. This will permit the War Production Board to take appropriate action to prevent or to correct hardship cases.

ADMINISTRATIVE MACHINERY FOR SECURING THE PROMPT CLEARING OF CONTRACTORS' PLANTS

An essential step to the prompt reconversion of a war facility to civilian production is the removal of war materials and equipment from the plant. This clearance is a part of the contract termination procedure which has been planned in detail by all of the procurement agencies in close cooperation with the Director of Contract Settlement and with the Surplus War Property Administrator.

Arrangements for prompt advance payments and for loans assure the war contractor of quick financing. There remains the inventory and disposal

of plant equipment and materials pertaining to the war contract which must be removed to prevent interference with reconversion.

To expedite prompt clearance, the following procedures have been developed:

(a) Whenever a war contractor is of the opinion that he no longer requires for the performance of any war contract Government-owned facilities covered by purchase or lease option, he will promptly notify the owning procurement agency of his desire to exercise or waive the option. If he desires to exercise the option, the facilities will be disposed of accordingly. The procurement agencies are prepared to waive or release, under terms and conditions deemed appropriate, any existing obligations of war contractors under facilities contracts.

(b) The war contractor will submit an inventory list of items which become excess with the curtailment of his contract and which are not under option classified for retention or for removal. He will indicate the space which he has available for storage under appropriate rental. Unsatisfactory inventory lists will be returned by the procurement agencies within 10 days. Within 20 days the procurement agencies will notify the war contractor of those items in his inventory which are—

- (1) Necessary for war production;
- (2) May be retained by the contractor;
- (3) May be stored by the contractor; and
- (4) Should be prepared for shipment to a designated place.

Within 60 days after receipt of a satisfactory inventory list, the procurement agencies—

- (1) Must dispose of any or all of the facilities to the war contractor which the Government is willing to release;
- (2) Complete arrangements with the war contractor for the storage of those inventory items which he is prepared to store; and
- (3) Remove the balance.

At any time in this period the war contractor may remove and store at his own expense and risk any materials or equipment no longer required for war production. After the elapse of 60 days from date of receipt of inventory, the contractor may remove and store such materials at the risk and expense of the Government.

In order to facilitate the removal of equipment and material, the procurement agencies are developing storage space requirements and reporting these requirements to the Space Control Committee of the Surplus War Property Administration.

This Space Control Committee has regional subcommittees located throughout the United States which maintain listings of all suitable storage space and allocate space to the procurement agencies to meet their requirements.

In addition large centrally located storage centers are being developed where prefabricated temporary storage shelters can be erected quickly to

protect stored equipment. These storage areas will be located in industrial centers and will be operated under Government contracts by commercial warehousemen.

All procurement agencies will be required to establish a reporting procedure which will show the progress being made in clearing plants.

To further facilitate reconversion the Surplus War Property Administrator has approved the immediate sale of machine tools and industrial equipment being used by manufacturers for war work to these manufacturers on a depreciation formula believed fair to both industry and to the Government.

Machine tools not desired by the manufacturer are reported as surplus and become available for sale to other contractors desiring the tools for the resumption of civilian production under the same general depreciation formula but with a somewhat more favorable price differential in view of the additional costs of installing such machinery as compared with machinery sold in place.

STEPS TO AID EMPLOYMENT DURING RECONVERSION

The effectiveness of any plans for the transition from war production to peace production will depend upon our ability to provide jobs for the workers who will be displaced by the reduction in war production.

The fear of prolonged unemployment following V-E Day has been exaggerated. The prosecution of the war against Japan will demand the continued production of great quantities of war materials. Basic industries, such as steel and textiles, will not be affected. We will speedily return to civilian production. The pent-up demand for goods will come from a people who have the money with which to buy them.

But it is inevitable that in some particular industries and in some communities there should temporarily be reduced employment. This is more likely to occur where the curtailment is in Government-owned plants engaged entirely in war production and having no plans for civilian production.

In order to meet this situation I have appointed a committee consisting of representatives of the War Production Board, the War Manpower Commission, the Defense Plant Corporation, and the Surplus War Property Administration. They are at work interviewing the contractors. Their objective is to ascertain whether or not the contractor will exercise his option to buy or lease the plants. If he is not interested, then the committee, having determined to what uses the plant can be put, will inquire whether local capital or some corporation or individual can be interested in purchasing or leasing the plant—of course, subject to the policies prescribed by law.

The primary purpose is to help the manpower situation. The presence of a representative of the War Manpower Commission on this committee will enable that agency to know what progress is being made in arranging for the

operation of these plants. If such operation does not seem probable, the War Manpower Commission, in advance, can make plans to secure jobs for the workers when their employment is terminated.

It is obvious that any restrictions upon the sale or leasing of these plants that will delay their conversion to civilian production will cause unemployment. In the Government-owned plants there are several million war workers. If they are not employed until other plants can be built or other machinery installed, they will be out of work for a long period. The plant equipment of these Government-owned plants must be put to work promptly if jobs are to be provided.

WARTIME MANPOWER CONTROLS TO BE LIFTED

It is apparent that with the defeat of Germany the necessity for existing manpower controls will largely cease. Hence, these controls will be abandoned to facilitate the transfer of manpower from the curtailed war programs to civilian production. The services available through the War Manpower Commission and the United States Employment Service will continue. The Production Urgency and Manpower Priorities Committees will also continue to function as at present although their functions will become advisory.

However, a loss of manpower in war production below the needs to meet the schedules established for the war against Japan would necessitate a prompt restoration of controls. It is anticipated that the voluntary establishment of ceilings will correct such conditions locally, if the need arises.

FIRST LINE OF DEFENSE AGAINST UNEMPLOYMENT

Unemployment compensation is our first line of defense against unemployment. In view of the failure of the Congress to provide for more liberal benefit payments by the unemployment compensation systems of the States through supplemental appropriations by the Federal Government, there will be some States in which the payments will be very inadequate, particularly in view of the increase in the cost of living since such payments were established by those States.

The weekly benefits were established several years prior to the war. If they were adequate then, they are inadequate now. The State systems have, during the war, as a result of increased contributions and reduced expenditures, accumulated reserves of five and one-half billion dollars. That is fortunate. But the objective of the system is to provide a defense against unemployment and not merely to accumulate money. The States should act now to liberalize the benefits and make the State systems serve their true purpose.

I still hope the Congress will reconsider its action in rejecting the plan suggested by me that the maximum weekly benefit should not be less than a stated percentage of the workers' previous wages or \$20, whichever is the lower; should be paid for as long as 26 weeks and the coverage be

extended to include workers where the number of employees is less than eight. Several influential Members of Congress expressed to me the view that they did not want to consider at this time a bill liberalizing the benefits because they feared if such a bill were considered at this time just prior to a Presidential election, there would be bidding for votes and the proposal would not be considered upon its merits. They thought that after the election legislation providing reasonable liberalization could be enacted. I earnestly hope this will be done.

RETURN TO 40-HOUR WEEK

It is evident to me that if on V-E Day we are to reduce war production 40 percent, it is necessary that the Government plan now to spread the work.

Only the necessities of war production and the shortage of workers caused the Government to increase the workweek to 48 hours. When V-E Day comes we should return to the 40-hour week. This will give jobs to those who are left without employment. The workers want jobs and not unemployment compensation.

On February 9, 1943, I recommended that the President issue an order authorizing the increased employment to 48 hours. As the reason for the order will not exist after V-E Day, I hope an order will be issued returning to the 40-hour week provided by law, except to take care of production necessary to the war effort and some specially tight labor areas.

This will help solve a problem which is already giving concern. Many employees have been leaving plants engaged in war production to seek employment where they believe civilian production will be quickly resumed. If a worker remains in war production and is allowed to work 48 hours with time and a half for the extra 8 hours, his weekly take-home will be larger than the weekly take-home of the worker engaged in civilian production and working only 40 hours. The financial incentive thus provided may induce workers to remain in war production.

RETRAINING AND REEMPLOYMENT ADMINISTRATION

The Retraining and Reemployment Administration has been at work for months upon the problems of employment and training. Central offices have been established in all important cities where there are concentrated the representatives of various agencies concerned with employment, vocational training, and other activities of Government agencies so that the unemployed may, in one place, secure information as to the assistance they can secure from the Government. The plans worked out by this agency will be of assistance to the unemployed veterans and war workers.

PUBLIC WORKS

The Federal Works Agency has obtained from States, counties, and cities much information as to work projects planned by such governments.

The demand for construction projects exists. As a rule those governments have the funds for the projects. In communities where there is no unemployment following V-E Day it would be unfortunate if large public works were undertaken. It would be more unfortunate if they were not undertaken in communities where there is unemployment.

It is not possible to exercise direct control over the time when expenditures will be made by local governments. But the Federal Government can time its expenditures of Federal funds for road construction and work projects to relieve unemployment.

PRICES FOR RECONVERSION

When a manufacturer has been advised of the curtailment of a war contract and that he can resume civilian production, he probably will not move until he ascertains what ceiling price will be placed upon his goods. The price of civilian goods which have been produced throughout the war has been fixed by OPA and takes into account increased production costs. But articles not now produced, such as automobiles, radios, refrigerators, may have to be priced somewhat above the prices prevailing in 1941 when civilian production of these articles was stopped.

It is entirely possible that on V-E Day, as a result of the curtailment of contracts, several hundred producers would at the same time ask OPA for a decision as to a ceiling price. Obviously, if a decision is delayed until investigation can be made of production costs of all such articles at that time, it would increase the ranks of the jobless.

One practical way would be to authorize a percentage increase over earlier prices for articles which have been out of production for some time, with the right and duty devolving upon OPA to adjust such prices upward or downward in the light of experience. Since January 1, 1941, when the production of civilian durable goods was drastically curtailed, industrial wholesale prices have increased. Often it is difficult to ascertain quickly the amount of such increase because the increase has not been uniform for all commodities. Some commodities have risen substantially while others have declined or not risen at all. For example, iron and steel prices have not risen and the price of aluminum actually has declined. There has been very considerable technological progress during the war which should serve in some cases to offset increase in labor and material costs.

However, it should be feasible for OPA to establish a general ceiling for articles out of civilian production for some time at a fixed percentage above the prices charged for such articles before civilian production ceased. This percentage can be quickly computed on the basis of increased material, labor, and other costs. Provision can be made to take care of hardship cases on appeal. As manufacturers return to production, competition should cause some prices to drop quickly and substantially below the fixed ceilings.

The Stabilization Director and the Price Administrator are engaged in determining the formula to be applied in arriving at the percentage increase to be allowed. The formula cannot now be announced. No hard-and-fast rule can be applied to all industries, but a price program

is being worked out that will make certain that the reconversion to civilian production in any industry will not be delayed by lack of information as to prices.

TAXES

Before the manufacturer returns to production he will want to know something more than the ceiling price. He will want some idea about taxes in order to determine whether there will be a profit in his business. Everybody cannot be an employee. There must be an employer if people are going to get jobs. Before a man puts his own money and asks his friends to put money in a business he wants to know that there is some prospect of his making a profit.

The excess-profit tax is a war tax. With the ending of the war there should be an end to excess-profit taxes. It cannot be done upon V-E Day because we will still have war production and war profits, but the administration and the leaders of the congressional committees might well announce an intention to urge the elimination of the excess-profits taxes when the war with Japan is at an end.

We should consider, also, the advisability of allowing manufacturers to depreciate new machinery substantially in the years in which such machinery is purchased. Great Britain has incorporated such a plan in its current budget. This action would induce many companies to hazard new ventures, thereby increasing employment. It would give a real incentive to companies to keep our industry ahead of the rest of the world technologically. It would provide a steady domestic market of substantial proportion for capital goods and would go far to provide a stable basis for employment in that field in the post-war readjustment.

CONTROLS

I have requested a survey to be made to determine what war controls can be modified after V-E Day. To enforce controls requires personnel. When the controls are released Government employees should be released. The scheduled reduction of procurement in the War Department, the removal of controls by the War Production Board and other agencies should make it possible for many Government workers to return to their homes when Germany surrenders.

The justification for rationing is the short supply of a commodity. When the supply is sufficient for normal demands rationing should cease. Many foods have already been removed from the ration list. Others will be removed as soon as supplies justify removal.

V-E Day will result in increasing the supply of gasoline available for the civilian population. It is impossible now to make a definite statement. My opinion is the increase will not permit the discontinuance of rationing, but the allowances can be increased in certain areas.

There are many commodities, however, that are still in short supply and must continue to be rationed.

FOOD PROGRAM

V-E Day requires a review of our plans for production on farms as well as in factories. In the near future War Food Administrator Jones must announce the goals for farm production in 1945. So far as food supplies are concerned here is the problem:

Food production in the areas under Allied control with the exception of Russia is approximately one-third above normal production. War reserves have been established. When peace comes the reserves in the military theaters will become surplus.

Because of the submarine activity, blitz bombing, and the irregularity of shipping, reserve stocks for the civilian population of the United Kingdom were increased from a normal of approximately 1,500,000 tons to 5,500,000 tons. These stocks were made up of supplies domestically produced, purchased in the market, lend-lease, and other sources. If after V-E Day this stock should be fixed at 3,500,000 tons, it will leave 2,000,000 tons available for relief. This will, of course, affect only the size of the reserve stocks and not the food available for current consumption in Britain.

It is estimated that in the year following V-E Day our military food procurement will decline about 50 percent or approximately 4,000,000 tons. In addition we know that the Army has accumulated considerable stocks of combat rations in the European theater which will be available for civilian use.

In order to meet lend-lease shipping schedules the War Food Administration has had to accumulate a stock of food commodities.

Thus, approximately 8,000,000 tons of food can be released from the wartime pipe line or reserve for other uses. This will include 6,000,000 tons of food other than wheat.

Excluding wheat the estimated requirements of the armed forces for food during the first 6 months of reoccupation are 1,200,000 tons. UNRRA estimates its requirements for the same period at approximately 2,700,000 tons.

This would make approximately 6,000,000 tons of food available against requirements of 3,900,000 tons for the first 6 months of 1945. It seems, therefore, that European requirements will be met without very large drafts on the United States production in 1945.

That means that we must decide what we will do about the commitment of the United States Government to support farm prices contained in what is known as the Steagall amendment. If, as a result of reduced demand, the market price drops below the support price, Government must buy the surplus if it is going to support prices.

Domestic consumption will increase with the removal of all ration controls. Prior to the war we disposed of surplus foods through the school lunch program, the stamp program, and direct relief program. These programs, however, cannot absorb enough to maintain prices in the domestic market.

We must increase our exports, but we must realize there are difficulties.

Our price level is higher than for similar commodities in other producing areas. The United Kingdom will be asked to make contracts for food in Canada, Australia, New Zealand, and South America. Russia has indicated a desire for machinery and machine tools but for few consumer goods.

We know that the civilian population of other nations have not consumed anything like the consumption of our people. As other nations return to full production and full employment, there will be increased demand for food abroad as well as at home. I have abiding confidence that ways will be found to make certain that we do not return to a policy of scarcity.

But here is the immediate and concrete problem: Congress has committed the Government to support prices but has not appropriated funds to carry out the commitment. In the light of the situation above described it is estimated that compliance with this commitment may require an appropriation of as much as \$2,000,000,000 in 1945.

I therefore suggest that the Congress be asked to prescribe methods by which the support price commitment shall be carried out and appropriate adequate funds for the purpose. Action is necessary at this time in order that the Food Administrator can establish quotas for the various crops and fix the support prices.

COMMENDS BARUCH-HANCOCK REPORT

Last November I requested Mr. B. M. Baruch and Mr. John Hancock to investigate and report upon the problem of reconversion. In March of this year they filed a report which was submitted by me to the various Government agencies to establish a pattern for action by them on the suggestions therein discussed. The report has been of inestimable value and should continue to be the guide for reconversion policies.

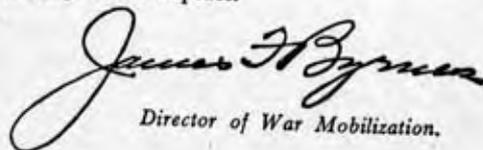
PRESENT INCOME AND EMPLOYMENT LEVELS SHOULD BE MAINTAINED

The fear of timid people may temporarily retard our return to full production and full employment. But it will be only for a short time.

Today America is stronger than ever before. We should make the maintenance of the present national income and high level of employment our goal—and achieve that goal.

I realize that in reporting at length upon plans for returning to civilian production there is danger of diverting the attention of the people from the tremendous tasks to which we must devote all of our efforts if we are going to contribute our part to the victory. But I have confidence in the common sense and sound judgment of the people and believe the knowledge that their Government has been preparing plans for peace will cause them to increase their efforts to bring about that peace.

Sincerely yours,


James H. Byrnes
Director of War Mobilization.

EMBASSY OF THE
UNITED STATES OF AMERICA

No. 7845

Habana, September 7, 1944

AIR MAIL

Subject: (Cuba agrees to accept 1000
(refugee children)RESTRICTEDThe Honorable
The Secretary of State,
Washington, D. C.

Sir:

In amplification of my telegram No. 798 of September 5, 7 p.m., I have the honor to enclose copy and translation of note No. 2219 from the Ministry of State wherein the Government of Cuba agrees to accept 1000 refugee children in France and Hungary.

I have not been apprised of the manner in which Cuba proposes to handle this matter, but I shall advise the Department immediately of further developments.

Respectfully yours,

For the Charge d'Affaires a. i.:

Garret G. Ackerson, Jr.
First Secretary of Embassy

Enclosures:

1. Copy of Foreign Office note No. 2219
2. Translation thereof

File No. 711
HEM/hmf

cc:

Enclosure No. 2 to despatch No. 7845 of September 7, 1944,
from the Embassy at Habana

TRANSLATION

The Ministry of State presents its compliments to the Embassy of the United States of America and in connection with the memorandum from the Embassy dated August 17 regarding the admission into Cuba of 1000 refugee children who are at present in France and Hungary, is pleased to advise that the Government of Cuba agrees to offer lodging on our soil to the indicated minors and that it is disposed to offer all facilities to carry out this humanitarian proposal.

The Ministry of State avails itself of this opportunity to renew to the Embassy of the United States of America the assurances of its highest consideration.

Habana, September 5, 1944

HEM/hmf

CABLE TO JOHNSON FOR OLSEN, STOCKHOLM, FROM WAR REFUGEE BOARD

JDC is remitting \$100,000 to you under Treasury license for use in Hungary under Wallenberg's supervision and at his discretion.

THIS IS WRB CABLE TO STOCKHOLM NO. 83

4:10 p.m.
September 7, 1944

FH:lab 9/7/44

CABLE TO HARRISON, BERN, FOR MC CLELLAND FROM WAR REFUGEE BOARD.

Reference penultimate paragraph your no. 4258 of July 5, your no. 4867 of July 29, and Department's nos. 2417 of July 16 and 2579 of July 28.

In view of recent developments and the urgency of the Hungarian situation and since delays may be disastrous, JDC agrees that balance of one million dollar fund may be used by Saly Mayer in any way that can be helpful in saving the lives of Jews in Hungary. Please advise Mayer accordingly.

THIS IS WRB CABLE TO BERN NO. 163

5:00 p.m.
September 7, 1944
FH:lab 9/7/44

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
 TO: American Legation, Bern
 DATED: September 7, 1944
 NUMBER: 3091

CONFIDENTIAL

World Jewish Congress representatives here feel that program recently approved for 300,000 parcels for internment camps specified by Intercross will not benefit many Jews. They have suggested that Intercross be urged to include the following camps in this program.

Austria:	Mauthausen
Belgium:	Mechelen, Breendonck
Germany:	Bergenbelsen, Berg A/Lain, Birkenau, Trier, Eichwald, Faubruck, Graitaitz, Tomersdorf
Netherlands:	Barneveld, Vucht, Westerberck
Northern Italy:	Cesareo, Fossoli, Monte Ferrato, San Martino di Rosignano
Protectorate:	Altersheim Prague
Slovakia:	Sered nad Vahun, Nyhne
Poland:	Czestochowa, Deutsch Horst, Jedizejof, Klimontov, Krakow-Podgerese, Kariljec, Krychow, Laziska, Luta, Ossawa, Oswiecim, Rejowice, Sanok, Sajeczyce, Uher, Wieliczka

If you deem it advisable, please discuss suggestion of World Jewish Congress with Intercross.

HULL

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Legation, Bern
DATED: September 7, 1944
NUMBER: 3094

SECRET

FROM WAR REFUGEE BOARD TO MCCLELLAND

Several requests have already been received by the War Refugee Board for financial assistance in the relief of refugees in areas liberated by the Allied military forces.

For your information and guidance War Refugee Board activities are to be strictly limited to the rescue and relief of the victims of enemy oppression who are in imminent danger of death, that is, who are still in enemy-occupied territory. Refugee problems in liberated areas are not (repeat not) regarded as being within the Board's functions. Accordingly, if you receive requests limited to the relief and assistance of refugees in areas liberated from the Germans, you should refer such problems to UNRRA, the appropriate military authorities, the Inter-governmental Committee on Refugees, private refugee organizations, or other national or international groups which are authorized to deal with matters of this nature.

The foregoing shall not be construed to limit the activities of the Board dealing with arrangements for the removal of refugees in liberated areas whose presence serves to discourage and prevent the rescue of additional refugees from enemy-occupied areas.

Other WRB Special Representatives abroad are receiving this message.

Repeated to London for Mann as Department's No. 7258.

HULL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: September 7, 1944
NUMBER: 5888

SECRET

FOLLOWING IS WRB 142.

Legation's note conveying Department's cable of August 25, No. 2933, was discussed with Legation's Secretary by a ranking Swiss official and he indicated that the Swiss were not able to request the Swiss Legation in Budapest to present the matter to the Hungarian authorities without information concerning time place nationality of Jews involved. He added that the Hungarians might possibly refuse to accept the communication from the Swiss unless such specific information were included. As the purpose might thereby be defeated, the Swiss are naturally anxious to avoid such a possibility.

HARRISON

DCR:VAG:MLM 9/8/44

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
 TO: Secretary of State, Washington
 DATE: September 7, 1944
 NUMBER: 5894

SECRET

The following numbered paragraphs correspond to the numbered paragraphs of WRB 64, Department's cable of July 13, 1944 No. 2407. An August 4 aide-memoire from the Swiss Legation in Berlin, transmitted with a notice from the Swiss Foreign Office dated August 26, contained the information given below.

Two. In accordance with instructions from the Spanish Government, the Spanish Embassy in Berlin informed the Germans that all Paraguayan passports circulating in Germany at the present time are recognized by the Government of Paraguay. There was no reply from the Germans. The Embassy is not in touch with those persons bearing doubtful Paraguayan passports and the fate of these persons is completely unknown to the Embassy. The Germans refused the request to visit Bergen-Belsen where the Embassy believes some bearers of such passports are held. Furthermore the Embassy is not in written communication with these persons. Stated by the Embassy that they were never able to establish contact with Spanish citizens "Safardites" (Spanish Jews from the east) who were interned for several months in Bergen-Belsen before being repatriated. It is doubted by the Embassy whether anything can be done for Paraguayans in this category. It appears that additional steps on behalf of these Jews were not taken by the Embassy.

Three. It is stated by the German Foreign Office section of law of war for internment and exchange that they are not able to provide the Swiss with any information concerning the fate of Latin American internees deported from Vittel since they are considered by the German Government as Jews from occupied countries concerning whom no account need be given to third powers by the Germans. Therefore, application was made by the Swiss Legation to the interior section of the German Foreign Office which is in direct touch with the police. The Swiss insisted vigorously that they be advised of the place of detention of Vittel internees who are considered eligible for exchange by the American Government. There was no reply from the Germans.

Four. All Latin Americans then detained in civilian internment camps were covered by the assurances which Sethe gave verbally on May 11. It was well understood from the German side that they would no longer question the identity papers possessed by these persons. For persons covered by assurances given previously no supplementary declaration concerning the nature of the documents is necessary. Since these persons are already in civilian internment camps over which certain control, although limited, is exercised by the German Foreign Office, the said Ministry can, on basis of declarations by Swiss Legation aiming toward inclusion in civilian exchange, hinder subsequent deportation. The best way to protect a person not in camp on May 11 and therefore not covered by assurances given previously would be to notify the Germans at the earliest possible moment of his personal status and to deliver a declaration from the interested government that the right of the person concerned to effective citizenship is recognized by the

- 2 -

interested government. It is feared by the Swiss Legation that it is aware of only a very small proportion of the cases of this type. It was generally aware only of cases communicated to it because persons concerned were detained in known internment camps.

Five. There was communicated to German authorities the Uruguayan Government's Declaration. Definite wording of the declaration by Ecuador had not been received by the Swiss Legation. (Note by the Legation: An inquiry regarding latter is being made by the Swiss Foreign Office). This is the end of the aide-memoire.

