

DIARY

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October 6, 1944
9:00 a.m.

FOREIGN FINANCIAL POLICY COMMITTEE

- Present: Mr. White
- Mr. Crowley
- Mr. Currie
- Mr. Acheson
- Mr. Cox
- Mr. Taft
- Mrs. Klotz

H.M.JR: Do you want to start?

MR. COX: Mr. Secretary, I think while the British are getting their figures in, there are a whole series of problems, and I think there is a good deal of work that ought to be done on our end, that is, the U. S. end, so that we are in readiness when they do come in with their figures.

It comes up in specific forms. For example, one of the problems now is the stockpiles of oil that ought to be over there, which is a detail, but I think quite important when we get to it.

The other major question is one that I think we can get a good deal of factual evidence on, and that is on the percentage of proportion of their resources that are now being devoted to the war and what the contemplated changes are.

They have published White Papers, and you can get their budgetary figures, and so forth. I think some of the working parties ought to start going on that and have the best evidence we have available so that no time is lost when they get together.

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Secondly, I think we might try to tentatively work out some of the basic policies which are sure to arise in this thing, rather than merely wait until they come across them. This is going to come up in terms of exports, in terms of reconversion where they want supplies, for example, to rebuild the houses that are destroyed by the robot bombs.

(Mr. Acheson enters the conference.)

MR. ACHESON: I am sorry to be late.

MR. COX: I think that, in short substance, is the basic thing that ought to be done on the American end while we are waiting for the British to submit their case.

H.M.JR: I think your suggestion is an excellent one. Do you have written down the things you want to take up?

MR. COX: We have a rough draft of the things, but I think the people who are interested ought to sit down and go over them pretty carefully and see if we can't get up a tentative draft so that we are all agreed on it and take plenty of time to do it rather than being caught at the last minute.

MR. CROWLEY: I would like to do that. I wonder, Lauch, if you would like to add to what Oscar has said.

MR. CURRIE: Just one point. I suspect in the final analysis one of the considerations will be the effect of whatever arrangement we make on the dollar balances, the unspoken, if I may introduce the silent guest at our discussion. It will be helpful, I think, if we started some work now, or at least tried to go on a technical basis to try to arrive at as good a guess or estimate as we can of the probable course of the balance of payment to Britain in the next year, and the various inferences bearing on it, and check on the effect of the various things we might do.

I think, for instance, to take an extreme case, we have been in a rather politically difficult position if the arrangement we worked out with the British should be

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accompanied by a rapid and sustained rise in their dollar balances. Similarly, I don't think we want to take any move that would lead to the exhaustion of the dollar balances. Those are the two extremes. We have done some work, and I think Harry has done some on that, too.

H.M.JR: I think this would be as good a time as any to comment on this with the hope that I won't read about it in Mr. Arthur Krock's or Drew Pearson's column. The matter of dollar balances was not brought up, and I think that we should adhere to the spirit in which this thing was conceived, and that is that we should do a job here which would put England back on its feet economically and give England a chance to stage a comeback.

Now, the best way I can describe it is that here is a client or customer or friend who is broke, but who is a good moral risk, and we should ask this friend to state his entire problem so that we can analyze it. Then as I understand my orders, the spirit in which this thing was carried out, we should then do a job for England to make it possible for her to stage a comeback and gradually meet her obligations, which are all over the world. And, therefore, I don't consider that the dollar balances are yardsticks any more. I think we might just as well have this thing straight from the beginning. That is the spirit in which I talked to Mr. Churchill and to John Anderson, when I was in England, about this subject. That was the spirit in which I approached the thing over there, and it certainly was the spirit in which the President approached it.

I mean, our job is to try to do for England the sort of thing which would make it possible after what she has done through this war for her to come back economically and really take her place in the family of nations on a successful financial basis.

MR. WHITE: One of the indications of that would, of course, be her dollar position.

H.M.JR: Yes, but excuse me, Harry, the people in the room here know how unsuccessful it is to hold down the dollar balances.

Now, I just wanted to say that from my standpoint, and the point at which this is set up, that I hope it is agreeable to you, Leo.

MR. CROWLEY: Sure. I think as long as we understand what our principle is in this thing, it gives all of our people a chance to start working out the details. I think if that is the policy to recognize, that England is broke, it is to our advantage to go in and help them with working capital and help them back on their feet again. Then if that is what we are to do, we can start from that premise in working out our detailed plan.

MR. WHITE: Putting that in a little less fancy language, what we are confronted with here is giving England many billions of dollars, giving it to her. The question which Lauch raises, which I think is one of the two real questions, is, how many billions do you want to give her? Because she will try to have as many of those billions left in her balances as possible and not utilize them in current expenditure, though she will do both. So you can't go only by the balances.

Now, the question of how many dollars we are going to give her--because that is what it amounts to--once that is determined--and it would be very helpful if that could be determined first, because there is no limit to what she can absorb, and there may be no limit to what you can give her, except politically. Once that is determined, then it would be much simpler for the rest of us to work out the way in which we can give her those billions with the least political adverse consequences, but I think we have to face up to the fact that we are giving her billions of dollars, and it is a question of how much you want to give her. Those are the two questions. We can work the rest out technically without any trouble.

MR. CROWLEY: I think what we went through back years ago when you first came to Washington to Farm Credit, and what we went through in the banking system--England is no different than a large business that finds itself now in financial difficulty. Now, they do owe money to us. What you in reality have to do is get a freezing of that,

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and then try to find out what you are going to give them to help them get their economy back on its feet. Certainly the money we have coming from them in Lend-Lease, or whatever it may be, can't be paid for a great many years, so that what money we are to put in and what services we give them will have to be in addition, and we can't expect while they are trying to pay that back, that they can pay anything on the old debt. Isn't that correct?

MR. WHITE: I don't suppose anybody here ever expects them to pay back the Lend-Lease. The question of putting them back on their feet is a very real problem, but a very vague concept, because as I say, talking in terms of hundreds of millions or even in billions, England could take without the slightest trouble, four billion, five billion, six billion, and ten billion dollars. When I say take, I mean as a gift, because that is what it is, irrespective of what you are getting in terms of good will or past favors. The more you give her, the less sound position she is in.

The question is, it seems to us that we are faced with this, how much do we want to give her? We can say we will give her what she asks, if what she asks seems moderately reasonable, and if that is the decision, then you wait and see what she asks for. I think we know approximately and from additional information and conversation, Keynes has indicated to me they expect to build up their balances somewhat.

Or, you can take the position, how much do we think she ought to have? If we say that, we are making it our problem, and there is no limit to what we could do in making it sounder for England to operate. I think it would be a mistake to take, "What can we do for her?" I think it would be much better to take, "What does she want?" and see if it is reasonable to us, and then try to strike something like that magnitude and eliminate those things which are politically unwise, but I think we ought to recognize that we are giving England a gift of many billions of dollars.

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H.M.JR: Harry, you started at one place, and it seems to me you ended at another. You started with how much we should give, and now you just talk about how much she needs and she wants.

Now, the thing that--if you feel any better after having made your statement--

MR. WHITE: No, I have said the same thing, but maybe I didn't make myself clear. I was speaking about the final decision in the first place, and about the method of approaching it.

H.M.JR: It is all right to talk that way in here, and I am sure with the experience you have had you wouldn't talk that way to them, about how much you are going to give them.

MR. WHITE: No, but I didn't think we ought to kid ourselves here.

H.M.JR: Well, it doesn't do any harm to get in the mental frame of mind that she has fought a magnificent fight; she has been a bulwark against German aggression; she has been the jumping-off place for our Air Corps; and that that country after having done all that should go under financially is something we can't permit.

Now, in the approach we had here the other day--you may call it fancy language, but that is all right. There were two approaches, and to me this is very important. I would like Dean to know it. Halifax wanted to put me in the position the other day that we should say what we wanted in the way of information. I don't want that. I have told both Cherwell and Keynes we want them to state their problem to us at one time, and I think that that is terribly important.

MR. ACHESON: I think that is right.

H.M.JR: And I have been spending a lot of time around town letting the different people know that this is the Committee, and I hope that they will play ball. Because, of course, most of them like Land are tickled to death to

let us have the difficult problem of deciding how many ships should be Lend-Leased, and so forth. He is perfectly willing to dump it in this Committee's lap. But I hope we are all in agreement that we should ask England to state the problem. And I think if we approach it on the basis that we expect them to be fair--and after all, this is an entirely new crowd that is coming over, in a sense, to meet with the Government--I don't think they are going to try to ask for ten billion, hoping to get five, because I don't think that Cherwell or Keynes operate like that. It is time enough to be disillusioned when I find I am wrong. But I would very much like to sit back and wait until some time after the 14th, which is the date that they have set when they will be prepared to state their problem.

Now, in the meantime, anything that we can do, the combined staffs here, to get ready, knowing what they are going to ask for, I think is time gained. Now, are we at all apart, Harry?

MR. WHITE: I don't think so, no. We have asked them for what they want. They will submit it in a couple of weeks. I think what Lauch said about trying to estimate their balances of payments is an excellent thing. They have done it. We have made a long study of it, and they are also making a long study. Keynes informs me they are going to present us with one of theirs, and we can compare the three and see where the difference in judgment is, and the thing that Oscar talks about surely ought to go ahead. I think that their organizations on those problems, State and Lend-Lease, are in a better position to make those studies than we are.

MR. COX: One other major question is the method by which you hit at this solution, because in my opinion, the problem is of such magnitude that you won't be able to meet it with Lend-Lease by any substantial means.

MR. TAFT: You mean, because of legal limitations?

MR. COX: Not only legal, but political. If you are going to hit this problem, you ought to hit it in a

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grand manner, and you may have to do the preliminary thinking now about the Congress in January.

MR. WHITE: I think you are inclined to exaggerate the difficulties England is in when you say you can't handle it with the kind of program they are going to present you with, can't handle it as well as they would like, or we would like if that situation were ours; but to say that you can put them in a position where they cannot function, and function well, unless you talk in terms of many billions of dollars in addition is, I would think, rather doubtful.

MR. COX: You see, Harry, I think it is an impossible solution. I think you will find as a practical matter that there are certain things that you may want to do but can't do under the machinery you have for political, not legal, reasons. I think it is perfectly clear that you won't be able to send them supplies which they send out on commercial exports. We have said we wouldn't be able to do that directly. They will get blown out of the water in Congress, "What is this, you are sending them Lend-Lease supplies with which they compete with our fellows?"

H.M.JR: I don't think they are going to ask for that.

MR. WHITE: Yes, they told us first they would only ask for about one hundred and fifty million dollars.

MR. TAFT: In raw materials.

MR. WHITE: Our position--if it is small as that, why don't you drop it. That is raw materials, exclusive of food and armaments.

They now are telling us it will be over a half billion dollars.

H.M.JR: Who told you that?

MR. WHITE: Keynes mentioned that it will be almost up to six hundred million.

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MR. CROWLEY: Mr. Secretary, first I think it would be a very serious thing if the conversation that has gone on in here this morning now gets back to the rank and file of our staff and finds its way into the newspapers or in the hands of these commentators. I think if we are going to sit down and study this, then we ought to take a very small group of people who are here, have them work on this thing here, and try to keep it within the confidence of a very small organization.

Now, if you let this thing get in the hands of the press, it is going to be entirely misunderstood and do a world of damage to whatever we will be able to do with the Congress or to work out with these English people who are coming in here.

H.M.JR: As a matter of fact, the Committee is not supposed to be publicized. So far there has been nothing in the paper about this thing. I don't know why.

MR. TAFT: Mr. Secretary, the Whaley-Eaton Letter has a brief statement about the Committee. It says that it has not met with the British. And the Herald Tribune started after the British Embassy yesterday. They had an article which said that Keynes was over here for trade purposes. Most of the Whaley-Eaton letter came from an article in The Economist, we found afterwards. There was very little that came from here. It was almost the same as was in The Economist, given out in England, apparently. So you will be chased before long, if you haven't been already. I don't know whether the FEA has been approached or not.

MR. COX: I think it is quite vital.

MR. TAFT: This is in connection with Keynes, and when Sinclair gets here, it will get even more difficult.

MR. COX: If any of this stuff is publicized, you may very well be put on the defensive with Congress before you can do anything.

H.M.JR: I think that Leo Crowley is absolutely right, and while I was sarcastic, I meant what I said at the

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beginning, that I hoped I wouldn't read in Arthur Krock's or Drew Pearson's column what happened here. You are just amplifying it, I take it.

MR. WHITE: Whaley-Eaton has a great deal already.

MR. CROWLEY: Harry, insofar as these people coming here, I think the American people generally accept the principle that we are going to give Lend-Lease to England during the period of the Japanese war inasmuch as we can count upon their participation in the Japanese war.

Now, if there is something that has been said, certainly it can be said that they are here to discuss whatever participation there has been and what we are going to do on Lend-Lease in order to enable them to go along with the Japanese war. There is no reason in the world that I see why it should leak out.

MR. WHITE: We have told the press just that.

MR. CROWLEY: That is where we should stop.

MR. WHITE: That we agreed with the English and told Opie to discuss it with the State Department, that Keynes was over here with the others for the usual conversations with State and Lend-Lease and Treasury with respect to continuation of the Lend-Lease program, that he had been here before on those discussions and was here almost every year. They come for the ensuing calendar year, and there are certain economic and financial problems relating to that which they have been discussing in the past four years, and they are continuing those discussions. That is what they agreed upon.

MR. TAFT: That is what the Secretary is going to say if he is asked a question. He won't say anything otherwise.

MR. WHITE: But Whaley-Eaton got a pretty accurate story from somebody.

MR. TAFT: It is from The Economist.

MR. WHITE: Then they got it in England.

MR. TAFT: Mr. Secretary, there is one element in this which affects the public relations, and that is the military part of it. I don't know to what extent the military has been instructed or has any of the atmosphere you have just suggested this morning. It seems to me very important that the ones that are actually working should have that very clearly in mind, because if that gets too low, it gives you a much greater burden on the non-military.

H.M.JR: Well, I had Bob Patterson over this week for lunch. Patterson understands it, and I went into the whole thing fully with him. He understands it, and is in complete sympathy with what we are doing. He said he would talk to his people, and then I had a second occasion to talk to him when you (Cox) sent me that letter from Phil Reed in London.

MR. ACHESON: Letter or telegram?

MR. COX: Telegram. It came in the last day or so. I understand instructions have already gone down to the War Department that they shouldn't have done that, and shouldn't do it in the future.

MR. ACHESON: About the request to the British to tell them how much excess capacity they have.

H.M.JR: In answer to Mr. Taft, Mr Patterson understands this thing, and the main thing I wanted to get over to Mr. Patterson was, would he be willing that when we got down with him to say, "I understand the thing, that Lord Cherwell is so afraid of us that they will get tied up into three decimal points and never get through."

I said to Bob, "Are you willing to let them have ten percent either way so the thing can get going and gradually tighten up so we won't be sitting around the rest of the winter?"

He said that he would.

Then when Keynes paid his courtesy call he said they had decided to drop a lot of the smaller items and confine this thing to the more important ones.

MR. TAFT: Is that on the military end?

H.M.JR: No, on the industrial. And to answer your question, Patterson does understand. That is what I meant, that I would be taking the time, which I felt that I should, to explain to the top people what this was all about.

MR. WHITE: And the military.

H.M.JR: Dean, do you want to say something?

MR. ACHESON: I think what you said covers it as far as I am concerned. That is what I had understood the proposition was, and I think if we approach it in that way it isn't so terribly difficult. We have had a lot of experience in the past; we know what the situation is to date, and we know what the changes are. If we go at it along the lines of your suggestion, I don't think that we have all the serious problems Oscar was talking about.

H.M.JR: I don't, either. I hope, frankly, when they get ready--I would like to concentrate on this thing for about two weeks and have it over with, rather than have the thing drag on for months.

MR. CROWLEY: It will be much more effective if you do it that way, too, with our own public.

H.M.JR: Would it be agreeable to you, Dean? I take it Collado and Mr. Taft, or whomever you wanted, would work with these people in the coming week.

MR. TAFT: We have the lines fairly well laid out with the FEA. I talked to Harry about it yesterday.

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MR. ACHESON: I will put in some time myself.

H.M.JR: How about you, Harry? You are available after Tuesday?

MR. WHITE: We will be available.

H.M.JR: Do you want to take a few minutes now and maybe go down to White's office and plan it out?

MR. COX: Yes.

October 6, 1944
10:00 a.m.

ATLANTIC CITY AND CHICAGO SPEECHES

Present: Mr. Gaston
Mr. Murphy
Mr. Barth
Mrs. Klotz

H.M.JR: How many words?

MR. BARTH: Eighteen hundred apiece. You said seventeen.

MR. GASTON: This is just giving you good measure.

MR. BARTH: I figure you are going to cut at least a hundred words this morning. (Laughter)

H.M.JR: Has somebody counted these?

MR. BARTH: I counted them, but not too accurately.

H.M.JR: Do you have another copy? Did you do this all last night?

MR. BARTH: Yes, yesterday afternoon.

H.M.JR: Do you want to start reading?

MR. BARTH: Just as you like.

H.M.JR: If you please.

MR. BARTH: (Reading "War Finance Speech," attachment A)
"You may not be aware of it but this meeting today is a kind of birthday celebration--a very important birthday in

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my calendar. Just about ten years ago the first United States Savings Bonds--they used to be called Baby Bonds in those days--were sold to the American public. And in just a few months--next March to be precise--the youngest of these Bonds will reach its maturity and be presented to the Treasury of the United States for redemption.

"A birthday is a family affair. And I am especially happy to be able to celebrate this birthday with members of the immediate family that made savings bonds the most popular and most widely held form of investment ever conceived in the United States. I think you can be very proud of your adopted child. When the history of this war comes to be written I think, indeed, that the savings bond program will have a highly honored place in it and that the job which you have done so generously and so effectively will be recorded as one of the major contributions to our victory.

"I should like to go back with you for a few minutes to those early days, a decade ago, when War Bonds were Baby Bonds. They were conceived then with a very definite purpose in view. That purpose was, in a phrase, to democratize public finance in the United States.

"We in the Treasury wanted to give the average American a direct personal stake in the maintenance of sound Federal Finances. We wanted to bring the Treasury, through the Federal Reserve System, into direct contact with all the banks of the country. The public debt, we felt, should go through something of the same sort of mutualization that had enriched and expanded the life insurance industry in this country. Every man and woman who owned a Government Bond, we believed, would serve as a bulwark against the constant threats to Uncle Sam's pocketbook from pressure blocs and special interest groups. In short, we wanted the ownership of America to be in the hands of the American people.

"We had made only a start in this direction, you will remember, when war broke out in Europe and threatened the security of the United States. But the foundation had been laid for real popular participation in an American preparedness program."

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H.M.JR: Just a second. O.K.

MR. BARTH: "Savings Bonds became known as Defense Bonds. And, as you all know, they played an important part in making the Nation ready for the great crisis which came upon us at the end of 1941. They served not only as a vital factor in financing the rearmament of our fighting forces but, what seems to me even more important, they gave to the average citizen a sense of the war's meaning and of the urgent nature of the national danger.

"When the enemy struck, the machinery was ready and in operation for the people's financing of the war. Defense Bonds became War Bonds and through your efforts they have been put into the hands of eighty-five million individual Americans. I congratulate you on the accomplishment. Think of it! Out of every thirteen men, women, children and babies in the United States, more than eight have purchased Bonds of their Government. Today there are approximately 23 billion dollars of Series E Bonds--the people's Bond--outstanding all held by individual investors.

"This Series E Bond was tailored specifically to meet the need of the average American citizen able to set aside modest savings for investment purposes. As all of you know, it is non-negotiable and through arrangements which have recently been inaugurated, it is payable on demand 60 days after issue date, at any bank. Its investment yield if held to maturity is 2.9% and is the highest obtainable in any United States Government security.

"We designed this security in order to protect the small investor against any possibility of loss as a result of fluctuations in market value. Non-negotiable securities with guaranteed redemption values are not subject to panicky liquidation which, experience shows, develops among small holders of marketable securities in the event of decline in market value. In short, they are more likely to be retained as investments.

"It is worth while to recall the experience following World War I when Liberty Bonds plunged down into the eighties, and frightened buyers, inexperienced as investors,

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unloaded. They felt that their trust in their Government had been betrayed. Later they awoke to find that their loss had been the gain of the speculators and the wealthy who then owned their Bonds at prices that brought them truly handsome yields in the safest securities in the world."

"The Series E War Bonds will have an immense value, I believe, not only for the individual holders, but for the economy of the country as a whole when the war is ended. They will constitute an invaluable back log of purchasing power in the post-war decade. Only a part, and I believe the smaller part of this purchasing power will come from cashing the Bonds themselves. The most important part will come from the greater spending of current incomes growing out of the sense of security afforded to individuals by their War Bond holdings."

H.M.JR: That is good. Is that new?

MR. BARTH: No, that is way back in the original Murphy notes.

"They will provide, therefore, a strong bulwark against the sort of deflation which struck this nation so disastrously in 1920 and 1921.

"There is one aspect of the War Bond program in which I take particular pride and upon which I want to offer my warm congratulations to you. Every phase of this program has been conducted on a genuinely voluntary, democratic basis. From the beginning, we were resolved to avoid certain high-pressure sales tactics which, unavoidably, attended the fund-raising of World War I. It was determined that there should be no compulsion, no hysteria, no slacker lists and no invidious comparisons between those who bought Bonds and those who did not. There was to be room in this program for the individual with special burdens and responsibilities who could contribute only in very small amounts--and even for the individual who could not share at all. I think you know, and the whole Nation knows, how scrupulously this policy has been observed.

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"There was a good reason for it. In the early days of 1941, when I first asked Congress for authorization to borrow from the general public through a Defense Savings Bond campaign, I said this: 'There exists in the country today an overwhelming desire on the part of nearly every man, woman and child to make some direct and tangible contribution to the national defense. We ought to give them a sense of personal participation beyond that which comes from doing their daily job faithfully and well. Every day, letters come to me from people who ask, "What can I do to help?" Our plan to offer securities attractive to all classes of investors is an attempt to answer this question. I can think of no other single way in which so many people can become partners of their Government in facing this emergency. It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale.'

"The desire of the people 'to help,' the sense of participation in the national cause, could never have been realized except through a voluntary program. You will recall, of course, the clamor that arose for forced or compulsory savings. There were many who declared that only in this way could the stupendous sums needed for victory be raised. There were times, indeed, when those of us who had faith in voluntary methods seemed lonely voices crying in the wilderness. But there was one voice that never failed to support us--the voice of the President of the United States. He believed always that the people would respond to any call that was made upon them. He knew that the enlistment of their support could be best attained through a voluntary program adapted to the democratic pattern of American life.

"But a voluntary program could succeed, of course, only through the efforts of volunteer workers. We in the Treasury could fulfill only the functions of a general staff. The real battles had to be fought and won in the field--fought and won by sustained, unstinting, tireless service. You have given that service. You have given it with a resourcefulness and enthusiasm and good cheer that have over-ridden every difficulty. You have given it at real sacrifice of time and comfort and self-interest. I

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think that the job that you have done is beyond my praise. I know that the richest reward you can receive for it is the knowledge that it has been done supremely well, that it has played an indispensable part in our forward march to victory. Still, I should like, on behalf of the Treasury Department to say one simple word to you--Thanks. I shall venture nothing more than this. But I know that this one word is echoed, and will be re-echoed, by every one of your fellow-Americans.

"When you enlisted in this program, you enlisted for the duration. The term of your service has not yet reached its end. The truth is that the toughest part of your job still lies ahead.

"Let us look at the future realistically. The war news of late has been extremely good. The enemy in Europe is on the run. How soon he will collapse, none of us can tell. But even when that great day comes, there will still be a hard and costly victory to be won in Asia. Our military and naval authorities made the grim assertion just recently that it will take us at least a year and a half to defeat Japan after Germany is beaten."

H.M.JR: Who said that?

MR. BARTH: OWI said our military authorities said it. I don't think it was pegged on General Marshall.

H.M.JR: This will have to be cleared with OWI, anyway.

MR. BARTH: Yes.

"And we shall be able to do it in that time only if we put every bit of our strength into the effort. The enemy has short, interior lines of communication, while we must move men and materials across the vast distances of the Pacific before we can bring our power to bear. The costs of this kind of warfare will certainly be very high, higher even than they were in Europe.

"You cannot rest on your laurels. The Sixth War Loan campaign lies immediately ahead. Its challenge must be confronted just as resolutely as in the past. And I tell you frankly that even on the most optimistic assumption

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there will have to be a Seventh Loan. Your job is to make the people of America understand that there can be no let-down on the Home Front now, that the time has not yet come to relax or celebrate. I know that America can count upon you to see your job through to its end."

H.M.JR: Beautiful! I don't want to change a word. I will just speed up a little bit, that is all.

MR. BARTH: I read that in fourteen minutes, and there were a few seconds of interruption.

MRS. KLOTZ: And you read slowly. It wasn't too fast.

H.M.JR: I wouldn't change it one iota.

MR. MURPHY: I am satisfied.

MR. GASTON: I am satisfied if you are not troubled by this approximate birthday, the fact that the bond didn't come out until March. We are several months away from any actual anniversary, although at this time of year ten years ago you were working very actively on them. But I really think it is close enough.

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

MR. GASTON: Another thing, on page two, "We wanted to bring the Treasury into direct contact with all the banks of the country. The public debt, we felt, should go through something of the same sort of mutualization that had enriched and expanded the life insurance industry in this country"--somebody mentioned that some people think that mutualization is something of a fraud, that it isn't real mutualization. I don't think it would hurt to jump from that first sentence down to, "Every man and woman who owned a Government Bond," and leave out the banks and the insurance companies.

MR. MURPHY: Mr. Haas feels that way about it; he feels that the reference to life insurance companies is unfortunate. You remember, we discussed that lasttime.

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H.M.JR: All right. I am surrounded with all these New Dealers. Here I am, an Orthodox financier and like to be in contact with the banks, but they won't let me.

MR. GASTON: I don't really object to it; I just thought it was worth raising.

MR. MURPHY: He said he thought more people read the TNEC investigation than--

H.M.JR: All right.

MR. BARTH: I can go to--do you want to tackle Chicago?

H.M.JR: Yes. That is wonderful.

Herbert, may I depend on you and John to see that this is gotten to Atlantic City by teletype or whatever arrangements they have for releasing it? I would like to have it released for tomorrow afternoon's papers.

MR. GASTON: Yes.

H.M.JR: I want it released today for tomorrow afternoon's papers.

MR. GASTON: Can we do it before we clear with OWI?

H.M.JR: Sure. Can't you?

MR. GASTON: Yes, I think so.

H.M.JR: If they get it by five o'clock this afternoon-- I understand the AP-UP wire becomes available by eleven o'clock at night. After about midnight they are free of the morning stuff.

MR. GASTON: Not when I worked on them.

H.M.JR: If you give it to him at nine o'clock in the morning, it is too late for the afternoon papers.

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MR. GASTON: It is very likely to be, surely.

H.M.JR: But I am going to forget about it, Herbert, the releasing and all the rest of it. But I do want it released either from here or Atlantic City, I don't care where.

MR. GASTON: Oh, all right, both places, I imagine.

MR. BARTH: (Reading "War Bond Speech No. 2, attachment B.) "Wars, now as always, are won on battle fields. But in modern war, which is total war, the Home Front is intimately involved. Economic stability at home is one of the absolute requisites to victory. For without economic stability it is impossible to maintain the vast and complex flow of supplies necessary for the men on the fighting lines.

"It has been the task of the Treasury Department to finance the costliest war in history. I should like this afternoon to review with you in some detail the manner in which this task has been executed. Our problem has been something much more difficult than the mere raising of vast sums of money--even of sums so tremendous as those required for the present conflict. The nub of the problem has been to raise these sums in such a way as to maintain stable economic conditions at home--in such a way, in other words, as to strengthen rather than weaken the national economy.