With further reference to numbered paragraph 2 of Department's cable No. 2407, the covering Swiss notice observes that several bearers of Paraguayan documents were included in group 51 deportees from Vittel according to a separate report from the Swiss Legation in Berlin. An inquiry was submitted by Feldscher regarding the advisability of the Spanish Embassy in Berlin associating itself with representations by Swiss Legation regarding that group. Inasmuch as only a small number of representatives of neutral countries are still in Berlin, it is believed by Feldscher that representation by two countries might have a slightly greater chance of success in spite of the completely negative attitude by the Germans.

Paraphrase:

DCR:IDB:MEM

9/11/44

HARRISON

GEM-821

PLAIN

Bern

Dated September 7, 1944

Rec'd 5:20 p.m.

Secretary of State

Washington

5901, 7th

Budapest PESTER LLOYD 3rd reports following statement by Premier Lakatos on Jewish policy new Hungarian Government.

I know exclusion from public life of those Hungarian speaking but racially alien elements who endangered Hungarian Community particularly our just war has not yet been completely achieved. I can assure public opinion we wish to make spiritual and economic superiority of Hungarian race secure but in traditional Hungarian humane manner; however important Jewish problem may be its solution in present dangerous times cannot be exclusive aim of Government.

HARRISON

MRM

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

September 7, 1944

6 p.m.

AMEMBASSY

ANKARA

Circular

The following WRB cable no. 106 is for Hirschmann

Several requests have already been received by the War Refugee Board for financial assistance in the relief of refugees in areas liberated by the Allied military forces.

For your information and guidance War Refugee Board activities are to be strictly limited to the rescue and relief of the victims of enemy oppression who are in imminent danger of death, that is, who are still in enemy-occupied territory. Refugee problems in liberated areas are not (repeat not) regarded as being within the Board's functions. Accordingly, if you receive requests limited to the relief and assistance of refugees in areas liberated from the Germans, you should refer such problems to UNRRA, the appropriate military authorities, the Intergovernmental Committee on Refugees, private refugee organizations, or other national or international groups which are authorized to deal with matters of this nature.

The foregoing shall not be construed to limit the activities of the Board dealing with arrangements for the removal of refugees in liberated areas whose presence serves to discourage and prevent the rescue of additional refugees from enemy-occupied areas.

This message has been repeated to the other WRB Special Representative abroad.

HULL
 (GLW)

CODE ROOM: Please repeat, using following opening sentences, to the missions below.
 Stockholm - The following WRB cable is for Olsen
 Lisbon - The following WRB cable is for Dexter
 Caserta - The following WRB cable is for Ackermann.

WRB:MMV:KG
 9/7/44

NE

NOE

WE

SE

SWP

COPY NO. 11NOT TO BE RE-TRANSMITTEDSECRETOPTEL No. 292

Information received up to 10 A.M. 7th September 1944.

1. NAVAL

Home Waters 5th. Germans in USHANT surrendered. There are some mined beach defences but Bay of Lampaul and the roads on Island are free of mines.

2. MILITARY

Southern France. 7th U.S. Army has pressed on towards DESANCON and DIJON and have reached SALINS. Further West French forces supported by armour are closing in on CHALON-SUR-SAONE.

Italy. In Adriatic sector where there has been very stiff fighting, enemy has heavily reinforced his positions North and South of CORIANO. U.K. armoured forces have captured CORIANO but enemy still hold high ground North and South of it. On 5th Army front between FLORENCE and coast local advances have been made against weakening enemy opposition.

Russia. Russians have captured TURNU-SERVERIN on Roumania-Yugoslavia frontier.

3. AIR

Western Front. 6th. Heavy bombers dropped 1,495 tons on strong points and dumps at HAVRE and 580 tons on EMDEN, concentrations good. Thunderbolts and Spitfires harassed enemy transport in Low Countries and Western Germany.

6th/7th. 86 aircraft despatched (1 missing) to HAMBURG and other targets.

Hungary, Roumania and Yugoslavia. Escorted Fortresses and Liberators dropped 1,060 tons on 7 railway centres and bridges and 225 tons on military targets.

September 8, 1944

I called on Cordell Hull, and I found him looking very tired and very badly. Before I could say anything, he immediately started in on this story of his troubles with Welles, and he went into a long harangue about Argentina, and he said that he had nobody in the State Department whom he could trust to talk to - I gathered he meant on the South American situation - because they were all loyal to Welles, and he particularly mentioned Duggan. He said they looked at him with an absolute stone face when he asked them anything because they felt that Welles might be back in control at any time.

Hull said that the President had asked him to go to Quebec, but he told him he couldn't go because he had been working so hard on this South American thing all by himself that he was exhausted.

I told him that I was discouraged after the meeting with the President because he seemed to be influenced by Stimson, and Hull just brushed Stimson aside and said that the President wasn't going to listen to Stimson and that I should forget about him. I said I didn't think we could forget about him.

Through the whole conversation I felt Hull was holding back on me, and I got the feeling that he wasn't telling me everything. He went on another one of his tirades that the President didn't consult him, and that he had sent Wallace to China on a foreign mission without either of them talking to him.

I feel from what Hull said that he didn't want the President to discuss the economic future of Germany at Quebec. He said that Churchill would listen to some squeaky voiced man from the Foreign Office. He said that he had asked the President to take a representative of the State Department with him to Tehran so that if they accused the President of making any statements at Tehran, the State Department man would be a witness that this had not taken place. I asked him whether a State Department man went with the President and he said, "No."

Again this is particularly hard to dictate because the things that Hull said were more by inference and innuendo, and I had to sort of draw my own conclusions.

- 2 -

He said that there were interdepartmental committees on this German business set up in Europe, and they should make a report, etc. I said, "The trouble is, Cordell, the President has never given a directive on how he feels Germany should be treated." Hull said, "Oh, the President is all right on this from a number of conversations I have had with him." So I said, "Well, I don't feel the Army is and the first thing we know we will be in Germany and we will have no policy." He said, "Well, you heard the President say he wants to put the Germans on a soup kitchen diet and Stimson wants to give them luxuries." I said, "I know but I still say the President has got to give out a directive on how to treat Germany." I told him about the Eisenhower Proclamation No. 1. He didn't seem to know anything about that. I also told him how we got the War Department to change it. I said that during the next three months the thing in Germany will have to be settled, and I kept repeating that the President should issue some kind of a directive. Then Hull said, "Well, the President should have somebody like Jimmy Byrnes who could advise him to go ahead on this matter." Hull said, "But I don't think Jimmy Byrnes is going to take it." So I said, "Well, I don't know from what the President said - I don't think he is going to give it to Hopkins." Hull said, "I suggested that it be Hopkins." He said he thought it was a sort of nice gesture. I said, "Did Hopkins tell you he wanted it?" and he said, "No, but he told somebody in the State Department he did."

Then Hull said that he hoped that the President wouldn't take up the question of the partition of Germany and the economic future of Germany at all at Quebeck, and just confine the conference to military matters. He said that Russia wouldn't be at the conference and it might get them upset if the matter was discussed. Again these are not his exact words, but they are his thoughts as I interpret them.

I said again that I thought we ought to try to get the President Saturday to decide on some kind of a statement which would clarify his position in regard to Germany, and Hull thought that we might do that.

Of course, underneath it all I think Cordell resents my being in on this. One of the things that surprised me at this meeting was how he brushed off Stimson and said that I didn't have to pay any attention to him. However, I think he is underestimating Stimson's influence - I am sure of it!

- 3 -

Hull told me he drafted a very stiff cable during the last four or five days to Churchill for the President.

September 8, 1944
12:37 p.m.

HMJr: Hello.

Operator: McCloy.

John
McCloy: Hello.

HMJr: Jack.

M: Yes.

HMJr: You most likely know this already through
your sources but the Chancellor of the
Exchequer has agreed to ten cents.

M: Oh, no, I didn't know.

HMJr: Yeah, I got a letter from Brand.

M: Good. You did? I saw Brand at that "Wilson"
last night and he said he didn't know what
they were going to do.

HMJr: Well....

M: So....

HMJr: a letter has come in this morning.

M: I'll shoot my telegram off then.

HMJr: They've agreed to the ten cents.

M: Good. Fine. Thanks, fellow. I'll shoot
my telegram right off.

HMJr: Thank you.

M: Right.

September 8, 1944
4:00 p.m.

GROUP

Present: Mr. D. W. Bell
Mr. Gaston
Mr. White
Mr. Smith
Mr. Sullivan
Mr. Pehle
Mr. Blough
Mr. Haas
Mr. O'Connell
Mr. Gamble
Mrs. Klotz

H.M.JR: I just thought I would get reacquainted with some of you.

MR. BELL: I haven't a thing.

MR. SULLIVAN: You recall, you asked the Commissioner and me to prepare material from which a reply to any attack on tax administration could be made, and then you said you wanted to see it. We have that material. Do you care to go over it?

H.M.JR: Yes.

MR. SULLIVAN: I shouldn't think you would, but there it is. (Hands material to the Secretary.)

H.M.JR: Yes, I would.

MR. SULLIVAN: There is a man by the name of Andrews who has been in Internal Revenue for thirty years, an able fellow who has been particularly helpful to the Tax Legislative Counsel's office.

September 8, 1944
4:00 p.m.

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- 2 -

(Mr. White and Mr. Gaston enter the conference.)

MR. SULLIVAN: They prepared a letter for your signature to him on his dismissal, if you would care to sign it.

H.M.JR: On his dismissal?

MR. SULLIVAN: On his retirement, I mean.

(The Secretary signs letter.)

MR. SULLIVAN: The National Distillers have several brands of straight whisky.

H.M.JR: Ha ha ha. How many people in the room have been approached on this subject?

(Showing of hands.)

H.M.JR: O.K.

MR. SULLIVAN: They propose to convert those brands into blends. Commissioner Nunan and Mr. Berkshire talked with me on the subject. I said that I was confident that that was a matter on which you would want to pass, yourself.

Mr. Nunan sent me a memorandum on that, also, which you might care to take to the farm.

H.M.JR: They want to convert to what?

MR. SULLIVAN: From straight whiskies to blends such as Mount Vernon. Stewart insists in each instance that if this is permitted it will be conspicuously set forth on the label that it is a blend and not straight whisky.

H.M.JR: What does Mr. Sullivan say?

MR. SULLIVAN: It will still be Mount Vernon and it will be a blend rather than straight whisky.

MR. BELL: They always say blend, don't they, on every label?

- 3 -

MR. GASTON: Not when it is bottled in bond or straight whisky. It will certainly be a swindle unless they have the word "Blend" read as plainly as the words "Mount Vernon."

MR. O'CONNELL: Every bottle that is a blend tells you on the back that it is a blend, and how much alcohol it contains, but that would not meet the situation.

MR. HAAS: Don't they have price ceilings, John?

MR. BLOUGH: They want to keep on using a label on this.

H.M.JR: I am sorry, but this telegram just came from the house. I gather everybody thinks the name should be changed?

MR. GASTON: I don't think that they should be allowed to put out a blend of Mount Vernon Whisky and distilled spirits under the label "Mount Vernon" unless it reads right along on one line, the word "Blend" being as big as "Mount Vernon"--"Mount Vernon Blend."

H.M.JR: Well, look, I appoint Sullivan, Gaston, and Joe to pass on this thing.

Joe, you decide it. (Hands Mr. O'Connell memorandum from Commissioner Nunan to Mr. Sullivan.)

MR. SULLIVAN: I am signing a letter to Cordell Hull this afternoon that will grant certain privileges to UNRRA and its employees. I wanted to take it up with you in detail when it was first proposed; it was to apply to all international organizations. I am willing to do this on my own responsibility and won't bother you with this. It is legislation.

H.M.JR: What else?

MR. SULLIVAN: That is all.

- 4 -

H.M.JR: I am going to ask the people that I haven't seen and give them first chance.

Roy Blough?

MR. BLOUGH: I can report that things are progressing in our tax study, but not very spectacularly. I am somewhat more encouraged though by the fact that we really seem to be getting into things cooperatively with Mr. Stam. I am scheduled to leave town tonight for several days to talk with, talk to, and consult with a bunch of tax people in the Middle West at a number of meetings. I will be back here next Thursday morning if that meets your approval.

H.M.JR: Watch your publicity, boy.

MR. BLOUGH: You have seen what I am talking about.

MR. GASTON: Yes.

MR. BLOUGH: It is pretty safe, isn't it?

MR. GASTON: Yes, it is not propaganda stuff at all.

MR. BLOUGH: It is sort of innocuous, the publicity people say.

H.M.JR: What else?

MR. BLOUGH: I don't think there is anything else that is very important.

H.M.JR: George?

MR. HAAS: I just have a few things to report on. You have replies to two of those four letters you sent out. The War Department said yes, they had made some studies and they would turn them over in detail to the War Production Board and they had converted them and made projects of employment and we should get them from the Director of Planning over there, who is Stacy May. I got in touch with May, and they are turning the stuff over to us, and I am having it put in charts so you can see the picture as they outlined it.

- 5 -

The Navy Department letter wasn't very satisfactory. Forrestal wrote a note to you and said he was having Captain Strauss write to me. He gave me a list of stuff and said it didn't mean much because their contract has been replaced, and so forth, and as to the collapse of Germany he didn't know what the situation was because the Chief of Naval Operations hasn't indicated yet, but I got it from other sources that there will probably be very little cut, if any, in the Navy.

H.M.JR: That was in the papers.

MR. HAAS: There is another development. The President wrote to the Director of the Bureau of the Budget asking him to get in touch with other departments and get out a census of manufacturing of 1944; in addition to that make a survey along the lines of what you have been fighting for for a long time on, consumer's income, expenditure, and saving. So I guess we will have one of those as of the close of '44. There is nothing to be done immediately, but they have appointed a committee they call the Committee on Reconversion Statistics. It is all to the good, but it won't be something we will have tomorrow.

The other thing, we have been spending most of our time on these near-term financing problems.

H.M.JR: Before you go into that--at Cabinet Krug said he would turn his whole organization loose onto what was going to happen on cessation of fighting in Germany.

MR. HAAS: Who said so?

H.M.JR: A man by the name of Krug.

MR. GASTON: The new head of WPB.

MR. HAAS: That is where we are getting the dope.

H.M.JR: He says he has done it the last couple of days.

MR. HAAS: They have this material--we have some of the over-all figures.

- 6 -

H.M.JR: Here is something you can read, but nobody else in your office can read it. The War Department is really giving me the low-down. They really got the figures. (Hands Mr. Haas an envelope.)

MR. HAAS: They are going to have it by States, too. Plant by plant they are tabulating it over there now.

H.M.JR: When you are finished, give it to Dan Bell. I don't want it circulated outside.

MR. HAAS: That is all.

H.M.JR: They are taking a very, very realistic viewpoint on this thing. It is mostly the work of General Greenbaum. Well, they do know, of course--

MR. HAAS: They are furnishing it to us. That is the main part, and we are converting--what does it mean, over-all Treasury expenditure? Then we are taking a more drastic assumption than they take. We assume Germany collapses in October and Japan is out three months later. What does that look like?

H.M.JR: At Cabinet today they said they estimated that at the end of the war there would be either eight or nine million tons of surplus food available in this country, and that in the world next spring there would be available a billion bushels of wheat. Then they immediately got on to this particular law of Congress, they would have to ask for two billion dollars to support farm crops.

I asked them where they thought they were going to get the money from--this was Byrnes, Vinson, and the Acting Secretary of Agriculture--"Well, it is just an Act of Congress; they will either have to furnish the money or they will rescind the legislation." I said, "If anybody wants to bet, I will bet they will rescind the legislation." Then I said, "The emphasis should be on increased consumption." But nobody of that whole group--they are going to go through the whole business all over again like '33, you see. There is no new thinking. They will have curtailment of crops, subsidies, props underneath.

- 7 -

But the idea of increasing the standard of living, increasing consumption, and permanently solving the thing--it is just a complete blank. It is the most discouraging thing I have listened to. Any methods of helping people abroad to consume increases--it is all the same cycle all over again. To my surprise, the only person at all interested in what I was saying was the President. He seemed to be very much interested. But I am not going to get started on that. I have enough right now.

MR. GASTON: They are vital to New Deal policies.

H.M.JR: Why couldn't we be for increased consumption, increasing the standard of living of the people and trying to solve unemployment through increased standards of living?

MR. GASTON: That is the sixty-four dollar question. How can we do that?

H.M.JR: But the fact that we can't doesn't mean that it can't be done.

I went up to Canada in 1932, after the President's election, to talk to him about a wheat conference. Now, by God, we are right back where we were in '32, with a billion dollar surplus and nobody thinking about how to eat it up.

MR. GASTON: That billion bushels represents one big year's crop, doesn't it?

MR. HAAS: Yes, a record one.

H.M.JR: As I say, I am not proposing to take it on, but I am just passing it along in case you run out of jobs.

MR. BELL: Harry is running short.

H.M.JR: Yes, very short.

MR. BELL: He has enough to last him over the week end, I think.

- 8 -

MR. SMITH: I have nothing.

H.M.JR: Look, Fred, take a little interest in those Elmer Roper things and some of the other things for me.

MR. SMITH: I am pursuing that. I wrote you a memo.

H.M.JR: Yes, but that memo--you know, there is no enthusiasm there.

MR. SMITH: I have been in touch with Roper and Gallup both to get the stuff here.

H.M.JR: You couldn't get it from your memo. I am interested in getting some inside dope on the trend of the election, you see.

MR. SMITH: I will give you the inside dope on the trend of opinion; I don't know how much that translates into election.

MR. WHITE: We would like a little running start.

H.M.JR: Anyway, you are in on it?

MR. SMITH: Yes, sure.

MR. HAAS: I want to thank you for the peaches; I forgot to.

MR. GASTON: Oh, yes. Are they just coming into yielding?

H.M.JR: We just finished yesterday.

MR. GASTON: But these are new trees just coming in this year?

H.M.JR: No, the reason they are so small is on account of the drought.

MR. GASTON: I didn't know you had been growing peaches.

- 9 -

H.M.JR: Yes, but we only get a crop every three years. These are trees that are inter-planted with apples. They are small, but they have a nice flavor, and they bring a nice price. They brought three dollars and sixty-three cents; I hope it is legal. I didn't ask O'Connell.

MR. O'CONNELL: That is the way to handle those, keep away from me.

MR. GASTON: We haven't been able to get anything but peaches that are green when we get them, and they are rotten before they are ripe enough to eat.

MR. SMITH: I have nothing further, except I nearly ran over a truck coming out of the Department of the Interior marked "National Apple Service." I am trying to find out what that is. It was an awful delapidated truck. If the service is as bad, you wouldn't be interested.

H.M.JR: Gamble?

MR. GAMBLE: I have several matters that I have on your desk that are pressing. One is the Gehle matter.

H.M.JR: Listen, fellow, you have seen me. I didn't raise the question. Inasmuch as you didn't raise the question, I didn't raise it. Do you want to bring him down? Wednesday would be safe.

MR. GAMBLE: Wednesday is fine.

H.M.JR: Shall I say eleven o'clock, Mr. Gamble and Mr. Gehle of the Chase National Bank?

MR. GAMBLE: That is G-e-h-l-e. That is all I have.

MR. O'CONNELL: It may sound a little bit dry, but we have been spending quite a bit of time lately on a number of important revenue problems. The one that I wanted to mention--you may have seen it in the papers recently--it hasn't reached epidemic proportions, but a number of situations in which corporations in hiring

- 10 -

new executives and paying the executives, compensate them in part by giving them options to purchase stock of the company at a future date, or some period, or over a period of years. In some cases the option price is substantially less than the market value of the stock at the time its option is given, and of course, in all cases in which the option would be exercised, the purchase price of the stock would be substantially below the market price of the stock. It presents some very difficult legal problems from the standpoint of the taxation of the compensation to the employee. It also presents some problems with respect to salary stabilization, because we have that responsibility, quite apart from the tax field.

It is quite complicated, and the legal problems are difficult because the courts have not given us any very consistent set of rules to follow. We are at present asking for certiorari from a decision of the circuit court of appeals in Philadelphia which ruled against us and reversed the tax court, ruling contrary to a decision in the second circuit court up in New York.

It is quite difficult to know whether--

H.M.JR: I quit!

MR. O'CONNELL: But take a situation like Sorenson, where he was hired at Willys-Overland at a salary of fifty thousand a year, plus a right to buy fifty or a hundred shares of Willys-Overland stock. His option price was three dollars a share, and immediately after the announcement that he was going to be the president, the stock went up to about seventeen dollars a share. Enough to know--

H.M.JR: Really? And this Bureau knew he was going into that position - the Stabilization Bureau?

MR. O'CONNELL: Oh, yes.

MR. BELL: Didn't know the stock was going up, though.

- 11 -

MR. O'CONNELL: They didn't know in time to get in on it. Actually, they were asked for a ruling after he had been hired. I haven't found any way in which anyone around here has profited from that sort of a situation.

But they are rather difficult questions which I am sure would be interesting at the moment.

H.M.JR: It is too complicated for me. It is like the President at Cabinet asking about Napoleonic laws. Nobody knew it. I counted around and I said, "Mr. President, besides yourself, there are nine attorneys at this table. Somebody ought to know!" But there were nine lawyers.

MR. O'CONNELL: Well, I am sorry I mentioned it.

H.M.JR: What else, Joe?

MR. O'CONNELL: That is all.

H.MJR: I gave Gaston this letter. (Refers to letter to Mayor LaGuardia.)

MR. GASTON: Yes. After looking over the whole file, I was tempted to write a much stronger letter.

Actually, I rewrote it, taking out - modifying that one paragraph in which they said it was outrageous, and so forth.

MR. O'CONNELL: "Reckless and extravagant."

MR. GASTON: I took the "reckless and extravagant" out. It is being typed now. I left it just before I came in, in my office to be typed.

- 12 -

H.M.JR: Thank you, Herbert.

MR. GASTON: I am being harried about it.

MR. WHITE: That is where I got my name!

MR. GASTON: By the White House - that is to say, Mr. James Byrnes, about the filling of the vacancy at El Paso.

I called Senator Connally today and the Senator said, "Please give me another week and if I don't give you a name by another week from now" - why then we could appoint anybody we wanted - that is, the man in the White House wants us to appoint.

I told him a week was rather a long time in view of the approach of adjournment.

Then he said, "Give me a couple of days."

H.M.JR: They tell me they have this Texas Primary thing straightened out. Senator Truman said that last night.

MR. GASTON: So if Connally can't get together with Senator O'Daniel in the next couple of days, we are to be free to send over the New Mexico name, for which there seemed to be some reasons - arguments--

H.M.JR: Anything else?

1/a

- 13 -

MR. GASTON: Well, the McCormack-Curley combination, flushed with their success on Burke, named John Curley's son-in-law. John Curley died. He was fatally ill all through his tenure of office as Comptroller of Customs, and he died and they have named his son-in-law, one Francis Murphy, to be his successor.

MR. SULLIVAN: Was Burke confirmed, Herbert?

MR. GASTON: No.

His father works in the Bureau of Internal Revenue in Boston.

H.M.JR: What kind of a boy is he?

MR. GASTON: He seems to be a nice looking young fellow. He was an All American football player at Boston College. He was excused from the draft on account of being in an essential occupation. That was a job on a lathe, which is listed as irregular. He hasn't worked at it in several months, because there was no work!

MR. O'CONNELL: How do you feel about it, Herbert?

MR. GASTON: I think he is a pretty nice young fellow.

MR. PEHLE: A genius!

MR. BELL: A good recommendation.

MR. GASTON: I told this story to Jim Barnes.

H.M.JR: And so what, Herbert?

MR. GASTON: Jim Barnes is going to give me a word on it.

H.M.JR: He'll go to bat for you.

MR. GASTON: Oh, I betcha, yes!

2/a

H.M.JR: Any other good news?

MR. GASTON: I don't think so.

H.M.JR: Where do we stand on the Olrich-OPA matter?

MR. O'CONNELL: Right where we've been right along. I talked to Mr. Olrich a couple of times about it today, and it is just in the same status. The thing is still before OPA here. It is still up to Mr. Field, I believe, the General Counsel, to decide; and Olrich feels, and I think he is right, that unless someone else wields a little influence with Mr. Field, why the decision will continue to be adverse to Mr. Olrich.

Mr. Olrich was going to talk to Mr. Clayton and to Mr. Brownley, who is Mr. Clayton's and Mr. Olrich's friend in OPA, today. But he hadn't talked to them up to the time I came to the meeting.

H.M.JR: Is he in town?

MR. O'CONNELL: Mr. Olrich is in town today. He knew of that situation. I sent him a copy of that letter this morning. He told me when he was in New York yesterday he tried to see Mayor LaGuardia.

H.M.JR: I think it would be a nice thing to let him look at this before it goes. (Refers to letter to Mayor LaGuardia)

MR. GASTON: I think you had better look at it, and I think Olrich ought to see it.

H.M.JR: I have signed it.

Tell Olrich if he wants any help, he had better get in touch with me tomorrow.

MR. O'CONNELL: He did try to see the Mayor yesterday, and the Mayor was out of town.

H.M.JR: I'm talking about the OPA matter. Tell Olrich if there is anything he wants from me to let me know, will you?

3/a

- 15 -

MR. O'CONNELL: All right, though I doubt there is, because he is in constant touch with Brownley and Clayton. I really think all is being done that can be done, but I'll give him that word.

MR. SULLIVAN: Olrich is sending you a memorandum on some shoe-repairing contract where you thought Cliff Mack was a little careless. They recovered about four hundred thousand dollars. Olrich went through it and said there was no carelessness there; the proper safeguarding clauses were in the contract. I wasn't familiar with it. He asked me to tell you the memo is on the way over.

H.M.JR: Now, who else?

DR. WHITE: I have one thing that must be decided. The State Department is pressing us to pass on some Lend-Lease agreements to Belgium and Holland. Those particular agreements are not important, but the French one is also involved.

The specific question at issue is whether or not we are going to go ahead with lend-leasing funds out of the Lend-Lease account for reconstruction purposes. France apparently thinks they are going to get two billion dollars.

There are two questions; one, do you want to get in it at all, or just say the Treasury wants to stay out of it. Or do you want to postpone any action on those things until some decision is made with respect to that committee that you had in mind?

H.M.JR: I think, Harry, that pending the President's deciding something on that, I'd like to keep out of these things.

DR. WHITE: Then we'll keep out of it completely until that time. They will go ahead with it, then.

H.M.JR: Who is going to go ahead?

DR. WHITE: State Department and the FEA.

H.M.JR: Let them.

MR. SULLIVAN: How soon are we going ahead on that, Harry?

DR. WHITE: On the Belgium and Holland thing, right away. The French thing will take a little time.

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

MR. BELL: I am afraid of that long-term credit arrangement in the Lend-Lease Act. I don't think it has ever been explained to Congress.

H.M.JR: I offered to take the full responsibility in heading a committee; the President hasn't done anything about it. Now, unless he gives me the responsibility, I don't want to share it.

MR. BELL: Haven't we been in on that in some way?

DR. WHITE: Yes, we have been in on it, and now we are up to where we either approve or we fight it.

H.M.JR: Look, this thing is being held up by Hull. I'll get word to Mr. Hull that I am perfectly willing to let him handle it. If anybody wants to get in on any bets, I'll bet they don't settle without insisting on my being on.

DR. WHITE: We have informed them we don't like the idea of using Lend-Lease funds for reconstruction purposes, and we didn't think that was the original intent and there'd be trouble with Congress, and so forth.

So they know how we feel, but we haven't given the official Treasury position. That is what they are pressing us for. I suspect if we say we don't want to have anything to do with it, they will worry.

MR. BELL: General Hilldring said there wasn't one word up there about reconstruction and Lend-Lease.

H.M.JR: I don't want to be a party to it.

5/a

- 17 -

MR. SULLIVAN: Just as long as your objection is registered--

H.M.JR: Do you agree with that, White?

DR. WHITE: Yes. I would try to phrase it in such a way that it would apply to use of Lend-Lease funds for reconstruction purposes.

H.M.JR: Now, I told the President at Cabinet about the ten-cent mark. Just for the record, because I forgot, when I took it up with the President, I didn't tell him about the twelve and a half cent, because I remember his saying, "I don't like the twelve and a half-cent mark; I want a ten-cent mark."

I tried to explain to him that one U. S. Military Mark would be exchanged for one German mark. Then he said, "Do you mean a gold mark or another kind?" I said, "A gold mark."

DR. WHITE: There are no paper marks.

H.M.JR: There isn't more than one kind, is there?

MR. WHITE: Only one kind circulating in Germany.

H.M.JR: He is under the impression there are two.

MR. GASTON: There were these blocked accounts.

MR. WHITE: Yes, but within Germany, what the population uses for currency, and what the prices are set in, are these marks and exchange of parity, one for one.

MR. BELL: I have nothing.

MR. PEHLE: I take it you saw Nick Gregory's piece.

H.M.JR: I sent it back to you.

MR. PEHLE: He is certainly no friend of yours.

- 18 -

H.M.JR: Shaeffer says it is a wonderful article.

MR. PEHLE: That is not my reaction, Mr. Secretary. I think he is sharpening at you.

H.M.JR: Have you seen it, Fred?

MR. SMITH: Yes, I got the same reaction that John did.

H.M.JR: I will have Shaeffer down if I can before I go.

MR. SMITH: I talked to Shaeffer about it. He thought that the resume of your accomplishments there was good.

H.M.JR: Like Shaeffer thought that this book by Crider called "The Bureaucrat" was very friendly to me. I thought he was crazy.

Well, I don't know - I told him to see Gregory and see what he could do. Do you (Smith) want to follow through on that with me?

MR. SMITH: Sure, I will check.

H.M.JR: Because it is the last paragraph that looks as though somebody again was sharpshooting - the very last paragraph. Another one of these resignation stories--

MR. SMITH: My hunch was that it was just stuck out on account of November coming up again.

H.M.JR: Well--

MR. PEHLE: This is the Inquirer. I don't know whose paper it is.

MR. GASTON: That is our friend we sent to the penitentiary - Annenberg.

MR. PEHLE: The Ledger.

- 19 -

MR. GASTON: The Ledger doesn't exist any more. The Ledger was the Curtis paper which went out of existence.

H.M.JR: Have a look at it. We haven't had anything like that for about six months; it's about time.

MR. SMITH: That is right.

H.M.JR: You wouldn't want to say, would you, John, that on cessation of firing in Germany that there is every reason why the Refugee Board should fold up? That is what you told me.

MR. PEHLE: That, as you know, is our thought. There is a possible political consideration there, and I think that we had better wait and see what the atmosphere is. But there is more to this article than that, Mr. Secretary. There is more to it than the mention of resignation. There is sort of an anti-Semitic slant all the way through that - the way I read it.

H.M.JR: I didn't get that.

MR. PEHLE: Maybe I am over-sensitive about it.

H.M.JR: You have heard my story about Irving Berlin's wife? She was on the trip with Mrs. Roosevelt, and just to make conversation - you know she is a very devout Catholic - just to make conversation, this man on the car - my wife was present - said, "You know, Mrs. Berlin, I don't think your husband writes quite as good music as he used to."

She said, "You are nothing but an anti-Semite."

So you sound like Mrs. Berlin.

MR. PEHLE: I would like to hear Herbert's reaction.

MR. SMITH: Ninety percent of that is because Nick Gregory likes to take not very much and build a sensational story around it.

- 20 -

MR. GASTON: I think the underlying purpose here is just what John Pehle thinks it is. It is like that thing that was sprung once before. I think it was the Inquirer that did that.

H.M.JR: When I was in Europe? About going to Palestine?

MR. GASTON: It said you were going to resign to head some Zionist organization - UP carried it.

MR. WHITE: They have been saying it for six years. If they say it for ten years more, maybe they will be right sooner or later.

H.M.JR: What a man! I thought you were my friend.

Bell and White and Pehle, O'Connell and Gaston will stay. We will talk about Germany, now.

9/9/44

144

Phoned Mr. Smith and told him that the
Secretary wanted him to personally get
close to Elmo Roper and see what he can
find out.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Fred Smith *FS*

September 8, 1944

For your information:

Elmo Roper's poll was made for Fortune magazine.

George Gallup has a continuing poll which is running in the newspapers. I have been told that Gallup is working very closely with the Dewey forces and is keeping them advised about public reaction. I don't know that this is a fact, but I am quite sure.

I think Roper is a good Democrat, and might be lured into doing the same thing for the Democrats if anyone made proper overtures, and if any intelligent use were made of the results.

I will try to get copies of the existing polls.

September 8, 1944

Fred Smith
Secretary Morgenthau

Yesterday's PM had a statement in the paper about the poll that Elmo Roper is making up on Roosevelt vs. Dewey. Where do they get that from? Could you get the full details of the poll? And I want the most recent poll and please watch it and keep me informed of any other political poll which is being run. The most recent one of Elmo Roper's has been the most encouraging.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

FROM Mr. Shaeffer *CPD*

September 8, 1944

Nick Gregory tells me his story was based upon a series of deductions from information picked up at several sources. The first foundation was the three-way meeting in Secretary Hull's office which he wrongfully concluded dealt with the War Refugee Board.

Gregory asked me to suggest to you that at no point in the story did he make a definite declaration, but throughout the story hedged by successive uses of "mays" "mights" and "it is believed".

September 8, 1944
4:30 p.m.

REVISION OF GERMAN SURRENDER DOCUMENTS

Present: Mr. D.W. Bell
Mr. White
Mr. Pehle
Mr. Gaston
Mr. O'Connell
Mrs. Klotz

MR. PEHLE: Your friend Robert Murphy is coming in to see me at five o'clock.

H.M.JR: How far along are you, Mr. White?

MR. WHITE: We are not very far along. We were just having a meeting, seeing whether we could improve on that statement of principles. We think we can make some moderate changes, but on the whole, we don't think that we can improve on it.

The only possibility that you might consider for tactical reasons, if you think it is wise, is not to speak of completely obliterating the Ruhr, but leave the coal mines.

That would be a partial retreat from the position if you think it is warranted in the light of the opposition.

H.M.JR: I don't know. Who is actually working on this with you this afternoon?

MR. WHITE: Bill Taylor and Harold Glasser and Joe DuBois, and a couple of other boys. I don't see what we can do to show it graphically.

H.M.JR: I would like to talk with you people this evening about it. Are you free?

MR. WHITE: Yes. I am sure they would be glad to come.

- 2 -

H.M.JR: I can take three people. I don't want to bother Bell.

Herbert?

MR. GASTON: I haven't any engagement.

H.M.JR: Would you like to come to supper?

MR. GASTON: Yes.

H.M.JR: Then why don't you and Pehle and White come for supper. You (O'Connell) are not in on it right now, are you? You are keeping your eye on it?

MR. O'CONNELL: Oh, yes; I am in touch with Joe.

H.M.JR: Then if Herbert and Pehle and White will come to supper - then do you want anybody after supper?

MR. WHITE: I thought you wanted to talk about it during supper - otherwise, we would come after supper.

H.M.JR: No, I would enjoy having you people for supper.

MR. PEHLE: DuBois and Taylor.

MR. WHITE: I think DuBois and Taylor. If it is that simple, why not have Otto Nathan, who knows Germany so thoroughly?

H.M.JR: Anybody you want to bring. You (O'Connell) are keeping in touch?

MR. O'CONNELL: Oh, yes.

H.M.JR: Then what I thought I would do, I would start in again tomorrow morning with you people - say, about nine-thirty, or so, tomorrow morning. Is that all right?

- 3 -

MR. PEHLE: Are you going to have your two-hour meeting?

H.M.JR: Yes, that is what I am aiming at. It is one hour.

All right.

If White will stay--

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 8, 1944.

TO Secretary Morgenthau

FROM

Mr. Haas 

The attached memoranda concerning near-term financing problems may appear very formidable, but may I suggest that you read the summary and conclusions and such other parts as your time permits. The notebook is indexed to facilitate reference.

I hope you can spare the time to give us about two sessions to discuss some of the problems with you. Mr. Bell and Mr. Gamble have been given copies of this material.

152

SUMMARY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 8, 1944

TO Secretary Morgenthau
FROM Mr. Haas
Subject Treasury Financing Problems During the Next Few Months

SUMMARY

This notebook on the Treasury's financing problems during the next few months is divided into the following chapters:

1. Developing a Borrowing Program for the Fiscal Year 1945
2. Considerations Involved in Determining the Amount of Increase in Treasury Bills During the Fiscal Year 1945
3. The Federal Reserve Ratio and Money Market Management During the Fiscal Year 1945
4. Sources of Funds for the Sixth War Loan
5. An Analysis of the Fifth War Loan
6. Problems of the Sixth War Loan

The principal conclusions developed by the discussions in these chapters are as follows:

- (1) The outstanding amount of Treasury bills should be increased by \$200 millions a week commencing on Thursday, September 21, and continuing for three full cycles. This would result in an increase during the fiscal year of \$8.8 billions in the outstanding amount of bills. Substantially all of this increase would be absorbed by the Federal Reserve Banks in order to offset the decrease in monetary gold stock, the increase of money in circulation, and

Secretary Morgenthau - 2

the increase in member bank required reserves during the fiscal year. The Reserve Banks will have to purchase about \$9 billions of Government securities to offset these items in any event, and bills constitute the best medium for such purchases. The major considerations involved in determining the amount of bills to be issued during the fiscal year are discussed in Chapter 2.

- (2) Treasury-Federal Reserve policy should be directed to continuing ease in the money market. The market has been excellent ever since D-day. This is no time, however, for experiment to determine how little support is enough. The approaching hour of victory may test the willingness and ability of the monetary authorities to assure a good market in times of peace as well as in those of war, and the result of this test should be clear. No fundamental action with respect to the Federal Reserve ratio will be necessary, however, until after the turn of the calendar year.
- (3) The Sixth War Loan should be held commencing about the middle of November. There is little to be gained and much which might be lost by a postponement of the date of the Loan. The pros and cons of postponement are discussed in the first part of Chapter 6.
- (4) It is suggested that the formal goal of the Sixth Loan be set at \$12 or \$13 billions; although total sales of \$16 billions have been assumed in blocking out the financing program for the year.
- (5) In view of the difficulties likely to be encountered in the Sixth Loan, it is believed that it should be set up as

Secretary Morgenthau - 3

liberally as possible. With this in view, it is suggested that the basket include (as it did in the Fifth Loan) a short-term note as well as a certificate and a medium-term bond eligible for bank purchase after the drive.

- (6) Various techniques for use in connection with the Sixth Loan, such as a canvass of bank depositors and a proposed change in the manner of counting sales of Series E bonds, are discussed in Chapter 6.
- (7) The financing program blocked out for the year envisages a Seventh Loan to be held in May and June of next year, with total sales of about \$12 billions and a lower goal. Further discussion of this Loan is, of course, postponed to a later date.

If the financing program above outlined should be adopted and carried out, the cash balance of the Treasury would reach a low of about \$7 billions immediately prior to the Sixth Loan, and of about \$6 billions immediately prior to the Seventh Loan. These balances are somewhat on the low side and it might be desirable to add a direct bank financing (other than the increase in bills) between the Sixth and Seventh Loans. It seems at the present time, however, that the disadvantages of an additional direct bank financing prior to the Sixth Loan would more than offset the desirability of an increased balance at that time.

I. BORROWING
PROGRAM

Chapter 1

Developing a Borrowing Program for
the Fiscal Year 1945SUMMARY

The following table shows the estimated amount of financial outlays by the Treasury in the fiscal year 1945, and a proposed borrowing program to take care of these requirements.

(In billions of dollars)

Estimated financial outlays:	
Deficit.....	48.4
Redemptions and cash maturities.....	<u>14.5</u>
Total outlays.....	<u>62.9</u>
Proposed borrowing program:	
Sixth War Loan; November-December.....	16.0
Seventh War Loan; May-June.....	12.0
New Treasury bill program.....	7.8
July portion of Fifth War Loan.....	6.5
Other financing (continuing programs, etc.).....	<u>15.1</u>
Total borrowing.....	<u>57.4</u>
Change in cash balance.....	-5.5

It will be noted that financial outlays are estimated at \$62.9 billions for the fiscal year. This estimate is developed in Part I of this chapter. The major assumption made regarding expenditures is that Germany will be defeated by December 1944. See Chart 1.

The proposed borrowing program of \$57.4 billions is discussed in Part II. It is assumed that there will be \$16 billions of sales in the Sixth War Loan in November-December, and \$12 billions in the Seventh Loan in May-June next year. The declining trend of sales from the peak of \$20.6 billions in the Fifth Loan is expected because of increasing optimism over the military situation and the financial and unemployment problems in reconversion.

FEDERAL FISCAL SITUATION

Semi-annual Periods. January 1944 - June 1945

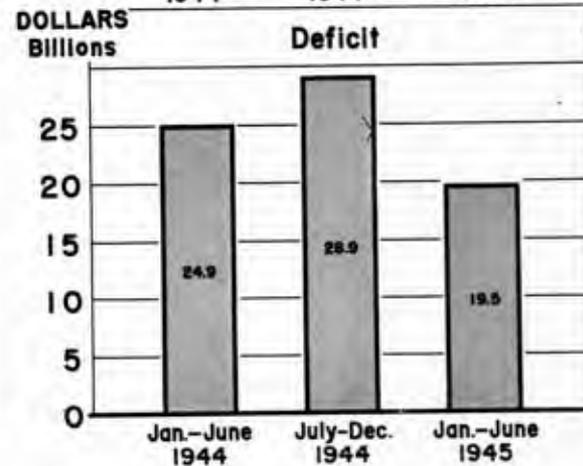
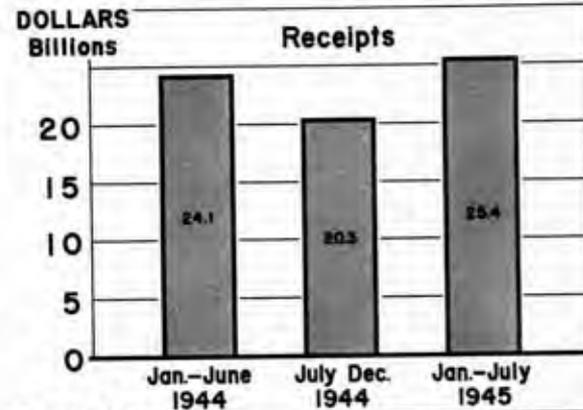
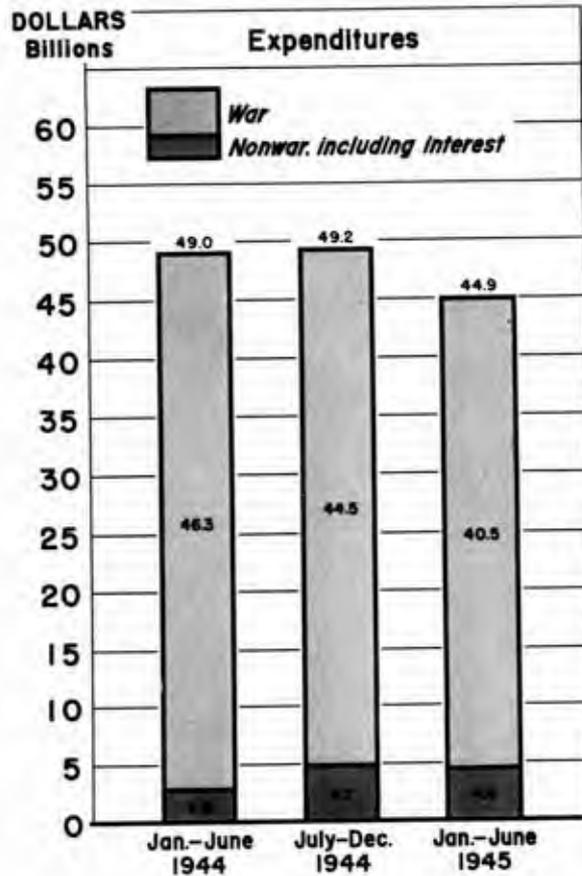


CHART 1

- 2 -

On this basis it will also be necessary to raise about \$8 billions in a direct bank borrowing program sometime during the remainder of the fiscal year. It is suggested that this bank borrowing program take the form of a weekly increase of \$200 millions in Treasury bills, beginning September 21, and tentative plans made to carry this increase through three full cycles of thirteen weeks. This would provide \$7.8 billions of new money. (See Chart 2)

The bill program is recommended as against other financing because it will provide the most suitable securities for the Federal Reserve System which will have to acquire about \$8.9 billions of new securities during the fiscal year to offset the drain on member bank reserves (1) from gold withdrawals and increases in foreign balances, (2) from increases in money in circulation, and (3) to provide new reserves as requirements increase with the expected growth in bank deposits. These considerations are discussed further in Chapters 2 and 3.

With the proposed bill program the cash balance on November 15 will be \$6.9 billions when the proceeds of the Sixth War Loan may begin to come in. Such a balance is probably satisfactory but it brings out the need for starting the Sixth War Loan as early as possible in November rather than running the balance down further. On May 15 the cash balance would be \$6.1 billions, but it would be up again to \$13.2 billions by the end of the fiscal year.

Considering the financing period August through December alone, estimated financial outlays and the proposed borrowing program would be as follows:

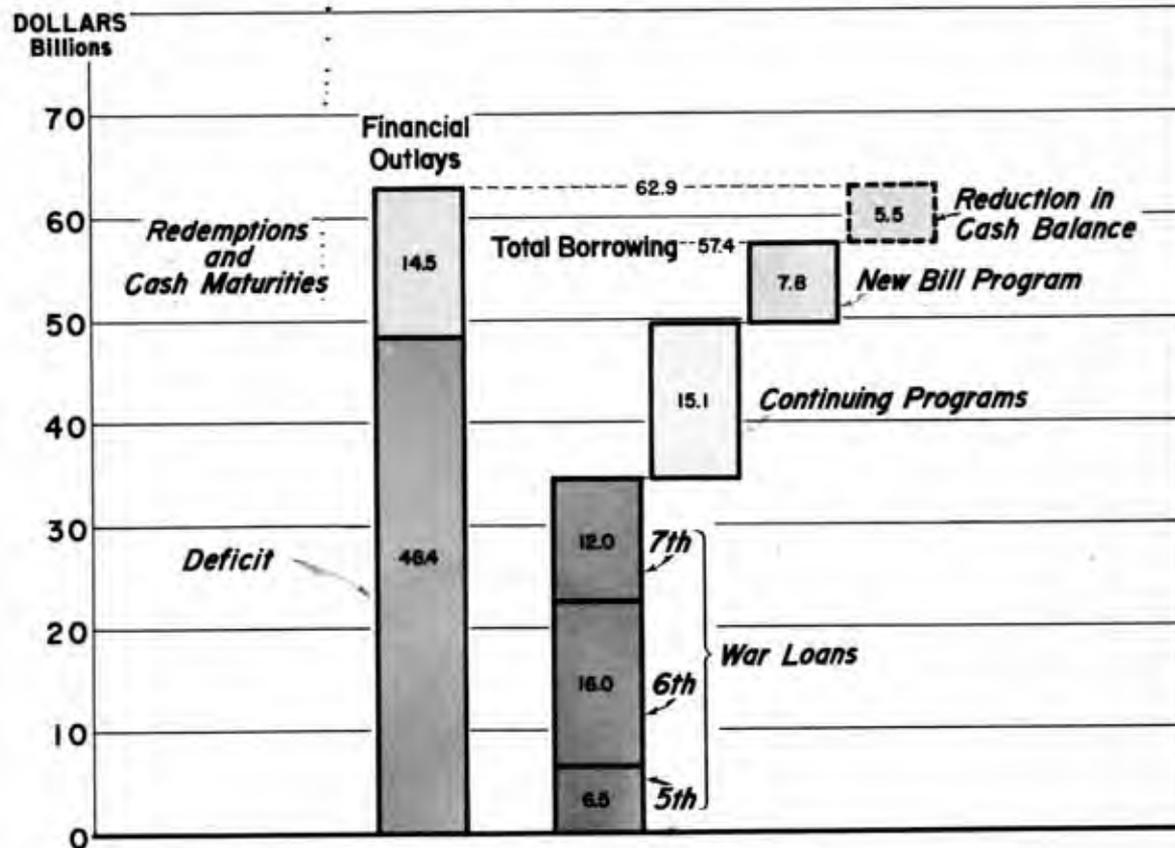
(In billions of dollars)

Estimated financial outlays:	
Deficit.....	23.0
Redemptions and cash maturities.....	5.7
Total outlays.....	<u>28.6</u>
Proposed borrowing program:	
Sixth War Loan; November-December.....	16.0
New Treasury bill program.....	3.0
Other financing (continuing programs, etc.).....	5.9
Total borrowing.....	<u>24.9</u>
Change in cash balance.....	-3.8

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

OUTLOOK FOR FEDERAL BORROWING

Fiscal Year 1945



- 3 -

Part I. Financial Outlays for the Full
Fiscal Year

It is more difficult than usual to set down financial outlays for the fiscal year 1945 because of the uncertainty regarding the length of the war in Europe and the Pacific. The Budget Bureau released on August 2, its "Review of the 1945 Budget" which presented new figures on the fiscal situation for the fiscal year 1945. The Budget figures are stated to have been "influenced by the hope that the liberation of Europe may be accomplished before the end of the fiscal year 1945, while the Japanese phase of the war is assumed to continue all through the fiscal year and beyond". The estimate for war expenditures included in the Budget figures is \$90 billions, and is stated to compare with an annual rate in recent months of about \$93 billions.

The latest analysis of the Treasury cash position prepared by the Under Secretary's office uses an estimate of \$85 billions instead of the Budget figure of \$90 billions for war expenditures. This adjustment allows for a somewhat greater tapering off of war expenditures, on the specific assumption that the war with Germany will end by December.