"Half of the total resources of the United States are now being devoted to waging war. Since Pearl Harbor, war expenditures have amounted to about 208 billion dollars. During this same period, non-war expenditures have been kept down to 16 billion dollars, making a total government outlay for the course of the war to date of 224 billions. Where has this tremendous sum come from? Well, 87 billion dollars, or 39 percent of the total bill, has come from revenue. For the sake of comparison, it may be pointed out that World War I was financed only 29 percent from revenue."

MR. MURPHY: Mr. Bell objects to making that comparison on the ground that it ends in the case of World War I with

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June 30, 1919 when demobilization was effectively complete, and feels it should run until the President's Proclamation in 1921, ending the war. In that case, of course, you have two years of a peacetime budget and World War I was over fifty percent, and since he agrees that that comparison isn't fair either, the only way he sees out of the dilemma is not to make the comparison at all.

I have discussed that with Mr. Gaston and Mr. Barth, but we necessarily have to put the question to you.

H.M.JR: I don't think his argument holds water, but I think the thirty-nine percent can stand on its own feet.

MR. GASTON: It is very difficult to make a comparison, because the last war only lasted a year and a half, and they were slow in getting around to--

H.M.JR: I don't want to have something which somebody can jump on me about.

MR. BARTH: The whole of this speech is concerned with comparisons, proving the superiority of World War II financing over World War I.

H.M.JR: I am going to put "tentatively" by this, and see what happens.

MR. BARTH: It might be possible to qualify this.

H.M.JR: That is the only thing he objects to?

MR. MURPHY: Yes, sir; the other points were in the press release, and he didn't have time to take them out.

H.M.JR: Has he read this?

MR. MURPHY: No, he hasn't.

H.M.JR: Herbert, we can let them read both of these speeches. We have from now to five o'clock.

MR. GASTON: Yes.

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(Mr. Barth completes the reading of "War Bond Speech
No. 2)

H.M.JR: I like it; it is very good.

Now, how many did she say there were?

MRS. KLOTZ: Nineteen hundred and sixty-eight.

H.M.JR: In the E bond part I am going to give way to Mr. Bell and cut out that comparison. It doesn't weaken it too much. But I think that part that says so much about the E bonds--

MR. BARTH: May I point out a couple of cuts I made alone?

H.M.JR: If you please.

MR. BARTH: On page one, I simplified that second paragraph, "Our problem has been something much more difficult than the mere raising of vast sums of money," period. "The nub of the problem has been to raise these sums in such a way as to strengthen, rather than weaken, the national economy." I cut out, "Even of sums so tremendous as those required for the present conflict"-- just shortened it.

H.M.JR: Yes.

Then on page two cut out, "For the sake of comparison."

Down at the bottom of page three we can cut out these four lines that tell this audience that people get two point nine percent on their bonds. I think that is pretty well established, "I need hardly remind this audience--" cut out those last four lines on the page.

MR. BARTH: I think we can make a cut at the end here. We don't have to say again that there will be a seventh loan. We have said it at Atlantic City. On the bottom of page eight there are two lines, "Frankly, I think there is no doubt at all that we shall have to have a seventh loan before we can think of getting back to normal."

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MRS. KLOTZ: Cut that out?

MR. BARTH: Yes.

Then that cuts us down by about one hundred and twenty-five words.

H.M.JR: Why don't you people do it, and I will accept it.

Herbert, if you don't mind, when it is finished again give it to Mrs. McHugh to start a reading copy on this. And I will let Gamble read this tomorrow at Atlantic City.

I think this is a swell job.

MR. GASTON: I think they are very good.

MR. MURPHY: I am very pleased with the way it is handled, Mr. Secretary.

H.M.JR: You can go into Mr. Gaston's room, and if there are any changes you want to make, you make them, and Mr. Gaston will give this to Mrs. McHugh for my reading copy, and you have a copy to show to Gamble tomorrow. You can clear both speeches with OVI.

MR. GASTON: Do you want both reading copies?

H.M.JR: Yes. If they go to Mrs. McHugh, she will take care of it.

~~10-5-44~~
War Finance Speech
Sec. Morgenthau
Atlantic City
10-7-44

H.

You may not be aware of it but this meeting today is a kind of birthday celebration -- a very important birthday in my calendar. Just about ten years ago the first United States Savings Bonds -- they used to be called Baby Bonds in those days -- were sold to the American public. And in just a few months -- next March to be precise -- the oldest of these Bonds will reach its maturity and be presented to the Treasury of the United States for redemption.

A birthday is a family affair. And I am especially happy to be able to celebrate this birthday with members of the immediate family that made savings bonds the most popular and most widely held form of investment ever conceived in the United States. I think you can be very proud of your adopted child. When the history of this war comes to be written I ~~think~~^{believe}, indeed, that the savings bond program will have a highly honored place in it and that the job which you have done so generously and so effectively will be recorded as one of the major contributions to our victory.

I should like to go back with you for a few minutes to those early days, a decade ago, when War Bonds were Baby Bonds. They were conceived then with a very definite purpose in view. That purpose was, in a phrase, to democratize public finance in the United States.

We in the Treasury wanted to give every American a direct personal stake in the maintenance of sound Federal finances. ~~We wanted to bring the Treasury into direct contact with all the banks of the country. The public debt, we felt, should go through something of the same sort of mutualization that had enriched and expanded the life insurance industry in this country.~~ Every man and woman who owned a Government Bond, we believed, would serve as a bulwark against the constant threats to Uncle Sam's pocketbook from pressure blocs and special interest groups. In short, we wanted the ownership of America to be in the hands of the American people.

We had made only a start in this direction, you will remember, when war broke out in Europe and threatened the security of the United States. But the foundation had been laid for real popular participation in an American preparedness program. Savings Bonds became known as Defense Bonds. And, as you all know, they played an important part in making the Nation ready for the great crisis which came upon us at the end of 1941. They served not only as a vital factor in financing the rearmament of our fighting forces but, what seems to me even more important, they gave to the average citizen a sense of the war's meaning and of the urgent nature of the national danger.

When the enemy struck, the machinery was ready and in operation for the people's financing of the war. Defense Bonds became War Bonds and through your efforts they have been put into the hands of eighty-five million individual Americans. I congratulate you on the accomplishment. Think of it! Out of every thirteen men, women, children and babies in the United States, more than eight have purchased Bonds of their Government. Today there are approximately 23 billion dollars of Series E Bonds -- the people's Bond -- outstanding all held by individual investors.

This Series E Bond was tailored specifically to meet the need of the average American citizen able to set aside modest savings for investment purposes. As all of you know, it is non-negotiable and through arrangements which have recently been inaugurated, it is payable on demand 60 days after issue date, at any bank. Its investment yield if held to maturity, ~~is~~ 2.9%, ~~and~~ is the highest obtainable ~~in~~ any United States Government security.

We designed this security in order to protect the small investor against any possibility of loss as a result of fluctuations in market value. Non-negotiable securities with guaranteed redemption values are not subject to panicky liquidation which, experience shows, develops among small

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holders of marketable securities in the event of decline in market value. In short, they are more likely to be retained as investments.

It is worth while to recall the experience following World War I when Liberty Bonds plunged down into the eighties, and frightened buyers, inexperienced as investors, unloaded. They felt that their trust in their Government had been betrayed. Later they awoke to find that their loss had been the gain of the speculators and the wealthy who then owned their Bonds at prices that brought them truly handsome yields ~~in~~ the safest securities in the world.

The Series E War Bonds will have an immense value, I believe, not only for the individual holders, but for the economy of the country as a whole when the war is ended. They will constitute an invaluable back log of purchasing power in the post-war decade. Only a part, and I believe the smaller part of this purchasing power will come from cashing the Bonds themselves. The most important part will come from the greater spending of current incomes growing out of the sense of security afforded to individuals by their War Bond holdings. They will provide, therefore, a strong bulwark against the sort of deflation which struck this nation so disastrously in 1920 and 1921.

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There is one aspect of the War Bond program in which I take particular pride and upon which I want to offer my warm congratulations to you. ~~Every phase of this program~~ ^{Throughout the} program has been conducted on a genuinely voluntary, democratic basis. From the beginning, we were resolved to avoid certain high-pressure sales tactics which, unavoidably, attended the fund-raising of World War I. It was determined that there should be no compulsion, no hysteria, no slacker lists and no invidious comparisons between those who bought Bonds and those who did not. There was to be room in this program for the individual with special burdens and responsibilities who could contribute only in very small amounts -- and even for the individual who could not share at all. I think you know, and the whole Nation knows, how scrupulously this policy has been observed.

There was a good reason for it. In the early days of 1941, when I first asked Congress for authorization to borrow from the general public through a Defense Savings Bond campaign, I said this: "There exists in the country today an overwhelming desire on the part of nearly every man, woman and child to make some direct and tangible contribution to the national defense. We ought to give them a sense of personal participation beyond that which comes from doing their daily job faithfully and well. Every day, letters come to me from people who ask, 'What can I

do to help?' Our plan to offer securities attractive to all classes of investors is an attempt to answer this question. I can think of no other single way in which so many people can become partners of their Government in facing this emergency. It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale."

The desire of the people "to help," the sense of participation in the national cause, could never have been realized except through a voluntary program. You will recall, of course, the clamor that arose for forced or compulsory savings. There were many who declared that only in this way could the stupendous sums needed for victory be raised. There were times, indeed, when those of us who had faith in voluntary methods seemed lonely voices crying in the wilderness. But there was one voice that never failed to support us -- the voice of the President of the United States. He believed always that the people would respond to any call that was made upon them. He knew that the enlistment of their support could be best attained through a voluntary program adapted to the democratic pattern of American life.

But a voluntary program could succeed, of course, only through the efforts of volunteer workers. We in the Treasury could fulfill only the functions of a general staff. The real

battle had to be fought and won in the field -- fought and won by sustained, unstinting, tireless service. You have given that service. You have given it with a resourcefulness and enthusiasm and good cheer that have overridden every difficulty. You have given it at real sacrifice of time and comfort and self-interest. I think that the job that you have done is beyond my praise. I know that the richest reward you can receive for it is the knowledge that it has been done supremely well, that it has played an indispensable part in our forward march to victory. Still, I should like, on behalf of the Treasury Department to say one simple word to you -- Thanks. I shall venture nothing more than this. But I know that this one word is echoed, and will be reechoed, by every one of your fellow-Americans.

When you enlisted in this program, you enlisted for the duration. The term of your service has not yet reached its end. The truth is that the toughest part of your job still lies ahead.

Let us look at the future realistically. The war news of late has been extremely good. The enemy in Europe is on the run. How soon he will collapse, none of us can tell. But even when that great day comes, there will still be a hard and costly victory to be won in Asia. Our military and naval authorities made the grim assertion just recently that it will take us at

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least a year and a half to defeat Japan after Germany is beaten. And we shall be able to do it in that time only if we put every bit of our strength into the effort. The enemy has short, interior lines of communication, while we must move men and materials across the vast distances of the Pacific before we can bring our power to bear. The costs of this kind of warfare will certainly be very high, higher even than they were in Europe.

You cannot rest on your laurels. The Sixth War Loan campaign lies immediately ahead. Its challenge must be confronted just as resolutely as in the past. And I tell you frankly that even on the most optimistic assumption there will have to be a Seventh Loan. Your job is to make the people of America understand that there can be no let-down on the Home Front now, that the time has not yet come to relax or celebrate. I know that America can count upon you to see your job through to its end.

B³⁴

War Bond Speech No. 2
Secretary Morgenthau
Chicago, Illinois
10-10-44

Wars, now as always, are won on battle fields. But in modern war, which is total war, the Home Front is intimately involved. Economic stability at home is one of the absolute requisites to victory. For without economic stability it is impossible to maintain the vast and complex flow of supplies necessary for the men on the fighting lines.

It has been the task of the Treasury Department to finance the costliest war in history. I should like this afternoon to review with you in some detail the manner in which this task has been executed. Our problem has been something much more difficult than the mere raising of vast sums of money. (~~even of sums so tremendous as those required for the present conflict.~~) The nub of the problem has been to raise these sums in such a way (~~as to maintain stable economic conditions at home -- in such a way, in other words,~~) as to strengthen, rather than weaken, the national economy.

Half of the total resources of the United States are now being devoted to waging war. Since Pearl Harbor, war expenditures have amounted to about 208 billion dollars. During this same period, non-war expenditures have been kept down to 16 billion

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RP dollars, making a total government outlay for the course of the war to date of 224 billions. [Where has this tremendous sum come from? Well, 87 billion dollars, or 39 percent of the total bill, has come from revenue. ~~For the sake of comparison, it may be pointed out that World War I was financed only 29 percent from revenue.~~

During the fiscal year just ended, expenditures were slightly more than 95 billion dollars and net receipts climbed to a little over 44 billions, or 46 percent. This means that there has been an upward trend in our coverage of war costs through taxation. It is a trend which may be surprising to some and which certainly should be encouraging to all.

I want to put some emphasis on this trend since there have been charges of late that the Treasury has confused the public by persistent increases in the tax burden. In the year ended June 30, 1940, the last fiscal year before the beginning of the defense program, net Treasury receipts were slightly less than 5 1/2 billion dollars. The 44 billion-dollar total which, as I have just told you the Government took in during the past year, was an eight-fold increase -- a larger increase than has taken place in the revenue collection of any other major belligerent of this war. This is an important thing to remember in international comparisons because the burden of taxation must be measured not

only by its absolute magnitude but also by its rate of increase.

Now, I do not think there has been anything confusing about this. The American people, recognizing the need for greatly increased Government revenues, have submitted to the highest taxes in the nation's history with remarkable good grace and good cheer. A sharp rise in taxes was absolutely necessary for the maintenance of economic stability.

But even after these record collections there remained the giant sum of ¹³⁷~~120~~ billion dollars, expended during the last three years, that had to be raised through some other means than taxation.

This money had to be raised by borrowing. It would have been relatively easy, of course, to raise it by borrowing from the banks. But in order to avoid inflation, it was essential that a ^{major}~~large~~ part of the increased debt be borrowed outside of the banking system -- that is from the general public.

In selecting the Serie E Bonds as our primary vehicle for mass borrowing, we had in mind first of all the protection of the interests of the small investor. ~~These Series E Bonds, non-negotiable, and now payable upon demand sixty days after issue date at any bank, were tailored to meet the needs of the average American citizen able to set aside modest savings for investment purposes.~~ (I need hardly remind this audience that by their nature they were guaranteed against fluctuations in market value and that their investment yield, if held to maturity, is 2.9 percent, the highest obtainable on any United States Government obligation.)

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The Treasury Department has considered itself a trustee for the ~~inexperienced investor~~ ^{men and woman} who purchased Government Securities primarily to help ~~his~~ ^{their} country in time of stress. Such ~~an~~ investors place ~~his~~ ^{their} faith in ~~his~~ ^{their} Government. We wanted, therefore, to protect ~~him~~ ^{them}, through a non-negotiable Bond, against the kind of liquidation which, experience shows, develops among small holders of securities in the event of a decline in market value.

After World War I, Liberty Bonds dropped in value down into the 80's, and many persons who had bought them during the War became frightened and sold them. They discovered later that their loss had been the gain of the speculators and the wealthy who then owned their Bonds and gleaned from them truly handsome dividends on the safest security in the world. It is not unnatural that they should have felt that their trust in their Government had been betrayed.

The Series E Bonds have another virtue which will be of benefit not only to those who have purchased them but to the entire national economy. When the war is over they will provide an invaluable backlog of purchasing power.

I don't think that these Bonds are going to be redeemed in a sudden deluge immediately after V-Day. On the contrary,

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I feel confident that most of those who bought them will make every effort to hold them to maturity. But possession of the Bonds will give to these people a sense of security about the future which will permit them to spend their current incomes more freely than would otherwise be possible. We shall find this purchasing power immensely helpful during the reconversion period. It will prove, I am certain, a vital asset in warding off the sort of deflation which struck this nation so disastrously in 1920 and 1921 when we turned from War to peace production.

Our fiscal policy of siphoning off excess buying power by taxing and borrowing from the general public has been one of two buttresses supporting the structure of economic stabilization. The other buttress, of course, has consisted of direct controls including rationing, price ceilings, allocations, etc.

During this war the country has devoted twice as large a proportion of its resources to war purposes as in World War I. In consequence, inflationary pressures have been very much greater. The fact is, however, that prices have been held under much closer control. Based on actual studies of price changes in World War I as compared with World War II, the savings to the Government, as a result of more effective control of

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inflationary pressures, has already amounted, by June 30 of this year, to 70 billion dollars.

But the greatest and most important saving has been that among the people themselves. In the course of this war there has been comparatively little of the reckless kind of silk shirt buying that took place as a result of inflated pay envelopes during World War I. There has been very little recourse to black markets. Instead, people have used their incomes, in considerable measure, to pay off their debts. Since the beginning of 1942, for example, farm mortgages have been reduced 15 percent. It is fair to say, I think, that the War Bond program, by its encouragement of thrift, has contributed significantly to this sensible restraint in the expenditure of surplus income.

Of course, there have been other benefits of economic stabilization, too. The success of this policy has aided in preventing the piling up of excessive profits by fortunate business concerns, has helped to reduce industrial disputes to a minimum -- and here I refer you to the factual record rather than the headlines -- has prevented the impoverishment of recipients of fixed incomes including soldiers' dependents; and probably most important of all, it has averted what otherwise

would have been almost a certainty, the likelihood of a post-war depression.

I have discussed the problems of War Finance and economic stabilization in such detail because I feel that you have been and must continue to be vital partners in their solution. The record so far is one of which we can all be proud. It has been good in its accomplishments, perhaps even better in the fine cooperation which made these accomplishments possible. If this same tireless, unselfish cooperation is applied to the problems of the post-war world, we need have no fear of the future.

But the kind of post-war world which we desire must still be hacked from the enemy on the fields of battle. The time has not yet come for us to indulge in day dreaming or celebration. I am not going to offer any predictions about the end of the war in Europe. I should like to remind you, however, that much more competent military authorities than I have declared that even after the European war is won it will take us at least a year and a half to subdue our enemy in the far East. The war that faces us there is bound to be a long and tough and costly one -- in certain respects more costly than the war against Germany.

~~(The Japanese have the asset of interior lines of~~

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~~communication. In order to crack these we shall have to move men and supplies across the tremendous distances of the Pacific. We can afford no let down in our production of ships and planes and munitions until the Eastern end of the Axis has been beaten into unconditional surrender.)~~

Let me remind you, too, that war expenditures do not stop abruptly with enemy capitulation. During the first six months following the Armistice in World War I, expenditures were slightly greater than during the six months preceding the Armistice. Completed and partially completed products must be paid for. Enemy countries must be occupied. Some relief for Allied Nations will certainly be necessary. The Armed Forces must be brought home and demobilized and, in the meantime, they must be paid and clothed and fed. I am sure that no American will want to fail in these responsibilities. They are costs that must be met if we are to make our victory complete and real. And like the costs of the war itself they must be met in such a way as to preserve and promote the stability of our economy.

The Sixth War Loan campaign, immediately ahead of us, is one essential step in the performance of this job. ~~(Frankly, I think there is no doubt at all that we shall have to have a seventh loan before we can think of getting back to normal.)~~

Your job is to ~~make the people of America understand this~~ ^{to} overcome any disposition among ^{the American people} them to relax before final victory has been achieved.

I know that you will do this job as you have done the job in the past. The success of the War Bond program up to the present time has been your handiwork. It has been brought about because you tackled it with fervor and resourcefulness and devotion. I know that you have done your job only at real sacrifice of time and comfort and self-interest. And I know also that the only reward that you have sought for your services has been the knowledge that you have played an indispensable part in the nation's progress to victory. I convey to you the very warm thanks of the Treasury Department, And I know that the work which you have done commands the gratitude of all of your fellow Americans.

I - Atlantic City

10-5-44
War Finance Speech
Sec. Morgenthau

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*Draft from which reading copy
was made.*

10-6-44

You may not be aware of it but this meeting today is a kind of birthday celebration -- a very important birthday in my calendar. Just about ten years ago the first United States Savings Bonds -- they used to be called Baby Bonds in those days -- were sold to the American public. And in just a few months -- next March to be precise -- the oldest of these Bonds will reach its maturity and be presented to the Treasury of the United States for redemption.

A birthday is a family affair. And I am especially happy to be able to celebrate this birthday with members of the immediate family that made savings bonds the most popular and most widely held form of investment ever conceived in the United States. I think you can be very proud of your adopted child. When the history of this war comes to be written I ^{believe} think, indeed, that the savings bond program will have a highly honored place in it and that the job which you have done so generously and so effectively will be recorded as one of the major contributions to our victory.

I should like to go back with you for a few minutes to those early days, a decade ago, when War Bonds were Baby Bonds. They were conceived then with a very definite purpose in view. That purpose was, in a phrase, to democratize public finance in the United States.

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We in the Treasury wanted to give every American a direct personal stake in the maintenance of sound Federal finances. (~~We wanted to bring the Treasury into direct contact with all the banks of the country. The public debt, we felt, should go through something of the same sort of mutualization that had enriched and expanded the life insurance industry in this country.~~) Every man and woman who owned a Government Bond, we believed, would serve as a bulwark against the constant threats to Uncle Sam's pocketbook from pressure blocs and special interest groups. In short, we wanted the ownership of America to be in the hands of the American people.

We had made only a start in this direction, you will remember, when war broke out in Europe and threatened the security of the United States. But the foundation had been laid for real popular participation in an American preparedness program. Savings Bonds became known as Defense Bonds. And, as you all know, they played an important part in making the Nation ready for the great crisis which came upon us at the end of 1941. They served not only as a vital factor in financing the rearmament of our fighting forces but, what seems to me even more important, they gave to the average citizen a sense of the war's meaning and of the urgent nature of the national danger.

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When the enemy struck, the machinery was ready and in operation for the people's financing of the war. Defense Bonds became War Bonds and through your efforts they have been put into the hands of eighty-five million individual Americans. I congratulate you on the accomplishment. Think of it! Out of every thirteen men, women, children and babies in the United States, more than eight have purchased Bonds of their Government. Today there are approximately 23 billion dollars of Series E Bonds -- the people's Bond -- outstanding, all held by individual investors.

This Series E Bond was tailored specifically to meet the need of the average American citizen able to set aside modest savings for investment purposes. As all of you know, it is non-negotiable and through arrangements which have recently been inaugurated, it is payable on demand 60 days after issue date, at any bank. Its investment yield if held to maturity, ~~is~~ 2.9%, ~~and~~ is the highest obtainable ^{on} in any United States Government security.

We designed this security in order to protect the small investor against any possibility of loss as a result of fluctuations in market value. Non-negotiable securities with guaranteed redemption values are not subject to panicky liquidation which, experience shows, develops among small

holders of marketable securities in the event of decline in market value. In short, they are more likely to be retained as investments.

It is worth while to recall the experience following World War I when Liberty Bonds plunged down into the eighties, and frightened buyers, inexperienced as investors, unloaded. They felt that their trust in their Government had been betrayed. Later they awoke to find that their loss had been the gain of the speculators and the wealthy who then owned their Bonds at prices that brought them truly handsome yields ^{on} in the safest securities in the world.

The Series E War Bonds will have an immense value, I believe, not only for the individual holders, but for the economy of the country as a whole when the war is ended. They will constitute an invaluable back log of purchasing power in the post-war decade. Only a part, and I believe the smaller part of this purchasing power will come from cashing the Bonds themselves. The most important part will come from the greater spending of current incomes growing out of the sense of security afforded to individuals by their War Bond holdings. They will provide, therefore, a strong bulwark against the sort of deflation which struck this nation so disastrously in 1920 and 1921.

There is one aspect of the War Bond program in which I take particular pride and upon which I want to offer my warm congratulations to you. ^{Throughout, the} ~~Every phase of this~~ program has been conducted on a genuinely voluntary, democratic basis. From the beginning, we were resolved to avoid certain high-pressure sales tactics which, unavoidably, attended the fund-raising of World War I. It was determined that there should be no compulsion, no hysteria, no slacker lists and no invidious comparisons between those who bought Bonds and those who did not. There was to be room in this program for the individual with special burdens and responsibilities who could contribute only in very small amounts -- and even for the individual who could not share at all. I think you know, and the whole Nation knows, how scrupulously this policy has been observed.

There was a good reason for it. In the early days of 1941, when I first asked Congress for authorization to borrow from the general public through a Defense Savings Bond campaign, I said this: "There exists in the country today an overwhelming desire on the part of nearly every man, woman and child to make some direct and tangible contribution to the national defense. We ought to give them a sense of personal participation beyond that which comes from doing their daily job faithfully and well. Every day, letters come to me from people who ask, 'What can I

do to help?' Our plan to offer securities attractive to all classes of investors is an attempt to answer this question. I can think of no other single way in which so many people can become partners of their Government in facing this emergency. It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale."

The desire of the people "to help," the sense of participation in the national cause, could never have been realized except through a voluntary program. You will recall, of course, the clamor that arose for forced or compulsory savings. There were many who declared that only in this way could the stupendous sums needed for victory be raised. There were times, indeed, when those of us who had faith in voluntary methods seemed lonely voices crying in the wilderness. But there was one voice that never failed to support us -- the voice of the President of the United States. He believed always that the people would respond to any call that was made upon them. He knew that the enlistment of their support could be best attained through a voluntary program adapted to the democratic pattern of American life.

But a voluntary program could succeed, of course, only through the efforts of volunteer workers. We in the Treasury could fulfill only the functions of a general staff. The real

battle had to be fought and won in the field -- fought and won by sustained, unstinting, tireless service. You have given that service. You have given it with a resourcefulness and enthusiasm and good cheer that have overridden every difficulty. You have given it at real sacrifice of time and comfort and self-interest. I think that the job that you have done is beyond my praise. I know that the richest reward you can receive for it is the knowledge that it has been done supremely well, that it has played an indispensable part in our forward march to victory. Still, I should like, on behalf of the Treasury Department to say one simple word to you -- Thanks. I shall venture nothing more than this. But I know that this one word is echoed, and will be reechoed, by every one of your fellow-Americans.

When you enlisted in this program, you enlisted for the duration. The term of your service has not yet reached its end. The truth is that the toughest part of your job still lies ahead.

Let us look at the future realistically. The war news of late has been extremely good. The enemy in Europe is on the run. How soon he will collapse, none of us can tell. But even when that great day comes, there will still be a hard and costly victory to be won in Asia. Our military and naval authorities made the grim assertion just recently that it will take us at

least a year and a half to defeat Japan after Germany is beaten. And we shall be able to do it in that time only if we put every bit of our strength into the effort. The enemy has short, interior lines of communication, while we must move men and materials across the vast distances of the Pacific before we can bring our power to bear. The costs of this kind of warfare will certainly be very high, higher even than they were in Europe.

You cannot rest on your laurels. The Sixth War Loan campaign lies immediately ahead. Its challenge must be confronted just as resolutely as in the past. And I tell you frankly that even on the most optimistic assumption there will have to be a Seventh Loan. Your job is to make the people of America understand that there can be no let-down on the Home Front now, that the time has not yet come to relax or celebrate. I know that America can count upon you to see your job through to its end.

October 6, 1944
10:49 a.m.

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HMJr: Hello.

Operator: General Somervell.

HMJr: Hello.

General Somervell: Yes, sir.

HMJr: I hope you didn't have indigestion.

S: (Laughs) No, sir.

HMJr: Well, neither did I. Look, General, I just arranged for Dr. Kung to come over at 11:30.

S: Oh - oh.

HMJr: Well, I realize it would be difficult but on second thought, as long as he's going to confine himself to the question of rates, I think it might be just as well not to have you here so that if necessary I can say, "Well, I've got to consult the Army." You see.

S: All right, sir.

HMJr: And then if we don't get anywhere I can always say, "Well, I'll have to take it up with the Army."

S: All right, sir. We'll be ready any time after lunch.

HMJr: Well, you see I -- we have Cabinet. That's my trouble.

S: Sir?

HMJr: I'm supposed to go to Cabinet.

S: Oh, yes, of course.