The following table compares the estimated deficit during the fiscal year on the basis of the Budget figures, and as revised within the Treasury. The expenditure figures include net outlays of Government corporations as well as budgetary expenditures.

	<u>Budget</u>	<u>Treasury</u>
	(In billions of dollars)	
War expenditures.....	90.0	85.0
Nonwar expenditures, including interest.....	<u>9.0</u>	<u>9.0</u>
Total expenditures.....	99.0	94.0
Net budgetary receipts.....	<u>45.7</u>	<u>45.7</u>
Deficit.....	<u><u>53.4</u></u>	<u><u>48.4</u></u>

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

- 4 -

In the present memorandum the Treasury figure of \$48.4 billions estimated deficit will be used. Chart 1 shows the figures for six-month periods.

To estimate gross outlays during the fiscal year, it is also necessary to calculate the amount of probable redemptions of savings bonds and savings notes, and cash maturities of marketable securities. It is estimated that savings bond redemptions will increase gradually during the next few months and will reach new peaks toward the end of the fiscal year, making a total of \$3.7 billions for the year. Redemptions of savings notes are estimated at \$7.6 billions, of which \$7.0 billions would be redeemed for taxes.

Cash maturities of marketable securities are estimated at \$3.2 billions. It is assumed that Treasury bills and certificates of indebtedness will be rolled over as they mature. In the case of certificates, incomplete exchanges on maturities aggregating \$30 billions will call for an estimated \$2.5 billions of cash payments. It is assumed that notes maturing during the year and bonds becoming callable for the first time will all be refunded by exchange offerings, but that incomplete exchanges will amount to \$.8 billion.

The total financial outlays for redemptions and cash maturities would thus come to \$14.5 billions. If this amount is added to the \$48.4 billions estimated deficit, the total amount of gross outlays for the fiscal year comes to \$62.9 billions.

- 5 -

Part II. Blocking Out a Borrowing Program

In blocking out a borrowing schedule for the fiscal year 1945, the first requirement is to set down the best guess as to how much will be brought in by war loans. It is assumed that the Sixth War Loan will be held in November-December and will bring in about \$16 billions. The substantial reduction as compared with sales in the Fifth War Loan is based on the probability that public response to war loan activities will be impaired by the optimism engendered by the military situation. The end of the war with Germany may already have come or German defeat will probably seem close at hand. Reconversion will be closer than ever before, bringing with it the potential need for the liquidation of business funds invested in Federal securities, and the danger of unemployment to labor. Under these conditions, it is going to be harder than ever to sell securities to both individuals and businesses. The estimate of \$16 billions sales may indeed be optimistic but we are taking it as a "best guess" for the moment.

We are assuming that the Seventh War Loan will be held in May and June next year. This will be a longer period between war loans than has been customary but war optimism will probably dull the aggressiveness of the sales organization, as well as the general public, and it is therefore assumed that a somewhat longer rest between drives will be deemed desirable. Sales in the Seventh War Loan will probably be further substantially reduced and we are assuming that they will amount to \$12 billions. This itself may be a difficult figure to reach when the time comes, because of intensified war optimism.

Accepting these figures for war loan sales, how will the cash balance hold up throughout the fiscal year and what additional financing may be necessary? The attached table analyzes the Treasury financial situation in five convenient periods during the fiscal year. These periods are made up alternately of months in which war loans are conducted and of months between loans, as follows:

- (1) July 1944 (the last part of the Fifth War Loan);
- (2) August-October 1944;
- (3) November-December 1944 (Sixth War Loan);
- (4) January-April 1945; and
- (5) May-June 1945 (Seventh War Loan).

Analysis of the Treasury Financial Situation, Fiscal Year 1945
(In billions of dollars)

	1944			1945		Fiscal year total
	July	Aug.- Oct.	Nov.- Dec.	Jan.- Apr.	May- June	
1. Financial outlays:						
a. Deficit.....	5.9	14.2	8.8	12.9	6.5	48.4
b. Savings bond redemptions.....	.2	.8	.6	1.4	.7	3.7
c. Savings note redemptions.....	.2	1.8	1.5	2.4	1.7	7.6
d. Cash maturities.....	.4	.5	.4	1.2	.7	3.2
e. Total financial outlays.....	6.8	17.2	11.4	17.9	9.6	62.9
2. Borrowing program, excluding new bank financing program:						
a. Continuing programs, etc:						
(1) Savings bonds.....	*	2.1	.1	2.9	.1	5.1
(2) Savings notes.....	-	.7	-	1.0	-	1.7
(3) Security sales to Federal agencies and trust funds.....	.7	.9	.8	1.2	1.4	5.0
(4) Limited sales to commercial banks on basis of time deposits.....	.2	*	.6	.1	.6	1.6
(5) Increase in Treasury bills under old program.....	.8	.2	-	-	-	1.0
(6) Other (depository bonds, trust fund cash, etc.).....	.1	.4	.2	.2	-.1	.7
b. War loans.....	6.5	-	16.0	-	12.0	34.5
c. Total borrowing.....	8.4	4.2	17.6	5.4	13.9	49.6
Change in cash balance excluding new bank financing program.....	+1.6	-13.0	+6.2	-12.5	+4.3	-13.3
Cash balance, end of period.....	20.3	7.2	13.5	1.0	5.4	5.4
3. Proposed new bank financing program:						
a. Increase in Treasury bills.....	-	1.2	1.8	3.4	1.4	7.8
Change in cash balance with new bank financing program.....	+1.6	-11.8	+8.0	-9.1	+5.7	-5.5
Cash balance, end of period.....	20.3	8.4	16.5	7.4	13.2	13.2

(Cash balance on selected dates: June 30, 1944, \$18.7 billions; November 15, 1944, \$6.9 billions; and May 15, 1945, \$6.1 billions.)

Office of the Secretary of the Treasury, Division of Research and Statistics.

September 6, 1944.

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

* Less than \$50 millions.

- 7 -

Section 1 of the table shows estimated financial outlays for each period. Section 2 analyzes expected borrowing in war loans and in continuing programs, but excludes any direct bank financing program which may need to be adopted. The changes in the cash balance under these assumptions are shown in the last part of Section 2. It should be noted that these cash balance figures are on the same basis used in the Under Secretary's regular analyses of the Treasury cash position and are not the same as the working balance figures published in the Daily Treasury Statement.

The cash balance at the beginning of the fiscal year was \$18.7 billions. By the end of July it had increased to \$20.3 billions. Allowing for no bank financing program it is estimated that the cash balance will drop to \$7.2 billions by October 31, 1944, and to \$5.1 billions by November 15, when the proceeds of the Sixth Loan may begin to come in. It is suggested that the balance be built up by a bank financing program beginning as soon as possible.

This bank financing program will have to be continued in the early months of next year, for as Section 2 of the attached table shows, the cash balance will be drawn down to extremely low levels by the beginning of the Seventh War Loan unless a substantial bank financing program is adopted. It is estimated that without bank financing the cash balance will be \$1.0 billion on April 30, and negative \$.7 billion by May 15.

What form shall this bank financing take? The alternatives are (1) further increases in Treasury bills, or (2) market offerings of certificates, notes or bonds. It is our view that further increases in bills would provide the wiser choice.

During the fiscal year, it is estimated that the Federal Reserve Banks will have to absorb \$8.9 billions of securities. This estimate is calculated with reference to the amount of bank reserves which the Federal Reserve Banks will have to provide the commercial banking system during this year. These requirements will be \$2.0 billions estimated gold outflow and increase in foreign balances in this country, \$4.8 billions estimated increase in money in circulation, and \$2.1 billions

- 8 -

increase in required reserves of member banks. These figures are developed in Chapter 3, entitled "The Federal Reserve Ratio and Money Market Management During the Fiscal Year 1945."

Some of these securities the Federal Reserve will be able to pick up in the market, particularly through the repurchase of some of the bills which commercial banks absorbed as their reserves were freed in June during the course of the Fifth War Loan. It is important, however, that Federal Reserve acquisitions in the market not be held off until banks are forced by shortages of reserves to unload some of their securities, thereby creating a weak tone in the market. Rather the Federal Reserve acquisitions should be timed so that the market is at all times in a vigorous mood. The best way to insure this is to provide an increasing supply of Treasury bills for the Federal Reserve to absorb. In this way reserves will be provided the market regularly each week over a fairly long period, and adjustments in bank reserves will be facilitated. Also the central bank will be acquiring the most logical instrument for this purpose, namely, a short-term instrument at a low rate of interest. For further discussion of these considerations, see Chapter 2, entitled "Considerations Involved in Determining the Amount of Increase in Treasury Bills During the Fiscal Year 1945".

It is proposed that the weekly increase of \$200 millions in Treasury bills be resumed September 21 and tentative plans made to continue such an increase through three cycles of thirteen weeks. This would raise \$7.8 billions, or approximately the amount of additional financing needed. And this amount of bills, together with increases in bills under the old program in July and August, would take care of the Federal Reserve required securities during the fiscal year. Of course, the financing situation should be reexamined from time to time to see whether conditions may have changed, and other financing plans may be called for.

In Section 3 of the table figures are presented on the proposed bank financing program of increased Treasury bills. Under this program the working balance on October 31 would be \$8.4 billions and on November 15 it would be reduced to

- 9 -

\$6.9 billions. Such a balance would be none too high considering the uncertainties facing the Treasury, and the figure points up the need for beginning the Sixth War Loan as early as possible in November in order to avoid further drains on the balance. On April 30, the balance would be \$7.4 billions, and it would fall to \$6.1 billions by May 15.

To sum up, the borrowing program proposed would bring in \$57.4 billions as against financial outlays of \$62.9 billions during the fiscal year. The figures are summarized in Chart 2. As shown in the chart, the cash balance would be reduced \$5.5 billions during the fiscal year, or \$1.0 billion more than the reduction estimated in the "Budget Review". The cash balance at the end of the fiscal year would be \$13.2 billions.

2. CONSIDERATIONS RE
TREASURY BILLS

Chapter 2

Considerations Involved in Determining the
Amount of Increase in Treasury Bills
During the Fiscal Year 1945

The amount by which the outstanding volume of Treasury bills should be increased during the fiscal year 1945 may be considered from the point of view of the position of (1) the Federal Reserve Portfolio, (2) the Commercial Banking System, and (3) the Treasury. Considered from any one of these points of view, it appears desirable that the volume of outstanding bills should be increased during the fiscal year by approximately the amount of the expected increase in the Federal Reserve portfolio of Government securities -- i.e., about \$9 billions.

(1) The Federal Reserve Portfolio. According to our estimates, it will be necessary for the Federal Reserve Banks to increase their aggregate portfolio of Government securities by \$8.9 billions during the fiscal year 1945. This increase will be necessary for the following purposes:

(Billions of dollars)

To offset gold outflow and increases in foreign balances	2.0
To offset increases in money in circulation	4.8
To offset increases in member bank required reserves	<u>2.1</u>
Total	8.9

Estimates, made by others, of the magnitudes of these factors might differ somewhat from those set forth in the above table, but not by a sufficient amount to affect the conclusions of this memorandum.

The aggregate amount of purchases of United States securities which must be made by the Federal Reserve Banks can be altered only by changing in one way or another the amounts of the factors shown in the above table. The aggregate volume of Federal Reserve Bank purchases of Government securities cannot be affected by changing the type of security which is made available for them to purchase --

- 2 -

e.g., if more bills are made available for Federal Reserve purchase, fewer purchases of other types of securities will be necessary; and vice versa. Bills are the ideal medium for central bank investment because of their perfect liquidity and minimal earning rate. It would appear, therefore, that the interest of the Federal Reserve portfolio as such would be best served by an increase in the outstanding amount of Treasury bills during the fiscal year approximating the required increase in the total portfolio.

(2) The Commercial Banking System. Since the establishment on April 30, 1942, of the $3/8$ percent posted buying rate, Treasury bills, when held by commercial banks, have been as good as excess reserves. This is because they are instantly convertible into such reserves at a predetermined rate. A large volume of Treasury bills, therefore, increases the liquidity of the banking system, and so places it in a better position to handle the shifts in the location of deposits which are likely to occur after the close of the war. A large bill portfolio also tends, of course, to hold down the rate of increase in commercial bank earnings, but such earnings are adequate in any event.

The total holdings of bills by commercial banks, which reached a peak of about \$7.3 billions on May 31, 1943, had fallen back to about \$3.8 billions on May 31, 1944, principally as a result of the discontinuance of further increases in Treasury bills in September 1943, and a consequent absorption of a large portion of the available supply by the Federal Reserve Banks for the reasons discussed in the first section of this chapter. The aggregate bill holdings of commercial banks rose to about \$5.7 billions on July 31, 1944, because of the increase in the outstanding volume of bills and of the movement of reserves incident to the Fifth War Loan. The latter influence has now spent itself, however, and will operate in the reverse direction until the beginning of the Sixth War Loan. A substantial increase in total bill volume during the fiscal year 1945 will probably serve to keep commercial bank holdings approximately constant. If the total volume is not increased, or is increased only slightly, commercial bank bill holdings will continue to shrink, as the available supply of bills is absorbed by Federal Reserve demand.

- 3 -

(3) The Treasury. The Treasury's interest in holding down the burden of the public debt would be served in two ways by a large increase in bill volume during the fiscal year. This is because (a) Treasury bills are themselves economical financing, and (b) an increase in bill volume will help maintain the general ease of the money market, and so will hold down the cost of other borrowing.

Most of the \$8.9 billions of necessary increase in the Federal Reserve portfolio during the fiscal year will appear in the first instance as a drain on the reserves of commercial banks. If this drain is accompanied by a Treasury bill program of corresponding magnitude, it will be offset almost automatically by a corresponding inflow of reserves to the banks, thus maintaining a continued ease in the money market. If, on the other hand, there is no Treasury bill program, or only a small one, commercial banks will be under the constant necessity of replenishing their reserves by the sale of securities directly or indirectly to the Federal Reserve Banks. This will put them in a selling, rather than a buying, frame of mind; and, consequently, will make for a tighter money market all around. A substantial increase in the volume of bills during the fiscal year, therefore, will result in lower borrowing costs to the Treasury, not merely because of the low rate on the bills themselves, but because such a program will help hold down other rates as well.

3. FEDERAL RESERVE
RATIO

Chapter 3

The Federal Reserve Ratio and Money Market Management During the Fiscal Year 1945

Introduction and Summary

Some time ago we called your attention to an upsurge of discussion of the Federal Reserve ratio in financial circles. We stated that the ratio presented no immediate problem, but should be watched with a view to taking or recommending action before the situation developed into a crisis; and you asked to be kept informed. Inasmuch as the principal significance of the Federal Reserve ratio at present is with reference to the ability of Federal to support the Government security market, an interim report seems appropriate at the time of planning the Sixth War Loan.

It is estimated that the ratio will fall to about 43 percent by next June 30. This compares with a legal minimum of 37 percent or 38 percent, the exact amount depending on a variety of circumstances. The fall in the ratio should not interfere, therefore, with full Federal Reserve support to the Government security market during the entire fiscal year -- which support, it is estimated, will require a net addition of about \$8.9 billions to the Federal Reserve Government security portfolio.

Suitable action with respect to the ratio should be taken, however, well in advance of immediate necessity, in order to maintain the full confidence of the market; but there is no need for such action until after the assembly of the new Congress in January. At that time, further consideration should be given to the relative advantages and disadvantages of asking Congress for legislation bearing directly on the ratio or of solving the problem without additional legislation by issuing Federal Reserve Bank notes in lieu of Federal Reserve notes.

I. What is at Stake

Thus far during the war, there has been a seller's market in Government securities. Marketable securities have generally been "scarce" and in demand. It has been

- 2 -

a privilege to buy them. This, more than anything else, has fundamentally distinguished Government finance in World War II from that in World War I.

The continuing sellers' market in Government securities during the whole war period has been made possible by money market management; and has resulted, not only in low-cost borrowing, but in an unprecedented public confidence in the stability of the prices of Government securities. This confidence, in turn, has made it possible to sell large amounts of Government securities to nonbank investors. If the present control over the pattern of interest rates should falter and so weaken this confidence in the stability of Government security prices, it would result, therefore, not only in a higher cost of borrowing, but would also result in more borrowing from banks and less borrowing from nonbank investors, which would continue until confidence could be re-established in a new and lower level of security prices -- a long time as time is reckoned in war finance.

The market has been excellent ever since D-day. This is no time, however, for experiment to determine how little support is enough. The approaching hour of victory may test the willingness and ability of the monetary authorities to assure a good market in times of peace as well as in those of war, and the result of this test should be clear.

II. The Nature of the Problem

The rock upon which the control of the pattern of interest rates has rested, and still rests, is the willingness and ability of the Federal Reserve Banks to purchase as many Government securities as may be necessary in order to offset the drains on member bank reserves incident to wartime conditions, and to provide the member banks (and, through them, the other commercial banks) with sufficient additional reserves to take up the whole amount of securities not purchased by nonbank investors. Chapter 1, "Developing a Borrowing Program for the Fiscal Year 1945", assumes the full maintenance of the pattern of rates throughout the fiscal year. In order for this program to be carried out, we estimate that it will be necessary for the Federal Reserve

- 3 -

Banks to make net additions of \$8.9 billions to their portfolios of Government securities during the fiscal year, for the following purposes:*

(Billions of dollars)

To offset gold outflow and increases in foreign balances	2.0
To offset increases in money in circulation	4.8
To offset increases in member bank required reserves	<u>2.1</u>
Total	8.9

The best single index of the legal authority of the Federal Reserve Banks to continue purchases of Government securities is the Federal Reserve ratio. This ratio has a legal minimum of about 37 percent or 38 percent, the exact amount depending upon a variety of circumstances. The fluctuations in the Federal Reserve ratio, yearly since the establishment of the Federal Reserve System, and monthly since the beginning of 1940, together with estimates of its probable level on next December 31, and next June 30, are shown in the accompanying chart. If Reserve Bank purchases of Government securities during the fiscal year 1945 work out as indicated in the above table, the Federal Reserve ratio -- which was 56.3 percent on June 30, 1944, and 54.5 percent on August 31 -- will decline to 42.7 percent* on June 30, 1945. At this level it would still be about five points above its legal minimum.

* The estimates in this chapter of necessary Government security purchases by the Federal Reserve Banks and of the Federal Reserve ratio give no effect to the possible implementation during this fiscal year of the Monetary Fund and International Bank. The effect on the Federal Reserve ratio of such implementation would depend upon the mechanics of the method by which it was effected, but would probably not, in any event, exceed one or two points. It is also possible that the legislation implementing the agreements would provide for neutralizing their effect on the ratio.

- 4 -

III. The Time Factor

It is clear, therefore, that ample legal authority exists for a continuation of the present policy of money market management without fundamental change throughout the entire fiscal year. By next spring, however, a great many persons are going to be concerned (as many are already) over the fall in the ratio. It will be desirable, therefore, to take definite steps either to check the fall in the reserve ratio or to render such fall of no consequence well before such steps are mechanically necessary. We do not believe, however, that it will be either necessary or desirable to take any such steps until the assembly of the new Congress in January.

IV. Alternative Solutions of the Problem

The basic reserve requirements on which the Federal Reserve ratio rests have ceased to be of fundamental economic significance, and the simplest method of solving the problem of the fall in the ratio would be to request Congress for legislation eliminating them altogether. This was the course taken by Great Britain and Canada, both of which suspended all reserve requirements early in the war. It would also seem to be the most desirable course for the United States provided that such legislation could be secured without a degree of controversy which might itself unsettle the Government security market. Failing this, the next most satisfactory solution would be legislation reducing the reserve requirements underlying the ratio or making them discretionary with the Board of Governors within ranges fixed by statute.

The fall in the reserve ratio might also be checked for a greater or a lesser time without requesting legislation. Among the methods by which this might be accomplished are reduction in member bank reserve requirements, use of the gold in the Stabilization Fund, monetization of additional silver, issuance of Thomas currency, and issuance of Federal Reserve Bank notes. All of these methods, except the last, would check the fall in the ratio for only a brief period, however, and then at the expense either of considerable public criticism or the sacrifice of other desirable objectives, or both.

The issuance of Federal Reserve Bank notes -- which require no reserve, as compared with a 40 percent gold reserve required for Federal Reserve notes -- appears to

- 5 -

be the only satisfactory solution of the problem of the ratio which does not require legislation. The issuance of these notes in lieu of Federal Reserve notes would solve the problem of the ratio permanently, or, in any event, for a very long time to come. The issuance of such notes, furthermore, would be subject to no valid economic objection. There are several obstacles to such issuance, however, from a psychological point of view. The principal of these obstacles are as follows:

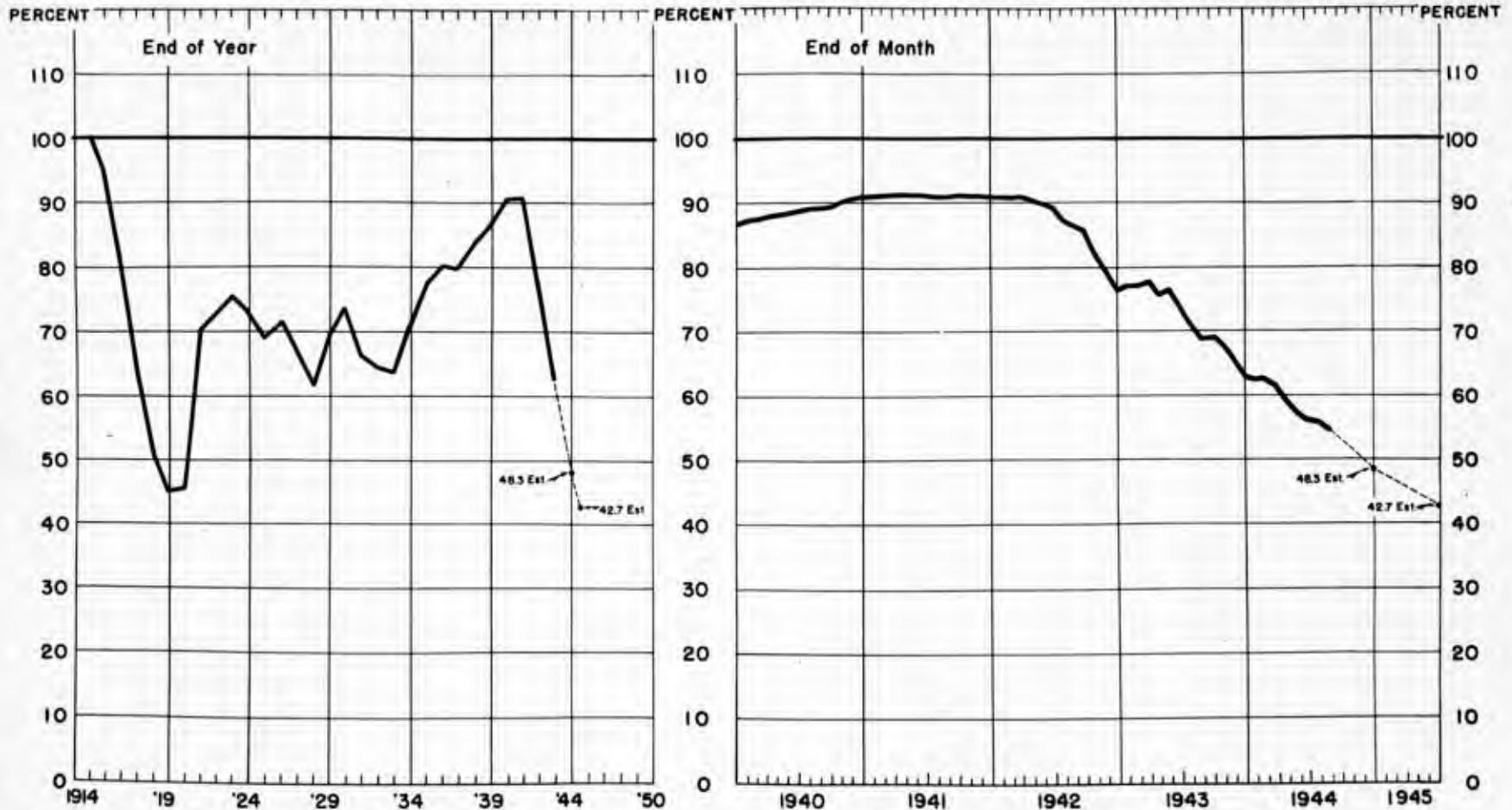
- (1) Federal Reserve Bank notes are issued under legislation specifically limited to the banking emergency which commenced in 1933. The law says "No such circulating notes shall be issued under this paragraph after the President has declared by proclamation that the emergency recognized by the President by proclamation of March 6, 1933, has terminated. . . ."
- (2) The issuance, commencing in December 1942, of about \$660 millions of Federal Reserve Bank notes from unused stock left over from 1933 resulted in considerable public and Congressional criticism. Most of this criticism could probably have been averted if the notes issued at that time had been continued as liabilities of the Federal Reserve Banks, rather than being immediately converted into "Treasury currency" by the deposit of funds for their redemption. The public does not make fine distinctions, however; and some of the (unjustified) odium attached to the earlier issue has probably passed over to the issuance of Federal Reserve Bank notes in general.
- (3) A bill to prohibit the further issuance of Federal Reserve Bank notes passed the Senate May 12, 1943, and is now pending in the Banking and Currency Committee of the House of Representatives. No further action is likely on this bill, however, and it will probably die at the close of the present Congress.

It will be much easier after the turn of the year than it is at the present time to evaluate correctly the considerations favoring, respectively asking Congress for legislation applying directly to the reserve requirements underlying the

- 6 -

ratio, or issuing Federal Reserve Bank notes, which do not require further Congressional authorization. In the meantime, as already stated, the ratio will continue well above the legal minimum; and there is no reason why the utmost confidence should not be expressed in the ability of the monetary authorities to continue dealing with the problem in a satisfactory manner.

RATIO OF RESERVE HELD TO COMBINED DEPOSIT AND NOTE LIABILITIES OF FEDERAL RESERVE BANKS



4. SOURCES OF FUNDS



Chapter 4

Sources of Funds for the
Sixth War Loan

A major aim of the Federal borrowing program is to obtain as large as possible a proportion of the required funds from nonbank investors. To the extent that this is accomplished, spendable funds in the hands of individuals and business are reduced and inflationary pressures are lessened. This chapter will review the achievement in the last war loan with respect to the sources of borrowed funds, and will discuss the possibilities for the Sixth War Loan.

Part I. Fifth War Loan

From the end of the Fourth War Loan through July 31, the Federal deficit amounted to approximately \$20 billions. Current liquid savings in the hands of all nonbank investors together necessarily came to approximately the same figure. How much of this \$20 billions went into Federal securities, and how much went into currency and checking accounts? The table below presents a condensed answer to this question.

Uses of Current Liquid Savings of
All Nonbank Investors
March-July 1944

	(In billions of dollars)
Total current liquid savings.....	19.8
Less: Transfer of funds to banks <u>1/</u>	<u>3.1</u>
Equals: Net funds available.....	16.8
Less: Investment in Federal securities...	<u>11.9</u>
Equals: Funds placed in currency and checking accounts.....	<u>4.9</u>

1/ Through time deposits and loan repayments, but not checking accounts.

- 2 -

The table shows that current liquid savings of \$19.8 billions accumulated by all nonbank investors were reduced by \$3.1 billions as a result of transfers of funds to commercial banks through the medium of time deposits and repayment of loans. This left \$16.8 billions of net funds available. Of this amount, \$11.9 billions went into Federal securities and \$4.9 billions was put into money savings in the form of currency and checking accounts.

The \$11.9 billions increase in Federal security holdings is a net figure which takes account of market transactions and redemptions and cash maturities as well as gross purchases from the Treasury in war loans and through continuing sales programs. In Table 1, shown on the next page, preliminary figures summarizing the details of these operations are given for each nonbank investor class, and for commercial and Federal Reserve Banks combined. Final figures will not be available until tabulations are completed of the data from the Treasury Survey of the Ownership of Government Securities for July 31. In Chart 1, the data from Table 1 relating to gross purchases, the offsets to these purchases, and the net absorption of Federal securities by various investor groups are shown.

Table 1 brings out the fact that the individual and unincorporated business group turned in by far the poorest performance. This group had net funds available of \$9.8 billions and invested only \$5.4 billions net, or 55 percent, in Federal securities. This result needs special interpretation, however, in using it as a measure of success in drawing off inflationary funds. The fact is that par for the investment ratio of individuals and unincorporated business is not 100 percent but something less.

Unfortunately, it is virtually impossible to set any precise figure for par, but the reasons it must be below 100 percent may be briefly mentioned.

First of all, part of the increase in currency and checking accounts during the war period undoubtedly represents genuine savings of individuals, in the sense that the people who own the funds do not consider them part of their spendable funds but are laying them aside for the future. The available information indicates that a substantial amount of savings is being accumulated in checking accounts and currency simply because people feel that they are already buying their share of war bonds and don't know of any other investment

Preliminary

Table 1. Net Funds Available and Absorption of Federal Securities
March-July 1944

(In billions of dollars)

Investor classes	Net funds available: <u>1/</u>	Placed in currency and checking accounts:	Absorption of Federal Securities				
			Purchases:	Dispositions:	War loans:	Con-tinuing programs:	Market sales (-) or purchases(+):
Nonbank investors:							
Individuals and unincorporated business.....	9.8	4.4	6.4	2.2	-1.3	-1.9	5.4
Corporations and associations	1.4	.4	8.2	.8	-4.1	-3.9	.9
Insurance companies.....	1.9	*	2.8	*	-.8	-.1	1.9
Mutual savings banks.....	.9	*	1.5	*	-.6	-.1	.9
Dealers and brokers.....	*	*	.5	*	-.6	*	*
State and local governments..	1.1	.1	1.3	*	-.2	*	1.1
Federal agencies and trust funds.....	1.8	*	*	2.5	-.1	-.7	1.8
Total nonbank investors.....	16.8	4.9	20.6	5.5	-7.6	-6.7	11.9
Commercial and Federal Reserve Banks.....			-	3.4	+7.6	-.2	10.8
Total.....			20.6	8.9	-	-6.9	22.6

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

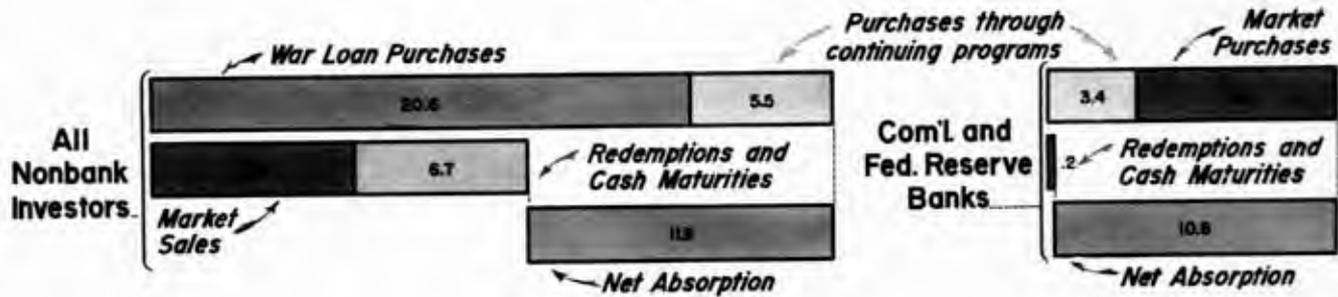
* Less than \$50 millions.

1/ Represents current liquid savings plus or minus transfers of funds between investor groups.

GROSS PURCHASES AND NET ABSORPTION OF FEDERAL SECURITIES

By Investor Classes, March - July 1944

BILLIONS OF DOLLARS



Nonbank Investors, by Classes

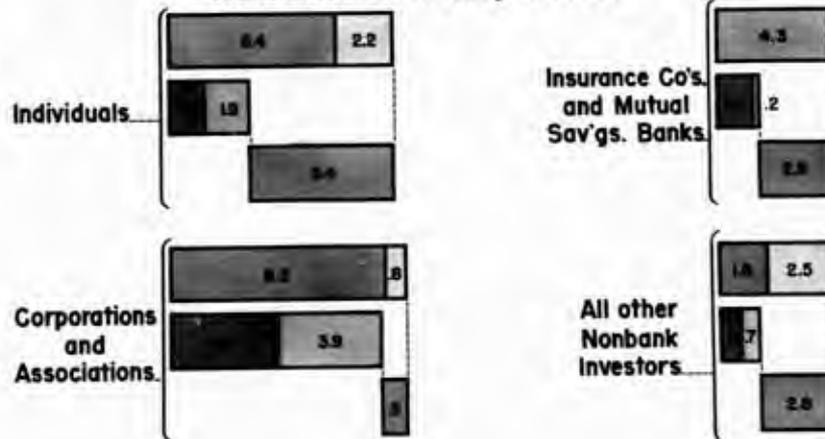


Chart 1

- 4 -

possibilities. In addition, the Louisville Survey, conducted for the Treasury Department by Dr. Likert, showed that many persons -- and especially those who are enjoying good incomes for the first time since the depression -- are fearful of the future and afraid of banks and even to some extent of government bonds as repositories for their wartime savings.

There is evidence also that many small businesses in the unincorporated group have experienced unprecedented prosperity during the war period and have accumulated large funds out of current operations, a considerable volume of which is being placed in checking accounts and to some extent in currency. This is intensified by black market operations and the desire to evade taxes.

Finally, more currency and larger bank balances have been required during the war period simply in connection with a higher level of business and a higher level of personal incomes and expenditures. These increased operating funds probably account for a sizable part of the total currency and checking accounts now in the hands of individuals and unincorporated business. This factor, however, is probably responsible for less of the recent increases in currency and checking accounts than earlier in the war period, inasmuch as business has been leveling off since the first of the year.

All of these elements in the situation are reflected in the currency and checking accounts figure for individuals and unincorporated business. It is obviously impossible to weigh them in statistical terms and arrive at a definitive figure which represents par for the investment of available funds in Federal securities. Nevertheless, we know beyond a doubt that these influences were at work in the March-July period and that they were partially responsible for holding the investment ratio of individuals and unincorporated business at a figure considerably under 100.

It is equally clear, however, that the investment ratio for individuals should have increased over the last year, whereas it has actually declined. The data show that the investment of the available funds of individuals in Federal

- 5 -

securities reached a peak of 67 percent in the Second War Loan period, fell to 63 percent in the Third War Loan period, and to 56 and 55 percent, respectively, in the Fourth and Fifth War Loan periods. This decline occurred notwithstanding the fact that the selling job has improved with each war loan. How then can we explain the fact that a smaller proportion of individuals' funds has been drawn off into Federal securities in each succeeding war loan period?

One important factor is that the large investible accumulations in the hands of some of the reasonably well-to-do people at the beginning of the war period have long since been fully invested. During the early war loan periods, the existence of these accumulations meant that a few big sales resulted in large volume. Since that time, however, the sales job has become more and more a matter of selling millions of people relatively small amounts. Individuals' holdings of currency and checking accounts have gone up sharply, but the new accumulations are spread over more people and are harder to absorb; consequently, the investment ratio for individuals has declined. Also, a considerable part of the new accumulations is held in accounts of unincorporated business and is difficult to reach.

At the Treasury's request, the Federal Reserve System has conducted a special survey of the ownership of checking accounts as of July 31, 1944, to throw some light on where the money really is. We expect to use the figures by States in working out State and local quotas. Tabulation of the results of this survey is not yet complete, but some of the preliminary data are of considerable interest. Total checking accounts of individuals, partnerships and corporations amounted to about \$59 billions on July 31. It is tentatively estimated that these deposits were distributed among the principal categories of owners as follows:

	(In billions of dollars)
Individuals:	
Unincorporated business.....	8
Farmers.....	4
Personal trust funds.....	1
Wage earners, professional persons, etc..	<u>17</u>
Total individuals.....	30
Insurance companies.....	1
Corporations and associations.....	<u>28</u>
Total.....	59

Note: Subject to revision when complete returns are in.

- 6 -

Thus checking accounts were divided about half and half between corporations and individuals. Of the \$30 billions of checking accounts held by individuals, \$12 billions was held by unincorporated business and farmers. A total of \$17 billions of deposits was held by wage earners, retired persons, professional persons, etc. According to a study made by the Securities and Exchange Commission, professional persons hold around \$3 billions of checking accounts. Adding this to the \$12 billions held by unincorporated business and farmers provides a figure of about \$15 billions for all self employed.

Data by States show wide variation in the distribution of checking accounts between various classes of owners. At the present time we have been supplied with preliminary figures for almost half of the States, and data for many of the remaining States are now being processed. The figures so far received show that even among the three largest States, namely, New York, Illinois, and Pennsylvania, there is considerable variation in the distribution of deposits between individuals and corporations. In New York, for example, individuals hold approximately 30 percent of total deposits as against 4 percent for insurance companies and 66 percent for corporations. In Illinois, however, the corresponding percentages are 40 percent, 2 percent and 58 percent, and in Pennsylvania individuals hold approximately one-half of all deposits. In some of the western States, an even larger proportion of total checking accounts is owned by the individual group. Kansas and Wyoming, to take the most extreme examples, show more than 80 percent of total deposits in the hands of individuals, and in five other western States individuals own 70 percent or more of all checking accounts.

Within the group of individuals, variations between the States in the proportion of accounts held by unincorporated business are also considerable, although they are less striking than the variations in the percentages for individuals as against corporations. There are no States reporting so far in which unincorporated business accounts for as much as half of the total deposits of individuals; in seven States, however, the proportion is between 30 and 40 percent. At the other end of the scale, only one State shows less than 20 percent of individuals' deposits in the hands of the unincorporated business subgroup.

- 7 -

It is clear that the variations by States are so large that sales appeals should be arranged on a very flexible basis to obtain the best results. The tendency has been to concentrate on wage-earning individuals and large investors; many of the small businesses have not been asked to purchase securities to anywhere near their ability. On the other hand, deposits of the wage earners, professional persons, etc., are so large in most States that appeals to individuals holding them clearly need to be intensified at the same time that the sales effort is widened to provide for greater solicitation of unincorporated business owners. Various proposals to improve sales performance are discussed in Chapter 6, entitled "Problems of the Sixth War Loan".

Returning now to Table 1, the figures bring out how important turnover in securities has become in the case of some classes of nonbank investors. Except for dealers and brokers, corporations and associations showed the largest turnover of securities during the March-July period. Gross purchases aggregated \$8.9 billions, but 90 percent of this total was offset by market switches and redemptions and cash maturities. Net absorption of Federal securities by corporations and associations thus amounted to only \$.9 billion for the period. Nevertheless, this represented the largest part of the net funds available to this group which are running smaller than last year mostly as a result of higher tax payments. Insurance companies and mutual savings banks offset a little over one-third of their purchases by market switches and redemptions and cash maturities.

Part II. Sixth War Loan

Turning now to the Sixth War Loan, what is the outlook for net funds available, and how much of these funds may we expect to absorb? The table below summarizes our estimates of the funds which will be available in the hands of nonbank investors from the end of the Fifth War Loan through the end of the calendar year.

- 3 -

Outlook for Net Funds Available
August-December 1944

	(In billions of dollars)
Total current liquid savings.....	22.3
Less: Transfers of funds to banks <u>1/</u>	2.1
Funds reserved for individual tax payments postponed to January 1944..	<u>1.9</u> <u>4.0</u>
Equals: Net funds available.....	<u>18.3</u>

1/ Through time deposits and loan repayments, but not checking accounts.

Net funds available at \$18.3 billions will be about 10 percent higher than in the March-July period. Practically all of this increase will take place in the funds of individuals, whose net funds available are estimated to increase from \$9.8 billions in March-July to \$10.9 billions in August-December. How much of this total should we expect to absorb in the sale of Federal securities?

There is no definitive answer to this question. The possibilities may be examined, however, by referring to three assumptions based on the investment ratio for individuals, as follows:

- Assumption "A": An investment ratio of 67 percent, same as in the Second War Loan period.
- Assumption "B": An investment ratio of 55 percent, same as in the Fifth War Loan period.
- Assumption "C": An investment ratio of 43 percent, based on a \$16 billions sales program for the Sixth War Loan, with individual sales of \$5-1/2 billions.

These assumptions are discussed further below:

Assumption "A": If we set our sights on returning to a 67 percent ratio, we would have to achieve net absorption by individuals of approximately \$7.4 billions from August through December, and allowing for moderate market switches and redemptions, sales in the Sixth War Loan to this group would have to reach about \$8.5 billions. This compares with \$6.4 billions of such sales in the Fifth War Loan.

- 9 -

Assumption "B": If we endeavor to maintain the 55 percent ratio of the last war loan period, net absorption by individuals would have to amount to \$6.0 billions and sales to individuals during the Sixth War Loan to approximately \$7.0 billions. This would be about 10 percent higher than such sales in the Fifth Loan.

Assumption "C": From a practical point of view, there is no use in setting goals without the assurance of the war loan organization that they can be met. Perhaps we should sell more securities to individuals, but the question is, can we do it. It must be recognized at the outset that the imminence of an early German defeat and the prospect of reconversion unemployment may put a premium on holding on to available cash and bank deposits. The same amount of sales effort as was expended in the Fifth War Loan, therefore, is likely to produce somewhat smaller sales in the Sixth Loan. Instead of selling \$6.4 billions of securities to individuals, as in the Fifth Loan, the figure might easily slip down to \$6 billions or perhaps even to \$5-1/2 billions. The latter figure would provide an investment ratio of only about 43 percent for the August-December period.

Chart 2, which shows net funds available and net absorption of Federal securities by individuals, compares the three alternatives mentioned with the experience in recent war loan periods. Chart 3 presents similar information for other nonbank investor groups. Only one set of estimates for the August-December period is shown in this chart, however, since it is assumed that the absorption of the funds of nonbank investors other than individuals will be about the same, irrespective of the degree of absorption achieved for individuals.

In Chart 4, the absorption of the increase in the Federal debt by three broad groups of investors, namely, individuals, other nonbank investors, and commercial and Federal Reserve Banks, is shown for recent war loan periods and separately for the three assumptions made with respect to the August-December period.

NET FUNDS AVAILABLE AND NET ABSORPTION OF FEDERAL SECURITIES BY INDIVIDUALS

Five Financing Periods, 1943-1944

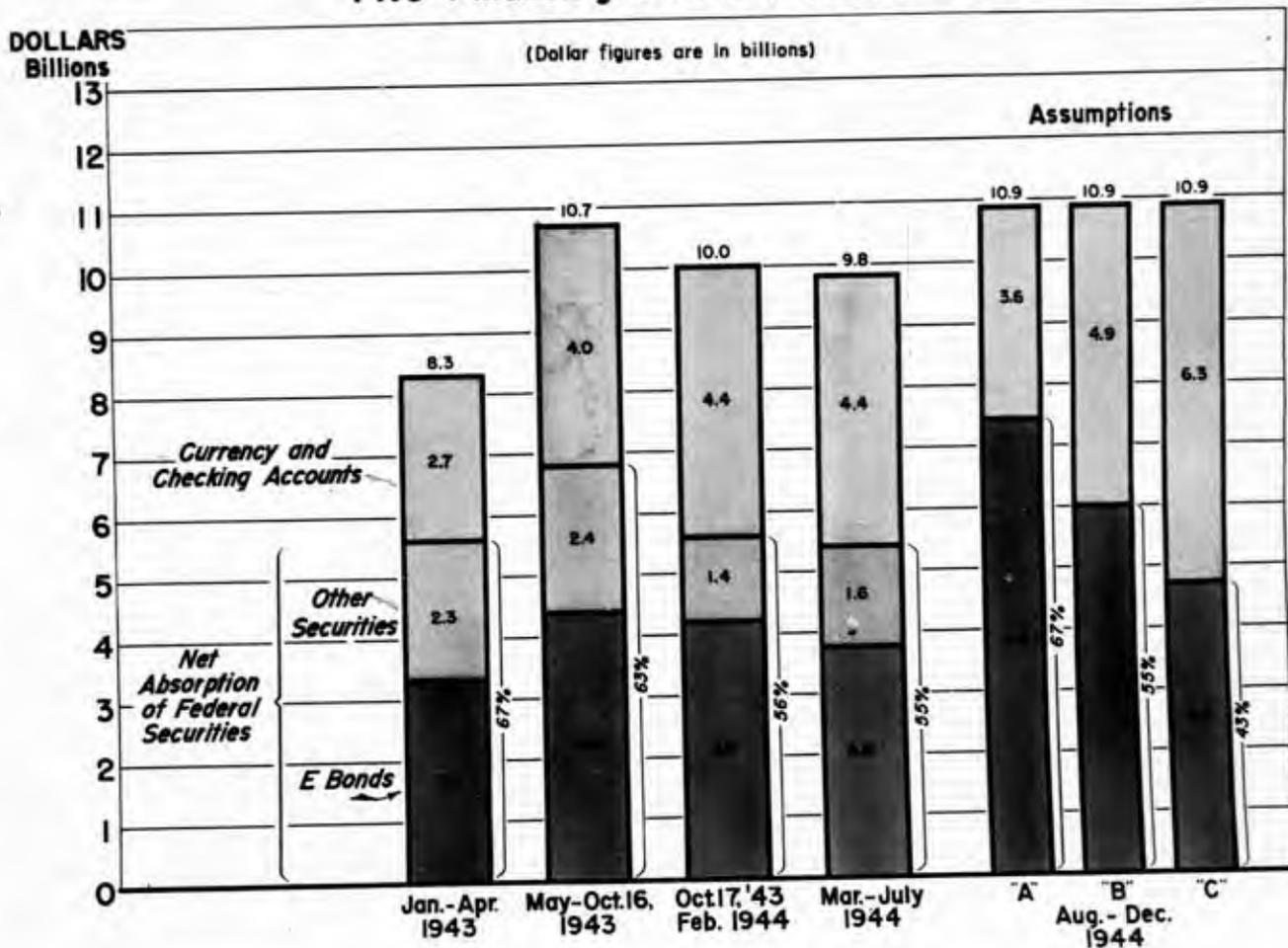
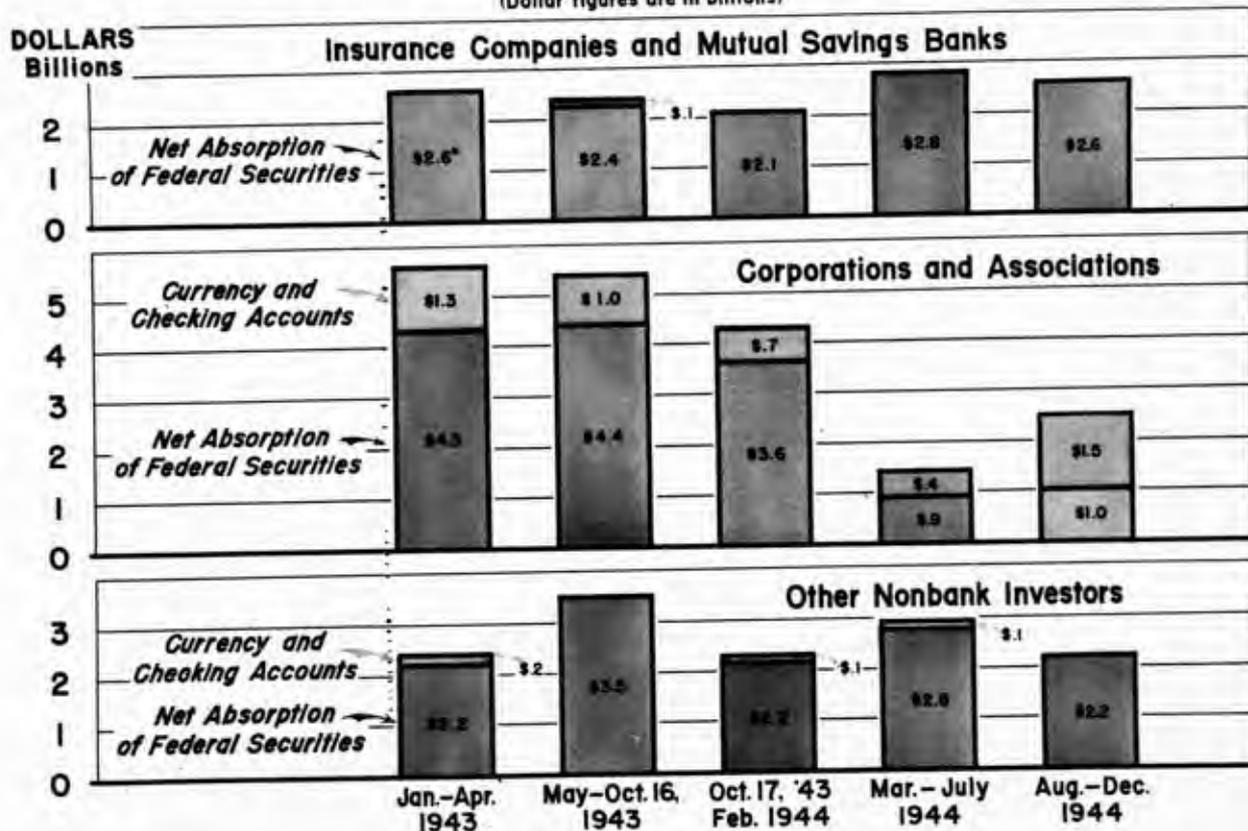