HMJr: And -- but I don't think we're going to get anywhere this morning because I'm not going to give in.

S: I see.

HMJr: And -- at least that's the way I feel now
anyway.

S: All right, sir.

HMJr: I may have to but right now I don't want to.

S: All right.

HMJr: But I'll -- I'll have White keep you or Clay
informed.

S: All right, sir. Fine.

HMJr: Thank you.

S: We'll be ready any time after lunch.

HMJr: I thank you.

S: All right, sir.

October 6, 1944
11:25 a.m.

RE: LOAN TO CHINA

Present: Dr. White
Mr. Adler

DR. WHITE: The Army has given me information that substantiates the whole business.

H.M.JR: Whom were you talking to?

DR. WHITE: Colonel Foster, who is in charge of the accounting. Adler has been after him to get the revised figures of the bill. He has been calling them up every day; they have been promising them, and I just called them up to make sure. They finally have them in rough totals and the figure which they say--this is the airfields. That is the figure you use. They say that includes about three billion dollars of Chinese taxes which they haven't the slightest intention of paying.

(Dr. White hands Secretary attached statement of Chinese expenditures)

Secondly, they said that that figure of twelve point three, which they are reducing to a little below ten, because it was thirteen minus something, also includes this four point four. That is something new. We don't think they can be right, but we have to iron that out first.

In any case, if we don't think it includes these Chengtu airfields, which were the fields which they had built and turned over and the Army says they won't pay for them--they were built before we ever got there--if you still keep to the same offer which you made, which was a hundred million dollars in settlement of this item one, because item two they were going to give in Lend Lease in Reverse, although we offered to pay for it. But they insist. If you stick to your hundred million, which is in addition to twenty-five million, which would mean 125

million in payment for that figure at the rate of a hundred to one; if, instead of twelve point three, it is something like ten or nine, the rate would be closer to the seventy-five or eighty.

So the first thing before any discussion takes place, we have to settle these.

H.M.JR: Who is a good person to start this discussion?

DR. WHITE: I'll tell them we have some more recent figures from the Army which we need to clear up with the Chinese and them, because without it you are in no position to know what the discussion is; because if you want to stick to your figure then he has what he wants and he can run home.

H.M.JR: I don't understand why, if they give us less it reduces the rate.

DR. WHITE: Because we are giving them the same money for less yuan. So we are giving them a much more favorable rate if you want to stick to your offer, and I think that is probably the way to approach it. But before you know how much more favorable rates you are giving, we have to know the net sum, and that is something I think you don't need to get into but we have to iron out with the Chinese and the Army as to what the yuan bill is before you determine how much you want to give them for it.

H.M.JR: So it can't be settled--he can go up to New York and have his operation.

DR. WHITE: Not unless he wants to spend the day at it and go over to the Army and iron it out. But from the way he talked over the phone, he has to go back to China, don't you think?

MR. ADLER: Kung?

DR. WHITE: No, Foster.

MR. ADLER: I think Foster's picture is not very satisfactory.

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DR. WHITE: That is an understatement!

MR. ADLER: The picture he has is not very satisfactory.

H.M.JR: You mean he can't hold up?

MR. ADLER: He is not very clear as to its content.

H.M.JR: Why did you suddenly just find this out?

DR. WHITE: When did they first let you know the revised figure?

MR. ADLER: I called Foster around last Friday or Saturday, and he said they had had some news by radio from Chungking, and he promised to let me have it as soon as possible. He said, "If you want it right away, that means my working on Sunday." I said I wanted it as soon as possible. Then I kept on phoning him during the week. Wednesday he told me he would let me have it yesterday, and it still hasn't come through.

DR. WHITE: That figure of four, four billion is being included in the twelve. It is something wholly new in our discussions which have been going on for months. And the Army has done a terrible job on this.

H.M.JR: Just make a note of this, Adler. I told Somervell we'd let him or Clay know the result of this morning's conference. White or you should let Somervell's office know.

DR. WHITE: The impression they gave me was quite the opposite, that the figure of twelve billion was much less and it really was eighteen billion. How you can make differences on estimates of that magnitude is an absurd performance.

MR. ADLER: I think one thing is that the Chinese have advanced money and not always told our Army about it through their Engineering Commission. That is a possibility. The way the money has been disposed of has not always been too satisfactory.

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H.M.JR: Well, we had better get something in writing from the Army. After all, I don't know what four billion yuan amounts to in dollars, but it sounds like a lot of money.

DR. WHITE: We have these figures in writing from them. When they raised this question of the four billion for the airfields which were ready and had been built before the United States Army came, the Army, of course, insisted they were not going to pay. Adler mentions that Kung did not press the point at all.

H.M.JR: Adler, was anybody there from White's shop besides you in those talks?

MR. ADLER: I was there.

H.M.JR: I couldn't remember. You seem like two people!

DR. WHITE: You may not know it, but they are going to write a book for you on this German thing. It is Dubois' brainstorm. He first convinced Lux, then they convinced me that the only way to meet this issue is to write a short book, presenting the plan and the defense and answering the critics. Then after we get through at that level, you will turn it over to somebody who can put it in a form which will be popular and issue it either right when the defeat is assured, or whatever time will be most propitious.

H.M.JR: You amuse me, because this has been my trouble all week--I have had to do the fourteen billion dollar financing and everything. All through this thing it is the only thing I have been thinking about--this German thing.

DR. WHITE: I am sorry you didn't listen last night. Lux and Dubois did. They thought it was splendid.

MRS. KLOTZ: I wouldn't have listened had you not told me about it.

H.M.JR: Do you suppose the Chinese know this thing we are going to tell them, or not?

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DR. WHITE: I gathered from Chi, the fellow who came to see me, he thought it was much more money.

MR. ADLER: They have the impression it is much more.

DR. WHITE: He will be happy if it is less. He doesn't care what the amount is.

H.M.JR: Can you indicate to them that if it is less the rate would be seventy-five?

DR. WHITE: If the rate is more--

H.M.JR: But that this would drop it to seventy-five?

DR. WHITE: Yes, that would make them very happy. He doesn't care how much money he gets. He claims that the Generalissimo only understands one thing, what is the rate.

SECRET

STATEMENT OF U. S. EXPENDITURES IN CHINA
Chinese account against the United States - CN\$ (In millions)

Month	Operational constructional cost finance through Chinese agencies.	Non-operational construction, including operations and maintenance finance through Army Finance Officers.
January	Note 1.	Note 1.
February	Note 1.	1,000
March	1,743	1,000
April	2,993	300
May	2,380	1,000
June	<u>2,020</u>	<u>600</u>
Total advanced under agreement	CN\$9,136*	CN\$3,900*
Chengtu prior to March 1.	860	
Note 1.	CN\$9,996	CN\$3,900
Total column 1.		<u>9,996</u>
Grand gross total of debt recognized by U.S.		CN\$13,896 Note 2.

In letter to Secretary of War dated April 19, Dr. Kung claims to have paid out of the Treasury the following amounts in addition to those reported above: In answer to this General Stilwell states that all of these charges are properly payable by the Chinese in accordance with our agreement of August 11, 1942.

Airfields	8.018
Barracks for composite wing	0.355
WASC for food and quarters	1.483
Transport U.S. Air Force supplies	0.404
Improvements in roads at our request	<u>0.615</u>
Total	10.875

ESTIMATED EXPENDITURES FOR JULY, AUGUST AND SEPTEMBER, 1944.

Month	Chinese Agencies	Finance Officers
July	445,000,000	1,500,000,000
August	1,699,500,000	1,500,000,000
September	<u>1,162,500,000</u>	<u>1,600,000,000</u>
Total	3,307,000,000	4,600,000,000

Remarks

- Note 1. The U. S. agreed to finance the Chengtu Project, as enlarged. The Chinese claim to have expended CN\$860,000 prior to March 1st. Subsequent to March 1st all expenses of the enlarged Chengtu Project were paid for under the agreement and are shown in this statement. (See radio CPBX 21031 August 11 from Chungking and CRA 1903, April 23).
- Note 2. The total shown is the gross amounts advanced by the Chinese since Feb. 1, 1944 to June 30, 1944 and is not necessarily the amounts actually used for the benefit of the U.S. Under the agreement with the Chinese they were to furnish reports of actual obligations incurred by their agencies against amounts advanced to them at our request. This they have failed to do and therefore our only source of information on such expenditures is from our Engineers on the spot. See statement of credits due the U.S. on this account.
- Note 3. As an offset against the above gross of CN\$13,896,000,000 the following U.S. credits should be considered:
1. Taxes paid prior to Mar 1, 1944 at 20 to 1 80,000,000
 2. Taxes on funds advanced through U.S. Fin. Off. 663,000,000
 3. ^{cost of} Overhead and roads etc. not chargeable to U. S., advanced through Chinese agencies 1,448,000,000
 4. Est. cost Chengtu to June 30 4,464,000,000
 5. Credit for U. S. construction after war
 6. Since 1st practically all motor, alcohol and gas used in Chinese trucks supplying U.S. forces purchased by U.S. yet we pay regular rates for trans. by trucks.
- Note: The credits for taxes paid are estimates only.

SECRET

Regraded Unclassified

October 6, 1944
12:00 -m

CHINESE LOAN NEGOTIATIONS

Present: Mr. White
 Mr. Adler
 Dr. K'ung
 Mr. Soong
 Mr. Hsi Te-mou
 Dr. Chi
 Mr. Koo

H.M.JR: Doctor K'ung, since talking to you last night, through Mr. White and Mr. Adler, we have been in touch with the Army, and only this morning we have some new information which we have never had before. I would like either Mr. White or Mr. Adler to give it to you.

MR. WHITE: They told it to me over the phone, so I will indicate what it was. The Accounting Department has received some further reports from the Army forces in China, and they inform us that the figures which had been submitted tentatively of the expenditures to the end of June include some items which should not have been included, and there are some errors in other items, so you have a very substantial change in the amount of yuan which was supposed to have been expended.

We asked them to send us over some details in writing, but they just got this information. It would change these figures that have been the basis of discussion greatly.

DR. K'UNG: More or less?

MR. WHITE: They included some items which should not have been included so that it would be substantially less.

DR. K'UNG: That is funny, that you have an Accounting Department that should make mistakes like that.

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MR. WHITE: I don't know whether we made them or the Chinese authorities made them. I can't tell without seeing the report.

DR. K'UNG: Your Accounting Department doesn't take our figures. Our figures do not agree with your figures. Therefore, that is why I told the Secretary just against a lump that is very unsatisfactory, because I was afraid something like that would happen.

Now, from the beginning it was a question of rate. Our official rate was one to twenty, and because of the increase in price of the American dollar, we are not able to buy as much. Therefore, you have either to increase your appropriation, or you have to get more Chinese currency for your currency. That was the reason you asked us to change the rate, because according to your representative there, you are spending too much money in China, according to that statement, yet you were only spending twenty-five million dollars a month for the American war effort in China.

After the President signified the proposition, the Generalissimo laid before him that the American Government was to pay everything in China. Now, of course, that is clear. But the question is, what was the rate. General Somervell and General Clay were there a year ago November or December. At that time the black market rate was one to eighty. Since they came to China it leaked out that the American Government was asking for a higher rate than the speculators, and the general public got hold of the idea. They know that the Chinese Government always yields to the wishes of the American Government. And then they saw that Chinese currency was depreciating. They saw that they could make use of that information, so they got hold of American dollars and bought and bought, thinking it would be a hundred or two hundred. That started the confusion of the black market.

Then your men came. They said, "Well, the black market is so much, and, therefore, you shall give us at least as much." At that time I think the market wanted one to eighty. That was before this confusion.

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After negotiations in which the Governments were concerned, the Chinese Government decided at the time to grant one to one. Your missionaries--you have philanthropic workers in China--that money you spend in China is an American contribution.

Now, because of the high cost of living, they could not support their work, and they came to me, and I talked with my Government. Finally the Government prepared to make a contribution of twenty dollars, that is, each American dollar sent to China for such work--they would get twenty dollars for each American dollar. The Chinese Government will give those organizations another twenty dollars.

Well, at that time the Chinese contributed money back to China; they were only getting one to twenty dollars. And we said that because this was a common war and we were to make a contribution, we made a proposal that we would give fifty percent as a subsidy for the American expenses. That was presented in a document to Gauss when he called with George Atcheson and, I think, Mr. Adler also was present. That was the document Mr. Adler brought up to the Secretary when we had the conference at Bretton Woods, saying that the American Government didn't accept the thirty dollars, that is, the twenty dollar official rate and plus ten dollars.

Now, from the telegram that Marshall sent to Stilwell, which was presented to their Government, Marshall said the American Government would pay for what was spent in China, that is, what the American Government spent in China, but the question was the rate. Now, this is really the crucial point, whether you say it is a lump sum, whether you say a certain amount of American dollars against present Chinese dollars--eventually you have to base it on something. And I might say at this juncture that I have taken a very heavy responsibility from March 1 on. The American Government would look after itself, pay its expenses; the Chinese Government was not to pay anything. Therefore, the Chinese Government Treasury cannot draw money off for that purpose. We have at least two organizations to check over the means of finance. As a means of finance, I cannot sign a paper,

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or a pay order other than the budget, and even if it is the budget, it must be countersigned. If that is not done, the administrative order for payment is not honored by the Treasury; and if I violate that law, I am liable to be in prison for fifty years.

Well, I want to have the American Government do what I came here for, so I make notes, an advancement on the Central Bank, and I ordered the Central Bank to advance money to the American Military Commission. Now, you see out of these two conferences, one with the Government Treasurer, and one with the bank--now, you just brought up--you say the amount was wrong because now you find there was something mistaken. Well, anyway, if that amount is wrong, if you are going to try to settle a lump against a lump, then that is another matter. That is not very scientific.

So the best way would be for you to say how much you want us to subsidize. You are spending money in China. You have to set American dollars against Chinese currency. At the present rate it is one to twenty. We not only buy at that rate, we sell at that rate, and there are reasons. I received a letter from Secretary Morgenthau on September 20 and I wrote him an answer on the 22nd, four long pages. I thought maybe to send the letter to him would just give him a headache, so I just saved it until I saw him. If you want that information, I will send a copy later to you for your file.

But now the question finally comes down to the final analysis, the rate. We cannot change the rate, and you say our rate is too low. All right, now how much do you want us to subsidize? At the present time we are giving one to one for the philanthropic cause, and other causes, and we offer you thirty; but you say you will not accept it. Now, is forty acceptable? Is fifty acceptable? If I should say sixty, that means you only pay one-third, and we pay two-thirds. At the time when Clay and Somervell were there, they wanted eighty. At that rate you would pay one-fourth, and we pay three-fourths. That would be something!

You have given Lend-Lease; and you want to have reversal Lend-Lease. Then we can make a contribution. I think it

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would be easy for the Secretary, for the Senate, the President, and the public to know that China has done its share. I think without going into all the details, the point is, how much you are willing to pay and how much you want us to pay. Then after we fix that, you can ask your Army to find out how much the American Army did borrow from the bank or from the Treasury. Then we will settle the account accordingly.

Also, you say this war may take a little longer time and you will be wanting money in China, sometimes maybe more, sometimes maybe less.

MR. WHITE: Could I comment?

H.M.JR: I wish you would, yes.

MR. WHITE: Mr. Minister, much of what you say, of course, we are in agreement with, but in an attempt to make what is a reasonable settlement of the past expenditures, which was the basis for discussion at Bretton Woods, one of the essential factors in the discussions when the Secretary said he would pay one hundred million--you knew what that hundred million was. That was money that you would get. That was one side of the understanding. There was no question about that. There was no question as to the fact. Now the question is, what was that hundred million dollars being given in payment of? The bill that was submitted was--the item on airfields and roads was twelve billion point three yuan.

DR. K'UNG: Twelve point one.

MR. WHITE: Now, the question is, the discussions were based on that figure. We assumed that that figure was the one that your Government submitted. We now have information that that figure included two very large items, one of taxes to the Government which amounted to several billion yuan.

DR. K'UNG: Taxes to the Government! How do you mean?

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MR. WHITE: That the Chinese Government paid taxes and then charged us with it.

MR. K'UNG: The Government paid taxes to the Government?

MR. WHITE: That is what they tell us.

DR. K'UNG: You are a Treasury man; you cannot believe that.

MR. WHITE: Mr. Minister, let me say why I think the conversation couldn't go on fruitfully until we both are clear as to the facts. The second item which apparently those twelve billion dollars included--we are informed; we have no other information than that; we were just informed today; it may be right or wrong, but we have no way of knowing this morning; we have asked at once for the report--was that it included the four billion point four million yuan for the Chengtu Airfields which were built.

MR. ADLER: No, other airfields.

MR. WHITE: Other airfields which were ready at the time the American Army came in, which had been built in the past.

Now, we assumed from your figures which you submitted to us, and which we had, that that four billion was outside of the twelve. They now tell us it is inside. So there are two figures, one about three billion; the other about four billion. That is seven billion yuan which they say the twelve billion figure includes.

Now, clearly, Mr. Minister, before any kind of a reasonable answer can be given to your very excellent presentation, the Secretary has to know whether that figure is twelve billion or six.

DR. K'UNG: I have four men here who represent the industry and also the Central Bank. I did not bother with the figures myself.

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MR. WHITE: Neither did the Secretary bother with the details.

H.M.JR: I have to rely on the Army. The Treasury has no accountants in China.

DR. K'UNG: That is the very reason they just say a lump.

MR. WHITE: That is all right if there is a difference of a couple of hundred million yuan or even a little more. But when there is a difference of six billion!

DR. K'UNG: Yes, I wouldn't doubt Mr. Morgenthau, because he said twelve billion when Clay was there. If the accounting is wrong--

MR. WHITE: You say a hundred plus the twenty-five?

DR. K'UNG: Yes.

H.M.JR: It was one hundred and twenty-five million, of which we have already paid twenty-five.

MR. WHITE: I see.

H.M.JR: Twenty-five million is still a little money.

DR. K'UNG: Oh, yes! Well, all right, now let us just come to an agreement on how much you are willing to pay and how much you want us to pay. Now, they say from the very beginning you are talking about a cash rate, an exchange rate. My Government wasn't willing to admit the rate, but now you order a settlement.

All right, I accept your first wish and your request of a rate. Let us come to a rate. Then if the rate is fixed, our accounts could be rechecked, and then we could settle it.

H.M.JR: Doctor K'ung, I don't blame you for being confused, because it has taken so long and there are so many different U.S. Government agencies in it. But Adler

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can check my memory because he was present, and White had plenty of other things to do at Bretton Woods. As I remember the thing, from the time I got into it and talked to you, I have been talking U. S. dollars, and I have not been talking about a rate. I think I am correct that the Chinese Government has been talking about a rate. You please correct me if I am wrong.

I said, "We will talk dollars; this rate is too difficult for us," and, therefore I made the offer of one hundred and twenty-five million dollars on a U. S. dollar basis, and not on the rate basis. Is that correct?

MR. ADLER: Yes, sir.

DR. K'UNG: No, I think that is wrong, because Marshall wired it was a rate.

MR. ADLER: Excuse me. The Secretary is referring to the discussions at Bretton Woods. He is not referring to what General Marshall said.

DR. K'UNG: Your Government wanted a rate; we didn't want a rate. Knowing that we cannot change the rate, he said, therefore, "We cannot change the rate, so let us pay you a lump sum. The American Government will contribute a lump sum, and the Chinese Government will--"

MR. ADLER: There is no inconsistency. You are referring to the period prior to the Bretton Woods Conference.

DR. K'UNG: Mr. Morgenthau, from the very beginning they talk about a rate.

MR. ADLER: No, the Secretary was describing his own offer at Bretton Woods, which did not cover this.

DR. K'UNG: But Doctor White just said that although we didn't discuss rates, yet there is the rate.

MR. WHITE: If it is true--if it was six billion instead of twelve, we never would have offered one hundred and twenty-five million.

DR. K'UNG: That lump sum was offered in consideration of so many Chinese dollars and so many American dollars.

H.M.JR: Yes, but if the Army at this very late date-- it is very unfortunate they are so late--if they should be correct and could show that there is only half as much yuan expended in our behalf as we originally thought, it changes the whole picture. But again, Adler, I want to check--didn't we during this discussion--was there something the President said about the one hundred and twenty-five million a month?

MR. WHITE: I know about that.

H.M.JR: Wasn't it at that time that Doctor K'ung kept stressing what the President said? Wasn't there a cable or something.

MR. ADLER: There was an offer of twenty-five million a month.

DR. K'UNG: Outside of the special expenses such as building the airports.

H.M.JR: What I am trying to get at is--I am trying to do my homework--I have nothing to hide, but didn't the whole discussion spring from that cable?

MR. ADLER: Yes.

H.M.JR: And then I have stuck to that, haven't I?

MR. WHITE: I think the Minister is correct in saying the earlier discussions were all on the basis of a rate, that the question was on what would be a reasonable rate, about which there was no agreement. Then in the latter part of the discussions, as you specified, because of the difficulty of arriving at an agreement on the rate, we said, "Let us approach it differently. Let us approach it as a lump payment." That happened before Bretton Woods, and when the Secretary considered it at Bretton Woods, it was a question of how much of a lump payment and getting away from the question of rate, because it was discussed so long that they felt there was no agreement.

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MR. KOO: That has never been our stand. It was first proposed by Ed Acheson.

MR. WHITE: That is true, because that is what we discussed at this end and sent to Acheson, that if you couldn't arrive at a rate, then instead of continually withholding money, let's agree on an aggregate, and the President had indicated he wanted about twenty-five million dollars a month, and that is what the Secretary is referring to.

That is where my authority for making this offering springs, from this cable in January.

DR. CHI: January 8.

H.M.JR: I think ever since I have taken part in this discussion I have been consistent, and I have been talking about so many dollars per month. And as far as I know, I don't know anybody else that has ever been authorized to make an offer to the Chinese Government other than the one that I made. And the only difference now is that, as I say, it is a very unfortunate thing that these Army people now suddenly come through and question the correctness of the twelve billion yuan. And until they can give me a correct statement, I have just got to wait. Adler has been calling them at least once a day for how long?

MR. ADLER: Since last Saturday.

H.M.JR: He has been trying to get them to give us the correct information. I realize that on the face of it it looks peculiar, but if I had my own Treasury people-- I always balance my books every night, and publish it in the paper the next morning, so at least the people know where the Treasury is.

DR. K'UNG: Your military mission has made a mistake, because you have several people to take care of that, and Clay was in the conference. He had the figure.

DR. CHI: In fact, the twelve point one billion figure was Clay's figure, not ours. We never offered any figures.

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MR. WHITE: All we can say is that we are just as surprised as you are.

H.M.JR: And embarrassed.

MR. SOONG: I remember very vividly that during the Bretton Woods Conference, Mr. Secretary, you at the time offered a lump sum. That was understood, and what Doctor K'ung was saying, that Doctor White is at present saying, is this, that now the face of the whole thing seems changed because the amount submitted at one time and the amount not stated are quite different. Therefore, Doctor K'ung says that you, Mr. Secretary, then offered a lump sum, although you did not specify the rate, but there is a foundation of a rate behind it.

MR. WHITE: It is easy enough to figure what it was, it was about a hundred to one; it was one hundred and twenty-five million dollars for twelve point three, or twelve point one billion yuan. It is easy enough to calculate that the rate that was implied was about a hundred to one. If you get one hundred and twenty-five billion for twelve billion yuan--

H.M.JR: If it turns out that the Army should be right, it would be fifty to one.

DR. K'UNG: Suppose I had accepted your figure and it was settled, what would you do now?

MR. WHITE: We would have charged the Army.

H.M.JR: It is very simple. If you had accepted the figure that day, I would have drawn a check the next day, and the thing would have been finished.

DR. K'UNG: Well, the Army has a figure.

H.M.JR: I can't help it. That would be their responsibility. But whatever the mistake is, it would be the Army's.

DR. K'UNG: I think it would take some time to check this account, because in the Army they have their different

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accounts. Figures differ. The bankers have figures, and the Army has figures, and probably our figures wouldn't agree with your Army, and, therefore, if we just go on and say, "Check the account," it will take some time.

Therefore, as Doctor White just said, underneath, although no rate was mentioned yet the settlement was based one to a hundred. Now when Somervell and Clay came at that time, they hated it; they wanted one to eighty. We give them one to seventy; therefore, we cannot agree. Now they want one to one hundred, and we think that is too much. Now, what would be a fair rate? Three or four days ago they wired me to say to your General, "We want two billion dollars advanced by the bank," and he had no authority. He asked me whether the bank was going to pay it or not.

The Government was not able to pay. Therefore, your Army then would be suspended in the air, and I again said, "I am negotiating with the Secretary of the Treasury." Meanwhile, what they need should be paid. I am taking too much responsibility.

Now, one way or another some arrangements must be made according to this conversation, this figure we talked about, in Bretton Woods. For your dollar you get twenty, and you want the Chinese Government to give you eighty. Now, I am prepared to offer two; that is, every dollar you exchange for twenty, I am willing to give you forty, making sixty. Maybe, after all, when you check over your account you will find it is ten dollars. I think we could come to some arrangement like that, and then we can check the account, what is supposed to be paid by the Chinese Government and what is supposed to be paid by the American Government, because some of the expenses are paid by the Chinese Government, not all by the American Government.

And in your military expenses--it will cost us four hundred million dollars a month to feed your Army. That is entirely paid by us; we haven't charged you anything for it. That account will have to be settled. So today I say, well, I will give you sixty and you want a hundred. What is the happy medium? If we can reach a happy medium

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then we will have that understanding of accounts of what is to be paid by the Chinese Government and what is to be paid by the American Government, and how much.

MR. WHITE: You are a very good attorney, a very good arguer.

DR. K'UNG: No, I am afraid to face your Treasury people. You are really hard business politicians and diplomats.

MR. WHITE: That isn't the story we hear about it in China. You are supposed to be very tough there.

DR. K'UNG: You know, I am very easy.

MR. WHITE: When you come here?

DR. K'UNG: I am especially easy with the Secretary of the Treasury. You can ask Mr. Morgenthau.

MR. SOONG: For the amounts we spend, accounts are not kept by the Treasury, but a lot of accounts are kept by the Army. In the preliminary stage when we talked about it, nothing had been said about it. And the Minister of Finance of our country and the Treasury are coming to a conclusion. Suddenly they see where their accounts are not correct. Well, I think we have to allow something in such a large amount of money, and in these various items, these differences in account will appear from time to time as we examine the figures. They are bound to. But we certainly do not expect that the amount will come to so much as about four or five billion.

I don't think that Doctor K'ung can stay forever in this country, but he has a lot of duties to perform, and it is no secret with us that he is going back to the hospital.

MR. WHITE: Possibly before you give any answer, Mr. Secretary, we should have a few more hours to go over their report. He says he is sending it over. You might want to look it over.

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H.M.JR: You say Doctor K'ung is going to the hospital for a month?

DR. K'UNG: My Government is calling me back. The Doctor told me to go to the hospital. I reported to my Government. I don't know what my Government will say, whether I should take the time to go to the hospital or not.

H.M.JR: If he is going to the hospital for a month--

MR. SOONG: He has spent his month already.

H.M.JR: There is a hard-hearted man, he won't give you a month to go to the hospital.

MR. SOONG: He has spent it already.

MR. WHITE: You mean, you don't think he needs the operation?

MR. SOONG: Not that, but he has over-stayed his vacation already.

DR. K'UNG: Vacation!

MR. SOONG: Excuse me, sir.

H.M.JR: I will put it the other way: After this very hard time Doctor K'ung has had, I think he should go to a good American hospital and have his operation. It will be a good investment for the Chinese Government. After seven years of all he has done for the Chinese Government he is entitled to go to a hospital for a month.

DR. K'UNG: I was sick when they started this war.

H.M.JR: You ought to go to the hospital and have your operation. It will be a good investment for the Chinese Government. After all, seven long years!

DR. CHI: I think Doctor K'ung will be able to have real peace of mind in the hospital if we settle this today.

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H.M.JR: I remember very well the time Mr. Hopkins was going on the operating table and his friend called me up from Rochester, Minnesota and said, "In two hours Mr. Hopkins is going on the table, and he wants to know whether you will back him for so many million dollars for WPA. He doesn't want to go on unless you tell him." Aubrey Williams called me up.

I said, "You tell Harry I will get him his money."

MR. WHITE: In other words, the Minister will have his answer before he goes to the hospital.

H.M.JR: As far as I am concerned, he will.

DR. K'UNG: This is really a question of rate. If you have that standard, then--

H.M.JR: Doctor K'ung, I can't play numbers, you see; I don't know how to play. I see you are an expert. But let me ask you a question, because this thing can either be settled very quickly, or it might have to go on for a longer time. You could have taken our offer, and I think you would have been money ahead, but supposing that I had not changed my mind. I am not saying--right now I don't know about this one hundred and twenty-five million dollars. I don't know whether I should be authorized in view of the Army suddenly coming along and saying this wasn't twelve billion, one, it is six. I mean, I have certain responsibilities, too. Maybe they are right, and maybe they are crazy, I don't know. But certainly I have responsibilities on this thing. If one minute they say it is twelve, and the next minute they say it is six, there is quite a difference. I am not very good at this sort of thing, but you were talking here a little while ago about your saying sixty; the underlying intimation of the rate we were talking about was a hundred.

Then you said maybe we could get together. Were you implying we should split the difference?

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DR. K'UNG: All right, Mr. Secretary, as you say, I am for cooperation during the war, but you must remember this is a common war; you want to uphold China's hand to fight the Japanese. If our line is snapped, then you will realize what that means, not only to China, but to the common effort to the future peace and winning the war. I am perfectly willing to have you say anything you care to say. I will try my best to prevent my Government from accepting anything which is unreasonable.

H.M.JR: And that is what figure, the difference between sixty and a hundred? Eighty?

DR. K'UNG: All right.

H.M.JR: I haven't said all right.

MR. WHITE: You haven't said all right, but you got him to say all right. I would hate to have to do business with either of them.

DR. K'UNG: If I do business with you, I get cheated every time. You are too subtle.

H.M.JR: You don't mean you would be cheated.

DR. K'UNG: You are too subtle, too sharp. I know you wouldn't cheat me.

H.M.JR: I am not sharp, because, after all, I have a record with your Government for seven years, too, and I have not been sharp!

DR. K'UNG: You are a very good businessman.

MR. WHITE: You are talking, Mr. Secretary, about the rate before June.

H.M.JR: I was trying to find out what the Minister had in mind when he said that we may be able to get together. I just wondered if he meant what I thought he meant.

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MR. WHITE: Well, all the discussion has been about up to June 30, because the situation has changed.

DR. K'UNG: But you must remember, now, Doctor White, that some of this money was spent long before January.

H.M.JR: You mean this period covers up to the end of June.

MR. WHITE: Up to the end of June.

H.M.JR: That is right. I will tell you what you can do, Doctor K'ung. Will you relax for a couple of minutes, and we will go in Mrs. Klotz' room.

DR. K'UNG: All right, have a council of war.

(The Secretary and Treasury group adjourn to Mrs. Klotz' office for the following discussion:)

H.M.JR: How would it be if we settle for one hundred and twenty-five million, take twenty-five which we pay on the rate of eighty?

MR. ADLER: They are not the same thing.

H.M.JR: I know, but how many yuan is eighty?

MR. WHITE: If we pay them another one hundred and twenty-five million, the total of one hundred and fifty would be eighty.

H.M.JR: That is on the basis of twelve.

MR. WHITE: But if it is less than twelve, he gets less. He is interested in rate.

MR. ADLER: But he knows the Army is cockeyed.

MR. WHITE: The Army is very embarrassing. They offered him eighty a long time ago.

MR. ADLER: No, they offered him a hundred.

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MR. WHITE: Mr. Secretary, the reason I wanted to say up to June 30 is because the rate is getting worse all the time.

H.M.JR: But here is the point: If I quickly say I will take this thing, then it looks as though this thing I talked about, the Army, was a phoney.

MR. WHITE: You won't, anyway, without talking with the Army about it. I don't think they think the Army is a phoney, because I don't think they would believe any such tactics. You have never given them any basis for any such tactics, because if you were going to do that, you would have said that at Bretton Woods.

H.M.JR: Well, supposing, Sol, we stuck to the one hundred and twenty-five, and said the rate was eighty. Would we have to give them another twenty-five million?

MR. ADLER: Yes, but suppose it is much more than we get.

H.M.JR: No, but supposing we have put in the two limits and they can juggle the figures at their end.

MR. WHITE: You can say eighty, but not more than one hundred and fifty.

H.M.JR: I won't go up to a hundred and fifty.

MR. WHITE: That is twenty-five more.

H.M.JR: I am not going to do that.

MR. WHITE: You have already offered them one hundred and twenty-five. Oh, you are not going to increase it?

H.M.JR: I can say, "You have said eighty, and you can work the number of yuan down to fit the rate."

MR. WHITE: All they do--you have offered them one hundred and twenty-five, and you are standing on your offer; you are not reducing your offer. You are merely saying that you are standing on your former offer.

H.M.JR: I don't want to put it that way.

MR. WHITE: You want to put it that if it happens to be less you wouldn't lower it?

H.M.JR: Yes.

MR. WHITE: We had better find out if it is six billion. It is all right if it is two or three less, but if it is six billion, then in all of our discussions everybody knows it was on the basis of approximately a hundred to one, and if you say that, notwithstanding the fact you have received information it is half and you couldn't say the same, I think you are making a much poorer deal than you had intended.

H.M.JR: You are trying to get me to give them another twenty-five million, which Clay told me I could.

MR. WHITE: Yes, I am; that would give him the eighty rate which, of course, he is dying to get. You could see that from the start. The thing has to be looked at in the large; it is true that it is more than the money is worth, but if you take the fact that you did spend some of this when the rate was better, much better, that you were willing to offer not eighty, but they were even willing to offer sixty, because I was here, we said, "Let's not tell it to them because if we tell them to offer sixty, they will offer sixty." But we were willing to give them sixty.

H.M.JR: But should I try to settle this now?

MR. WHITE: Not this morning. Take a look at the figures, because supposing the Army is right on this six billion.

MR. ADLER: I don't believe it.

MR. WHITE: I don't either, but what right have we to contest it?

H.M.JR: All right, I will tell them we have to wait.

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MR. WHITE: But I think you could promise to give him the answer before he goes to the hospital. That is just dramatics between him and T. L.

I think we ought to find out about this; it is too much.

(The Secretary and Treasury group return to the Secretary's office.)

H.M.JR: Doctor K'ung, we are going to try this afternoon or tomorrow to get the Army to be more specific, do you see? Just as I said earlier, having thrown that in my lap, it is very embarrassing to me, and I will press them for an answer, so I will not try to hold you up.

Now, I think you want to go away feeling we have made real progress this morning. If I could only get the Army to tell me--and I will put pressure on them immediately--I would like you to go away feeling we have made progress.

DR. K'UNG: Thank you, Mr. Secretary.

H.M.JR: And I will not hold you up one minute longer than is necessary.

DR. K'UNG: Well, I am giving away something which we have held over for the last ten months; and after all, when I see you, I could get weak. I don't know how I am going to face my Government. They may put me in jail for what I have promised.

H.M.JR: Well, I know your reputation back there. They will take what you recommend. They always have.

MR. CHI: I know the history of these negotiations. I know Doctor K'ung had great difficulty in convincing the Government to agree that he would make an offer of sixty. The Government offered thirty.

H.M.JR: You see, he has the advantage of not only being a Finance Minister, he is head of the party, aren't you?

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DR. K'UNG: Well, the party has something to do with it, but you must remember that while I am the Deputy Premier, the Premier is the Generalissimo. Then he has an executive committee, or Kuomintang, and then he has the Supreme Defense Council. The people's political council wanted to examine everything concerning the budget. They think we are spending too much money, and we are giving away too much money.

H.M.JR: Well, I am going to put the Army under great pressure, but I can't, having gotten this thing this morning from Adler on the telephone, implying six or seven billion instead of twelve--in the face of that, I can't make a settlement, much as I would like to.

DR. CHI: The only thing, Mr. Secretary, is that even if you get the concrete figures from the Army, unless they can be prepared this afternoon, you won't be able to settle it anyway, because it would take a long time to check their accounts on both sides, so the best thing is to settle the rate now.

MR. WHITE: Mr. Chi, we are not talking about two hundred million, but whether there are a few big items.

H.M.JR: What I have in mind is this, I have been talking dollars right straight along. What I am going to try to do is continue to talk dollars which, if divided by the rate which we are mentioning, will come out at a figure satisfactory, then I will try to get the Army to say that that is finished up to June 30. That is what I am going to try to get them to do.

DR. K'UNG: That computation will simplify your work.

H.M.JR: Doctor K'ung, you haven't realized that I haven't changed. I am still going to talk a fixed sum in U. S. dollars, but I have the rate in mind just as you have, and then if out at the other end comes a figure which is within reason, which you can defend and I can defend, all right, but I still have to pay you in U. S. dollars. I am not going to pay you in yuan. I take it you want U. S. dollars.

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DR. K'UNG: All right, anything you say, Mr. Secretary, I am willing to comply with. And I appreciate your effort, and that of the gentlemen with you. It is unfortunate that there is a misunderstanding, and it is unfortunate about the accounts.

H.M.JR: Well, there are two things I always think you could get along without, one is lawyers, and the other is accountants. If you just leave it to farmers and bankers!

DR. K'UNG: I think we all had better go back to farming.

October 6, 1944
2:45 p.m.

RE: CHINESE LOAN

Present: Mr. White
Mr. Adler

MR. WHITE: We have quite a few documents.

The total figures are thirteen point nine. That is almost fourteen billion yuan as the total, instead of the twelve point one that they gave us; and from this fourteen billion, the Army says that three billion are for taxes and overhead, and they don't think they should pay the taxes. They don't indicate what taxes, but the overhead is for roads leading to the airports and for certain engineering services.

The airfields that I spoke of, the four billion, are apparently the Chengtu airfields which you had already agreed to include in pay. So we can forget about the airfields. They are not the airfields which were ready.

So the sole question is this three billion, which I don't think the Chinese will ever admit should not be charged, because we think they are indirect charges and overhead. In any case it will probably take them ten years to figure out what is what. So the amount the Chinese will probably present will be fourteen billion instead of twelve point one, which suggests you were well advised to keep to the amount rather than the rate.

Now, if you use the figure of fourteen billion, their figure, and if you stick to the offer of one hundred and twenty-five million, of which you have paid twenty-five, it would make a rate of--

MR. ADLER:one hundred and eleven on the top figure, and eighty-seven on the low.

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MR. WHITE: No, one hundred and eleven would be the rate on the one hundred and twenty-five million if you assume you owe them fourteen billion. If you assume that you owe them what our Army says, it might be deducted in taxes, and then it would bring it down to eighty-seven. However, Colonel Foster, who was here, and the Army never wanted to get into any examination of this; that is why they wanted you to treat the settlement of the whole business, because they never wanted to get into the mess.

Now, if you increase the offer by twenty-five million, it will improve the rates from one hundred and eleven to ninety-three. You offer them twenty-five million more; and if he says, "What rate?" you say, "You figure it out." It depends on how many deductions you can reasonably make. Otherwise, in order to settle what this amount will be, it will take a long time. What troubles us about the rate is that they are now spending about two billion a month.

MR. ADLER: A little more, two and a half billion.

MR. WHITE: And the rate is much worse.

H.M.JR: Suppose we got a rate--I mean settlement--for one hundred and twenty-five and if they want to call it eighty, they can call it eighty.

MR. WHITE: Yes. It depends on what deductions they want to make. If they don't want to make any deductions, then the rate is ninety-three.

If, on the other hand, we say that they should deduct for taxes and the others, if they want to they can bring it down to seventy-three.

H.M.JR: What would the rate be, I was going to say, after July 1?

MR. WHITE: Well, now, that is a separate problem. If you want to take that up now, you offered twenty million a month. At twenty million a month it would be about one hundred and eleven, or one hundred and ten.

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MR. ADLER: About one hundred and thirty.

MR. WHITE: That is why you had better keep away from the rates.

H.M.JR: I will stick to twenty million a month.

MR. WHITE: Now, they might raise it.

H.M.JR: I don't feel like undertaking this. I have one of my bad headaches.

MR. WHITE: Do you have to give it to them today? You can tell them we are looking into this.

H.M.JR: I wonder if we couldn't. Who is the fellow who deals the most with it?

MR. WHITE: The three of them came back. They are waiting to see me. Hsi, I suppose.

MR. ADLER: No, Chi.

MR. WHITE: Chi is the assistant to Kung. But he only comes when Kung is here and when Kung sends him. He is not their regular man here.

MR. ADLER: They have come to the gold shipment.

H.M.JR: Why don't I send for them now and tell them myself, these three?

MR. ADLER: They haven't come on this connection.

H.M.JR: I know, but simply say, "I have this word. I am leaving now and I want Doctor Kung to have this message."

MR. WHITE: You know that Secretary Stimson had informed you that any adjustment you make is all right with them, so you don't have to--

H.M.JR: I am going to call up Clay on the phone, anyway.

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MRS. KLOTZ: You don't want to do this directly with Kung?

H.M.JR: I can't get him down here.

MR. WHITE: You can probably get him down in ten minutes.

H.M.JR: I will try it. (The Secretary requests Mr. Fitzgerald to make an appointment with Doctor Kung.)

MR. WHITE: In presenting it to Kung, I think the thing to do is, you tell them that there is this three billion in taxes that was a mistake in the airfield and overhead, and the Army claims it, but you don't want to go into it because you want to stick to your bargain. That will get him away from the rate. Tell him that actually if you settle on that three billion rate it would make it seventy-three. Or make it much better, and let him figure it out.

MR. WHITE: In general, unless he pushes, why not forget about after that. That just cleans it up until July 1.

H.M.JR: That is right.

October 6, 1944
2:59 p.m.

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HMJr: Hello.

General
Clay: Yes, Mr. Secretary.

HMJr: Look, General, the reason I'm asking for you rather than General Somervell, I think you've got this Chinese thing at your finger tips and that's -- oh, I don't know -- one of your accountants -- somebody's got us all stirred up on this thing again. He's raised the question about \$3 Billion you want on taxes and that they've charged us for this, but they've also raised the figure from twelve to fourteen. See?

C: Yes, sir.

HMJr: I don't know whether you know about it or not.

C: Yes, sir, I do.

HMJr: Well, anyway, this morning when Kung was here I got him to admit that he'd take a rate of eighty, you see?

C: Yes, sir.

HMJr: Now, what I thought I would do is to tell him this: in view of this change and everything else that I'm going to make one final offer; I'm going to offer him a gross of \$150 Million, of which we've paid twenty-five. See? Hello?

C: Yes, sir.

HMJr: And leaving him -- and then I said, "You can figure any rate you want to." And the rate will only be effective up to June 30th. You see? In other words, I'm going to take advantage of that extra \$25 Million that you and General Carter said I could use if I wanted to.

C: Ah -- I wonder if -- if we couldn't make him an offer of the hundred and twenty-five plus sixty, or a hundred and eighty-five and make it effective instead of as of July 1 up -- as of October 1.

C: A hundred and twenty-five as we originally offered and

HMJr: Yes.

C: an additional \$60 Million.

HMJr: And -- and -- and August and September, and add forty?

C: Add sixty. Make it a total of \$185 Million.

HMJr: Oh, July -- I see.

C: And that would be for July, August and September.

HMJr: July, sixty.

C: That's \$20 Million a month for July, August and September.

HMJr: Yeah, that's \$60 Million.

C: That's right, sir.

HMJr: And add that to

C: Add that to the hundred and twenty-five.

HMJr: He wouldn't take that.

C: And then that would leave the eighty-five and then -- and then that would make \$185 Million -- and then do whatever adding we have to do to that so as to get a lump-sum settlement as of October 1.

HMJr: Oh, well, I think -- well, the thing I had in mind was six -- will be two, ten -- what -- you'd like to settle it up to October 1, huh?

C: I think it would be very much better, sir. We still have -- we're still -- when we make this settlement as of July 1

HMJr: Yes.

C: we are still, then, three months behind.

HMJr: I see.

C: Now, we've actually continued to draw money from them on -- from July, August and September and the \$20 Million rate would be a fair exchange rate for what we have received from them for these three months. And then if we gave the additional \$25 Million that you are speaking of, sir, instead of having spread that over the previous four months, you see, we would have spread it over the seven months.

HMJr: Would that -- then the top figure would be two, ten?

C: Yes, sir.

HMJr: Less twenty-five.

C: Yes, sir.

HMJr: Is that right?

C: Yes, sir. That would be a hundred and eighty-five plus twenty-five -- two, ten, yes.

HMJr: One, eighty-five.

C: That's right, sir. And that would clear us up to October 1.

HMJr: Yeah. I'm willing to try it.

C: And the -- the fact that he will be getting the larger sum of money might be an inducement to him also.

HMJr: Yep. That would be -- I'm willing to try it. He's very difficult. I say he is very difficult.

C: I know he is. Yes, sir.

HMJr: Yeah.

C: But if we don't do that, why, we -- we stand in the position of having just made a settlement to the first of July

HMJr: Yes.

C: and when we come in to make the July, August and September settlement he will again demand an additional sum and if we can spread that \$25 Million over the seven months instead of the four -- and get him to accept it, I think we will have done a very -- very good job.

HMJr: Uh -- this is just for me -- of course, I've got leeway from Mr. Stimson but I don't want to do anything without consulting with you -- supposing he says, "Call it two hundred." He likes to bargain. That would be \$5 Million a month extra for the last three months.

C: Oh, you mean two hundred for the total?

HMJr: Yeah, net.

C: As of the first of October.

HMJr: Net. Yeah, net.

C: I think it would be a good deal if we can come off with it that way, sir.

HMJr: You think it would be a good deal?

C: Yes, sir.

HMJr: I think it would be, too.

C: Yes, sir.

HMJr: I think that he wants to go to the hospital. I think that I can get a bargain out of him.

C: Well, that would -- that would clear us up to October the first

HMJr: Yeah.

C: and we would have used that additional twenty-five million's bargaining power and would prevent him from having to come back with some additional sum when we settle these three months.

HMJr: And it would mean twenty-five extra for those months up to the first of July and five million extra for three months.

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C: Yes, sir.

HMJr: But I wouldn't break it down that way. I'd simply say, "Here, I'm willing to give you a check for \$200 -- \$200 Million and call it quits as of October 1."

C: I think we'd have a good deal if we could do that, yes, sir.

HMJr: And you can call it any God damn rate that you want.

C: That's right, sir.

HMJr: Well, I'll do the best I can. I won't use any of this unless I -- I mean -- well, I am going to use the one, eighty-five figure.

C: Yes, sir.

HMJr: I'll -- either I or Adler will let you know.

C: Fine. Thank you, sir.

HMJr: Thank you.

C: Yes, sir.

HMJr: Hello.

C: Yes, sir.

HMJr: You let Mr. -- General Somervell know.

C: I will. I'll let him know right away.

HMJr: Thank you.

C: Yes, sir.

HMJr: Bye.

C: Bye.

October 6, 1944
3:30 p.m.

CHINESE LOAN NEGOTIATIONS

- Present: Mr. Adler
- Dr. Kung
- Mr. T. L. Soong
- Mr. Hsi Te-mou
- Mr. Koo
- Dr. Chi

H.M.JR: I am going to have to leave at four fourty-five to catch my train, and Mr. White went ahead on the four o'clock train, so he is not here.

Dr. Kung, talking to the Army helped some and in other ways it doesn't help so much. But this is the memorandum that Dr. White left behind.

"In the most recent figures submitted by our Army for expenditures in China up to June 30, the total is just under fourteen billion yuan. Our Army states that this thirteen point nine includes three billion yuan for taxes and overhead, which should not have been charged to us according to agreement reached between the Chinese Government and the Army."

Now, I am just reading from what they have told me. They are saying of this thirteen point nine, which is another new figure, there are about three billion yuan of taxes and overhead, whatever that means. I don't know.

Now, I have a suggestion to make, with the hope that we can come to an agreement and you can go to the hospital and have a happy operation.

Up to the 30th of June at Bretton Woods we made you a firm offer of 125 million dollars, of which we paid you twenty-five. Is that right?

DR. CHI: That is right.

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DR. KUNG: I am not quite sure of that. Do you think it is right?

DR. CHI: Yes.

H.M.JR: I don't think there is any discussion on that. I think we have settled that March and February thing, haven't we, Adler?

MR. ADLER: I understood there was agreement on that.

H.M.JR: We took that into account. We agreed with the Chinese viewpoint that it started when?

MR. ADLER: February.

H.M.JR: Yes, we first said March; you said it was February.

DR. KUNG: No, it is started from March first.

H.M.JR: We have been all over that, Dr. Kung. This is to your advantage.

DR. KUNG: Yes, but I don't want it.

H.M.JR: We have been over it again and again. Haven't we come to that agreement?

MR. ADLER: I thought we had, sir. We had a stenographic record of it, anyhow.

H.M.JR: Which we gave to Dr. Kung, and they didn't raise any question.

DR. CHI: I am afraid it is February--that Dr. Kung is right.

MR. ADLER: That is right. We agree with you.

H.M.JR: You misunderstand me. We agree: February, March, April, May, June. Right?

MR. ADLER: Yes.

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H.M.JR: Five months times twenty-five is 125 million dollars, of which we have paid twenty-five, and we agreed with you. We first held the March view and then we said all right and we took in February. We paid twenty-five million dollars. I think that is correct.

DR. KUNG: That twenty-five is only for the regular military expenses, but all the expenses are advanced before that.

H.M.JR: February, March, April, May, June--twenty-five million a month is 125, of which we have paid twenty-five. We had the argument about February and March.

DR. KUNG: Yes, if you just say for the military expenses alone and the extra expenditure is not included, that is right.

H.M.JR: No, I am just going to talk--I mean, that was the proposal we made in Bretton Woods, wasn't it?

MR. ADLER: That is correct.

H.M.JR: Now, in order to approach the rate which you have in mind, I am going to add to that figure provided--this is what General Clay has asked me to do--that we take in the months of July, August and September; bring it up to October first, which at twenty million a month makes another sixty million.

So by adding to this figure, we are prepared to add twenty-five million dollars or bring the total figure to 210 million dollars, less the twenty-five million dollars which we have already paid you, or a net figure of 185 million dollars. That is twenty-five million dollars more than we have ever offered before, and I think it is a good offer.

Now, as to the rate, by the time you add these things and subtract these three million, whatever you want--I mean, you people are better mathematicians than I, but I am adding twenty-five million dollars over and above any figure I have ever offered before; offering to pay net 185 million dollars up to the first of October. Is my arithmetic clear?

MR. SOONG: Yes.

H.M.JR: What General Clay wanted to do was to spread this extra twenty-five over the period from February to October first, do you see? He felt that that would look a little better. So we will be spreading that over eight months, which brings a net figure of 185.

DR. KUNG: Mr. Secretary, I am sorry, but I don't have the figures. I think your Army is mixed up in the figures, and I trust the gentlemen who keep the figures-- they don't say who gathered the figures. I will have to wire again to check off the figures, and whether you agreed to that time from March first when you were spending before March first for your military expenditures besides what you required for the airfields--twenty-five million dollars. The President said from March first on you would spend twenty-five million dollars for the next three months, and then after that you would make another arrangement. And your Army, through General Clay, from the end of June, July, August, September, he proposed instead of twenty-five million, give twenty million. But actually you have spent more money than they spent in March and April. If they spent more money, why do they want to give us less?

H.M.JR: We are giving you more. We are adding twenty-five million dollars to any figure which we have offered before. We have increased it by twenty-five million dollars.

DR. KUNG: Now, of course that is for the general military expenditures. What money the Central Bank advanced for the building of the Chengtu airfields is a separate account.

H.M.JR: No, let me just go back.

You have certain things in your mind; I have certain things in my mind. Now, I'd like to repeat it once more, and you gentlemen and Mr. Adler tell me if I am not correct.

At Bretton Woods I suggested for February, March, April, May and June a full settlement between the United States Government and the Chinese Government of 125 million

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dollars, of which twenty-five million dollars was paid. We then owed you a hundred million dollars for everything. There were certain offsets which you very generously offered for food and clothing.

Then we said to you that we thought our expenditures would be less for the next three months and we offered you sixty million dollars for the next three months, which would bring the total to 160 million. And now we are offering you 185 million dollars in settlement for eight months.

DR. KUNG: Yes, Mr. Secretary, but we differ there, whether the building of the Chengtu airfields was included in this twenty-five.

MR. ADLER: The correspondence cleared that up, Your Excellency, between the Secretary and you--the recent correspondence between you. In the correspondence it says it is included.

MR. KOO: It doesn't say it is included in the figures; simply the American payment for the cost of construction.

MR. ADLER: In other words, it was included in the Bretton Woods settlement.

DR. KUNG: It was not. The President told me it was not.

MR. ADLER: May I read this letter from the Secretary?

"I am in receipt of your letter of September 9. There was never any doubt as to whether the United States Government would pay for the cost of the construction of the Chengtu airfield."

Therefore, the Secretary's offer at Bretton Woods presumably included something about which there was no doubt whether we would pay.

DR. KUNG: Mr. Adler, I think you are wrong. I cannot accept that.

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MR. ADLER: May I read on?

"The President's telegram, which was transmitted to Generalissimo Chiang Kai-Shek on January 28 by Ambassador Gauss, states explicitly that the United States, in order to cover all of its military expenditures in China, including maintenance as well as construction, is prepared to place to your account a U. S. dollar equivalent of any Chinese funds made available under general arrangements that will be suggested by General Stilwell and the Ambassador. The United States thus recognizes its obligation for its military expenditures in China, including the cost of Chengtu airports as one item in those expenditures, and is anxious to make a settlement which will cover them all."

MR. KOO: According to General Clay's own statement, the figure at Bretton Woods includes only four billion dollars which was spent for Chengtu airfields. That doesn't coincide with the actual amount of money.

MR. ADLER: That is a different question. The offer made at Bretton Woods was that we had certain figures and the offer was made and those figures included the Chengtu airfields. That is the only point insofar as our figure indicated them.

H.M.JR: The size of the figure we didn't agree on, but whether they would be included or not, we did.

DR. KUNG: I wrote the Secretary a letter and I quoted what the President said, also what General Marshall said. Read that.

MR. KOO: Since our conversations at Bretton Woods additional information was received from China, substantiating the fact of the cost of the construction of the Chengtu airfields, which was always regarded as constituting a separate account which the United States Government undertook to pay.

Memorandum No. 111, dated January 8, 1944, referred to a reply from General Marshall to the inquiry, which

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stated that, "The United States will bear the cost of labor and material for Chengtu airdrome construction at a rate of exchange to be arrived at under negotiations now in progress."

On January 12 General Stilwell transmitted to the Generalissimo a telegraphic message from President Roosevelt with reference to the Chengtu airfields, part of which reads:

"I will undertake to make available the necessary funds in Lend-Lease appropriation if that will hasten the completion of the work on the desired schedule."

Now, here is Secretary Morgenthau's reply to Dr. Kung, dated September 20: "There was never any doubt as to whether the United States would pay for the cost of the construction of the airfields."

In other words, at Bretton Woods the cost for the construction of the Chengtu airfields were not included--only a small part of it.

MR. ADLER: In the figure we had, insofar as our figures included the cost of the Chengtu airfields, we included them. Now, those figures may not be right. We depend on the Army.

DR. KUNG: You are wrong, Mr. Adler. Even in the month of December, without whatever the cost of the building of the airfields was, your military expenses were twenty-three million.

MR. ADLER: At the official rate of exchange.

DR. KUNG: And because, later, of the rising prices you were prepared then to spend twenty-five million only for the general military expenses. That is why twenty-five million dollars was offered. And the building of the airfields was a separate account. That account didn't come from the Government. I took the responsibility to advance the money.