Chart 2

NET FUNDS AVAILABLE AND NET ABSORPTION OF FEDERAL SECURITIES BY NONBANK INVESTORS OTHER THAN INDIVIDUALS

Five Financing Periods, 1943-1944

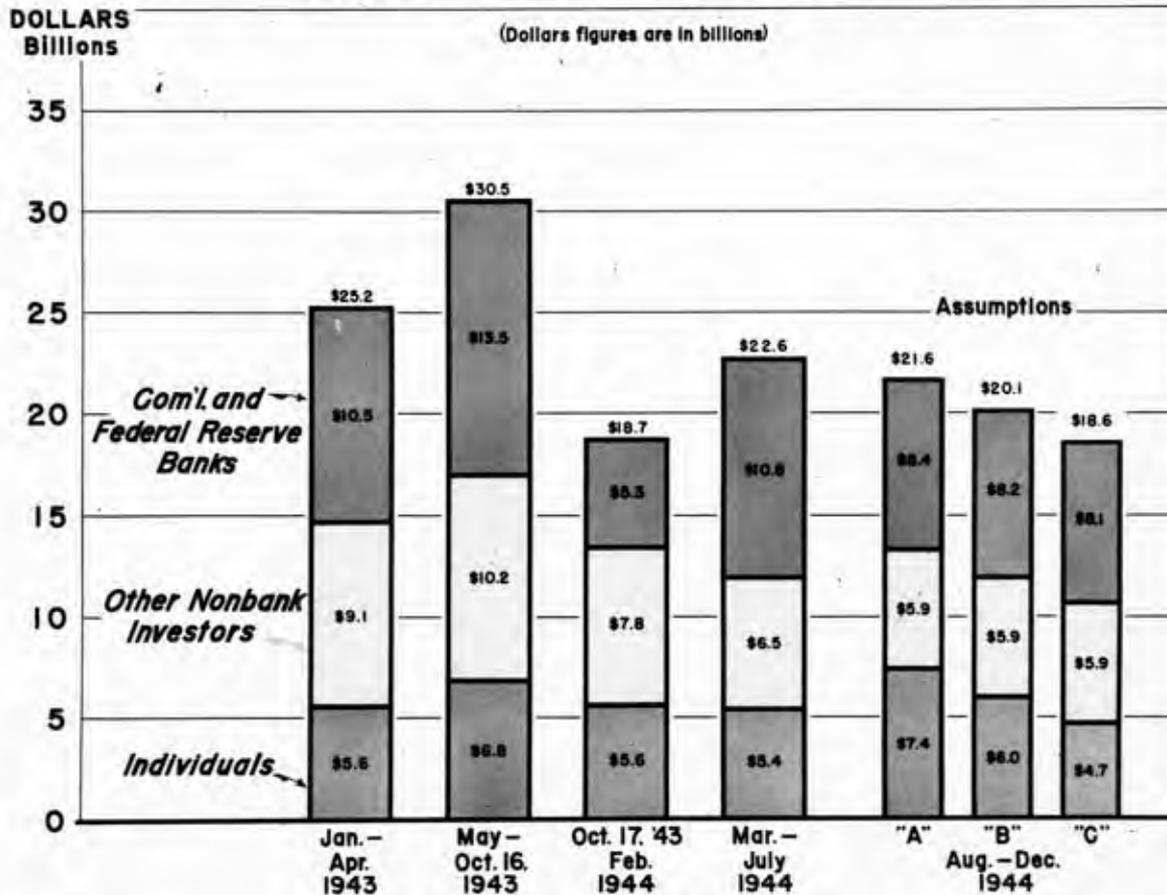
(Dollar figures are in billions)



*Consists of \$2.2 billions of net funds available currently, plus \$.4 billion cash drawn from past accumulations

NET ABSORPTION OF INCREASE IN FEDERAL DEBT BY INVESTOR CLASSES

Five Financing Periods, 1943-1944



- 10 -

Table 2 summarizes estimated net funds available in the hands of nonbank investor classes during August-December and shows estimates of the extent to which these funds would be absorbed on the basis of Assumption "C", namely, a net absorption of 43 percent of the available funds of individuals during the period. The table shows that Assumption "C" involves total sales during the Sixth War Loan of \$16 billions, of which \$5-1/2 billions would be to individuals. Chart 5 shows the gross purchases and net absorption of Federal securities by the principal investor classes during the August-December period, also on the basis of Assumption "C". The presentation in this chart is similar to that in Chart 1, for the March-July period.

The \$16 billions assumption for Sixth War Loan sales was used in Chapter 1, entitled "Developing a Borrowing Program for the Fiscal Year 1945". It is to be hoped that sales will be larger and particularly that sales to individuals will exceed the \$5-1/2 billions figure put down for them. Table 2 shows that the amount of funds being placed in currency and checking accounts during the period by all nonbank investors would exceed \$7 billions, on the basis of Assumption "C". This would be the highest figure for savings in money form in a comparable period since the beginning of the war, and would certainly indicate a sharp decline in the effectiveness of the war loan program. Chapter 6, on "Problems of the Sixth War Loan", discusses the various possibilities for tapping more of these funds and for improving our results generally.

Table 2. Net Funds Available and Absorption of Federal Securities
 August-December 1944
 Assuming \$16 billions Sales in Sixth War Loan
 (In billions of dollars)

Investor classes	Net funds available: 1/	Placed in currency and checking accounts: 2/	Absorption of Federal securities					
			Purchases	War loans	Continuing or purchasing programs	Market sales (-) or purchases (+)	Redemptions and cash maturities (-)	Net absorption
Nonbank investors:								
Individuals and unincorporated business.....	10.9	6.3	5.5	2.0	- .8	-2.1	4.7	
Corporations and associations	2.5	1.5	5.7	.7	-1.6	-3.8	1.0	
Insurance companies.....	1.8	*	2.4	*	- .6	*	1.8	
Mutual savings banks.....	.8	*	1.2	*	- .5	*	.8	
Dealers and brokers.....	-.1	*	.5	*	- .6	*	-.1	
State and local governments..	.7	*	.7	*	- .1	*	.7	
Federal agencies and trust funds.....	1.6	*	-	1.6	*	*	1.6	
Total nonbank investors.....	<u>18.3</u>	<u>7.8</u>	16.0	4.4	-4.2	-5.7	10.5	
Commercial and Federal Reserve Banks.....			-	3.9	+4.2	*	8.1	
Total.....			<u>16.0</u>	<u>8.3</u>	-	-5.7	<u>18.6</u>	

Note: Figures are rounded to nearest tenth of a billion and will not necessarily add to totals.

* Less than \$50 millions.

1/ Represents current liquid savings plus or minus transfers of funds between investor groups.

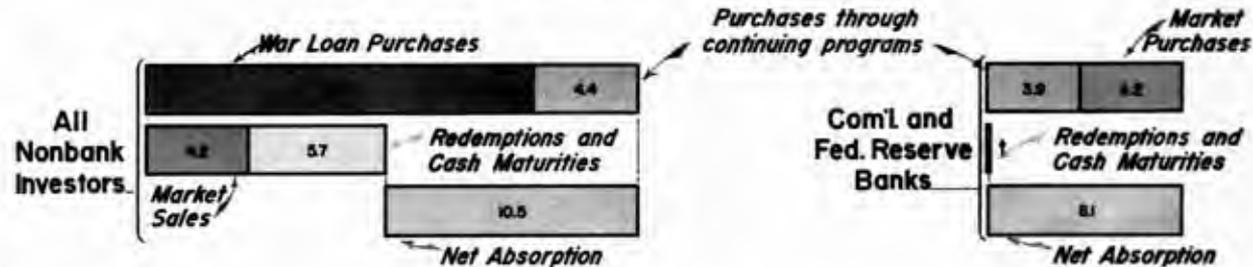
2/ The \$16 billions figure for sales is an assumption rather than a forecast.

- 11 -

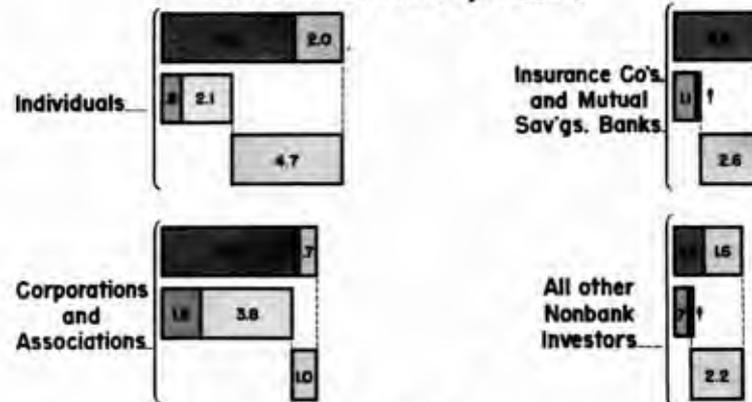
GROSS PURCHASES AND NET ABSORPTION OF FEDERAL SECURITIES

By Investor Classes, August - December 1944

BILLIONS OF DOLLARS



Nonbank Investors, by Classes



† Less than \$50 millions

5. ANALYSIS OF FIFTH
WAR LOAN

Chapter 5

. An Analysis of the Fifth War Loan Drive

There were a great many developments in the Fifth War Loan that should be gone over and studied before the problems of the Sixth Loan are considered. It is the purpose of this chapter to discuss first, the favorable developments that occurred, and second, the unfavorable ones.

I. Favorable developments

(1) Quotas were achieved. The Fifth War Loan produced total sales of \$20.6 billions. This amount exceeded the sales of previous drives and was over the \$16 billions quota by \$4.6 billions or 29 percent. The oversubscription was widely distributed throughout the country, moreover, and all States except Nevada were able to make their total quotas. West Virginia, Georgia, Maryland, and Florida led the list with oversubscriptions in excess of 80 percent of quotas.* Among the States with the larger quotas, Ohio led the list with an oversubscription of its \$797 millions quota by 39 percent. New York, the State with the largest quota, (\$4,801 millions) oversubscribed this amount by 24 percent.

Sales of securities to corporations, insurance companies, etc. amounted to \$14.3 billions, an amount which far exceeded the corporation quota of \$10 billions. Included in the figures were sales of \$2.8 billions to insurance companies and \$1.5 billions to savings banks. All States made their corporation quotas and the oversubscription was distributed among all classes of corporations.

Sales of securities to individuals totaled \$6,351 millions during the drive, as compared with a quota of \$6,000 millions. Included in the sales figures were \$3,036 millions from the sale of E bonds, an amount which was just over the \$3,000 millions quota set for this security. Thirty-four States made their quotas for sales to individuals, and 40 made their E bond quotas.**

*Oversubscriptions of these magnitudes were accounted for in part by free riding, however, and this is discussed later in this memorandum.

**The District of Columbia and Northern and Southern California are counted as separate State units for purposes of the State-by-State analysis.

- 2 -

Of the E bond sales, about \$1,650 millions or nearly 55 percent represented sales made to people who made their purchases at the place of their employment either through payroll deductions or by the purchase of extra bonds for cash. Some \$228 millions, or 7 percent, came from purchases by members of the armed forces through their finance officers. The remaining sales -- \$1,158 millions or 38 percent -- came from regular non-payroll buyers and from persons who bought E bonds in banks, post offices, theaters, department stores, etc., as a result of promotions other than those conducted at the plants.

(2) Net new money acquired higher than in Fourth Loan. The figures on sales set forth in the preceding section of this memorandum represent gross sales during the Fifth War Loan drive, part of which were financed by the expansion of bank credit during the two months of the drive counting period. If this part of the sales is excluded from the gross sales, a balance can be arrived at which represents the net new money acquired from nonbank investors during the drive. This balance, which is shown below, amounted to \$12.2 billions during the Fifth War Loan, an increase of \$0.9 billion over a comparable figure for the Fourth Loan.

	: Fourth : : Loan : :	: Fifth : : Loan : :
	(Billions of dollars)	
Gross sales of war loan securities..	16.7	20.6
Less: Bank credit expansion during two months of drive.....	<u>5.4</u>	<u>8.4</u>
Balance, equals net new money acquired from nonbank investors from newly-acquired surpluses or idle funds held over from previous periods.....	<u>11.3</u>	<u>12.2</u>

Note: Details of bank credit expansion figures used in this table appear later in this chapter.

- 3 -

If the figures for individuals are taken alone, they indicate that "net" sales to this investor group have also increased -- from \$5.0 billions to \$5.1 billions-- as shown in the table below. Here the gross sales are adjusted to allow for (1) the expansion of bank credit, and (2) the inclusion in the reported total of some sales to Army and Navy personnel (both military and civilian) for which the deposit of funds was expedited into the drive period.

Analysis of Sales to Individuals during War Loans

	: Fourth : : Loan : :	: Fifth : : Loan : :
	(Billions of dollars)	
(1) Sales financed by bank credit expansion.....	.2	1.1
(2) Sales for which the deposits of funds were expedited into the drive period <u>1/...</u>	.1	.2
(3) Other sales.....	<u>5.0</u>	<u>5.1</u>
(4) Total reported sales.....	<u>5.3</u>	<u>6.4</u>

1/ The amounts shown were deposited during the last few days of the drive by issuing agents for members of the armed forces and employees of Navy Yards. The issuance of the bonds and the accounting for them will not be completed until September.

(3) Techniques were improved. The technique of selling securities to nonbank investors during the war loans was improved on a number of important accounts during the Fifth War Loan drive. Some of these are discussed in the paragraphs that follow.

- 4 -

(a) Personal canvass. The personal canvass of individuals during the Fifth War Loan drive is reported by the War Finance Division to have exceeded the nationwide operation that had been conducted a few months earlier for the Fourth War Loan. Some 63 percent of the nonfarm population, it is reported,* was asked personally to buy a bond some time during the months of June and July. This compares with 54 percent that had been asked to buy bonds during the Fourth drive.

Solicitation in the payroll market, it is reported, was even more thorough than in the nonfarm market generally. Seventy-eight percent of the people who buy bonds regularly through the payroll deduction plan were personally asked to buy extra bonds in the Fifth drive as compared with 68 percent who were asked during the Fourth drive. This particularly intense solicitation occurred because War Finance Committees in many industrial areas made it a point to canvass persons on payrolls at the place where they were actually earning their income. This shift from the house-to-house canvass operations of the Third and Fourth Loan was aimed to conserve the manpower available to the program and thereby increase the effectiveness of the solicitation.

Large investors were also canvassed better in the Fifth Loan than heretofore. In many States there was an intense coverage of these individuals on a "special names" basis by the banking and investment divisions of the War Finance Committees and by some commercial bankers participating in the program of the American Bankers Association.

The foregoing makes it obvious that personal solicitation has become the key to the war bond sales program. Failure to solicit people in future drives, says Dr. Likert, may lose more sales than in the past, since people have come to accept solicitation as a part of the drives.

*In surveys conducted by Dr. Rensis Likert of the Department of Agriculture.

- 5 -

(b) Small unit quotas. The Fifth War Loan canvass of the nation's industrial, commercial, and governmental employees, the results of which were described above, was built around the idea of "company" quotas, and within these the formation of plant, division, department, office, and unit quotas. Most of these quotas, it is reported, were arrived at by multiplying the number of employees by a cash factor running from \$75 to \$100. These quotas included payroll savings deductions and it is reported that they were levied on employers of approximately 20 million persons by the War Finance Committees.

The approach in most cases was to make the quota the responsibility of as many of the employees as possible and to break the total quota down into as small a unit as convenient. Data are not available as to the actual number of quotas achieved but, as previously indicated, it is estimated that out of the \$3 billions of E bond sales during the Fifth War Loan approximately \$1,650 millions or nearly 55 percent represented sales made to persons on payrolls at the place of their employment.

(c) Build-up of the drive. One of the achievements of the Fifth War Loan drive was the fact that it was built up in the minds of the public as an important matter. The integration of special event promotions with radio, theater, and retailer operations, was such that drive news hit the front pages of a great many leading newspapers in the larger cities on more than half the days of the drive. Rural and small-town operations were nearly as good.

Only 5 percent of the people knew nothing about the Fourth and Fifth drives, according to surveys conducted by Dr. Likert, while over 80 percent knew the name of the drives and other details about them. Farmers remained somewhat less aware of the drive than city people, but the differences were not of such magnitude as to be truly significant.

(d) Administrative operation. One of the most gratifying developments of the Fifth War Loan was the smoothness of the operation administratively. Nearly every State reported that rough spots noticeable in previous operations had been ironed out, that promotion materials had been delivered early enough and in sufficient

- 6 -

quantity, and that special events had been tied in neatly to State and local sales programs. It was generally admitted that it was only because of this superior organization that it was possible to make the E bond goal at all, inasmuch as the goal turned out to be much harder of achievement than had originally been anticipated.

The effectiveness of a tight organization in a sales program was shown by the outstanding E bond sales results in Wyoming and North Dakota, which led the Nation in E bond performance. Here every township and the smallest localities were thoroughly organized. Exceptional results were also achieved in Iowa where the organization was such that it was possible to construct and levy quotas that were tailor-made to the capacity of individual farmers and businessmen. In Illinois the organization was such that in a city as large as Chicago it was possible to undertake a complete canvass built around the idea of a quota for every block in the city.

One of the developments of the last year that was very helpful during the Fifth War Loan was the activities of the "Tressury representatives" at the various plants. These persons -- volunteers who had been handpicked by the State War Finance Committees to do a war bond sales job at a single plant -- carried the ball when it came to levying plant quotas and to whipping up enthusiasm for an operation that had already had a tendency to become routine because of the frequency of its repetition.

II. Unfavorable developments

(1) Increased efforts have not increased E bond sales. Among the developments of the Fifth War Loan that were disappointing were the facts that

- (a) total sales of E bonds were down from the Fourth War Loan drive;
- (b) the decline was widespread and was recorded in nearly all the States;

- 7 -

- (c) the decline occurred at the offices of nearly all classes of issuing agents (except department stores and payroll savings agents); and
- (d) the decline was such that sales exceeded the Fifth War Loan goal only because deposits for some sales were expedited into the drive counting period.

A table analyzing E bond sales figures follows:

	: Fourth : : Loan :	Fifth : Loan :	Change
(In millions of dollars)			
<u>Regular sales</u>			
Civilians	2,998	2,744	-254
Armed forces	84	93	+ 9
Subtotal	3,082	2,837	-245
<u>Expedited sales</u>	105	199	+ 94
Total - All sales reported	<u>3,187</u>	<u>3,036</u>	-151

When the figures that appear above are considered in light of the fact that scores of millions of persons were asked to buy E bonds in the Fourth and Fifth War Loans, the conclusion emerges that personal solicitation as it has been conducted in these drives has not been enough to produce a greatly expanded volume of E bond sales. Many of the canvasses of prospects -- as we have pointed out clearly in a previous memorandum* -- have resulted in an extraordinary number of "token" purchases. In many such operations many of the persons approached bought a low denomination bond

*See our memorandum dated March 18, 1944, entitled "The Problem of Selling Securities to Nonbank Investors".

- 8 -

either in order to save embarrassment to themselves or in order to reward the effort of the person who contacted them and whom they knew to be a patriotic volunteer. This factor has served to permit many buyers to avoid their full responsibility toward the drive and yet to satisfy appearances and their own consciences.

(2) Free riding and switching were widespread. As indicated earlier in this memorandum, the bank credit expansion that occurred during the two months counting period of the Fourth and Fifth War Loans amounted to \$5.4 billions and \$8.4 billions, respectively. Further details appear in the table that follows:

<u>Commercial Bank Participation in War Loan Drives</u>		
	<u>: Fourth Loan</u>	<u>: Fifth Loan</u>
	<u>: 12/31 - 2/29</u>	<u>: 5/31 - 7/31</u>
<u>(In billions of dollars)</u>		

<u>I. Absorption of Government securities</u>		
A. Total absorption:		
1. Commercial banks.....	5.0	8.9
2. Federal Reserve Banks...	.1	.7
Subtotal.....	<u>5.1</u>	<u>9.6</u>
B. Less: Offerings to banks (outside drive):		
1. Bills, net increase.....	*	1.8
2. Securities for investment of time deposits..	.6	.8
3. Depository bonds, etc...	<u>-.1</u>	<u>.1</u>
Subtotal.....	<u>.6</u>	<u>2.6</u>
C. Net absorption in connection with drive.....	<u>4.5</u>	<u>7.0</u>
<u>II. Extension of loans</u>		
A. Loans on governments to brokers and dealers.....	.3	.2
B. Loans on governments to others.....	.5	1.1
C. Other loans.....	<u>.2</u>	<u>.1</u>
D. Total loans in connection with drive.....	<u>.9</u>	<u>1.4</u>
<u>III. Total commercial bank participation in war loan drives</u>	<u>5.4</u>	<u>8.4</u>

Note: Figures are rounded to nearest tenth of a billion and do not necessarily add to totals.

* Under \$50 millions.

- 9 -

The bank credit expansion shown in the preceding table amounted to 32 percent of the gross sales total in the Fourth War Loan and 41 percent in the Fifth War Loan. Some small portion of the expansion was for the purpose of permitting investors to acquire drive offerings in anticipation of the receipt of funds in the period between the closing of the counting period for the drive and the opening of the next war loan. Most of the expansion, however, -- 80 to 90 percent of it, as a matter of fact -- occurred as a result of free riding and switching. It came about because individuals and corporations wanted to make a good showing during the drive; or to cut themselves in on a little profit based on the commercial banks' desire for drive issues.

Riding. Riding was a profitable operation during the Fifth War Loan drive. Many individuals and corporations did it with the cooperation of the commercial banks and they were able to obtain a profit at practically no risk to themselves. Profit was only one of the reasons for riding, however; two others that have come to our attention were (a) the desire of many individuals to help their communities achieve their individual quotas without having to use their own currency holdings or bank deposit accumulations; and (b) the desire of many small banks to provide themselves with drive issues at par instead of at a premium of 10/32s or thereabouts.

With respect to quota riding, much of it was done because of the fear that the quota for the sale to individuals of securities other than E bonds could not be met. This quota had been set at \$3 billions for the Fifth War Loan, as against accomplished sales of \$2.1 billions in the Fourth Loan. In some areas the higher quota meant that the Fifth War Loan requirements were more than double the Fourth Loan sales. The desire for a successful drive was widespread, however, and subscriptions larger than would otherwise have been warranted were entered on a free-ride basis.

With respect to bank portfolio riding, it is reported that some banks subscribed to drive securities in the names of their officers, directors, and employees, in order to get the issues at par instead of at a premium. It is said that these banks circumvented the drive regulations because they were irritated at the Treasury's policy of forcing them to

depend on open market purchases to increase their portfolios. A number have expressed the feeling that some portion of the Treasury's offerings to banks should be made directly at par rather than indirectly at a premium, which goes to some middleman who exercises no economic function but that of collecting a profit.

Comprehensive data on the amount and type of the riding that occurred during the Fifth War Loan are not available, but studies of the War Loan figures in the various States lead us to believe that the total for individuals was approximately \$800 millions. This is equivalent to only one-eighth of \$6,351 millions of securities sold to individuals, but represents about one-third of the \$2,560 millions of marketable issues sold to these investors. More than half the riding by individuals occurred in the southern States, with Georgia and Maryland having the largest amounts involved. There was also some riding, although on a smaller scale, in the States around the Great Lakes and in Oregon. In Georgia and Oregon it is estimated that riding amounted to three-fourths of the amount of marketable issues purchased by individuals.

Switching. Switching from Government securities held prior to the opening of the war loan drive into securities issued during the drive has become the popular way of making corporation quotas in a great many States. It comes about because many corporations are proceeding on the theory that the purchase of a large amount of Government securities during the drive not only fulfills the necessary patriotic duty but also tends to improve the tone of business and customer relationships (because the subscription is spread around the country to apply to local quotas). The amount of securities purchased bears no relation to the investor's cash funds, of course, and as a result of the operation, there is often little or no reduction in his liquid balances. From the point of view of where the Treasury gets its new money, the effect of the operation is the same as if the new issues had been sold to commercial banks in the first place.

Corporate switching has been increasing from drive to drive, and approximately \$6 billions of the \$8.4 billions expansion in bank credit during June and July referred to previously was occasioned by it. The estimates that follow are rough indicators of the importance that switching was to the amounts subscribed for by the various classes of corporate investors during the Fifth War Loan.

Corporation Switches during June and July as a Percent of Purchases of Government Securities during Drive, by Class of Corporation

Type of Investor	Percent
Insurance companies.....	36
Savings banks.....	47
Dealers and brokers.....	75
State and local governments.....	14
Other corporations and associations.....	43
All corporations.....	41

It has been argued in connection with switching, that as long as some securities have to be sold to banks during the year, it is just as well to have a portion of this operation carried on indirectly through corporate switching. The large totals of sales that are run up by this mechanism tend to obscure the main problem, however, which is to get all the funds possible from nonbank investors.

(3) Bank deposit canvass was spotty. One of the difficulties of the Fifth War Loan -- and the war loans that preceded it -- was that individuals who kept their funds in commercial bank deposits were not canvassed by their bankers nationally in a comprehensive way. Some improvement in the canvass over that conducted in previous war loan drives was noted in some States as the result of the expanded program of the banking and investment committees of the War Finance Committees combined with the program undertaken by the American Bankers Association. In only 17 States was it reported that a relatively high proportion of depositors with balances of \$1,000 or more were solicited, however, and only in 12 States was it reported that a large proportion of the banks undertook quotas for the sale of war loan securities to their depositors. In 22 States it was reported that the ABA program was not an important help to the drive at all.