MR. ADLER: I am sorry, Your Excellency, but it is in

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the record at Bretton Woods. We have the stenotype record.

DR. KUNG: Mr. Secretary will be the man--of course, I cannot expect him to know the details. You were there and were present in the negotiations.

MR. ADLER: Excuse me, Your Excellency, I was not present at some, and I don't think that is the point at issue. The point at issue is whether the offer of the Secretary at Bretton Woods included Chengtu or not.

DR. KUNG: You ask Clay whether he included Chengtu or not; how much in his figure he included Chengtu.

MR. ADLER: We have mentioned that--four point four billion.

DR. KUNG: You know Chengtu cost more than that.

MR. ADLER: I don't have the figures, Your Excellency. I only have what the Army gave us.

H.M.JR: It was my impression that at Bretton Woods, from General Clay and the others, this figure of twelve point three, whatever it was, included--they made the point that the principal expenditures during February, March, and so forth, were for the Chengtu airfields. If they weren't for that, what were they for?

DR. KUNG: You have over twenty thousand men in China.

MR. KOO: There were other airfields, too, Mr. Secretary.

MR. ADLER: Chengtu was included in your total from Bretton Woods.

DR. KUNG: If you take that attitude, we cannot settle that.

MR. ADLER: I am very sorry.

DR. KUNG: There is a record by the President. If I am wrong--the Generalissimo certainly has given it clearance.

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H.M.JR: Where did the President say he did or did not include the Chengtu airfields?

MR. ADLER: We went over that at Bretton Woods.

DR. KUNG: He said that would be a separate account.

H.M.JR: The President said that?

DR. KUNG: Yes, he just read you that. You read that again.

MR. KOO: On January 12 General Stilwell transmitted to the Generalissimo a telegraphic message from President Roosevelt with reference to the Chengtu airfields, part of which reads, "I will undertake to make available the necessary funds through Lend-Lease appropriation if that will hasten the completion of the work on the desired schedule."

H.M.JR: That doesn't say anything, whether it is included or not included in the twenty-five million.

MR. ADLER: That is the explicit offer, Mr. Secretary.

DR. KUNG: You see, the twenty-five is the regular military expenditure. You are spending that much in the month of December.

H.M.JR: Do you mind if I call General Clay?

DR. KUNG: All right, you can call him.

You (Mr. Adler) know nothing about that.

MR. ADLER: Excuse me, Your Excellency, this cable from the President which was transmitted by Mr. Gauss, I think, on January 23 was discussed at great detail in Bretton Woods, and there were two different interpretations of that cable, and I think that is what you are referring to.

DR. KUNG: No, there was a different one.

MR. ADLER: This is the cable we discussed at Bretton Woods.

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DR. KUNG: No, I got it from the Generalissimo's quarters. At Bretton Woods I didn't have that.

H.M.JR.: We had it.

MR. ADLER: You read it and Dr. Kuo read it.

H.M.JR: I don't know of any other message.

DR. KUNG: There is another message. You can read that.

MR. KOO: That was transmitted to you, Mr. Secretary.

(Secretary holds telephone conversation with General Clay, as follows:)

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DR. KUNG: No, I got it from the Generalissimo's quarters. At Bretton Woods I didn't have that.

H.M.JR.: We had it.

MR. ADLER: You read it and Dr. Kuo read it.

H.M.JR: I don't know of any other message.

DR. KUNG: There is another message. You can read that.

MR. KOO: That was transmitted to you, Mr. Secretary.

(Secretary holds telephone conversation with General Clay, as follows:)

October 6, 1944
3:56 p.m.

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HMJr: Hello.

Operator: General Clay.

HMJr: Hello.

General
Clay: Yes, sir.

HMJr: General, Dr. Kung is here and some of his associates. At Bretton Woods when we discussed this problem of \$125 Million from February to July 1st, did we or did we not include the Cheng tu Air Fields?

C: We included in our arrival at the figure of the Cheng tu Air Fields

HMJr: Yeah.

C: of the \$125 Million, the Cheng tu Air Fields.

HMJr: Well

C: We did

HMJr: Excuse me.

C: We did tell Dr. Kung

HMJr: We did?

C: that we would be -- yes, sir -- that we would -- however, utilizing those figures in settlement -- that we had no objection

HMJr: Yes.

C: for him to including in reverse Lend-Lease

HMJr: Yes.

C: the expenditures made by the Chinese -- not the money advanced to us, but the actual expenditures made by the Chinese on the Air Ports in reverse Lend-Lease.

HMJr: Yes.

C: In the view, of course, that the Lend-Lease values which we were giving to the Chinese were greatly in excess of the reverse Lend-Lease value which we were obtaining from the Chinese.

HMJr: Do you mind holding on a moment?

C: Yes, sir.

HMJr: (Talks aside.) Hello.

C: Yes, sir.

HMJr: If -- if I need you, I'll call you back.

C: Yes, sir.

HMJr: If you please.

C: Yes, sir.

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H.M.JR: What he says is that at Bretton Woods we said the 125 we were giving you included the cost of Chengtu, but we were perfectly willing that you offset those figures by putting down certain figures in Reverse Lend-Lease.

DR. KUNG: Yes, there we didn't agree. I said it was a settlement outside of Chengtu.

H.M.JR: He said we weren't in agreement as to the figures, but we did agree that you would put down certain figures for Chengtu as Reverse Lend-Lease.

DR. KUNG: That is all right. That is where we split, and I took it that your figure for the settlement of the general military expenses was outside of the Chengtu expenses. And you want to include that. And then he said, "All right, the Chengtu expenses can be put on the Reverse Lend-Lease."

H.M.JR: As an offset.

DR. KUNG: Well, I said I'd have to wire the Government, and beside the four billion he mentioned I saw that figure was not right.

H.M.JR: I think we are together now as to what happened, though. You agree that General Clay's memory on this is correct?

DR. KUNG: Yes.

Now, Mr. Secretary, we differed because you say--this is rather difficult to finance and to settle without knowing what the head of the Government actually promised. And therefore, you said you referred to the President and he referred to the Generalissimo and he sent me two wires, one from the President to him, another from General Marshall to him.

General Marshall said the airfields would be paid for, and the President said he will pay everything and this will come out of Lend-Lease. Your military expenditures, your

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American expenditures from your Treasury, that doesn't come from the Lend-Lease. Certainly you don't support your Army from Lend-Lease funds.

MR. ADLER: May I point out with reference to that, those quotations which you were good enough to supply the Secretary were the first indications we had had, but moreover the dates of those communications are earlier than this formal communication from the President to the Generalissimo. This has the financial details--it is only on the financial question of January 23.

DR. KUNG: Now, let us don't bother this any more. I advanced the American Army so many Chinese dollars. Usually I had to pay interest on the loan at the bank. The Chinese Government will pay the interest, if the American Government will return me the Chinese dollars which I advanced, and then just don't bother about the conversation or anything else. I made a loan and I advanced the money. If the American Government will just return me the Chinese dollars, you can take your notes, your dollars, and sell them on the open market. You can get the Chinese dollars. If you can get one or two hundred or three hundred, so much the better, and return that to me and we can settle the account. Would that be satisfactory?

H.M.JR: Where are we going to get the Chinese dollars from?

DR. KUNG: Sell it on the black market.

H.M.JR: Anyway, Dr. Kung, I am not taking that offer seriously. I have added twenty-five million dollars to what we have offered before, and the figure now stands at 185 million dollars in full settlement for any obligation that the Army has incurred from February 1 up to and including September 30.

DR. KUNG: You can't tell me, Mr. Secretary, what that represents in Chinese dollars--

H.M.JR: You can figure that much better than I can.

DR. KUNG:according to our accounts. I think

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our accounts differ and your military account changes from day to day and our account is quite different from yours. I think we have advanced much more money than what the military claims. If they based this settlement on figures which are wrong, then we can never come to any agreement.

H.M.JR: Well, if, for instance, we would say, "Well, this three billion yuan, you know--the Army has this figure and you can deduct that--." I mean, you can arrive at any one of two or three different rates. The rates run anywhere from seventy-three up or down. There is one way of figuring it with a rate of seventy-three.

DR. KUNG: That is all right. If it is seventy-three I will accept it.

H.M.JR: But there is another rate that figures at one hundred and eleven. So I say, you will have to figure it.

It figures from seventy-three to one hundred and eleven, depending upon whether you accept what our Army says or accept what your people say, and you and I won't live long enough--at least, I won't, I hope you do--

DR. KUNG: I am much older than you are!

H.M.JR: I won't live long enough to see that thing settled. But, as I say, you people can give it any rate that you want.

DR. KUNG: Now, will you please tell me what is the total figure according to your Army?

H.M.JR: They keep changing all the time. The latest figure is thirteen point nine, less three billion, or ten billion, nine, which, if you figure it the way I have just figured it, would give you a rate of seventy-three.

DR. KUNG: If that is the rate, that is all right.

H.M.JR: That would give you a rate of seventy-three.

DR. KUNG: I think the best way, Mr. Secretary, would be for you to give me a copy of your Army's figures, letting me wire back to check it up.

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H.M.JR: Am I right, Sol, that it would give a rate of seventy-three, thirteen point nine less three? It is ten billion nine into one hundred and fifty million dollars. Eleven billion yuan into one hundred and fifty gives you a rate of seventy-three.

DR. KUNG: According to the Army the total amount is thirteen billion?

MR. ADLER: Thirteen point nine, almost fourteen.

H.M.JR: Deduct three billion from that, and you have ten point nine.

DR. KUNG: From taxation?

MR. ADLER: Not only taxation, but overhead.

H.M.JR: So you don't get the figure wrong--am I right, Sol--that would be one hundred and eighty-five million dollars up to October 1. And it works out a rate around seventy-three.

MR. ADLER: No, that would work out about a hundred.

MR. SOONG: Thirteen point nine is the Army's figure including the Chengtu Airfield? These figures are kept by the Army?

H.M.JR: Yes, they are not kept here.

MR. KOO: I am afraid the thirteen point nine Army figures are too small.

H.M.JR: If you take the Army's figures--

MR. ADLER: We get the figures from the Army; we don't have them ourselves.

H.M.JR: ...it is thirteen point nine, subtract three, and you get ten point nine in relation to one hundred and fifty million dollars, which gives a rate of seventy-three.

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DR. KUNG: All right, Mr. Secretary, that is all right. Then I don't want to delay you, because you have to go. We will let my associates check up with the Army about the figures, and then we have a basis of seventy-three.

H.M.JR: So we understand each other, there are two ways to figure this thing. That is figuring it to July 1, but the extra twenty-five million has to be spread over the three months, July, August, and September.

MR. SOONG: To the end of September.

H.M.JR: But I am giving Doctor Kung a more favorable rate if he figures it on the five months.

DR. KUNG: All right, I will figure on the five months.

H.M.JR: But what we want is eight months.

DR. KUNG: All right, I will figure on eight months.

H.M.JR: If you figure it for eight months, it won't be as favorable. I want you to understand that. Do you see what I mean? Because what the Army said is this extra twenty-five million which I am adding today; they want to spread that over eight months.

Now, these figures which I have here, which are misleading, you see--I mean it for Doctor Kung, too--will figure on five months. That is how you get that rate.

MR. SOONG: Five months will be a better rate.

H.M.JR: But the Army wants it over the eight months. Do I make myself clear?

DR. KUNG: Yes, I understand. But my point of doubt is the Army figure is not right.

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H.M.JR: But we understand each other, that the one hundred and eighty-five million is for eight months. Now, we figured--

MR. ADLER: If you figure it on eight months--if you take the lower figure of ten point nine, it comes out eighty-nine. If you take the higher figure, it would come out at exactly a hundred.

H.M.JR: You figure it on the five-month basis at seventy-three.

I gave him my figures so there could be no misunderstanding what I was reading from. I can't be any fairer than that.

DR. KUNG: You are fair.

H.M.JR: I gave you my own papers.

MR. SOONG: We just made a copy of it.

H.M.JR: All right, you can have those figures.

DR. KUNG: The only thing is, I want to check on the figures of the Army.

H.M.JR: If you figure it five months you get one rate, and if you figure it eight months, you get another rate. The eight-months rate is not as favorable.

DR. KUNG: And the eight-months figure--if you take the lower figure and the higher figure, of course, the rate will be different, too.

H.M.JR: But when you get all through, the net offer is one hundred and eighty-five million dollars.

DR. CHI: In addition to the twenty-five million?

H.M.JR: And including the Chengtu airfields.

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DR. KUNG: That is, provided their figure is right.

H.M.JR: But at least as the basic principle we have in our figures included Chengtu. I admit that our figure for the cost of Chengtu and yours differ. I don't see that there is any point of difference right now.

DR. KUNG: I am responsible; if the bankers sue me, I will be in trouble.

(Dr. Kung, Mr. Soong, Mr. Hsi Te-mou, Dr. Chi, and Mr. Koo leave the conference.)

H.M.JR: Sol, you conducted yourself beautifully. I mean, he was very nasty, and he was wrong. You stuck by your guns, but you were very courteous. I just want to compliment you on the way you handled yourself.

He was very nasty to Sol. He lost his temper.

MR. ADLER: He was taking it out on me. I realized that.

H.M.JR: I don't know what they do. He started out calling him "Your Excellency," and I next thought you were going to kiss the hem of his garment. But you did it very nicely, and I want to compliment you. You might call up Clay and tell him.

MR. ADLER: I thought he would take you up on it. It was a very good offer. Instead, he wants to get seventy-three and give us a lot of fancy figures.

H.M.JR: If we applied seventy-three for July, August, and September--

MR. ADLER: It wouldn't come to much more.

H.M.JR: I had in mind another fifteen million.

MR. ADLER: It would come to over forty million dollars.

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H.M.JR: I certainly made it clear, didn't I, what I was offering him?

MR. ADLER: Yes. I thought it was absolutely clear. There couldn't be any hesitation. But he tried to get Chengtu out. He was pretty bad. He was much better this morning.

MRS. KLOTZ: Maybe he has to talk that way before the group and for the record, and all that business. I think he is putting on an act.

October 6, 1944

Secretary Morgenthau

Mr. White

Subject: Negotiations with China.

1. The most recent figures submitted by our Army for expenditures in China up to June 30 total 13.9 billion yuan. Our Army states that this 13.9 billion yuan includes 3 billion yuan for taxes, over-head, etc. which should not have been charged to us according to agreements reached between the Chinese Government and the Army. The Chinese will almost certainly not agree to the lower figure, and it will be almost impossible to reach an agreement on which of the two sums should be accepted if, as the Chinese insist, we were to agree on a conversion rate.

It is therefore recommended that you offer Dr. Kung \$150 million in liquidation of all our past obligations up to June 30 with no reference to any conversion rate. If he wishes to derive a conversion rate for his own purposes, he can dress it up in whichever way is most convenient for him. But that is not our business. (For purposes of comparison a table is appended showing the approximate rate of conversion for the higher and lower sums according as we made a lump sum settlement of \$125 million or \$150 million.)

2. Our Army expenditures for the three months July to September, 1944 total 7.9 billion yuan. At Bretton Woods you offered Dr. Kung US\$20 million per month for these three months, which would work out at a rate of about 130. However, unless he brings up this subject, it would be desirable to stick to the overall settlement for the period ending June 30.

Billion yuan	If	If
	<u>US\$ 125 million</u>	<u>US\$ 150 million</u>
	rate per US\$	rate per US\$
13.9	111 /	93
10.9	87	73

MEMORANDUM FOR THE SECRETARY

October 6, 1944.

As of noon today we have received only 6 letters commenting upon the postwar plan for Germany -- all favorable.

G. E. Forbush

Trip

MEMORANDUM FOR THE SECRETARY.

October 6, 1944.

Mail Report

A strong second round in the fight over the Morgenthau plan for de-industrialization of Germany gave 115 additional correspondents a chance to have their say. In this round, the opposition made headway, cutting the previous favorable ratio of 6-1 to 3-1. Much of the opposition came from ministers and others who by letter heads, etc., identified themselves with churches. One Iowa citizen, heartened by the acknowledgment of his first letter, for the second time registered strong approval of the plan.

Other mail was scattered over a number of fields, bond matter dominant, of course. Announcement of the opening date of the Sixth Drive stepped up the number of promotional ideas. A bank or two protested the over-the-counter plan, one reporting that it had cashed more than 100 bonds the first day this service was offered. Possibly as a result of the installation of this plan, replies to the redemption slip have almost entirely disappeared from the mail. The flurry stirred up by the Frank Dickinson suggestion for debt forgiveness has subsided quickly, with only 3 further protests received. The 50 bonds submitted here for redemption corresponded closely to the number submitted last week. Again, there was a mere handful of complaints about delays in handling bonds and interest.

Along with a number of questions and suggestions about taxes, there were 18 requests for refunds. As contributions to the war effort, 2 persons returned interest checks for cancellation, and another forwarded a money order for \$5.

Geo. Forbush

Favorable Comments on Statement Concerning
Postwar Plans for Germany

G. L. Pierce, Elmira, New York. Read the article in today's Gannett paper by Cecil B. Dickson on Secretary Morgenthau's remarks. I think Dickson's remarks hit an all-time low for a newspaper columnist. You should know about this, I feel.

R. P. Prendergast, Los Angeles, California. I heard over the radio this morning the plan you have for taking care of Germany and the German people. I think your plan is excellent, and I think everyone else will unless they are pro-German or have German blood in their veins. The European Germans are the termites of the civilized world, and should be treated as a destructive termite -- that is, destroyed as a nation. I hope the civilized nations will adopt your plan.

Sgt. Leonard E. Travis, U. S. Army Air Base, Rapid City, South Dakota. I know you are a busy man and will probably never see this letter, but at least it will give vent to my feelings. It looks as though you are the one man that is willing to give the Germans the justice they deserve. I want to say that I approve of your plan 100% to reduce the Germans to a farming people. They have plainly shown in the past 30 years that they cannot handle the responsibility as an industrial nation. If they are given a soft peace, it will be all to do over again in 20 or 30 years. I have a child and I don't want it to lose 4 or 5 years out of its life 20 years from now. Surely the boys are dying now for more than another war later. This is one time the Americans have to be hard, for that is all the Germans understand. God grant that they may all see as you do the folly of letting them keep their means of preparing for another war. Keep pitching for I'm sure the majority of the people are behind you. Having faith in you, I'll end this letter.

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Montefiore Levy, Counsellor at Law, New York City.
The enclosed is self-explanatory. I hate to say it,
but I believe if your plan had been presented by one of
a different religious faith, many objectors would have
been non-existent. * * *

Anonymous - Milwaukee, Wisconsin. Read this at the
next Cabinet Meeting: So the Allies are debating what
to do with Germany? Well, Germany KNOWS what it would
do if it had conquered all of England and smashed the
United States. First, every man, woman, and child in
England would be killed; second, 60% of the people of
the United States would be murdered, and the other 40%
would be made slaves for the Nazi Huns. * * * Now the
Good Lord has been good to the Allies; He gave the
Allies two chances and two World War victories. If
the world and the Allies and civilization go to sleep
NOW, there WILL be a third World War and the Lord will
not give the Allies a third chance -- and that will be
the end. * * *

Mrs. Rosella C. Conrad, Fayetteville, Arkansas. Just a
line to thank you from the bottom of my heart for your
stand on post war plans for Germany, and may the Almighty
God give you enough red blooded Americans to back you.
Anyone that could possibly ask anything different for
Germany should hang their heads in shame.

Henry W. Hayden, Portland, Oregon. Today's Sunday
Oregonian gives your idea of how to deal with Germany
after her complete defeat. I know of several others,
as well as myself, who feel just as you do. Stay with
your idea. Even though the powers do not see as you do,
I hope you labor to get as much as you can of your views
adopted. After World War I I knew that Germany was not
finished as they should have been. * * *

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G. E. Miller, Santa Monica, California. I'm so glad to read of your stand on the disposal of Germany that I am just hereby saying good boy, go to it! * * * What I mean is that the Germans 100% are guilty.

Mrs. Ernest W. Anderson, San Diego, California. This has been a year of continuing thrills and mounting satisfaction to us newspaper readers, but nothing of recent months has delighted me so much as the enclosed clipping of your stand on a postwar plan for Germany. It is a plan which I've trotted out in our own fireside discussions since that black summer of 1940, when Germany started moving French factories to the Reich, and her pattern of making peasants of conquered peoples became a reality -- and not just one or more of Hitler's harangues. * * * It isn't going to be simple, we all realize. In this country alone, there must be at least a million schemes for what-to-do-with-Germany. Hundreds have been published. But surely all would agree, the sweetest of all victory foods would be loaves of bread made from wheat grown on the land where the Krupp Armaments factories once stood!

Leslie Williams, Los Angeles, California. I am heartened by the news of your proposal for postwar control of Germany. After the millions of words on this subject, largely confused and pointless, you seem to have hit upon the one plan that seems to answer all proper purposes. It eliminates the war-making facilities of Germany. * * * It reduces Germany to a simple but wholesome form of life which might induce a spirit of cooperation among the German people. * * * It quarantines (to use the President's word) Germany, and makes it possible to avoid policing on a large scale. The punitive phase of the matter is not violent at all, certainly less painful than the people of Germany deserve. * * * I sincerely hope it is true that the President agrees with you. I hope also that the voice of people like Dorothy Thompson may not have undue weight in the final decision. * * * Best wishes for the success of your plan.

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Roscoe J. Anderson, Lawyer, Redding, California. * * * This is sent to you for the purpose of saying that in my opinion the bulk of the rank and file of people say "Amen" to such a plan. Break up the large estates, turn them into small farms. Turn the industrial districts into farming lands also. Take away everything Germany has stolen; also take everything -- all the machinery and building material that is necessary to put the ravaged countries back on their feet. Also take all the labor that is necessary and for as long as is needed to rebuild the ravaged countries. * * * You have no more right to give Germany an easy peace than you have to hang a Laurel Wreath around the neck of a cold-blooded murderer and grant him a pension as a premium. International gangsterism must be proved to be a disastrous game. Punishment must be meted out to designing criminals even though they act under the authority of an alleged Government. Everyone I talk to about your plan, as the press sets it out, is in support of the idea; and, of course, the same goes for the Japs.

E. S. Miller, Jamaica, New York. Thank you for your splendid plan for Germany. No other plan could be more feasible. Keep fighting for your convictions.

H. Louis Auten, Belleville, Illinois. I want you to know that I heartily endorse you in your contention that the German nation should be utterly destroyed as an industrial power. I would say also that Germans should not be permitted to hold positions of political power. I think the world would be plain dumb to ever let the ambitions of the Germans have another chance at realization. It is not that I believe in vindictive punishment but I do believe in facing facts and acting on what knowledge and experience we have. This world can get along very well without any German nation.

Dr. E. Berl, Research Professor, Carnegie Institute of Technology, Pittsburgh, Pennsylvania. I read that the Cabinet is split over your suggestion to convert the

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present highly industrialized Germany into an agricultural area. Knowing the conditions in Central Europe until the fall of 1933 rather well, I believe strongly that your plan deserves the greatest attention. To the expert who knows the history of Germany and the German character, a plan like yours appears to be the only way to avoid a third World War. If the highly developed industrial machine in the center of Europe is not reduced to a harmless minimum, another war must develop after a few years. It is also necessary that a geographical displacement of Germany's industries to other European countries with maintained influence of German industrialists must be made impossible. * * *

E. M. Craig, Washington, Oklahoma. It has come to my attention, through the press, your attitude towards the policies to be adopted in regard to Germany, especially toward their manufacturing plants. I heartily approve and believe a great number of people in this country approve. Much as I deplore "rough stuff" in any shape (whether physical, mental, or otherwise), I feel that the time is not yet ripe for peaceful and cooperative effort, either by individuals or countries. Therefore, we should not let the Germans "get set", and get ahead of us in the economic warfare that is bound to follow this present physical encounter. So may I ask you to coordinate and weld the influences that exist? We may present a united force to exert pressure to have the President make that a U. S. foreign policy and try to have the United Nations make it the policy to be adopted towards Germany. With assurance of my personal esteem.

W. Jack Latta, Valley Stream, Long Island, New York. Since 1893 I have made many business trips to Germany. I believe I have a far better than average conception of conditions there. Not to go into many details, I cannot overemphasize my unqualified approval of your plan to divide the large estates into farms, and destroy the manufacturing status of Germany. This would absolutely prevent any more wars from that source.

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Alice T. Matthew, Hollywood, California. * * * Your stand for a totally disarmed Germany would seem to more nearly fill the urgent need for permanently crippling the warlike barbarians. I'm only adding my word as support to you and your plan, as I know well that friends of Germany within who would make our peace and world unity efforts ineffectual will not hesitate to raise a clamor for gentleness toward the Germans. Trusting that your plan wins.

J. B. Finch, Duluth, Minnesota. I have read with interest your suggested solution of the treatment of the Germans after the war. It does not go far enough. The best solution as I see it in this connection is to bring all Germans, suitable to agricultural purposes, to this Country, settling them in Northern Minnesota, Wisconsin, and other portions where land is available. Germany undoubtedly will be compelled to pay a very large indemnity. Under above plan, Germany would be allowed a suitable sum on such indemnity for every German or every German family, according to size sent and settled in this country. Many years ago thousands of Germans came to this country. They successfully settled our neighboring state of Wisconsin. Those Germans made some of our finest citizens and their descendants still are among our leading citizens. The same foundation still exists. People do not change very much except through faulty education, such as has occurred in Germany in recent years. So we should not fear such a settlement of new citizens brought about by their own efforts to pay up their war indemnity and not by force. * * * This is what I thought should have been done after the last war. Your approach to the problem brought it to mind again.

N. H. Smith, Glendale, California. Your plan for handling the Germans after the war is over goes over 100% with me. I was born in Southern Wisconsin in 1870. In the 80's most of the farms in that state were absorbed

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by the Germans. Our farm was surrounded by them. They are a coarse breed and I never knew one that wasn't a thief and liar. We had to keep everything nailed down on our farm. Unless the human race is completely nutty, they will jerk the railroads and most of the machinery out of Germany, thus reducing them to a fifth rate power and agrarian nation, and divide them between surrounding countries they have ravished. In this way the German population can be reduced, or in time mostly exterminated. * * *

Byron Stevens, Oakland, California. As a citizen of colonial descent, I am writing to let you know that I am heartily with you as to what should be done with Germany after the war. More power to you. I would like to add this -- take every German army officer from the highest general to the lowest lance corporal and give him a life sentence at hard labor in the mines of Siberia. Stalin would see that none would get away to make more trouble.

Dr. F. E. Perkins, Watertown, New York. I have read with complete approval, your plan for postwar Germany. I feel that you are 100% correct. Of course, we should not starve Germany, but we should let them get hungry enough so they will prefer to spend their money for bread and butter instead of guns and bombs, as they have been doing since 1914. Your plan, I believe, would do just that. You are on the right track.

M. T. Lavey, Los Angeles, California. We are in complete accord with your plan for postwar Germany. A good firm peace plan.

Miss F. Van Koughnet, Los Angeles, California. As an active Democrat, I speak for myself and many friends. We are all for your plan for Germany during the postwar

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period. Don't give them a chance to sneak another war upon us with secret munitions and air force. Exterminate enough of them so that there will be plenty of Lebensraum in what will be left of Germany. Our 69,000 dead boys demand this.

Merritt S. Hitt, St. Louis, Missouri. It is with conviction that we read of your proposed plan for revising the economic structure of Germany so that the means of that country to prepare for another war may be removed. Modern war cannot be waged without heavy industry. By taking away that industry, Germany would be impotent to march again. Opponents of your plan may argue that an industrial Germany is necessary for the prosperity of Europe, and to relegate the German people to a nation of farmers would result in financial chaos. That argument is disputable. Smaller thickly populated nations, such as Denmark and Holland, succeed very well with their agricultural economy. It is certainly the lesser of the evils to adopt a plan with only questionable faults affecting a limited area than to have a Third World War which will result in both spiritual and physical bankruptcy for all nations. It is our wish that the move to make Germany an agrarian country succeeds.