- 12 -

In order to attain the Treasury's war finance goal of placing as many of its securities as possible in the hands of individuals, it is essential that persons with bank deposits be canvassed thoroughly and that subscriptions of sufficient size be obtained from them. It is true that some of these funds do not have the same potential inflationary pressure as the funds in the hands of low income individuals, but it is still desirable to mop up as much of them as possible so that the volume of bank borrowing can be reduced.

The importance of this canvass to the general program of sales to individuals is indicated by data that have come to us in the past year from studies made by the research staffs of the Securities and Exchange Commission and the Federal Reserve System. These data lead us to believe that demand deposits of individuals, partnerships, and trust accounts aggregated something like \$30 billions at the end of the Fifth War Loan and that half of these deposits are in the hands of persons who are in business for themselves; that is, operators of unincorporated businesses, farmers, and professional men.

None of the sales programs of the War Finance Committees have been able to place upon this group of persons a high degree of responsibility for the purchase of Government securities. It may well be that the failure to carry out a sufficiently intensive campaign to obtain the funds in the hands of these persons accounts for the fact that the absorption of individual savings by the acquisition of Government securities has declined in the past year in the manner shown by the following figures:

- (a) Net absorption of Government securities by individuals (including partnerships and personal trust accounts) during the period January 1 to May 8, 1943, the period which embraced the Second War Loan, amounted to 67 percent of the available individual savings (after deducting insurance, etc.) that accrued during those 4-1/4 months.

- 13 -

- (b) During the period May 9 to October 16, 1943, which embraced the Third Loan, the comparable figure was 63 percent.
- (c) During the period October 17, 1943 to February 29, 1944, which included the Fourth Loan, the comparable figure was 56 percent.
- (d) During the period March 1, 1944 to July 31, 1944, which included the Fifth Loan, the comparable figure was 55 percent.

The retrogression from the levels achieved last year to the levels of this year that is indicated by a comparison of the percentages underlined in the previous paragraphs is more disappointing than the percentages themselves would indicate. A greater store of accumulated funds was piled up in cash and checking accounts at the beginning of each period than there had been at the beginning of each previous period; and under these circumstances recent sales to individuals might have been expected to be a somewhat larger rather than a smaller percentage of the available new savings accruing. Logically, this would follow from the fact that growing cash and commercial bank account accumulations should have satisfied long ago the primary requirements for cash balances of many persons who wish to keep emergency funds or business working capital in immediately available form.

6. PROBLEMS OF SIXTH
WAR LOAN

Chapter 6

Problems of the Sixth War Loan

There are a great many matters that will have to be considered in connection with the Sixth War Loan. Some of these are set forth and discussed in the paragraphs that follow:

1. Should the Sixth War Loan start in November, or should it be postponed to early next year? The other chapters of this memorandum assume that a Sixth War Loan will start in mid-November, and that it will raise \$16 billions from nonbank investors. We have made this assumption because we feel that this program involves less risk than the alternative which is to postpone the drive until January and undertake a large volume of bank financing to tide the Treasury over November and December.

Our reasoning on this matter is as follows:

- (a) The period during which a mid-November drive will be conducted is a difficult one. This must be recognized at the outset. The drive will have a hard time capturing the public's imagination and conscientious participation. Patriotic appeals to buy bonds may not be as effective as heretofore and many prospective bond buyers will desire to maintain cash balances at a high level so that they will have funds available as soon as peacetime goods come on the market. Moreover, the large volume of outbacks that is likely to occur will cause millions of people to be temporarily unemployed as they make the shift from the production of war goods to the production of peace goods.
- (b) However the postponement of the drive probably would not bring us to a period in which drive prospects will be any better. They may well be worse because of the following factors:
- (1) The postponement of the drive may itself tend to break down confidence in the ability of the Treasury to meet large war loan goals. The sales organization and the public generally are likely to be very much disturbed about the matter. Once the public feels that

- 2 -

the Treasury is worried about the economic conditions of the country, a great many people will proceed to worry about their own economic prospects. As a result, a drive in January or February may be much more difficult than a November drive.

(2) The postponement of the drive will have to be accompanied by the Treasury embarking on a program that would acquire \$10 billions from commercial banks directly between now and the end of the year. This would be such a departure from the Treasury's previous operations that it, too, is capable of shaking the Nation's confidence in the Treasury's war financing program. This, too, would make a war loan drive starting in January or February more difficult to conduct than one starting in November.

(3) The postponement of the drive will lose for the Treasury the opportunity of focusing the drive upon the enthusiasm for the Pacific war that will follow the defeat of Germany. By January, the Pacific war may be in the process of liquidation and a drive at that time may find it impossible to hold the public's attention.

2. What underlying conditions are desirable for the success of the Sixth War Loan? All financing alternatives at this time entail considerable risk and it will be necessary for the Treasury to avail itself, therefore, of all possible safeguards to minimize the possibility of a war loan failure. Among these are the following:

- (a) Indirect bank financing. The achievement of any war loan goal -- as is obvious from the discussion of the Fifth War Loan -- is dependent in large part upon the volume of switching by corporations of securities already in their portfolios to banks. This is, in effect, indirect bank financing. Its volume will vary as more or less pressure for switching is placed by the sales organization. It

- 3 -

will also vary in proportion to the size of the quota. It will be higher or lower also in relation to the bank demand for the issue in the market.

- (b) A favorable basket. A basket that is conducive to switching operations will form an important safeguard to a drive. The inclusion of the 2 percent bond and the 1-1/4 percent note in the basket is recommended, therefore, and is discussed later in this chapter.
- (c) A favorable market. This is one of the most important safeguards to a drive inasmuch as a good market itself engenders demand for new issues among banking investors. The Federal Reserve should be asked, therefore, to make a special effort to keep the tone of the market strong from the time of the drive announcement until the drive is over. The Treasury bill program, discussed in other chapters of this memorandum, should also be adopted at once since it would aid the market tone by providing the Federal Reserve Banks with an adequate volume of new securities for their open market purchases without forcing commercial banks to dispose of securities now in their portfolio.

3. How much should the Sixth War Loan aim for? In setting a figure for the Sixth War Loan goal it is necessary to take one that will seem reasonable to the public. A too low goal might itself be a sign of the lack of confidence in the drive at the Treasury, and might lower the morale of the volunteer staff. Accordingly, it is suggested that a total goal of \$12 or \$13 billions should be established, of which \$4-1/2 to \$5 billions would be the quota for individuals, and \$2-1/4 to \$2-1/2 billions the quota for E bonds. These goals should seem reasonable to the public.

- 4 -

The goals are high enough, it is felt, to make the achievement of \$16 billions total sales during the drive a reasonable possibility.

4. When should the goals be announced? The sales force in the field will expect that the goals will be announced by mid-September -- if the drive is scheduled for mid-November -- and that State quotas will be assigned by October 1. This would be in line with the policy in the past two war loan drives and would be done in order to permit the War Finance Committees in the various States to analyze their sales jobs in relation to the assigned quotas and to divide up these quotas between the various counties, townships, and other administrative localities. The uncertainties of the war situation and the prospect of an early German collapse lead us to believe that a somewhat later announcement is called for, however, and it is recommended, therefore, that the public statement be held up until the last possible minute permitted by the operations of the field forces.

We make this recommendation because it is possible that Germany will collapse after the plans for the loan have been made but before the loan itself will have been carried out. It would be unfortunate, under such circumstances, if commitments as to goals were made so early and in such an irrevocable manner that it would not be possible to reexamine them in the light of the war situation in mid-October. The Treasury may need some flexibility in its financing policy and should retain it even at the expense of some discomfiture in the field or at the risk of an ultimately slightly reduced volume of sales.

- 5 -

5. What issues should be included in the basket? The issues included in the basket have been more or less the same in term and coupon rate in the last three War Loans, except for the medium-term bond. The addition of a Treasury note in the Fifth Loan was an innovation. A check list of the issues offered appears in the following table:

Issue	: Third : Loan :	: Fourth : Loan :	: Fifth : Loan :
E, F and G savings bonds.....	x	x	x
C savings notes.....	x	x	x
7/8% certificates (1 year).....	x	x	x
1-1/4% note (2-3/4 years).....			x
2% bonds (8 - 10 years).....	x		x
2-1/4% bonds (12 $\frac{1}{2}$ - 15 $\frac{1}{2}$ years)....		x	
2-1/2% bonds (21 - 26 years*).....	x	x	x

*The 2-1/2% bond in the Fifth War Loan was 6 months shorter to call and maturity.

The pattern of purchases among the various investor groups has not changed very significantly by issues from Loan to Loan. In the Fifth Loan, it might be noted, corporations other than insurance companies and savings banks placed three-fourths of their subscriptions in short-term issues and about one-sixth of their subscriptions in the medium-term area. Insurance companies were about 50 percent in the long-term bond and savings banks subscribed eighty-two percent of their total in the medium-term issues. Among individuals, free riding determines the proportion of the various securities. When there is a lot of free riding, as in the Fifth Loan, savings bonds amounted to 57 percent of the total. When there was not a large amount of free riding, as in the Fourth Loan, savings bonds amounted to 71 percent of the total. In both Fourth and Fifth Loans, however, individuals placed 7 percent of their subscriptions in 2-1/2 percent bonds.

It seems to be quite clear from a study of the data that are available that prospective requirements for Government securities by each of the major groups of investors will be such that a basket patterned closely after the one used during the Fifth War Loan will produce the maximum sales. The close proximity of the end of the European war may, as a matter of fact, cause an even greater concentration of corporate purchases in the short-term certificate and the C note than heretofore.

6. What should be done about a canvass of depositors? It has been concluded already (in the analysis of the Fifth War Loan) that the lower percentage of available new funds acquired for the investment in Government securities in War Loan periods this year, as against last year, might have been accounted for by the failure to obtain a sufficient proportion of the funds that are accumulating in the hands of individuals in business for themselves. This category includes proprietors of unincorporated businesses, professional persons, and farmers. Some of the funds of these persons, it was pointed out, were being placed in checking accounts and were being solicited only on a very spotty basis. No data are available to indicate just how much of the funds of these persons were absorbed in the Fifth War Loan, but an estimate can be made in the following manner:

	(In billions)	
1. Total sales to individuals.....		\$6.4
2. Less: Sales of savings bonds to persons at the place of their employment.....	\$1.7	
Sales to the armed forces.....	.2	
Sales financed by expansion of bank credit.....	<u>1.1</u>	<u>3.0</u>
3. Remainder.....		\$3.4

- 7 -

The remainder shown above includes purchases by employed persons at places other than those of their employment, purchases by members of the armed forces at offices other than those of their finance officers, purchases by retired persons, housewives, children, etc. The remainder shown above must be reduced then by about one-third or one-half to allow for purchases by the foregoing persons. The resulting balance would represent purchases by persons in business for themselves. This figure -- say \$2 billions -- would be equivalent only to about 13 percent of the checking deposits of such people -- ignoring the fact that their current income provided some of the funds used for their purchases.

This small percentage is not surprising in view of the fact that the Treasury and the Federal Reserve Board have failed to make clear their position with respect to the matter of asking individuals and corporations to withdraw bank deposits for the purpose of purchasing Government securities. This has prevented Chairmen in many States from placing before the bankers of their State a clear-cut program of sales to depositors based on a "green light" from Washington.

It is recommended, therefore, that a program leading to withdrawals of bank deposits for the purchase of Government securities be undertaken. In this connection the Treasury and the Federal Reserve should (1) make clear through a series of public statements that the Government wishes all individuals, including those in business for themselves, to withdraw a considerable fraction of their commercial deposits and invest these funds in Government securities, and (2) call the leading commercial bankers in the country together and secure their cooperation in actively soliciting their depositors with a view toward effectuating the foregoing policy.

The matter of establishing a policy approving bank deposit withdrawals and of developing a series of promotions that will effectuate that policy appears to us to be a matter of very considerable importance. It is one of the important approaches to the problem of selling war bonds that has not been tried. It will give the sales forces something new to work on and will place emphasis on something that has the promise of a substantial volume of subscriptions.

- 8 -

7. What should be done to educate the country on the fiscal picture ahead? The feeling of complacency and of an early end of the war has led the public to the further conclusion that war loan type of financing will be over after the next drive. The current belief that the Sixth War Loan will be a "Victory Loan" has lulled a great many people into the feeling that it will also be the last loan -- by analogy with the Liberty Loan experience. That this is not likely to be the case is evident from a study of the data in the first chapter of this memorandum, or of the most recent estimates of expenditures supplied by the Budget Bureau. These data lead to the conclusion that a situation calling for the cessation of war loans is not likely to develop during the period of a war against Japan alone, nor in the first few months after peace is achieved. The Government will continue to run a big deficit until shortly after Japan is defeated, and individuals and businesses will continue, therefore, to receive income far in excess of the amounts of goods and services that will be available for them to buy.

We feel it important, therefore, that as part of the publicity that will be used to build up the Sixth War Loan drive, the Treasury make it a matter of common knowledge that war loan financing is not over. This suggestion stems from the recognition that unless people are made aware of the large fiscal requirements ahead and believe that the figures on expenditures, announced by the Treasury, are likely to be reached, two things will happen:

- (a) Bond buyers will shirk their responsibility in the Sixth War Loan and refuse to buy bonds at all, or will buy bonds in amounts that are not sufficient to permit the goals to be achieved; and
- (b) Members of the volunteer sales staff will conclude that their job is done, and will pack up and go home.

The Treasury cannot afford to let either of these things happen, and a program of education that is comprehensive and extensive will be an important safety factor to the Sixth War Loan drive.

- 9 -

8. From what dates should the counting period for savings bonds extend? On the basis of the practice in previous war loan drives, the counting period for savings bonds for a drive opening in November would be the months of November and December. Corporation issuing agents would then be expected to use the last two weeks of this period to clean up the issuance of bonds sold under the payroll deduction plan and to finish the accounting with the Federal Reserve Banks, so that the bonds sold to their employees would count toward the drive quotas. The fact that the last two weeks in December include the Christmas-New Year holiday period would make this period a poor one in which to ask the issuing agents to work on the problem of issuing the millions of bonds sold during the drive. A closing date after the first of the year would be a great advantage to many issuing agents. It is suggested, accordingly, that if the opening date of the drive is November 11, the counting period should extend from November 11 to January 10, inclusive; and that if the drive should start on November 20 or 27, the counting period should extend from November 16 to January 15.

Another advantage that a counting period which included 10 to 15 days of January would have is that it would permit persons who have purchased their limit of savings bonds during the calendar year 1944 to purchase an additional amount of such bonds under the 1945 limit as part of their drive purchases. This would save Treasury volunteer solicitors from getting into the embarrassing position of having to push the sale of securities other than savings bonds during the drive to persons who wished to buy E, F, or G issues, but found that they could not do so until the day after the drive was over because of the Treasury regulations with respect to limit buying. This would also give the Treasury another margin of safety and make the achievement of quotas that much easier.

9. Should the method of counting savings bond sales be changed? There has been quite a bit of dissatisfaction in the field because no matter what date the counting period for the drive ends, there are always some agents who cannot get their stubs in to the Federal Reserve Banks in time for all of their sales to be counted. There is also a growing irritation among issuing agents at the Treasury's repeated pressure on them to get the mechanical job of issuing bonds done within a two or three week period after the drive closes. The volume of manpower and machinery required to do the job is tremendous for

- 10 -

many corporations because extra sales during the period of the drive may require the issuance in this short period of four or five times the number of savings bonds regularly handled.

The question has been raised, therefore, as to whether a great advantage could not be gained for the war bond program by permitting issuing agents to certify a statement to the Federal Reserve Banks on the last day of the counting period for the drive, showing how many bonds have been sold but not issued. Funds would be made available to the Federal Reserve Banks for the amount certified, and the funds would then be credited to the Treasurer's account as war bond sales and counted toward the drive totals.

This procedure would undoubtedly increase the volume of accounting work that would have to be undertaken by the Federal Reserve Banks and would result in a delay in the issuance of bonds by some agents. However, it would retain for the Treasury some of the good will of corporations who are cooperating wholeheartedly with the war bond program, and are doing a tremendous clerical job in the issuance of bonds without direct compensation by the Government.

This procedure has one other advantage. It would act as a safety factor in achieving drive quotas in the case of large corporations who might have their clerical staffs tied up on war contract termination proceedings. Such corporations might be just unable to get around to issuing significant amounts of bonds sold during the drive. They might argue that the Treasury should accommodate itself to their problems. Many of the larger corporations in the country operate on a prepayment basis with the Federal Reserve Banks anyway, and the procedure suggested would only mean that funds were transferred from a "special symbol account" to an account representing "sales of savings bonds".

MEMORANDUM FOR THE SECRETARY

September 8, 1944.

Mail Report

It may be September on the calendar, but it is still mid-summer so far as the dullness of the correspondence is concerned. There seem to have been no topics to rouse our letter-writers to action, and even the Presidential campaign has, as yet, had infrequent and only casual mention in letters received here.

There have been a few suggestions about reducing corporate taxes, an occasional inquiry, and 19 requests for tax refunds.

The plan for cashing bonds over the counter meets increasing opposition, especially from bankers. Even so, total comment on this subject is surprisingly small. There were again a few reports of the usual rumors that bonds will be invalidated, or interest cancelled. In all, 50 bonds were submitted for redemption, or 6 less than came in last week. Replies to the redemption slip increased slightly, and to the usual reasons for cashing was added the necessity for meeting school expenses. Complaints continue very light.

Only 5 donations came in this week, ranging from \$5 to \$133.90. There was almost no anonymous mail, and nothing personally abusive.

In common with Treasury mail, White House receipts during both July and August have hit a new low. Each of the summer months brought in about 200 letters, most of which could be handled by acknowledgments here, although some were re-routed to other Treasury offices.

J. S. Forbush

General Comments

Andrew C. Larsen, Kenosha, Wisconsin. Enclosed please find my compensation check for August 1944 - \$133.90. Kindly arrange to have this money used to pay for two scope-equipped snipers' rifles, Springfield Cal. 30, Model 1906 - beloved service weapon of the first A.E.F. Hope there is enough money. I can see them now in the hands of our soldiers. * * *

- 2 -

Favorable Comments on Bonds

W. Murray Ross, Osage Lane, Moylan, Pennsylvania. Recently I sold a few War Savings Bonds to help defray my daughter's college expenses. This is to let you know that I appreciated the receipt of your Form F.A. 205, which came back to me with the covering check. Your Form is certainly a strong encouragement to my previous intention to keep as many of these bonds as I can, to maturity.

Mrs. J. H. Beck, Indianapolis, Indiana. * * * I am an ex-school teacher of fourteen years' experience. I am now married, mother of four children, a farm woman, and proud of it. When my son of eighteen years entered service last spring, my fifteen year old daughter, the next in line, and I took over the farm work, as it was impossible for us to find help. We have a 160-acre farm, all tillable, well-stocked, and fully equipped. It wasn't an easy job, but we stuck with it and now either of us can and do operate any piece of farm machinery, including the tractor. Our crops speak for themselves, and we are proud to be able to do our bit. Recently, a neighbor called on us. The Fifth War Loan Drive was on. I subscribed for a hundred dollar bond rather reluctantly, I'm afraid, as I was secretly wondering where the money was coming from just then, as we had no farm products nor stock ready for market. We had just received word that Jimmie, my son, was "Somewhere in England" and expecting to cross the Channel soon. That night I had a dream. I saw Jimmie, who is in the Infantry, and a group of other soldiers marching toward battle. But - low and behold - just above their heads was a thin cloud, or transparent veil, in the form of my hundred dollar bond, protecting them from harm. You can be assured the money for the bond came--it had to somehow. * * * I've been thinking of this dream and its effect on me, and I've also been wondering why a poster to that effect wouldn't inspire others to buy bonds. * * *

- 3 -

Unfavorable Comments on Bonds

Ray L. Klein, Attorney and Counselor at Law, St. Louis, Missouri. I have just received a check for \$152.10 for 8 bonds, some of which were from 1941 and 1942, and for interest on this money I received the lousy sum of 10¢. * * * Furthermore, I regretted very much to sell them but was forced to do so to pay interest and principal on the mortgage on my home. This payment could have been met without selling these bonds, but for the fact that your income tax department has not refunded to me the sum of \$165.00. * * * This is response to your printed circular just received with your check for my bonds.

Earl Crawford, President, Fayette Bank and Trust Company, Connersville, Indiana. The local paper yesterday afternoon carried an announcement from your office of a plan for the speedy and easy payment of War Bonds through the local banks. No one knows better than yourself the great amount of work and effort the bankers have contributed in the selling of War Bonds to date. Their efforts were willingly given without price in the interest of winning the war and keeping down inflation. Has there been any change in the situation from then to now or has your position changed?...The war is not over; the danger of postwar inflation is still with us; certainly there is another War Bond Drive in the offing. To deliberately invite an increase in the cashing of bonds on the eve of this Drive is ridiculous without being funny. The cost of selling War Bonds, according to the records, has been almost unbelievably low because people by the thousands have given of their time in order to win the war, and their interest and enthusiasm in the next Drive

- 4 -

will be considerably lessened. * * * Mr. Secretary, if you had just a little experience in "beating the bushes" in selling these bonds to the individuals your worry would be directed in a surer way of selling rather than an easy way of redemption. Your arbitrary rate of exchange on a per item basis, without reference to dollar amount, is as inequitable as would be the fixing of freight rates per item without consideration of weight. I sincerely hope you will reconsider this inflationary, untimely, and inequitable program, which in my humble judgment is absolutely detrimental to the war effort.

Mrs. Minnetta Hanrahan, Detroit, Michigan. Enclosed is a clipping from a local paper. I have served on all the War Bond Drives, giving much time and energy. You well know the sales arguments I have used, such as curbing inflation, the money needed to fight this war, etc., etc. Now I, and thousands of others in this country would like it explained why the Treasury Department sees fit to create a simplified plan making it as easy and convenient as possible for people to cash their bonds. It certainly gives the impression that the Treasury Department does not think it important that people keep their bonds. The lines of people waiting to cash their bonds has been appallingly long, without this "simplified plan". I would think your Department should make it a little more difficult to cash the bonds, instead of easier. I am sure I cannot see any incentive for we gallants giving our time and effort in selling bonds when our Treasury Department is making it so easy and convenient to step in any bank and cash them.

A. L. Morgan, Manager, Hotel Olympus, Port Angeles, Washington. The Hotel Olympus has recently received from you a 5 x 7 card printed by the U. S. Government Printing Office reading: "In appreciation for

- 5 -

patriotic cooperation with the nation's War Bond program through the advertising columns of the Port Angeles Evening News." I wish that our Government did not think it necessary to spend money to thank its citizens for doing their duty, and such a small one at that. I believe I speak for many who would be much better pleased if you would take our "patriotic cooperation" for granted. P.S. I have just learned that this is about the third such card we have received, which is "worse than more of it".

T. R. Wiggins, Buffalo, New York. I received your check for redemption of War Bonds this week, and I agree with everything that you state on the Form, which was enclosed. I gave an employee who had been with me for 10 years a \$100 War Bond as a token of my appreciation. But we were advised by an accountant that this gift to an employee was illegal according to the Wage Stabilization Act. Therefore, my employee had to go through the embarrassment of cashing the gift bond and returning the money to me. Of course, an employee can have a 10th anniversary of service only once in a lifetime, and I do feel that even a "New Deal" tax collector should not think it a criminal offense to give a small War Bond to such a person. So, since my employee had to cash the \$100 Bond, I was determined that she should have a gift even larger than the \$75 involved. Therefore, to augment this personal gift, I had some of my War Bonds cashed and have given the proceeds to my employees. It is a sad commentary on our national setup when a War Bond becomes taboo as a business gift. I know that your Department has no part in any such petty rulings, but I do feel that you should know how other Federal Departments, in reality, handicap your very worthy undertaking of selling as many of these War Bonds as possible.

- 6 -

Favorable Comments on Taxation

W. E. Jones, General Secretary-Treasurer, Brotherhood of Locomotive Firemen and Enginemen, Cleveland, Ohio. On or about August 14, 1943, we were furnished material through the Treasury Department, relating to information on the provisions of the current Tax Payment Act of 1943. The circular W-T which accompanied this material was very beneficial to the units of our organization which were employers under the Act. This letter is written for the purpose of ascertaining whether the Department is contemplating releasing similar information relating to the individual Income Tax Act of 1944, and if so, when this material might be released. The circular W-T mentioned was distributed among our thousand or more units, and I am sure proved to be an assistance, not only to our employers but equally so to the Treasury Department. * * *

- 7 -

Unfavorable Comments on Taxation

The following is a copy of a letter addressed by Frank Kirkpatrick to the Collector of Internal Revenue, Milwaukee, Wisconsin: Enclosed herewith is an installment on my estimated tax for the current taxable year. For the third time, I am reminding you that my tax for last year was overpaid in a considerable amount, and this money should be refunded to me promptly. If this refund is not made in the near future, it will be necessary for me to place it in the hands of my attorney for collection.