A. N. Klein, Chicago, Illinois. * * * Your recommendation that the United Nations be a party to destroying German heavy industries, appears to me to be the logical manner in which to eliminate the problem that Germany has presented in the past seventy-five years. I understand that those who are not in accord with these sentiments, fear that Germany is an essential factor in the economic structure of Europe and that it is very necessary to keep these industries going, with German labor and German finances. Apparently, the past two wars have not made a sufficient impression upon the parties concerned, and unless these heavy industries are taken away from Germany, there is no reason to believe that we cannot anticipate another war twenty-five years from today. * * *

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Russ McFarland, Adrian, Michigan. Your idea of returning Germany to an agricultural state is the best idea yet, out of many thousands. It's humane, but also punitive; it's decent, yet disciplinary; it's rational, yet a protection to all Europeans; it's acceptable to every humane heart, yet a guarantee against further Germanic atrocities. Keep the idea going. Get others to boost it. It always takes any new idea a whole year to get around.

Edwin G. Huntington, San Diego, California. I am personally very glad to learn of your stand on future disposal of Germans after the war, and many with whom I have talked are for you. In fact, I have not heard a single person who wants Germany to have any opportunity to start another war. * * *

Mrs. E. Smith, (Grandma, and 71 years old), Aberdeen, South Dakota. Have read your 7 points of how to deal with Germany. It seems to my humble mind your ideas are excellent! Could not be better. Hope you win out.

Hugh King, Jr., Tulsa, Oklahoma. I think you have the right idea as to the treatment to be accorded Germany after her defeat, so I enclose an article by Major Eliot, thinking perhaps it has escaped your attention.

Henry Rising, Henry Rising Paper Company, Los Angeles, California. Am glad to see that you are giving some attention to the ultimate status of the German people. I think that a study of the territory this Government has stolen from the surrounding nations would reduce it quite a bit in size. * * *

Mrs. S. A. Hubbard, Chicago, Illinois. Dear Clerk Who Reads the Mail for Secretary Morgenthau: Please count me as one who approves the plan of small farms for

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Germany. Something must be done to compel Germany to make reparation to the lands she has seized, and the export of her machinery is as feasible as any plan. Also, the division of the farm land will punish the youngers. The peasants who receive the small farms will favor the giver and be a pacifying influence. * * *

Charles A. Hubbard, Martinsville, Indiana. Your plan to demobilize German industry and to allocate the land to all small farmers is most constructive and far-reaching in its implications. The German people will be better fed, better housed, and better clothed than ever in their history. Fundamentally, it is cooperative, not socialistic. Instead of large industrial plants, thousands of small shops and factories will produce and distribute consumer goods of finer quality and at less cost than the system of production and distribution in the large plants of today. * * * Your plan is the only constructive thing that has been offered. If you can put it over, you will be hailed as a World Benefactor. * * *

W. T. Ford, Tulsa, Oklahoma. Your proposition is sound. Make Germany a purely agricultural nation. Let her rebuild from the ground up. * * *

Mrs. Clement, Indianapolis, Indiana. Your plan for the future Germany seems excellent to me, but being a mere woman, my intuition tells me you should not have made it public until the war is won. * * * Gilbert Forbes from Indianapolis is now in France. He telegraphed from Paris a few days ago, saying he had interviewed a number of German prisoners and they "arrogantly talk of the next war". You are also right in not lending them any money. * * * You are right to say that their machinery factories should be given to the people they have exploited. They should be made to return stolen articles. * * * If they haven't the money, take

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their factories, machinery, etc. I have a lot of nerve to write to a business man. I thought your life might be endangered by a statement before the war is over. The Germans are wicked people and should be kept in their own country. After our experience with the "American Bund", we want no more Germans here.

Edward L. Corbett, N.Y.C. * * * May I add that your prescription of an agrarian Germany is a fine repeat in reverse directive of the Dr. Goebbels wherein his country prescribed that France should be industrially denuded and become agrarian to feed industrial Germany with foodstuffs and raw material. Your proposition, carried out, is the best for peace enduring, if not permanent. I was in Budapest the evening of July 28, 1914, and saw the hysteria of war break out, and with segmentation of Germany, this aggressor can be stopped.

Adolph Beckstrom, Army and Navy Masonic Service Center, Battle Creek, Michigan. I have just read of your plan, "What To Do With Germany After The War", and it certainly meets with my approval. I hope and pray it is carried out so Germany will never be a menace to the world again.

Edwin Collins Frost, Woodland, California. I have recently read what purported to be an outline of your plan for the future of Germany. If it can be successfully carried out, it seems to me better than most of the other plans which I have read. * * * What troubles me, however, is the apparent intention of the "big three" to settle this question independently of any other country. It is my opinion that every occupied country which did not become an ally of Germany should have an equal voice in the decision with the "big three". It is true the three have done the most of the fighting. But the others fought to the best of their ability, and they have suffered the most. They know the Germans more

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intimately than we do; and they will have to continue to live as their neighbors. I have sometimes thought that they ought to have two votes to our one, but I am sure they ought to have at least equal representation. There is no danger that they will insist upon too light a punishment for the criminal, and there is considerable danger that the United States and England will do so, just as they did in 1919.

The following is taken from a copy of a letter sent to the President by Joseph Gladstone, New York City:
* * * What guns and firearms are to be an habitual hold-up gangster-murderer...the tools and machinery to produce all kinds of war-making materials are even more dangerous in the hands of a war-minded nation like Germany. * * * Instead of countenancing a continuation of her industrialization, even in the most modified form, let us first think about the protection and safety of our own children and children's children. Is this not far more important and sacred than a concern about Germany's national economy, her vicious cartels and her mad military ego? * * * I say without hesitation that Germany is the kind of country that cannot be trusted with any form of industrialization. The risk, as already stated, is much too great, no matter how rigorous the control is made. To make her harmless for at least five generations, her economy should be converted into agricultural activities, plus such work as can be done by hand only, and in the purchases of materials to assemble such items as clocks, etc. No machinery of any nature should be permitted for a long probationary period. At least 90% of her economy should be agricultural. That's the least penalty she should be made to pay for her murderous wars on humanity and civilization. * * *

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J. H. McKee, Chicago, Illinois. My knowledge of international politics is limited, but this I do know, having been reared in the South -- if they will plow Germany up and sow it in alfalfa, there is damn little chance of building arms. And so, I think your program is sound -- make her a farming nation and keep her honest.

Captain Andrew T. Derrom, Paterson, New Jersey. Have read with interest your ideas upon the portioning of Germany, and her being deprived of essential industries and heartily agree with you -- so much so, that several months ago I wrote on exactly same lines to Herald Tribune and New York Times, but they considered ideas too radical to publish so am glad one of your status could get the public recognition. Having lived in Germany and know the people, consider your plan the only one that will prove successful in preserving peace. * * *

George F. Walker, Owner, Valley Jitney Jungle Company, Brownsville, Texas. I read the details of your report on peace conditions for Germany and I heartily endorse them and the Brownsville Herald had an editorial also endorsing them. Unless Germany is prevented from again going into manufacturing it will undoubtedly mean that they will manufacture as soon as possible robot bombs in improved models underground, so that they will never be discovered until our neighbors are destroyed with more lightning attacks. Their power to manufacture robot bombs, airplanes, gas, warships, and arms must be prevented and the only way to do that is to destroy their entire manufacturing setup. * * * With best regards and hoping that your suggestions are carried out. * * *

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Frank Tashlein, New York City. In 1918 they would not listen to General Pershing; in 1944 they refuse to listen to you. Well, if Germany is allowed to tool up and manufacture again, you will see another war in your lifetime. * * *

Donald Thorsen, San Diego, California. It is not common practice for me to write to my Congressman or anyone else in Washington, but I have spent many hours during the past three years composing V-Mail messages to numerous friends in the service, and it is in behalf of their future, as well as that of every American youth, that I have decided to write directly to you, Sir. I cannot pretend to be completely familiar with your plan to eliminate the industrial power of Germany and convert the nation into a more useful and far less dangerous agricultural state, but on the surface it certainly appears to be the nearly ideal solution to the disposition of that murderous Third Reich, after her defeat. * * * If this problem is not handled more satisfactorily than it was at the end of the first World War, we are only inviting a revisitation of disaster, and next time it may completely destroy civilization. That is the primary reason why I feel the time apropos for this letter to be sent to you, Sir, commending your plan. * * * Assuming the intentions of Messrs. Hull and Stimson are highly honorable, they shall win my undying respect if they will give complete accord to your plan and convince 130,000,000 Americans they are fully cognizant of the terrible danger which will lie dormant in a powerful industrialized Germany, such as now exists. * * * Thank you for your attention, if you have read this far, Sir.

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Stanley J. Wosczyo, New Britain, Connecticut. * * *
I'm proud to admit that I approve of your plan,
for at least it can guarantee from 20 to 50 years'
peace -- that's much more than can be said of the
other plans advocated by other members of our Govern-
ment. * * *

Harold D. Draper, Draper Chevrolet Company, Saginaw,
Michigan. I admire the stand you have taken on the
elimination of Germany as a world power. My personal
opinion is that Germany no longer has the right to
exist as a nation. The crimes she has committed
against the rest of the world put her beyond the
pale of association with decent people. She has
declared and waged five wars since 1860 and has been
successful in three of them. She has been defeated
in the last two only at tremendous cost to the rest
of the world in lives and wealth. In this war, when
she occupied a country, she deliberately murdered
all of its inhabitants she chose to and stole all of
the wealth of that country she could lay her hands
on. Now that the tables are turned, why should we
treat her with any more consideration than she has
treated the countries she has conquered? I do not
advocate murdering the German population, but it
strikes me as sensible that her country could be
divided among those surrounding countries she has
occupied and her population could come under the
jurisdiction of these countries as far as they were
able to absorb and control them. * * *

Alfred A. Granman, The Mountain Finance & Realty Co.,
Denver, Colorado. I want to congratulate you on the
stand you are taking in regard to solving the German
problem. I agree with you as do a great many of my
friends that yours is the best so far offered, and
I hope that you will not change. The terms are severe
but not to a nation whose slogan is "Might is Right".

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Wm. T. Seibels, Solicitor, Montgomery, Alabama. * * *
I trust you will make a fight to have your views carried out. It is going to be a fearful price to pay, twenty-five or thirty years from now, when these treacherous Germans get their war organization ready. Let's not fool ourselves. They will come forth with a powerful army, even though we have the most positive restrictions and closest circumspection of their industrial growth. Leniency towards Germany at this time is going to cost us very heavily in the future. We have had one experience and let us profit by the mistakes of the past. * * *

Eula Miller, Pasadena, California. You are right about making Germany into an agricultural country. We never civilized the Kaiser until he became a wood-chopper. * * * Remembering the committee we had investigate her industries after War I, who walked right past her plants and didn't recognize a war tool when they saw it, I have no confidence in what an investigation would accomplish. * * *

Louis J. Pies, Lockport, New York. Writer has read with interest reports of your plan for postwar Germany. I believe it would clarify the thinking of many Americans on this subject if you would make a complete statement of your position on this vital matter.

Sully Levitt, Training Organization, War Shipping Administration, New Orleans, Louisiana. This is to voice my approval of the "hard peace" that you sponsor for postwar Germany. Until your scheme projected itself as a beacon light high above a welter of conflicting and confusing ideas, I was in despair of the turbulent future lying ahead. Here in Louisiana everyone I've spoken to likes your plan. True, it is a drastic solution, but like severing the Gordian knot, a strong but effective method is necessary. There is, unfortunately, a strong and steady force of isolationism in our country,

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which will materially increase in strength after the termination of the European war. That in itself will weaken our position and interests in Europe and for that very reason, a plan such as yours should be adapted as our policy in the immediate future. * * * There is no question that a strong sentiment exists against weakening Germany so as to maintain a strong buffer state against the USSR, but experience has shown that its power will be misused and that German spirit of conquest will rise again and perhaps be more successful the next time against a drained and war-sick world. One can easily surmise that due to difference in interests our present Allies can estrange themselves, and with power politics in play again, Germany can regain her prewar status. Your plan, put into action at once, will at least prevent such a contingency and will aid in a lasting peace.

Worcester Perkins, Rector, The Rectory, New York City. I am intensely interested in following the correctly reported opinions of those expressing them concerning what should be the disposition of Germany after the war. This evening - Monday October 2nd - Mr. Swing gave an interpretation of what your opinion on this disposition of Germany is. In a sentence to the effect that - Germany should in part be made into an agricultural country - plus the producer of light industry. Other comments I have heard covering your opinion have been too confusingly stated to give (in my opinion) what you sincerely and earnestly believe on this matter. Mr. Swing's remarks on your convictions if truly stated, give the most sensible, wise and fair suggestions for postwar Germany I have heard. I write to ask if your said convictions are anywhere in print, for if so, I would greatly appreciate acquiring a copy of same. I am reminded to remark that your position seems to provide, first - for a peaceful Europe, and secondly, for a patient growth of prosperity. You seem desirous to assure permanent prosperity through the establishment of sound underpinnings of peace; without which there can be no permanent prosperity in Europe. I hope, Sir, you will pardon my intrusion upon your valuable time and worthy efforts in postwar planning.

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Unfavorable Comments on Statement Concerning
Postwar Plans for Germany

Allen P. Lovejoy, III, West Hartford, Connecticut.
It was with great dismay that I learned of your plans to de-industrialize completely the German nation after the war. This seems to me to be a very short-sighted and primitive kind of vengeance, which will only create a similar thirst for vengeance among the German people. * * * Your proposals seem short-sighted because we are indebted to the Germans for a great part of our industrial and technological advancement in the past hundred years. Is it necessary to forego this contribution in the world of the future? * * * Are our national leaders going to be pig-headed and let us down again as they did after the last war, or are they at last going to be far-sighted and really lay a foundation for world peace? You fellows in Washington are on the spot right now.

Perry D. Avery, Minister, First Congregational-Christian Church, Kokomo, Indiana. I am one among those who have been shocked by the senselessness of the proposal attributed to you as to the treatment of postwar Germany. To try to punish war criminals and to penalize Germany for her aggressiveness and war crimes is one thing, but the talk of reducing a nation to peasants by stripping it of all machinery is quite another. No peace which is based on anything but justice to the German people can hope to last, regardless of how we may try to weaken and disarm the nation. The German people would probably welcome disarmament provided they were given some hope of rising as a self-respecting nation among the family of nations again. But to deny them hope and heap injustice on retribution is, I repeat, senseless. * * * We common people want a lasting peace and are convinced that it can come only by correcting the injustices that underlie the causes of war. Your plan only plants the seeds of perpetual conflict.

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Gordon Shull, North Manchester, Indiana. Subject: your proposed plan for dealing with Germany. ARE YOU KIDDING?

J. Robert Mackey, Minister, The Beach Methodist Church, Jacksonville Beach, Florida. * * * I wish to register my emphatic protest against the so-called "plan for justice" to Germany after the war, as reported in the press, supposedly under your sponsorship. It's a mystery to me how we can clothe this present conflict with talk of such high ideals of justice, freedom, and truth, and then in the next moment propose a policy toward our enemies so obviously based upon hatred and vengeance that should it be put into effect, will mark the beginning of World War III. * * * I am sure you have the best interests of the nation and of the world at heart. But it's high time that both our citizens and our leaders realized that we cannot say one thing and do another without the whole structure collapsing in ruins. * * *

Margaret Ideson, Rockaway Point, Long Island, New York. Your proposals for Germany are so completely odious that I wonder if you could have been born in this country and if so, how you failed to capture any of the Anglo-Saxon spirit of fair play which animated its founders. * * * Our defeated General Lee is acknowledged the greatest of our military leaders and the Southerners who poured out their blood in defense of their homes, the bravest of men. The Yankees, preferred in many cases, to purchase substitutes to do their fighting and dying. In the entire annals of humanity no nation has ever shown such courage, endurance and faith in their ideals as do the Germans today. In meeting the onslaught of the three great powers and their purchasable mercenaries, armed with all the money and resources in the world, they have been magnificent - more than human. * * * To destroy Germany - in the name of Freedom when the very concept of individual Freedom arose in the German forests and was defended by them for a thousand years against

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Oriental despotism. Do we propose now to give over to slavery a nation who have always prized Freedom and Honor above possessions - to the despotism of Russia? * * * Is this the fate you prepare for Germany? From Germany, Mr. Secretary, we derive all Anglo-Saxon civilization, all the institutions of our modern family life are founded on barbaric tribes of Germany. * * * The Germans are not the mean and despised race our propagandists tell us. They occupy every throne in Europe, either by inheritance or by choice of the people. In our own country, where they form, after the English, the largest percentage of our population, they are recognized as the most valuable and law abiding of our entire citizenship. * * * It was never contemplated by our Founders that we should undertake to regulate interior policies of other countries. All of our historians confirm this. Colonel Lindbergh offered us the noblest advice when he said we must make our system work so that there can be no better.

Robert S. Mathes, Warren, Ohio. (Minister, First Reformed Church). Many of us were profoundly shocked to read in the daily papers of the plan for Germany which you set forth. I want to voice my vigorous protest against any such blind vengeance on the part of our nation. The strict control of German industries following the war is one thing (and I am in favor of it), but the plan you suggest is another, and I believe repugnant to the majority of the American people. * * *

Helen Ring, Boston, Massachusetts. I have just been reading Time's description of your plan for postwar Germany. I think it is disgraceful that any man big enough to hold a high office in the United States Cabinet is little enough to let hate carry him to such extremes. * * *

Paul Fay, Rochester, New York. A soldier from France writes as follows: "Mr. Morgenthau's plan for Germany after the war has done more to bolster Nazi morale than anything that has happened in months. The Secretary of the Treasury is only making a lot tougher for us boys the job that must be done, and believe me it's plenty tough right now. We are doing our best to break down the enemy's morale, but the job is made tougher when men like Mr. Morgenthau announce some screwy plan that makes our enemy only fight harder and more desperately." I heartily agree with the soldier, and also believe that your plan proves that you know very little about true peace that will last and prevent future wars. Why not stick to your job as Secretary of the Treasury and let men who have a proper conception of such problems handle such affairs?

Mrs. Claire Buchannon, New York City. What an awful ass you are to want Germany to become a farm country when the whole world knows that she is 100% ahead of all other countries in music, science, medicine, arts, inventions, and of course, agriculture. You will never in a hundred years make her anything but what she is now, and always was ahead of everyone, etc., etc.
* * *

Joseph S. Werlin, Director, University of Houston, Summer Center of Mexico. Knowing that you will be interested, I am attaching an editorial from this morning's Houston Post entitled, "Unwise Punishment". I have still another reason. Ever since the story broke in the Associated Press, I have been wondering whether you really sponsored this plan of de-industrialization of Germany. * * * I am just a bit curious to know whether the newspapers are substantially correct in asserting that you are strongly pushing for the above-mentioned plan. I ask this solely in the interest of exact knowledge and definitely as a friend and well-wisher.

Laura Inglis, The First Congregational Church, Webster Groves, Missouri. If the Germans needed a shot in the arm at the crucial moment, you certainly provided that shot with the announcement of your plan for the future of Germany. It accomplished what Goebbels and Hitler could not do in lending a super strength to them as they pictured the idea of their beloved fatherland turned under the plow -- all cities, art, education, civilization gone. What about those Germans who at heart have tried to uphold the United States and are opposed to Hitler? Now others can say to them, "There is no justice or mercy or decency in Americans". * * * This war was begun as a war of liberation. The onus is on us to prove we are better than Nazis, and so far the liberated peoples have not been substantially better off. Let us be worthy of our longtime reputation for kindness and high idealism seeing the welfare of all. * * *

Mrs. Vernon A. Ward, Sr., Robersonville, North Carolina. I commend you for surrendering your determination to hold out for a hard peace proposal in the sense that Germany would be reduced to an agricultural status. Of course you have known all the time that many farm products must be processed industrially before they are consumable; and that the common people are the losers when undue transportation costs are added on to the prices consumers must pay for life's necessities. * * * Again I applaud you for consenting to forego what would surely have resulted in further tragedy and sorrow. * * *

Edith P. Paxson, Corresponding Secretary, Women's International League for Peace and Freedom, Swarthmore, Pennsylvania. We wish to protest your plan for destroying Germany completely as an industrial state and converting into an agricultural country of small farms.

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Anonymous - Cincinnati, Ohio.

RASPUTIN!

L. Y. Van Bensechem, San Francisco, California.
Am enclosing for your attention a very good analysis
of your postwar plan for Germany and I sincerely
hope that you will or have read it. Dorothy Thompson
is 100% correct because she knows Europe. It is
evident that you are not familiar with HISTORY and
that you don't know anything about Europe, which is
simply unbelievable for a man of your position. Don't
you think it would be preferable to leave your post-
war planning to the Department of State?

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General Comments

The following is taken from a letter addressed to the President by Jung Oi-won of San Francisco, Calif.: In regard to the remittance to Free China from the United States by the oversea Chinese for family relief, the fund is only in the hands of the Bank of China. This has caused a number of mischiefs to the Chinese families in China. The Bank of China and its branches are delaying the cash and in many cases failing to pay the 100 percent of supplement which is being granted by the Chinese Government for family relief, even hold checks without payment at all. The corruption of the Bank of China as stated above results in millions of people starving to death. * * * The living is continually sky high, while the Chinese Government still maintains the official rate as one hundred Chinese national yuen for five United States dollars. Such an official rate is only a disadvantage to the oversea Chinese for remittance because they send money back for family relief unable to meet the high cost of living. Furthermore, recently the Chinese Treasury Department strictly prohibited communications especially mentioning money sending, except through the Bank of China. On account of the cruelty and crookedness of the Chinese Administration in general, in addition to the evil of monopoly, we urge the United States banks to reopen the remittance to China as before the war and justify reducing the rate from United States dollars to Chinese national yuen. This would be a great relief work for the Chinese, the people of an ally nation, of course, not for the sake of a few in the Chinese Government. * * *

Unfavorable Comments on Bonds

Franklin H. Eckert, Schuylkill Haven, Pennsylvania. I regret to inform you that this is the seventh letter I have written to the Treasury Department in regard to two \$25 Bonds I have purchased during my employment at the Middletown Air Field, Middletown, Pennsylvania, of which not a single letter was replied to. For your information, it has been about two years and two months since I have purchased these bonds, and the records were transferred from Middletown to Washington, for some reason or other -- haven't heard from them since. So, if you will see that I get them, I will appreciate them very much. Thanking you for your trouble.

Byron M. Findling, Cashier, The First State Bank, Hobart, Indiana. I do not know who had the idea of banks cashing bonds over the counter, but whoever thought of such a thing and had it put in force did not appreciate what the small banks have been doing in this war effort. As a small bank we have done a good job of selling and having the purchasers keep same after they had bought. We could so easily talk them out of cashing same when we told them it would take a week to ten days to get a check for them. In most cases, they would say that they would have a payday before the check came, so they could get along. If an emergency arose, we could offer to help them so they could keep their bonds. Now we have no story to give them because it has been fixed so easy to cash. * * * It seems to me that this new ruling has knocked the props from under the bankers to want to sell bonds. * * * Today we cashed 103 bonds and I do not think that there were more than one or two cases where they had to have some money. Our phone rang all day asking if we cashed bonds now. It is just my thought to give you some information that might help in adjusting this situation so that the public will not have it so easy. I have often thought a bond that could not be cashed for ten years, except in case of death or unemployment, would help.

Mrs. Bertha Stewart, Washington, D. C. I wonder if you have any idea what is going to be said, in fact, is being said, about you and your bond-selling methods among our soldiers -- and you expect to get votes from our service men? You ask them to give their lives and then you "high pressure" them into buying bonds. In the meantime, you put on a bond drive here; spend thousands of dollars doing it; a frightful political broadcast with the aid of Orson Wells, and other such fools, and expect us to buy bonds. * * * No. I will help the boys in my own way. I'll not give you a dime of my money to play with, and there are thousands that feel as I do, and resent your forcing our service men to buy bonds. When my boy gets out of uniform I'll bring him to your office and prove what I say. I hope to God you will no longer be in office. If you are, my boy and others may make it very warm for you.

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Mrs. Bertha Stewart, Washington, D. C. I wonder if you have any idea what is going to be said, in fact, is being said, about you and your bond-selling methods among our soldiers -- and you expect to get votes from our service men? You ask them to give their lives and then you "high pressure" them into buying bonds. In the meantime, you put on a bond drive here; spend thousands of dollars doing it; a frightful political broadcast with the aid of Orson Wells, and other such fools, and expect us to buy bonds. * * * No. I will help the boys in my own way. I'll not give you a dime of my money to play with, and there are thousands that feel as I do, and resent your forcing our service men to buy bonds. When my boy gets out of uniform I'll bring him to your office and prove what I say. I hope to God you will no longer be in office. If you are, my boy and others may make it very warm for you.

Unfavorable Comments on Taxation

Reuben T. Bassett, West Hartford, Connecticut. I wish to call your attention to a rank injustice which is being fostered on the men of the Armed Forces of this country, and I would like an explanation as to why this is necessary; this is a matter of taxes on travel on the airlines of this country. My son is a member of the Navy and has just returned after combat service, to the United States (at San Francisco), and given a leave, and desiring to get home as soon as possible, took the airlines and was charged \$21.60 for tax, and has now returned and has paid \$21.60 more for tax. This is \$43.20 from a sailor who receives \$78.00 per month in the Navy. The airlines tell me that members of the Red Cross do not have to pay this tax, or members of the diplomatic service. They receive more than \$78.00 per month and could well afford to pay, rather than take the money from the men who are fighting this war. * * * I further understand that this tax is not even deductible from the income tax. I would be pleased to hear from you, and would further appreciate it if you would send to me at once the regulations or laws covering the above questions so I may take the matter up with my Congressmen and Senators.

Walter W. Reedy, Sr., Lebanon, Pennsylvania. Regret very much to take any time away from a busy man who is doing a gigantic job. Under such a responsible job as U. S. Treasurer are many departments and personnel running them; with many subordinates who get the idea into their heads that they are proprietors, instead of a sort of go-between for the public taxpayer and the Treasury Department. The one sure way for you top officials to learn about some of the incidents and conduct of these proprietor-type subordinates in dealing with the public taxpayer is when warranted legitimate complaints are mailed direct to your Department. The man I am referring to is Mr. Philip G. Wolfersberger, Deputy Collector, Lebanon, Pennsylvania. September 7, 1944, I had a "Violation Notice" tied to

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an outside mirror brace of my International truck, parked on 6th Avenue and Cumberland Street, alongside my residence. My name is printed on the truck, Wolfersberger personally knows me, knows where I live, no excuse whatsoever for not stepping in over the pavement and inquiring about the "Federal Motor Vehicle Use Stamp" which he failed to see, and placed the Violation Notice. * * * I stopped in at the U. S. Post Office, second floor, where this man used to sit, at 10:25 a.m. -- no one there. I loitered awhile, and no one around, so I left. Today, while in Lebanon on other legal business, I met this guy walking on the pavement, and inquired why he placed that violation notice on my truck. He said it displayed no stamp. I told him there is a stamp on, now, and at that time -- had been since July 1, 1944. He said none on the windshield, I answered no, and it don't have to be on the windshield. It is on the left side window. Well, he said what did you do with the notice, I answered I still have it. He started changing color and becoming angry, said, why didn't you turn it in with the stamp number on it. I said no use, I am no violator. He said turn it in with the number on it or the case will be sent to Philadelphia to headquarters and you will be fined \$25.00. I replied no, sooner send it to the U. S. Treasury with an explanation and complaint. Well he said I may have failed to see it, AND I DON'T GIVE A DAMN IF I DID. * * * This man is, as I see it, getting too big for his job as a Federal employee. * * * I bought three of the \$5 use stamps numbering 33745813, 33745848, 33745849. Check these serial numbers with the Lebanon Post Office record as to date of sale, and then re-check again on the vehicles I have them posted on, and you will find them either on the windshield or the left side windows. They are there and I put them there as soon as I had bought them. * * * Thanks for your valuable time, Mr. Morgenthau. I hope I may be able to be of more help along such lines later on.