230

Photostat to Mrs. White

Photostat to Bell. 9/11/45 -
9/19/45 -

Treasury Department
Division of Monetary Research

231

Date.....19

To: Mrs. McHugh

Copies of the President's letter
have been distributed to Messrs.
McConnell, O'Connell, Mack, Glasser,
Taylor, DuBois.

L. Shanahan

MR. WHITE
Branch 2058 - Room 214½

THE WHITE HOUSE
WASHINGTON

September 9, 1944

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

My dear Mr. Secretary:

There has been a good deal of discussion within the several Government Departments relative to our Lend Lease policy after the collapse of Germany.

It is my wish that no Department of the Government take unilateral action in regard to any matters that concern Lease Lend, because the implications of any such action are bound to affect other Departments of the Government and, indeed, our whole national policy. I am particularly anxious that any instructions which may have been issued, or are about to be issued regarding Lease Lend material or supplies to our allies after the collapse of Germany, be immediately cancelled and withdrawn.

I intend to give instructions to all Departments relative to the Lease Lend policy of this government at an early date.

Will you be sure, therefore, that your several bureaus and divisions are advised of my position at once?

I am sending identical letters to the Chief of Staff, the Chief of Naval Operations, the Secretary of State, the Administrator of the Foreign Economic Administration and the Administrator of the War Shipping Administration.

Sincerely yours,

Franklin D. Roosevelt

Mrs. McLaughlin

SEP 15 1944

My dear Mr. President:

The contents of your letter of September 9 referring to lend-lease policy after the collapse of Germany have been conveyed to the appropriate Treasury officials and the instructions will be very carefully carried out.

Faithfully yours,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

The President,

The White House.

HO:SP 9/13/44

SEP 8 1944

Dear Oscar:

This is in further reply to your letter of July 26, containing suggestions on what might be done to inform the public about the Fund and the Bank.

I have asked Mr. White to consider your detailed suggestions, some of which he has already discussed with you. I am sure that much can be done along the lines you propose.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Mr. Oscar S. Cox,
Foreign Economic Administration,
Room 1057 Tempo "T",
Washington, D. C.

EMB:lr 9/5/44

Put to Ben 3434

FOREIGN ECONOMIC ADMINISTRATION
WASHINGTON

August 28, 1944

Dear Secretary Morgenthau:

I have just received your letter
of August 25. .

In my longhand letter of July 26
I sent you a series of specific suggestions on
what I thought might be done actively to inform
the public on the importance of the Fund and the
Bank. This letter probably arrived in your
absence and I imagine you haven't had a chance to
look at it.

Sincerely yours,

Oscar Cox

The Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury.

25

September 8, 1944.

My dear Mr. Ambassador:

Thank you for seeing that I received a copy of your recent address as contained in the publication, "News of Norway". I shall read this with much interest.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Wilhelm Munthe Morgenstjerne,
Ambassador of Norway,
Norwegian Embassy,
Washington, D. C.

GEF/dbs

237



WILHELM MUNTHE MORGENSTIERNE

Ambassador of Norway



NORWAY

Issued by ROYAL NORWEGIAN INFORMATION SERVICE — 3516 Massachusetts Avenue, Washington 7, D. C.
An Agency of the Royal Norwegian Government

Vol. 4

September 1, 1944

No. 33

URGES STERN CONTROL OF GERMANY AFTER WAR

By WILHELM MORGENSTIERNE, Norwegian Ambassador
(From an address delivered recently at Minneapolis, Minn.)

This tremendous global struggle between the forces of darkness and the forces of light is drawing to an end. The foul aggressors are everywhere on the run. We, America and Norway and our Allies of the United Nations, are approaching our common accounting with those who wantonly pounced upon the civilized world.

Uppermost in our minds at this time is the determination: This must never happen again!

Together you and we and our brave Allies are winning this war. Together we must win that which comes after this war. We must give your glorious youth of Guadalcanal, of Saipan, of Normandie, we must give the Norwegian front soldiers of the land, sea and air, and our indomitable patriots languishing in German concentration camps and torture-chambers, the assurance that they have not fought and suffered and died in vain.

We must assure them that we shall arrange things in such a way that they or their sons and daughters shall not be called upon to fight once more the battle of freedom and civilization.

But what is the actual situation? We know today that the Germans are already planning the next war. There is convincing evidence of that fact. We know that they are planning to go underground, to keep their organization, and to emerge again as soon as they think their hour has come! And we know only too well, from repeated experiences, that the German people will stand ready, as always before, to follow blindly their false and criminal leaders.

It is high time, no, the time is overdue, that we should cease to make any distinction between Nazis and Germans, between so-called "good" Germans and "bad" Germans. Where are these good, decent Germans? Where have they been during these five awful years, while their armies attacked and raped their neighbors, and killed and robbed and tortured millions of innocent people? Why were they absolutely mum while Jews and Poles and Greeks and Norwegians and many, many others were indiscriminately murdered, while Lidice and Televaag and numerous other towns were razed, and innocent men and women crowded into death-chambers and gassed?

Where is the voice of that decent, democratic Germany of which we are so often told?

It is no use saying that the Germans are not organized, that they do not have the leadership, nor the arms, to oppose those in power. We know now by the example

of Norway and the other subjugated countries, that where there is a will there is a way, and that with the weapons of the will and the spirit any tyrants and mechanized barbarians can be challenged and balked. We know that if the indignation, the moral wrath of a nation is only strong enough, it will blast its own way through all obstacles.

The greatest danger to the world today, in my opinion, is that in the justifiable flush and relief of total military victory, we shall relax and once more fail to make a thorough job of it.

As sure as it is that we are gathered here tonight, so sure is it that another war, more horrible than human imagination can ever visualize, will break out in another 10, 20 or 30 years from now, if we do not see to it that Germany and the other aggressors are kept under strict supervision and control as long as necessary to protect those who come after us. I do not say how long. I say as long as necessary. That is the only permissible yardstick. We must do what it takes. That is a sacred duty imposed on us. If we fail, the blood and untold suffering of another war will be on our hands.

Together we of the United Nations must impose a strong and hard peace on the aggressors. Not exactly a "just" peace. Did it ever occur to you that those who speak of a "just" peace always mean a soft, a lenient peace?

I fail to see the logic of such reasoning. A "just" peace, of course, would mean a peace which does to the Germans all that they have done to us. "An eye for an eye and a tooth for a tooth." It would mean a peace implying plunder and rape and wholesale, wanton destruction. It would mean indiscriminate murder and torture of the most revolting, Middle Ages kind. But in that sense we do not want a "just" peace. We do not want to stoop to the level of the Germans.

What we want is a peace of stern retribution and punishment, under the law, for the guilty; a return of the aggressor's loot; a redemption, as far as at all possible, of the destruction, the iniquities, the vile perversions of justice, the brazen mockery of truth and decency which have taken place in all occupied countries during the reign of terror of the German hordes. And before all, we want a peace of unshakable determination that this shall never happen again! There is imposed on us — who have seen and learnt — the solemn obligation to our children and their children, to prevent the German people from ever again having it within their fowl power to assault, and to impose their barbarian atrocities upon their civilized, freedom-loving neighbors.

If we fail in this our supreme task, if from a feeling of instant relief and misguided softness we fail to put out forever the smouldering fire of resurgent aggression, and hurry back to a fool's paradise of false security and normalcy, then our men shall indeed have fought and died in vain.

TRAITORS RESORT TO VIOLENCE AS NORWAY'S LIBERATION NEARS

Ambassador Wilhelm Morgenstjerne warns that recent "acts of violence, desperation and outright bestiality" directed against loyal Norwegians by the followers of Vidkun Quisling will make it difficult to assure any orderly prosecution of these war criminals in Norwegian courts of law as has been constantly advocated both by Home Front leaders and by the Norwegian government in London. "By and large," said the Ambassador, "the people in Norway have been following the advice of their

leaders that all acts of retribution be postponed until after Norway is liberated. They know that laws have been enacted which will be adequate to take care of all traitors, from the lowest to the highest. But due to recent acts of violence, desperation and outright bestiality by the quislings, the patience of the loyal Norwegians is rapidly nearing the breaking point. It is by no means improbable that they will rise up when they see the day of liberation is at hand and take matters into their own hands.

"Obviously," he continued, "the quislings see the handwriting on the wall. They know they are doomed. There are, after all, only a few thousands of them in the entire country. But they are still enjoying the protection and support of German arms, and apparently they are out now to make the most of this advantage. They are doing gruesome things, but in their desperation they do not seem to realize they are sealing an even more gruesome fate for themselves."

By way of explanation the Ambassador said that he had just received a report on mass arrests now being conducted in eastern Norway by Quisling's state police and by his Hird (storm-troopers). Most seriously hit were the communities of Rena, Osen and Engerdal in Osterdalen. It was not known, he said, to what extent, if any, the Germans were involved in the raids. At Rena alone not less than fifty persons were arrested, and many of them were subjected to treatment of the most brutal type.

Persons tipped off in advance sought to escape arrest by fleeing to the woods or by otherwise resisting. Dogs were set on their trails, and all roads and bridges in the vicinity were barred. In making the arrests the Quisling state police made extensive use of clubs, ropes and other instruments of maltreatment.

Among those arrested was Thorleif Braend, a 50-year-old bus driver of Rena. After his arrest he was placed in the yard outside the office of the local Nazi sheriff and forced to run in circles while State police and Hirdmen amused themselves by shooting at his feet. Later, in the sheriff's quarters, he was subjected to torture of the kind frequently employed by the Gestapo in Norway. One by one, all his fingernails were pulled out, and thereupon each of his fingers was broken. Both of his legs were shattered. Braend died shortly afterwards at a hospital in Elverum.

Sheriff Gjertsen, the highest police authority in the community and a Nazi appointee, will be held chiefly responsible for the torture of Thorleif Braend, the Ambassador said. He further indicated that Sheriff Gjertsen's remaining days in this world "are definitely numbered."

"If he survives the liberation of Norway," said the Ambassador, "it is quite certain that he will not long survive his trial before a Norwegian court."

SABOTEURS ACTIVE In a well-planned series of attacks Norwegian saboteurs have destroyed great quantities of German oil and gasoline stored along the inner reaches of Oslo fjord. At Drammen several large tanks containing gasoline and diesel oil were set afire, and at Geilo and Skien other large similar stores were destroyed. At Skien the destruction was accomplished by adding sugar to the gasoline after the saboteurs had decided against setting the tanks afire for fear of damaging nearby Norwegian property. Witnesses report that the waters of Oslo fjord were covered with oil and gasoline for an area of many miles. The exact quantities of oil and gasoline destroyed at Skien and Geilo are not known, but at Drammen some 350,000 liters went up in flames. Early Monday morning about fifty German planes and more than a hundred airplanes engines stored in the municipally-

owned workshops of the Oslo street railways were destroyed in a terrific explosion that awakened the entire city. Also destroyed were sizable stores of spare parts and special implements which will be difficult to replace. The explosion was described as "one of the biggest acts of sabotage" committed against the Germans in Norway.

Sabotage directed against sulphuric acid plants near Dröbak and at Lysaker in the course of the summer has been so effective that all production in Norway of explosives for the Germans has now virtually ceased. Vital machinery as well as stores of the manufactured product have been destroyed.

STRATEGIC THEFT It has now been confirmed that the daylight theft of some 75,000 newly printed ration cards from a truck in an Oslo street on August 9 was the work of patriots. The plan is to distribute these cards among the young men who are at present hiding out in the forests or in rural areas in order to evade conscription for the Nazi labor service. By denying these young men ration cards the Germans had hoped to starve them into submission. In retaliation for the theft, Reichskommissar Josef Terboven has ordered that food rations be reduced and that the coming ration period be extended from 84 to 89 days.

NEW SUBMARINE It is announced in London that the Royal Norwegian Navy has acquired a new submarine. The Norwegian flag was hoisted over the ship at a recent ceremony attended by Crown Prince Olav. At a luncheon given by the shipyard the Crown Prince emphasized that it will not be long before Norway is again free.

KING HAILS EISENHOWER King Haakon has sent the following message to General Dwight D. Eisenhower: "I feel the urge to send my sincere congratulations on the brilliant victories which the Allied forces under your command have won in France. The final liberation of Paris and the destruction of great parts of the enemy's forces have brought joy to all the Allies, and I am proud that Norwegian forces have been able to take part in this great campaign for the liberation of Europe. To you and the great forces which are under your command I wish the best of success in the continuation of the battle, and I can assure you that the Norwegian people join me most heartily in this wish."

HERE AND THERE IN NORWAY The Germans have been thinning out their forces in Norway to the point where it is now believed there are scarcely more than 100,000 troops left; Bjölsen school in Oslo, used by the Germans ever since the invasion, has now been abandoned. They are also leaving the Inner Mission Society's Bible school building. . . . Ny Dag, a Swedish newspaper, reports that Germans fear the wrath of the Norwegians more than the might of any Allied invasion armies, and adds that in certain localities the Germans have even tried to get the Norwegians to promise not to shoot at them, if they (the Germans) do not shoot at invading forces. . . . Gen. Wilhelm Rediess, Gestapo chief in Norway, has been added to the German general staff in Norway as Himmler's special representative; in other words the staff has been placed under his control. . . . The port of Kirkenes in northernmost Norway was heavily bombed on August 17. . . . Editor Henry Karlsen of Drammen has been arrested. . . . 250 prisoners from concentration camps in Trøndelag arrived recently at Grini, and it is understood they will soon be sent on to Germany. . . . It has just been disclosed that Pastor Ingolf Boge, 44, of Sotra near Bergen, died in a prison in Germany on April 1; he was arrested in March 1943 and sent to Germany last February. . . . Hans Petter Daldorf Dahl, 25-year-old medical student of Smestad, died last June in a prison camp at Weimar; he was among the hundreds of Oslo University students arrested late last fall and was sent to Germany early in January. . . . Only four gasoline filling stations are now open in all of Oslo, and these are reserved for the Germans and for "privileged persons."

THE KING'S COMBINATION



9-8-44 10:30

9-8-44 10:30

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London
TO: Secretary of State, Washington
DATED: September 8, 1944
NUMBER: 7393

CONFIDENTIAL

The Embassy has been advised by the Director of IGC that the Brazilian Ambassador in London has informed him that Brazil is ready to accept 500 Jewish refugee children from Hungary who may be allowed to leave Hungary. However, the Government of Brazil does not desire to assume any financial responsibility concerning upkeep or transport. The War Refugee Board should be informed.

WINANT

DCR:VAG:EFR 9/11/44

GEM-344

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (SECRET O)

London

Dated September 8, 1944

Rec'd 11:12 p.m.

Secretary of State,
Washington.

7394, September 8, 8 p.m.

FROM MANN FOR PEHLE, WRB

In a conference today with Mason, Chief of Refugee Section of Foreign Office, he stated that Swiss had asked British Government for safe conduct for boats which would take Jews from Hungary down the Danube River. The Swiss had stated that such appeared to be the only means of evacuating some 2,000 whose departure the Germans were willing to permit provided transportation could be obtained. Mason stated that he was advised that the Danube had been so thoroughly mined by Allied Air Forces that any vessel would stand little likelihood of getting through safely and accordingly his Government felt that safe conduct for such vessel could not be granted. He is so advising the Swiss today.

Mason also stated that Barlas, Jewish Agency representative in Istanbul had requested permission to go to Bucharest. He is going to allow Barlas to go there after British officials have arrived which will be a matter of only a few days. I urged that he might like to allow Barlas to go now to survey the situation and have a program ready to put in operation when the British Officers arrived. However, he thought that since this was only a matter of a few days he should not make an issue of it with the other authorities concerned.

WINANT

WMB
EEC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London
TO: Secretary of State, Washington
DATED: September 8, 1944
NUMBER: 7395

SECRET

Reference is made herewith to Department's cable No. 7017 dated August 31, 1944.

The Department's opinion that it would now be inopportune to close Camp Lyautey is agreed to entirely by the Foreign Office.

The War Refugee Board should be informed.

WINANT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Political Advisor, Caserta
TO: Secretary of State, Washington
DATE: September 8, 1944
NUMBER: 332

CONFIDENTIAL

Ackermann sends the following, No. 107, for the War Refugee Board.

We have received no reply to the message of Office No. 272 dated September 3. It is strongly urged by me that this recommendation be followed as an emergency measure unless relief can be furnished through other sources.

KIM

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Delegation, Rome
TO: Secretary of State, Washington
DATED: September 8, 1944
NUMBER: Z 317

CONFIDENTIAL

See my 302, September 4, 5 p.m. and Department's 114,
dated August 30, 7 p.m.

The following information was obtained from a note dated the eighth of September from the Holy See: The Pope's approach through Vatican channels to the Government of Germany requesting that approximately 9000 refugees in Northern Italy be released and transported to Southern Italy or elsewhere was made by Nuncio in Berlin (see Taylor's 309). The result of this request was that Germany claimed that in the Italian Socialist Republic lay the authority for these individuals. It was further indicated by the Vatican that with that body they had no communication. A complete text via air follows.

KIRK

DCR:EMS

9-11-44

CABLE TO AMBASSADOR NORWEB FROM DEPARTMENT AND WAR REFUGEE BOARD

Reference is made to your 2673 of August 30. Discussions referred to therein are taking place with full knowledge of Department and WRB, who are being kept fully advised by Amlegation Bern.

THIS IS WRB CABLE TO LISBON NO. 87

3:00 p.m.
September 8, 1944

LSLesser:BAkzin:tmh 9-8-44

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

September 8, 1944

4 p.m.

War Refugee Board

AMLEGATION

STOCKHOLM

1795

The message below for Olsen is WRB 83.

JDC is remitting \$100,000 to you under Treasury
license for use in Hungary under Wallenberg's super-
vision and at his discretion.

HULL
(GLW)

WRB:MMV:KG
9/7/44

NOE

WT

SWP

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Legation, Bern
DATED: September 8, 1944
NUMBER: 3109

CONFIDENTIAL

Please deliver the following message to Saly Mayer
from Leavitt, American Jewish Joint Distribution Committee:

"Understand several hundred Polish-Hungarian Refugees
in great need in Bucharest. Can you arrange remit 5,000
dollars to Filderman for this group."

HULL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
 TO: Secretary of State, Washington
 DATED: September 8, 1944
 NUMBER: 5925

SECRET

The following message from McClelland for WRB.

Reference is made to message of August 19 from the Legation, Number 5391, and to message dated July 31 from the Department, Number 2631.

From the Queen Wilhelmina Fund I received on the 23rd of August Swiss francs in the amount of 257,390, less half of one per cent commission (presumably the equivalent of \$60,000), through the Swiss National Bank. A message stating that the "Dutch quota of ninety thousand dollars" should be deposited at Bern with the Dutch Minister was received from Oldenbruck in London about the same date -- August 23. Clement and Krier in the meantime had made arrangements independently for the transfer of this money to the Dutch Labor Party underground in Holland, and for this reason a clearing up of the directions would be welcomed as to disbursing these funds.

A second amount of Swiss francs, 257,390 of them, was received by me on the 28th of August, from the Belgian War Relief Society through the identical channels. Clement and Krier would appreciate being informed if it is still the wish of those who make the donation that they act as the disbursing agents of these funds, in view of alterations in the political and military situation in Belgium. Should this be the case, a trip to Belgium at as early a time as possible for the purpose of making arrangements and to estimate the needs on the spot, is advisable, in the opinion of Krier. Your advice in this matter is desired.

Money in the amount of \$20,000 which was made known by friends of Luxembourg has never been received, and Clement and Krier, being Luxembourgers, would appreciate being informed as to whether those who gave this fund still have the intention of transferring it to them here, as they are particularly interested in this money.

HARRISON

DGR:LCV:CR

9-10-44

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern.
 TO: Secretary of State, Washington.
 DATED: September 8, 1944
 NUMBER: 5942

SECRET

The following message is from McClelland for WEB.
 Coming from Hugo Donnenbaum and from Isaac Sternbuch,
 for Union of Orthodox Rabbis, the following:

33.60. Regarding the Lithuanian Jews who were deported to East Prussia by the Germans, quite a while ago we got in touch with Intercross about them, and although there is little prospect of gaining dependable information regarding these people at the present time, Intercross will do its very best in this matter.

From Bergen Belsen, the second transport of Hungarian Jews has not arrived in the meantime, which is unfortunate, and in regard to them we are very uncertain. Within a period of six weeks the transportation of all the people, 169A in number, in different groups to a neutral country was arranged for in Budapest. From Bergen Belsen news dated 25th of August was received by us. At present they are being treated satisfactorily. Arrangements for transport back to Hungary can not be brought about.

HARRISON

DCR:LOW:CR 9-10-44

CABLE FROM WAR REFUGEE BOARD TO AMBASSADOR STEINHARDT AND HIRSCHMANN,
ANKARA, TURKEY.

The information contained in your 1593 and 1595 of August 30,
is highly gratifying and the Board wishes once again to congratulate
you for these latest successes due to your unremitting efforts on behalf
of refugees.

THIS IS WRB CABLE TO ANKARA NO. 107

10:50 a.m.
September 8, 1944

MSargoy/dh 9/7/44

CABLE FROM WAR REFUGEE BOARD AND THE DEPARTMENT TO AMBASSADOR
STEINHARDT FOR HIRSCHMANN, ANKARA, TURKEY.

Please refer to your No. 1655, September 5, (WRB No. 149).

The War Refugee Board and the Department are in full agreement as to desirability of your proceeding to Bucharest as soon as possible. Accordingly, either you or Katski, or both, are authorized to enter Rumania. JDC is agreeable to Passman's accompanying you if you deem it desirable.

THIS IS WRB ANKARA CABLE NO. 108

2:15 p.m.
September 8, 1944

Miss Chauncey (For the Sec'y), Abrahamson, Cohn, DuBois, Friedman,
Hodel, Laughlin, Lesser, Mammon, McCormack, Cable Control Files.

JRFriedman:ro
9/8/44

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

September 8, 1944

5 p.m.

War Refugee Board

AMEMBASSY

ANKARA

772

The following for Steinhardt and Hirschmann from
War Refugee Board is its 107.

The information contained in your 1593 and 1595 of
August 30, is highly gratifying and the Board wishes
once again to congratulate you for these latest successes
due to your unremitting efforts on behalf of refugees.

HULL
(GLW)

WEB:MMV:KG
9/8/44

NE

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

253
DIVISION OF
COMMUNICATIONS
AND RECORDS

SFG-90

PLAIN

Chungking

Dated September 8, 1944

Rec'd 11:30 a.m.

Secretary of State

Washington

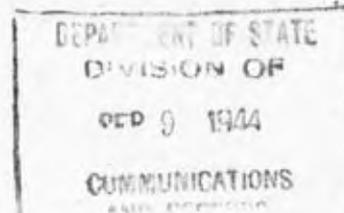
1524, Eighth

FOR SECRETARY TREASURY FROM FRIEDMAN

Returned Chungking September 7. Delayed by
transportation difficulties. Please inform wife.

GAUSS

CSB



COPY NO 11NOT TO BE RE TRANSMITTEDSECRETOPTEL No. 293

Information received up to 10 A.M. 8th September 1944.

1. NAVAL

Home Waters. 7th. First troop convoy arrived @HERBOURG from the U.S. BAY OF BISCAY 5th/6th A British Destroyer took 25 prisoners charts and documents, from two vessels captured off LA ROCHELLE, which is controlled by FFI.

Mediterranean 4th. A landing craft and French tug sunk and U.S. Salvage vessel damaged by mine in MARSELLES Harbour, where more magnetic mines have been destroyed. 5th. U.S. Destroyers prevented attack by human torpedoes against shipping off MONACO, 3 prisoners taken.

2. MILITARY N.W. Europe Second British Army has reached ALBERT CANAL on a wide front and liberated ARMENTIERES and COURTRAI. Canadian troops are in contact with enemy at GRAVELINES and have reached YPRES and CASSEL.

Italy In ADRIATIC Sector severe fighting continued with little change in position. CORIANA, erroneously reported captured by U.K. troops is still held by enemy In centre slight Allied gains East and South of PRATO. In West our troops advanced about 2 miles between MONSUMMANO and LUCCA. Our operations are hampered at all points by bad weather.

3. AIR OPERATIONS

Western Front. 6th/7th. 41 Mosquitoes despatched to KARLSRUHE and 19 against other targets. None missing.

Southern France 5th. In LYONS and DIJON areas fighters destroyed 14 locomotives 48 M.T. and other vehicles and 10 tanks.

Italy 5th/6th. Bombers dropped 186 tons on FERRARA railway centre. AEGEAN, west of KHIOS, Beaufighters damaged a 1500 ton ship and 2 escort vessels.