Willard C. Beach, Willard C. Beach Air Brush Company, Harrison, New Jersey. I have just received Excess-Profit Refund Bonds of the First Series and I am at a loss to understand why my Government should make a refund in the form of a noninterest-bearing, nonnegotiable bond, not subject to redemption until "the last day of the second calendar year beginning after the cessation of hostilities of the present war", when this money was paid in cash as a part of my taxes and represents an overpayment. Why shouldn't I receive a Series E War Bond for the amount of this excess profits tax refund? As a layman, it doesn't impress me with the financial condition of our Government to have it offer nonnegotiable paper in exchange for cash. * * * I am more interested in the reason for such procedure than I am in the amount involved and I would appreciate a detailed explanation.

October 6, 1944.

Dear Mr. Seavey:

I want to compliment you on your effective appearance on the Town Hall program last night.

The net impression I get after talking to a number of people is that the program should have a very wholesome result.

I think you performed a substantial public service in participating and I thank you.

Sincerely,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Professor Warren Seavey
Harvard Law School
Cambridge, Massachusetts

HEG/mah

WARREN A. SEAVEY
HARVARD LAW SCHOOL
CAMBRIDGE, MASSACHUSETTS

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October 16, 1944.

Hon. Henry W. Morgenthau,
Secy of the Treasury.

Dear Mr. Secretary:

Thank you for the opportunity to speak on a subject which I regard as of the most importance at the present time. I would welcome any further opportunity to write or speak, believing that if people will listen to the full story, which could be only partially sketched in the time allowed, they will be convinced both of the danger and of the probable ineffectiveness of alternative plans.

Sincerely,

Warren A. Seavey
Warren A. Seavey

NOV 11 1944

SECRETARY OF THE TREASURY
DELEGE

October 6, 1944.

Dear Mrs. Carter:

I thought it a very interesting and fruitful discussion that you had on the Town Meeting of the Air last night.

I am writing to express my appreciation.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mrs. Marian Carter
Radio Forum Division
The Town Hall, Inc.
123 West 43rd Street
New York, New York

HEG/mah

October 6, 1944.

Dear Mr. Stout:

Please accept my personal thanks and my compliments on your vigorous and convincing appearance on the Town Hall program last night. The impression here is that "our" side had all the best of it.

I think I can discern a distinct turn in public sentiment away from the idea that in the interest of peace we must avoid doing anything on the economic front that will make the Germans unhappy.

Sincerely,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Mr. Rex Stout
55 East 86th Street
New York, New York

HEG/mah

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OCT 6 1944

Dear Mr. Sinclair:

Thank you for your letter of September 27, 1944, and for your kindness in sending me reprint of an article which you published in the New York Times last year.

I was very much interested in your suggestions for the internationalisation of German industrial capacity. I share your views that every effort should be made to make it impossible for the Germans to use this capacity in the preparation for another war.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Upton Sinclair,
Highhope,
Marrovia, California.

b.n.
OK at 10/5/44

g.d.w.

FILE COPY

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October 2, 1944.

Dear Mr. Sinclair:

Your letter of September 27 has been received, and as the Secretary is away from Washington, I am acknowledging it in his absence. Just as soon as he is back at his desk, I shall be very glad to bring it to his attention, and I am simply letting you know that it has reached here.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Upton Sinclair,
Highhope,
Monrovia, California.

GEF/dbs

UPTON SINCLAIR
MONROVIA, CALIFORNIA

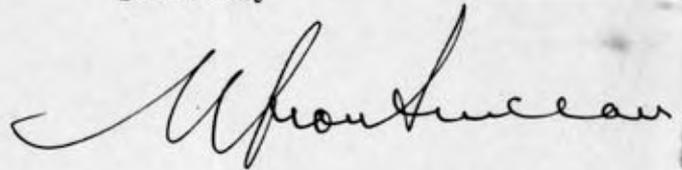
September 27, 1944

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

Dear Mr. Morgenthau:

I read in the papers that you are interested in the problem of what use is to be made of German industry. I don't know whether you chanced to see the enclosed article when it was published in the New York Times. I have reprinted it, with Mrs Roosevelt's comments on the back cover, as you will see. I wish very much that you could find time to read this article, as it offers what I believe is the only permanent solution of the problem.

Sincerely



US-hwc



SEP 28 1944

RECEIVED
OFFICE

TO SOLVE THE GERMAN PROBLEM--

A FREE STATE?

By UPTON SINCLAIR

From The New York Times, Sunday
Magazine, August 15th, 1943

Price 5 copies for 25 cents

The New York Times:

Here is a provocative article on one of the most pressing problems which confront the Allied nations. Mr. Sinclair is a leading Socialist and the author of many social novels and political pamphlets. The Pulitzer Prize for fiction was awarded to him in 1943 for "Dragon's Teeth."

Oswald Garrison Villard: That is an extraordinary piece of yours in the Times, and one of the most original and striking and brilliant pieces of constructive political writing that I have ever laid my eyes on. It is staggering in its simplicity, and overwhelming in its far-reaching possibilities.

John Haynes Holmes: Deep satisfaction over a thoroughly statesmanlike document. Your Freestate idea penetrates far deeper than most of the post-war plans. These plans are conventional and uninspiring. Your idea is highly original, and seems to meet the conditions of an old Europe swept to ruin.

Stuart Chase: A good hot idea.

Reprinted by
UPTON SINCLAIR,
Monrovia, California

Price, 6 copies for 25 cents

As these words are put on paper, American and British armies are taking possession of Sicily. Before these words appear in print American and British armies may be in possession of Italy, and possibly of Greece, and even of portions of northern France, Belgium or Holland. Some time not very far in the future they will be invading the soil of Germany; and, if the precedent of the last war counts for anything, we may expect a sudden collapse and look forward to the day when British and American statesmen will have to administer the governments and decide the future of Germany and all its satellite States.

When that time comes we shall confront a problem without precedent in history. The setting up of Humpty Dumpty, the unscrambling of a basketful of eggs, will be a child's puzzle in comparison with the one which the statesmen of Britain and America and Russia will have to solve. The Nazis have deliberately scrambled the whole of Central Europe. They have done it with German thoroughness for the precise purpose of making it impossible for anybody to unscramble it.

I do not mean merely that populations have been shifted about; that millions of families have been driven from their homes and the homes and land turned over to Germans or quislings. I mean that the industry of Europe has been taken to pieces and put together again on a new principle. Competition among the industries of different nations has been entirely wiped out and the

whole thing has been reconstructed into one colossal industrial trust managed by Nazis for one purpose and one only, the waging of Nazi war and the gaining and preserving of Nazi victory.

Of course, a considerable portion of that industry will be wrecked in the course of the fighting; no one can guess what percentage, and it would be a waste of time to try. What is important is that the structure will be left, the idea and the system; and no other structure, no other idea or system will be left. The American, British and Russian armies which take over Central Europe will have that Nazi economic machine to work with, and somebody ought to be thinking hard right now and deciding what use is going to be made of it.

Let us try to visualize the problem in a few of its details. Factories in France have been stripped of their machinery and the machinery has been set up in Germany, nobody on the outside knows where. Automobiles are no longer made in France; the parts are made in France and the complete machines are assembled in Germany. Airplane engines are manufactured in Poland and put into the planes in Bavaria, or vice versa; I don't know which, for it is a Nazi war secret.

..... We shall have to find out ten thousand such secrets when the collapse comes. We shall find that in general the satellite States were planned to be slave States, inhabited by peasants deprived entirely of education and ideas (everyone who had any ideas hav-

ing been shot) and used to produce food and raw materials to be shipped somewhere else and made use of by the master race, the Herrenvolk.

All the key machinery has been taken to Germany; all the vital industrial secrets, all the "know how," is in the brains of Germans. No machine can run independently any more. It is all part of one great machine, and that machine is run from one central bureau somewhere in Germany, nobody outside of Germany knows where.

The wholesale bombing of the Ruhr has undoubtedly caused the withdrawal of immense quantities of machinery farther into the interior of Germany, and it seems well established that all the newest and most recent constructions are in the eastern and southeastern parts, or in what was once Czechoslovakia and Austria. There are coal and iron there and other natural resources, and just as Russia has shifted her industrial heart to the Ural Mountains, so Germany, counting on her ability to hold back the Russian armies, has made herself a new and colossal industrial machine as far away from British and American bombers as she can get.

We can say that she has scrambled Central Europe; or, considering the complex of small States which was there set up by the Versailles settlement, we can adopt the German point of view and say that Germany has unscrambled Central Europe. Whichever way we phrase it, the fact stands that Germany has there constructed one colossal industrial empire designed and used for the

purpose of conquest and dominion "for the next thousand years" (the phrase of Hitler).

Now the Allied armies are going to take possession of that empire and have to decide what to do with it. The decision will have to be made immediately, for the people of that scrambled land will have to have not merely food but clothing and shelter and means of transportation. We shall of course have to send them food, but we shall expect them to go to work and raise crops, and if that is to be done they must have plows and spades and tractors and gasoline, and if their shattered homes are to be rebuilt they must have lumber and hammers and nails.

Two courses can be followed: we can proceed to break up that industrial empire and set up a multiplicity of small competing enterprises; or we can take the great construction, one of the greatest achievements of human energy and brains, convert it from the ends of war to the ends of peace and set it to making plenty and comfort for the peoples of Central Europe for the next thousand years.

If we choose the former of these two programs, we shall be putting Europe back into poverty and blind strife. I was going to say that the next thousand years of Europe would be like the last thousand, but that is a rhetorical phrase which overlooks the fact that the bombing plane has been invented. Europe cannot repeat its old history of incessant wars and preparation for wars—at least not until its wars have completely destroyed modern civilization and modern

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ideas and Europe is back once more in the days of the ox cart and the hand plow. If modern machinery is to exist and if large-scale production is to be carried on, the statesmen of the world must manage to find a way to use those gigantic new tools to make possible the production of mass security and comfort. The time of decision is coming with speed beyond our imagining. In the words of Carlyle: "Choose well, your choice is brief and yet endless."

Here is a sketch, set forth for the consideration of all who believe in the validity of moral standards and in the possibility of applying them in the fields of industry and government; who believe that the mind of man is capable of conceiving not merely bombing planes and machine guns but also peace, order, and justice in the ancient field of government and likewise in the modern field of mass-production industry.

Those portions of the German Empire and of its satellite states which have been integrated into a great war-production industry shall be taken over by the Allies and converted as quickly as possible into a peace-production industry for the whole of Europe. They shall be constituted into a new political entity called Freestate, in German Freistaat. They shall be reconstructed and administered by a corporation composed of industrial experts from the Allied Nations. They shall be dedicated to the purpose of producing the goods needed by the peoples of Europe. The goods produced shall be sold at cost—the word cost including naturally the adminis-

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trative costs of the government of the Freestate territories.

All tariffs on goods entering and leaving Freestate shall be abolished. Access to and through the territories of Freestate shall be free to all law-abiding persons. As soon as the work of reconstruction has been achieved and the enterprise has settled down to continuous and orderly production, the governing board of Freestate shall admit to its membership representatives from all the peoples of Europe and the enterprise shall ultimately evolve into a public service corporation, controlled by the peoples who share in its benefits, not merely those who live in its territories and labor in its industries but those who purchase its products.

In other words, it will become a producers' and consumers' co-operative, self-sustaining and conducted on strictly business lines; a corporation not for profit but for public service. We are familiar with many such in America, and the peoples of Britain and Scandinavia would be able to furnish experienced administrators who would not have to invent anything but would merely apply old and thoroughly tested principles.

This outline sketch will not attempt to set the geographical limits of Freestate. In modern times economics is more important than geography, and the limits of this new industrial commonwealth ought to be marked out by the industrial experts. The new map makers of Europe ought to invite qualified engineers to study the new Nazi production machine and state: "These oil refineries,

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these chemical plants, these mines and mills and smelters are essential to the 'vertical trust, or cartel, which Freestate is to become.'" The pre-Nazi owners should be compensated with bonds to be amortized out of the production, and the great machine should be started without an unnecessary hour's delay.

No American needs to be told the manifold advantages of mass production, and there are few Europeans who do not know that American workers ride in automobiles because American industry is integrated. We desire to teach democratic principles to the war-torn peoples of Europe, but it seems to me equally important that we should teach them the modern wholesale method of producing useful goods at prices in reach of all.

If we send our armies over to Europe and conquer the dictators, and then proceed to break central Europe and the Balkans up once more into a dozen small states, all with their armies, their border guards and customs officials, we shall be performing what seems an un-American action, and certainly a stupid and futile one, for which the people of Europe will not thank us for long.

In the settlement of the last war we set up what was called a cordon sanitaire, a row of small border states intended to seal off western Europe from bolshevism. The results require no discussion; they are before our eyes. Instead of a twenty-billion dollar war we have now got a three-hundred-billion-dollar war on our hands. Instead of four million men under arms we shall have twelve

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million, and instead of landing and fighting in France and the Balkans we shall have to land and fight on half the perimeter of Europe and Asia and most of the islands of Australasia. In short, we are having to do the job all over again, and finding it a much bigger job.

Where is our cordon sanitaire going to be this time? There was class struggle all over Europe before this war broke out, and unless we display wisdom and statesmanship from the first moments of our victory we are going to see it flame into a general conflagration. We can see it in miniature in North Africa, where the different political factions are quarreling among themselves and the mass of the people are not being consulted.

Very soon we shall have to be deciding what kind of government we are going to give to Italy. We say that we are going to let the people of Italy decide, but when and how? Are we going to hold a general election while our armies are using Italy as a base from which to bomb Germany? And, if not, who is going to govern the country in the meantime and have the advantage of getting a firm grip on the governmental machinery, the newspapers and the radio and all the means of shaping public opinion? And how are the people going to be fed, and who is going to run their factories and make the profits in the interim?

All these questions have to be answered, and the answers which we have given in North Africa will influence those which we give in Italy, and these in turn will influ-

ence the answers for the whole of central Europe. They will determine the attitude of the peoples of all the nations of Europe to our advancing armies. Will they resist us, or will they be apathetic and indifferent, or will they rise up and acclaim us and give us their aid?

It is necessary that we should tell them what we are going to do, and if we would put before them this project of Freestate and let them know that the three great industrial nations—the United States, Britain and Russia—are going to give them the benefits of mass production at cost, and thus make it possible for them to enjoy peace and plenty at the earliest possible moment, it might be the means of saving the lives of hundreds of thousands of American boys, to say nothing of the tens of billions of dollars which might be used in turning our own machinery away from the ends of war and to the ends of peace.

There is nothing utopian about this proposal. The writer fully recognizes that American armies are going to have to stay in Europe for a considerable time. They are going to have to impose order and maintain it, and there are not going to be any general elections in conquered territories until peace and order are secured. The only question is how long a time is this going to take, and what kind of settlement can we count upon to prove durable? The answer is, one kind and one kind only, that which will give the people of the conquered region the thing toward which they have been blindly groping,

the thing which all people everywhere in the world demand as soon as they see it portrayed upon the motion-picture screen—the benefits of the application of modern machinery and streamlined production methods such as we in the United States have come to take for granted.

Suppose that somebody were to suggest unscrambling the American Telegraph and Telephone Company, and setting up some thousands of separate telephone systems in American towns, making it impossible for New York to get Los Angeles on the wire without first making arrangements to pay the seventeenth part of a cent's tribute to Pottawatomie, Kan. Suppose it were proposed to break up the United States Post-office system and require that airmail from New York to Los Angeles should have to be put down at Pottawatomie and censored there, and pay an extra cent for the cost of the operation.

That is similar to what we shall be doing if we break up the industrial system which the Germans have established in central Europe. The fact that the people of central Europe are used to the old ways won't alter the fact that they will be poor and ignorant under that old system and that they will soon be going to war again to rob one another of the products of industry instead of settling down under an integrated system of cooperation to produce all the goods which all of them need. When they get the benefits of the new system, it won't take them many years to appreciate these benefits. Such is

the basis of peace in Europe, and the only basis.

The question will be asked: What about the government of the Freestate and its political constitution? It is to be assumed that neither the President, nor the State Department, nor the Congress of this great Republic would desire to establish anywhere in the world a government that rested on a basis other than popular consent. It would be unreasonable to expect that this goal can be reached in the midst of the confusions of war. The victorious Allies will have to set up the machinery and get it started. But if Freestate is to endure it must become a government of the people, by the people and for the people, and it must be guaranteed and protected by some sort of international authority, dedicated to the preservation of world peace.

The fact that Freestate will be not merely a government but a giant cooperative suggests the idea of a Parliament with two chambers, a House elected by those who dwell within its borders and a Senate elected by the wider populations who constitute its markets. Such adjustments call for ingenuity guided by a practical sense. We are used to the idea that the Pennsylvania Railroad remains one industrial entity while passing through five States and a Federal district; that the Ford Motor Company functions in forty-eight States and several score foreign countries. Now comes the airplane to make territorial boundaries of less significance than ever before and requiring political and

economic organizations more extensive and more complex.

Who has anything to lose from the establishment of Freestate? Many persons who enjoyed privileges under the old system: members of the aristocracy, landlords and capitalists who were not troubled by the presence of poverty and ignorance all around them. Also there may be American industrialists who are hoping to make profits out of the reconstruction of Europe; American bankers who expect to make commissions on the sales of European bonds, as they did in the last war, and who expect to unload the bonds and not be troubled if the bonds are defaulted. There may even be some Americans of conservative mind who fear that the setting up of a socialist commonwealth in Central Europe would be a very bad precedent for the United States.

To all true conservatives the writer would point out that at the end of this war Europe is going to be one vast powder keg, capable of producing such an explosion as has never before been known in human history. One lesson which every worker in Europe has by now learned thoroughly is that the Soviet Union has been able to get production and to defend itself; in other words, that those persons who told the world that "Communism cannot succeed" were somehow making a mistake.

If the Allied armies and the statesmen who direct those armies do not solve the problem of production in Europe, if they leave the armies to be disbanded and the former sol-

diers to idleness and hunger, we shall certainly be confronted with the phenomenon of Nazis and Fascists turning overnight into Reds.

At the present time our statesmen are doing everything in their power to persuade Russia to cooperate with the democracies. We all hope that Russia will; but what is going to happen if the Russians see the proletariat of one European nation after another going Communist and stretching out their arms to the Soviet Union, begging for help and support? Who is there that can predict the outcome of that situation if we permit it to occur? Just at that time we shall be having our hands full getting our own disbanded armies back into production; and what is going to be the political reaction in the United States if millions of our boys are kept in Europe to wage another war to put down bolshevism?

It seems to me that this is a poor time for anybody in our great democratic Republic to be thinking about a chance of making profits out of Europe's anguish. Far better that we should be devoting our best technical brains to the task of helping the peoples of Europe to discard the remnants of feudalism from their affairs, to forget their ancient quarrels, their national jealousies and class greeds and to unite in building a modern, humane and prosperous community. We are the people who have the leisure to plan this, and the final decision will rest with us. "Choose well; your choice is brief and yet endless!"

From Mrs. Roosevelt's column, "My Day,"
August 12, 1943:

Upton Sinclair has just sent me an article he has written called "Free State—a Plan for European Reconstruction." I don't know in which publication this will appear, but I think some of the things he says about the problems which will confront us in Europe when our armies are victorious, are well worth considering now.

The following is an excellent summary of what will confront the United Nations:

(Mrs. Roosevelt here quotes part of paragraph 2 and all of 3.)

That is a very accurate picture. While much will undoubtedly be destroyed before victory is achieved, Sinclair's suggestions as to how to meet the problem are really interesting. I think that the people of this country will be interested in this article, but even if they do not read it, the statement of the problem is well worth their consideration.

How would you preserve that which is good in the future chaos and bring the best economic situation as quickly as possible to the greatest number of people? These populations will be able to carry their own weight, and be of use to us and to the rest of the world as co-workers only as they get settled and return to economic security.

OCT 6 1944

Dear Mr. McCloy:

Thank you very much for your letter of September 29, enclosing the statement on Policy on Relations Between Allied Occupying Forces and Inhabitants of Germany prepared in Supreme Headquarters, Allied Expeditionary Forces.

I have read this carefully and I think it is a very good job. Pursuant to your request, I am returning the document for your files.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Attachment.

Mr. John J. McCloy
Assistant Secretary of War
Washington, D. C.

JH:Wistear
10/6/44

SECRET

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THE ASSISTANT SECRETARY OF WAR
WASHINGTON

*Copy of Enclosure &
letter filed 9/29/44 -
29 September 1944 -
B.O.K 777, p. 91*

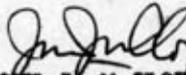
Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

Dear Mr. Secretary:

I think you would be interested in the enclosed statement on Policy on Relations Between Allied Occupying Forces and Inhabitants of Germany prepared in Supreme Headquarters, Allied Expeditionary Forces.

After you have read it, will you be good enough to return it to me as it is my file copy.

Sincerely,


JOHN J. MCGLOY

Inc.

SECRET C.C.S. Memo 239, 22 September 1944

SECRET

October 6, 1944

My dear Mr. President:

Mr. Hull's memorandum of September 26th, which I am returning, seems to reflect a complete misunderstanding of what I proposed, namely, the creation of a Foreign Financial Policy Committee.

I would like to suggest postponement of discussion on this important matter until after your re-election.

Yours sincerely,

(Signed) Henry

The President,
The White House.

Del. by S. E. Agent 3117

My dear Mr. President:

Mr. Hull's memorandum of September 26, which I am returning, seems to reflect a complete misunderstanding of what I proposed, namely, the creation of a Foreign Financial Policy Committee.

~~May I postpone discussion of the whole matter until after your re-election?~~

I would like to suggest postponement of discussion on this important matter until after your re-election.

Yours sincerely,

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THE WHITE HOUSE
WASHINGTON

September 28, 1944.

MEMORANDUM FOR

HON. HENRY MORGENTHAU, Jr.

FOR YOUR INFORMATION AND
RETURN FOR MY FILES.

F.D.R.

O.K.

F.D.R.

DEPARTMENT OF STATE
WASHINGTON

September 26, 1944

MEMORANDUM FOR THE PRESIDENT

Reference is made to your memorandum of August 21, 1944 in which you asked my views on the establishment of a Foreign Financial Policy Board.

If such a Board were to have responsibility for actually formulating foreign policy in the financial field, I believe that its establishment would be inconsistent with the terms of reference of the already existing Executive Committee on Economic Foreign Policy. This Committee was established in accordance with your letter of April 5, 1944, "...to examine problems and developments affecting the economic foreign policy of the United States and to formulate recommendations in regard thereto for the consideration of the Secretary of State, and, in appropriate cases, of the President."

During the six months of its existence, the Executive Committee has made gratifying progress in the development of a coordinated program of foreign economic policy. In view of its broad perspective of international economic affairs, the Committee is, I think, especially competent to perform the function of coordinating the financial policy of this Government with other closely interrelated aspects of economic foreign policy. I do not believe, therefore, that the establishment of a separate Foreign Financial Policy Board is necessary or desirable. In fact, the establishment of such a board would have the effect of splitting off financial policy from the remainder of the foreign economic field of which it is an integral part, with serious results to our whole program.

There may, however, be considerations pointing to the need for an interdepartmental committee to coordinate, within the general framework of foreign economic policy,

foreign

foreign financial activities such as those carried on by the Export-Import Bank, the Reconstruction Finance Corporation, the Surplus War Property Administration and agencies of the Government dealing with the Stabilization Fund, Foreign Funds Control, Lend-Lease operations and financial problems of the liberated areas. Such a committee might, also within the framework of foreign economic policy, assume responsibility for the preparation of detailed directives for the guidance of United States representatives on such proposed international bodies as the International Monetary Fund and the International Bank for Reconstruction and Development. It is important however that, if such a committee is established, every precaution should be taken to avoid artificially separating the formulation of financial policy from that of foreign economic policy in general. It was for the purpose of achieving this unity that you established the Executive Committee on Economic Foreign Policy and provided in your letter of April 5 that major interdepartmental committees concerned with foreign economic affairs should be geared into the Executive Committee.

If you so desire, I should be glad to ask the Executive Committee on Economic Foreign Policy to explore this matter and prepare a plan for coordination of our foreign financial operations.

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October 6, 1944.

Dear Mr. Willett:

For the Secretary, I am acknowledging receipt of your memorandum of October 4 which transmitted copies of Executive Reports 1, 2 and 3, on lend-lease operations as of August 31, 1944. Mr. Morgenthau is very glad to have these reports and appreciates your courtesy in seeing that he received them.

Sincerely yours,

(Signed) H.S. Klotz

H. S. Klotz,
Private Secretary.

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

GEF/dbs

FOREIGN ECONOMIC ADMINISTRATION

WASHINGTON 25, D. C.

October 4, 1944

MEMORANDUM

To: The Honorable Henry Morgenthau

From: Herbert Willett
Director of Research and Reports
Office of General Counsel

Subject: Executive Reports on Lend-Lease Operations

Transmitted herewith, for your information,
are copies of Executive Reports 1, 2 and 3, on
lend-lease operations, as of August 31, 1944.

CONFIDENTIAL
Executive Report No. 1

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

Report as of August 31, 1944

(Thousands of Dollars)

Appropriation Category	Adjusted Appropriations	Cumulative to August 31, 1944		
		Allocations	Obligations	Expenditures
Ordnance and Ordnance Stores	\$1,467,306	\$1,462,407	\$1,404,773	\$1,279,818
Aircraft and Aero. Material	2,474,625	2,468,026	2,433,997	2,177,811
Tanks and Other Vehicles	739,273	703,309	657,629	633,095
Watercraft	3,621,703	3,585,167	3,396,079	3,149,533
Misc. Military Equipment	304,288	300,562	267,657	265,475
Production Facilities	1,087,688	1,086,878	1,055,578	1,006,608
Agric. and Indust. Commodities	17,190,589	14,605,917	11,684,084	9,776,248
Servicing, Repair of Ships, etc.	790,818	737,467	658,786	647,377
Services and Expenses	500,000	419,526	324,709	281,999
Administrative Expenses	33,208	30,324	28,748	28,559
Total	28,209,498	25,399,583	21,912,040	19,246,523

Procuring Agency	Cumulative to August 31, 1944		
	Allocations	Obligations	Expenditures
War Department	5,266,910	5,150,109	4,863,431
Navy Department	3,780,903	2,891,086	2,440,101
Maritime Commission and War Shipping Admin.	3,586,476	3,388,921	3,272,470
Treasury Department	5,555,208	4,103,075	3,449,050
Department of Agriculture	7,183,669	6,355,210	5,202,269
Other	26,417	23,639	19,202
Total	25,399,583	21,912,040	19,246,523

September 28, 1944

CONFIDENTIAL
Executive Report No. 2

STATEMENT OF LEND-LEASE AID

Report as of August 31, 1944

(Thousands of Dollars)

Type of Aid	Cumulative to		Month of	
	Aug. 31, 1944	July 31, 1944	August	July
Goods Transferred	\$27,136,431	\$26,126,755	\$1,009,676	\$1,307,755
Servicing, Repair of Ships, etc.	548,445	538,069	10,376	15,216
Rental of Ships, Ferrying of Aircraft, etc.	2,415,210	2,275,493	139,717	64,741
Production Facilities in U. S.	625,423	621,824	3,599	124
Miscellaneous Expenses	99,504	98,315	1,189	2,269
Total Services	3,688,582	3,533,701	154,881	82,350
Total Goods and Services	30,825,013	29,660,456	1,164,557	1,390,105

Data on Goods Transferred include value of goods procured from lend-lease appropriations to the President and to the War and Navy Departments.

Type of Aid	Cumulative to August 31, 1944				
	Br. Empire	China	U.S.S.R.	Other	Total
Goods Transferred	\$20,131,752	\$214,472	\$6,169,436	\$620,771	\$27,136,431
Servicing, Repair of Ships, etc.	379,437	1,896	113,762	53,350	548,445
Rental of Ships Ferrying of Aircraft, etc.	1,920,113	13,991	272,732	208,374	2,415,210
Production Facilities in U. S.	-	-	-	-	625,423
Miscellaneous Expenses	52,747	1,213	2,843	42,701	99,504
Total Goods and Services	-	-	-	-	30,825,013

September 28, 1944

CONFIDENTIAL
Executive Report No. 3

LEND-LEASE GOODS TRANSFERRED

Report as of August 31, 1944

(Thousands of Dollars)

	Cumulative to August 31, 1944				
	Br. Empire	China	U.S.S.R.	Other	Total
Ordnance (Excl. Ammunition)	\$796,734	\$15,742	\$285,130	\$24,772	\$1,122,378
Ammunition and Components	1,693,577	22,204	429,927	32,778	2,178,486
Aircraft	2,532,664	81,480	859,590	122,782	3,596,516
Aircraft Engines, Parts, etc.	1,475,023	27,329	284,195	27,119	1,813,666
Tanks and Parts	2,367,335	939	487,047	40,375	2,895,696
Motor Vehicles and Parts	647,777	26,053	700,626	21,973	1,396,429
Watercraft and Parts	2,570,680	6,147	239,293	183,169	2,999,289
Foods	2,601,434	46	1,029,115	30,128	3,660,723
Other Agric. Products	599,972	48	13,000	144	613,164
Machinery	634,745	6,662	713,112	13,171	1,367,690
Metals	976,630	11,856	417,552	45,409	1,451,447
Petroleum Products	1,189,155	2,578	50,755	3,081	1,245,569
Miscellaneous Materials and Manufactures	2,046,026	13,388	660,094	75,870	2,795,379
Total	20,131,752	214,472	6,169,436	620,771	27,136,431

September 28, 1944

October 6, 1944

My dear Lord Keynes:

Thank you very much for your letter of October 5th, transmitting a book of charts which was prepared for the Prime Minister.

After we have finished with the book, I shall be glad to see that it is returned to you.

Sincerely yours,

(Signed) H. Mergenthaler, Jr.

Lord John Maynard Keynes,
United Kingdom Treasury Delegation,
Willard Hotel,
Washington, D.C.

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→ 1. white
UNITED KINGDOM TREASURY DELEGATIONBOX 880
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

TELEPHONE EXECUTIVE 2020

REFERENCE.

5th October 1944.

Dear Mr. Secretary,

It occurs to us that you might like to see a book of charts which we have before you go away and before we are in a position to deliver to you our main literature. This book was prepared for the Prime Minister about a month ago before he went to Quebec. He is, as perhaps you know, very partial to this method of presentation. I do not know whether it appeals to you also, but perhaps it may. There are certainly some diagrams in this book which are rather striking. For example, the chart in the first section, marked E.1 in the corner, which gives the net reserves against British banking and other quick liabilities.

I should emphasise that the figures used in compiling this book are not so up-to-date as those we shall be using in the documents submitted next week. In particular, they are pre-Quebec and take no account of any changes made necessary by the Quebec decisions.

As this is a unique copy, we should be grateful if we could have it back some time, but please feel free to show it to any of your colleagues who might be interested.

Ever sincerely yours,

Keynes

The Hon. Henry Morgenthau, Jr.

OCT 6 1944

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Dear Admiral Land:

You are perhaps aware that at the Quebec Conference the President designated me as the head of an informal and confidential American Committee to formulate and recommend to the President, within the broad outlines he has laid down, a United States policy governing lend-lease to Great Britain during "Phase 2", that is, the period following the defeat of Germany through the defeat of Japan. The other members of this Committee are Mr. Edward R. Stettinius, Jr. and Mr. Leo T. Crowley.

In approaching this problem I want to assemble as much information as possible pertaining to the probable or anticipated British requirements during "Phase 2". For this reason I should be grateful for any such information the Maritime Commission might be able to supply.

Specifically I should like to know how many and what categories of ships and supplies you estimate the United Kingdom and the British Empire will require to be furnished through the agencies under your direction during this period, together with an indication of the dollar value such aid would represent. In addition I should like to have your estimate of the dollar value of services, such as transportation, ship repair and the like, which you might be called upon to furnish. If your agencies expect to receive reciprocal aid in either materials or services from the British during this period the probable values should be indicated if possible. For purposes of comparison during forthcoming negotiations with the British it would be helpful if you could also indicate the estimated value of the above types of direct and reciprocal aid for the first year of "Phase 2" as distinct from the period as a whole.

The American Committee plans to begin discussions of this problem very soon and joint discussions with the British will follow at an early date. Accordingly, I should appreciate it very much if you could supply me at your early convenience with the kind of information I have suggested above, or any other material you believe would be useful.

Very truly yours,

(Signed) W. Morgenthau, Jr.

Secretary of the Treasury.

Admiral Emory S. Land,
Chiefman, Maritime Commission & War
Shipping Administration,
Commerce Building,
Washington, D.C.
IMC:PL 10/6/44

103
OCT 6 1944

Dear Mr. Crowley:

Reference is made to your letter of September 18, 1944 in regard to the application of the dollar counter value of troop pay of American troops in France to the outstanding obligations of the French for civilian lend-lease supplies delivered to French North and West Africa.

It is my opinion that the procedure for transference of dollars should be decided upon only after discussions with the French. We have asked Mr. Valensi, in a letter dated September 16, 1944, to advise us of the account into which the French would like to have us pay the dollar counter value of the U.S. troop pay to them. A reply has not yet been received.

The French Authorities, as you know, have already taken steps to transfer to us the sum of \$50 million against the existing debt for civilian supplies sent to French North and West Africa. This action is assurance of the present intentions of the French Authorities to meet their obligations.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Leo T. Crowley
Administrator, Foreign Economic Administration
Room 414 National Press Building
14th and F Streets, Northwest
Washington 4, D. C.

FOREIGN ECONOMIC ADMINISTRATION
OFFICE OF THE ADMINISTRATOR
WASHINGTON 25, D. C.

OCT 5 - 1944

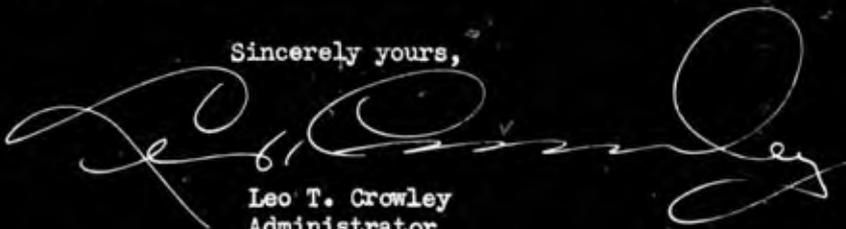
The Honorable
The Secretary of the Treasury
Washington, D.C.

Dear Secretary Morgenthau:

We would like to get cleared up within the reasonably near future the outstanding balance owed by the French for Lend-Lease supplies previously furnished to French North and West Africa. It would be appreciated, therefore, if you could let us have an answer to my letter of September 18, 1944, to you on the question of making available the troop pay credit to the French for the payment of this pre-existing Lend-Lease obligation.

We understand, of course, that the French are trying to make available \$50,000,000 from their other assets to apply to the outstanding obligation for Lend-Lease supplies previously furnished to French Africa. But the amount presently owing for these supplies is in excess of \$50,000,000 and it is likely to grow for supplies furnished to Metropolitan France as well as to French Africa. It would, therefore, be desirable to have the arrangements made for the application of the troop pay credit for these obligations as soon as convenient.

Sincerely yours,

A large, flowing handwritten signature in black ink, which appears to read "Leo T. Crowley". The signature is written over the typed name and title.

Leo T. Crowley
Administrator

FOREIGN ECONOMIC ADMINISTRATION
OFFICE OF THE ADMINISTRATOR
WASHINGTON 25, D. C.

SEP 18 1944

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

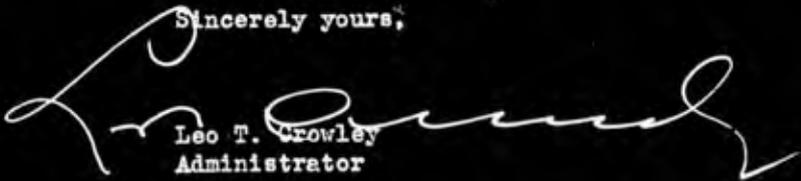
My dear Mr. Secretary:

Mr. Christian Valensi, the French Financial Attache, has sent me a copy of a letter which he addressed to you on September 5, 1944, concerning the application of dollars accruing from the pay of United States forces in France against the obligation of the French Committee of National Liberation for civilian supplies delivered to French North and West Africa under the Modus Vivendi Agreement of September 25, 1943.

As you are doubtless aware, other dollar obligations for supplies delivered to continental France are also accruing to the French. I would like to suggest that the dollar accruals on account of troop pay be credited first by the Treasury Department to the special account established pursuant to Section 6(b) of the Act of March 11, 1944, (the Lend-Lease Act) to the extent required for the French to meet their obligations for civilian supplies heretofore delivered to French North and West Africa. It is my belief that this obligation, which has been outstanding for some time, should be met in full before other later accruing French obligations, and, in a letter to me dated August 25, 1944, Mr. Valensi assured me that the French expected to pay for these civilian supplies promptly and to keep payments for future deliveries of civilian supplies under the Modus Vivendi on a current basis.

I shall greatly appreciate your assistance in this matter, which, now that most of France has been liberated, seems to me to require prompt settlement.

Sincerely yours,


Leo T. Crowley
Administrator

9/22

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

169 ✓
Sony case

DATE 10/6/44

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr., and H. D. White

I know you will be interested to know that on October 2 this Government took the first step toward implementing Reslution VI of the Bretton Woods Conference. Our missions in Switzerland, Sweden, Portugal, Spain, and Turkey presented copies of said Resolution to the governments of these countries, accompanied by a note reading as follows:

"I have been instructed to inform you that my Government, considering the Bretton Woods Resolution to be directed at the same purposes as the Declaration of London, of January 5, 1943, with respect to looted property, and the declaration of February 22, 1944, concerning gold, fully supports the said Bretton Woods Resolution. In accordance with the terms of that Resolu-tion, I am instructed therefore to state that my Government calls upon your Government to institute such measures as will fulfill the aims of the United Nations as expressed in the Resolution. I am further instructed to state that my Government considers coopera-tion in this matter to be of primary importance to the welfare of occupied nations and to the protection of the lives and property of their nationals, and to the peace and security of the post-war world."

On the same day, the British took similar action.

Joseph J. O'Connell

Treasury Department
Division of Monetary Research 170

Date.....19

To: Mrs. McHugh's office

This is the report which Brig.
Gen. Edgar Erkin Hume sent to the Secretary
on Sept. 22nd. You have reply for Secy's
signature and requested this report.

L. Shanahan

*Book and original
file returned to White's
office 10/13/44*

MR. WHITE
Branch 2058 - Room 214-1/2

OCT 6 1944

Dear General Huse,

Thank you for your letter of September 22, 1944 enclosing a copy of the report on the Allied Military Government of Rome under the Fifth Army, June 5 to June 15, 1944. I appreciate your interest in sending it to me and should be pleased to receive future reports on the experience of the Allied Military Government in other Italian cities.

I remember with pleasure our visit together in Naples.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Edgar Erskine Huse, Brigadier General, GSC
Headquarters, Allied Military Government,
Fifth Army,
A.P.O. 444.

HEADQUARTERS
ALLIED MILITARY GOVERNMENT
FIFTH ARMY
APO 464

22 September 1944.

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

Dear Mr. Secretary:

Recalling your kindly interest in the work of Allied Military Government with the Fifth Army during the time of your brief visit to Naples and the area nearby, I thought you might like to have a copy of my printed report on the Allied Military Government of Rome. I enclose one herewith. While the period covered was a brief one, it was of the greatest political and economic importance and I believe the results achieved by my associates amply justified the many months of planning that preceded our actual government of the Italian capital.

I have now had the experience of setting up the military government in most of the important Italian cities so far occupied, including, Naples, as you know, as well as Rome, Siena, Leghorn, Florence, Pisa, Lucca, etc. In the event that reports on the government of these cities are printed, I will send you copies.

I remember so well the last time I saw you when John Boettiger and I told you something about our work. It was when you were staying at the Royal Palace in Naples. I am afraid we completely exhausted you as the hour was late and you had experienced a trip to the front earlier that day.

With expressions of great esteem and cordial personal regards, I am,

Faithfully yours,


EDGAR ERSKINE HUME

Brigadier General, GSC
Senior Civil Affairs Officer

EEH:seb
Inclosure.

The New York Times.
OCT 6 1944

**OWI Sees Wide Dislocations,
Some 'Serious,' After V-E Day**

**'Restricted' Report Is Based on a Survey
Among Government Agencies — Price
Control, War Loans Likely to Go On**

WASHINGTON, Oct. 5 (AP)—A "restricted" report of the Office of War Information which came to light today predicts that dislocations in civilian life after V-E day (victory in Europe) are likely to be widespread and, in some quarters, serious.

The survey, compiled three weeks ago, predicts the end of hostilities in Europe "before or not long after the end of 1944," but Elmer Davis, OWI director, said it now appeared that the date "might be more remote."

Mr. Davis refused to make public the report, although 4,000 copies have already been distributed to persons in the advertising business. He said information in it was obtained from Government agencies on the promise that the facts would not be made public. OWI officials said parts of it which had been published were correct excerpts but might be somewhat out of date.

Subsequently, Mr. Davis issued a statement saying that the OWI would ask all the agencies which contributed data for the report to release the OWI from the secrecy pledge. If all consented the document would be made available for publication.

5,000,000 May Shift In Year

The report cites a War Production Board estimate that about 5,000,000 persons would be changing jobs in the year following V-E day, that a "substantial portion" would be absorbed in the reconversion of industry, but that "in most cases a war job will continue to be the best job for at least six months after V-E day."

"Very difficult situations may develop in some areas where the (arms) cutbacks will have the

heaviest impact," said the survey, citing WPB sources.

The OWI said there were no accurate estimates of how many persons would be unemployed at any single time during the changeover from war to peacetime production. The employment problem between the ends of the German and the Japanese phases of the war would not be "unmanageable," it was predicted, and the ratio of unemployment to total population might be no larger than in 1929.

Mr. Davis explained that the report had been prepared for firms and agencies helping the OWI in advertising campaigns. Its intent, he said, was to help advertisers plan their future programs and to let them know which OWI promotion campaigns might be dropped and which continued.

Arnhem Altered the Forecast

The forecast on the end of the German phase of the war was outdated, he said.

"Everybody is agreed since the Arnhem affair"—the gallant but futile Allied effort to maintain an airborne bridgehead across the Rhine—"the European war looks longer than it did three or four weeks ago," Mr. Davis added.

The OWI predicted an increase in inflationary pressures after V-E Day and even after victory over Japan, adding that price controls might continue for "quite some time."

"The necessity for raising vast sums from the public will continue practically undiminished for some time after V-E Day, according to the Treasury Department," the survey said.

Other forecasts included easing of gasoline rationing "very gradually" over several months, and the end of passenger car tire rationing within three months after V-E Day.

V-E DAY*

An Estimate of Home Front Information Problems in the Six-Month Period Following the Defeat of Germany. This estimate is based upon data especially prepared for the Office of War Information by officials of both War and regular Government Agencies.

This document is to be regarded as a restricted government publication for the confidential use of the person to whom it is directed and appropriate associates; its contents are not to be published, broadcast or otherwise disseminated to the public.

- * "V-E Day" refers to the time of Germany's collapse, and might stand for a specific day, or a period of time, depending on military and political developments inside Germany.

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INTRODUCTION

The American people, noting the current trend of military events, are undoubtedly justified in believing that the fighting in Europe could terminate before, or not long after, the end of 1944. Too many at home may tend to feel that this will mean the virtual end of the war, instead of what it is—the conclusion of only half the war.

Essential home front participation in the continuing war effort against Japan, and popular support for the task of policing European Axis countries will be achieved only if the public understands why its cooperation is still needed, in some cases to a greater degree than ever before, in dealing with certain problems.

The following pages present an estimate of information problems which will be encountered during the first six months after V-E Day. This estimate is based on data especially prepared for the Office of War Information by officials of both war and regular government agencies. It is impossible to foresee all the contingencies which may arise during this period. But it is felt that the home front information activities of the Office of War Information and those of all its cooperating media facilities can be projected for six months after V-E Day on the basis of the best information now obtainable.

Dislocations in civilian life after V-E Day are likely to be widespread and, in some quarters, serious. To alleviate the situation as much as possible, new information programs will probably be launched and will require the continued support of all media facilities. Many home front problems posed by dislocations after V-E Day will be regional or local and must be so handled. But the Government will continue to need facilities volunteered by industry to help solve national wartime information programs.

No information program sponsored by OWI will be continued beyond the time it is actually and urgently needed. As an information need is met, and the purposes of a specific information program are either realized or abandoned because of unpredictable developments, all commitments made for the support of that program will be cancelled and the media involved will be notified accordingly. Media with long closing dates will be used only for those information programs which will remain relatively unaffected by V-E Day. But after V-E Day, all OWI programs will be conducted within a framework of an alert, flexible policy designed to protect both the Government agencies which use OWI facilities and the volunteered media used by OWI.

This report contains data only on those problems already being brought to the attention of the American people through the coordinated informational efforts of government and industry. It somewhat pointedly

excludes from consideration events and trends which bid fair to affect the thinking and actions of the American people even more than the problems discussed.

Casablanca and Cairo, Teheran and Quebec witnessed the beginnings of a new era of international negotiation. Hot Springs, Atlantic City, Philadelphia, Bretton Woods and Montreal have seen the start of international excursions into the fields of food, relief and rehabilitation, labor and finance. Postwar security, probably through an international organization backed by armed force, has been the topic at Dumbarton Oaks. The Anglo-American oil agreement may be only the first of a number of covenants dealing with such matters as international trade, air transport, communications.

If pledges of the United Nations to punish war criminals and police the enemy countries are going to be kept, it will mean that some members of the armed forces must be kept overseas and under arms while others are being released and resettled in civilian life.

Influential voices are being raised for and against some form of universal military training. Many people are concerned over the problem of the returned soldier and sailor. Will there be an economic relapse after the war, and if so, will it be of such magnitude as to call for a large public works program? Will war-swollen communities die and become ghost towns? Must the Government assist in bringing about an orderly redistribution of wartime populations?

These are some of the events and trends that already begin to determine the shape of things to come. It is still too early to foretell to what degree they will need to be translated into terms of information for the American people. And, it is too early even to debate whether or not some of them may properly fall within the sphere of a program initiated by a public information agency.

But the picture of the immediate future is incomplete if these problems on the horizon are ignored. Although not within the province of this report, they probably will have a substantial, albeit unpredictable effect, on the public response to numerous domestic problems.

Insofar as current wartime information problems are concerned, some programs, such as Victory Gardens, Crop Corps, and Food Conservation probably will terminate with V-E Day or shortly thereafter. The need for other programs such as Don't Travel probably will continue for only three or four months.

But programs such as War Bonds and Economic Stabilization will become more vital and accordingly will require greater support than ever before. The tremendous cost of the Pacific War, of the upkeep of forces of occupation, of rehabilitation and reconversion, must be financed largely through War Loans. War Loan Drives in the face of

increased public optimism can succeed only if they receive intensive support. And V-E Day will bring in its wake many new forces that can jeopardize the success of the Economic Stabilization program unless intensified informational efforts create the public understanding and action needed to keep prices from rising. Similarly, more vigorous informational efforts will be needed to keep people on essential jobs and to recruit workers in fields where there are continuing shortages.

Any SPECIFIC information program after V-E Day must be considered in relation to the OVER-ALL picture in four broad information areas of most vital concern to the general public. These areas are Manpower and Production, War Financing, Economic Stabilization and Civilian Supply. The following estimates accordingly have been given due weight in the determination of information policy on a particular subject.

Manpower and Production. The War Production Board, working with procurement and other war agencies, roughly estimates that some five million people will be changing jobs DURING the year following V-E Day. There are no accurate estimates of how many will be unemployed at ANY ONE TIME. The over-all figure excludes women, the aged and such others as are now working largely because of the war and high wages. It includes those who will be released from the armed forces during the year after V-E Day, assuming continuance of the Japanese War during this period.

The War Production Board has not estimated what part of the five million are likely to be absorbed by the processes of reconversion, but it believes that a substantial portion will be absorbed and that there will not be an unmanageable employment problem between the ends of the German and Japanese Wars. Even in 1929, which has been regarded as a period of prosperity, some two or three million were unemployed. Today the population is larger, but the ratio of unemployment to total population may be no larger than in 1929. The nation's economy will be bolstered by the still tremendous war production necessary for the Japanese War—between 50 and 60 percent of current war production.

This picture should be considered against the background of the RATE of war production cutbacks. WPB, adopting the forecasts of the Army and Navy as to their needs for the Japanese War, estimates a production cut of between 40 and 50 percent following V-E Day.

It is probable that most of this cut will occur within six months, and a large part within three months, after V-E Day, and that most of it will affect Army rather than Navy contracts. The cuts, moreover, will affect some areas more than others. Hence, it is expected that there will be a comparatively brief period of localized but numerous and sharp dislocations, the character and intensity of which will depend on the unknowable factor of the reconversion rate.

In the opinion of the War Production Board, the impact of cutbacks will have one useful effect in that it will rapidly clear factories of

war machinery and quickly provide manpower on a broad scale so that civilian production will not be so greatly hindered by shortages of some items, especially components.

Even so, component shortages—for example, fractional horsepower motors for washing machines—and certain material shortages such as lumber, will probably have a restraining effect for a short time. Generally, it is expected that during the year after V-E Day enough resources will be available to permit civilian production at least at 1939 levels.

It should be emphasized, however, that this period will be one of rapid fluctuation. Very difficult situations may develop in some areas where cutbacks will have the heaviest impact. And there will be widespread, serious problems such as the settling of war contracts, material shortages which obstruct big production opportunities, and the removal of war machinery from war plants trying to reconvert.

War Financing. According to the Bureau of the Budget, war expenditures for the fiscal year ending June 30, 1945, will be close to the 90 billion dollar Budget estimate, as against 89.7 billion for the last fiscal year, regardless of whether or not Germany collapses by the end of 1944. War Bond Drives will require greater and more effective support than ever because the necessity for buying and holding bonds in the national interest may be more difficult to make clear.

Economic Stabilization. The Office of Economic Stabilization believes that inflationary pressures and the danger of rapidly rising prices will increase after V-E Day and even after the end of the Japanese War. This situation will continue until reconversion is relatively far advanced and the available supply of goods in all important categories approximately balances the demand. It will be recalled that 40 percent of the rise in the last war occurred AFTER the Armistice. The information program on Economic Stabilization clearly will require increased support.

Civilian Supply. According to the War Production Board, there will be a considerable lag in producing adequate supplies of radios, phonographs, washing machines, appliances, refrigerators, etc. Despite tremendous demands, lumber and machinery shortages may hold total expenditures for construction at existing levels.

According to OPA, ODT, and PAW, gasoline rationing can probably be relaxed gradually soon after V-E Day if such relaxation can be reconciled with continuing transportation problems and West Coast gasoline needs. Tire rationing probably will terminate within three months after V-E Day. Automobile rationing after V-E Day remains unpredictable. Although automobile production is expected to be at the 1939 rate within fifteen months after V-E Day, most of the 2-1/2 million cars and one million trucks that the automobile industry will be able to produce during the first year, will be produced after the first six months.

Nationwide fuel oil rationing will continue through the current heating season. Solid fuels conservation must continue regionally because of transportation and manpower shortages.

War Food Administration reports that during the six months following the defeat of Germany there will be slightly more food in GENERAL. Shortages of certain commodities will continue. Sugar will continue short; butter will be quite short; other dairy products will probably be tight; preferred meats, fats and oils will probably be short.

Processed foods, except fruit, will probably be ample. There will be a surplus of fresh fruits and vegetables. Poultry and eggs, dried beans and peas, wheat and other grains will be plentiful.

In general, insofar as the food supply is concerned, the civilian will be presented with the paradox of continued rationing for indeterminate periods of time on certain foods (butter, sugar, cheese, and choice cuts of meat, etc.), as contrasted with a more than plentiful supply of certain other foods (some canned goods, eggs, dried beans and peas, wheat, etc.).

Rationing of shoes and rubber boots will continue. Textiles and clothing will continue short of civilian needs.

THE MAJOR INFORMATION PROBLEMS

MANPOWER

I War Workers

A. Possible Public Beliefs After V-E Day. That now is the time to seek the security of jobs which promise peacetime employment, matched by a conflicting attitude in which fear of unemployment will induce workers to stick to war jobs.

B. The Facts. In the first six months after V-E Day, War Manpower Commission and War Production Board report that reconverted industry will be able to absorb a substantial part of the employees released through cutbacks. Peacetime job possibilities probably will be much better six months after V-E Day than within the first six months. It is believed that in most cases a WAR job will continue to be the BEST job for at least six months after V-E Day. Reemployment and retraining facilities will be functioning more efficiently AFTER the first six months than DURING those months. Cutbacks in some plants will enforce migration of workers to other areas, but many employees released by cutbacks do not compete for peacetime jobs. These workers include many women, older people and youngsters. Beating the Japanese will be a tough job and possibly a long one. Until Japan is defeated, the number of peacetime jobs available will be limited by material priorities and by the need for major industries to continue war production. But many firms producing civilian goods for non-civilian use during the war, and those

with machinery and plants suitable for civilian as well as war products (such as textile firms) will be able to convert quickly and hold most if not all of their employees.

C. Present Program. To explain that workers are still urgently needed in such wartime industries as rubber, forge and foundry, textiles, logging and lumbering, and Pacific Northwest ship repair areas, and to remind everyone that "war production comes first." Although only a couple of hundred military items are behind scheduled production, these shortages are critical because they are of critical supplies. For example, shortages of fractional horsepower motors affect planes, tanks and many other types of military equipment. Shortages of axles immobilize thousands of trucks. Similar shortages will probably develop after V-E Day. Unless they are corrected, Japan's defeat will be unnecessarily prolonged and reconversion, with its wider peacetime employment possibilities, will be correspondingly delayed.

D. Duration and Emphasis of the Information Job. Basically, the job will be to create perspective. The worker may exaggerate the impact of cutbacks. The tremendous interest in conversion may lead to very considerable uneasiness over the process which may in fact be proceeding rapidly. The fluctuating character of the situation may lead to over-emphasis of many kinds. Exactly what the information jobs will be cannot be predicted, but they will be many and difficult, ranging from "Stay-on-the-Job" in some instances, to "Cutbacks Must be Made Rapidly."

II Merchant Marine Recruiting

A. Possible Public Belief After V-E Day. That the Merchant Marine will have plenty of men to man its ships and that additional recruits will not be needed.

B. The Facts. The War Shipping Administration reports that ships will continue to be built in large numbers for at least several months after V-E Day. The sea-going work force drawn from both experienced seamen and trainees must be increased practically in substantial accord with the program scheduled for the entire fiscal year. This schedule calls for 40,000 more experienced seamen and about 40,000 trainees. The Merchant Marine must handle the withdrawal of a large part of our Army from Europe, move whole armies to the Pacific theater and increase the flow of war materiel along constantly lengthening lines of communication.

C. Present Program. Experienced men who have quit the sea, either temporarily or permanently, are being urged to return. Young men are being urged to join and train in the Merchant Marine schools.

D. Duration and Emphasis of the Information Job. The War Shipping Administration anticipates no diminution in the need for Merchant Marine personnel for at least another six months.

III WACS

A. Possible Public Beliefs After V-E Day. That the size of our Army, and demobilization, will terminate the needs for WACS. That the Japanese War will be primarily a Navy war.

B. The Facts. The Army says that WACS will continue to be needed to help in demobilization work as well as to compensate for attrition.

C. Present Program. To explain the need for WACS and to stimulate recruitment by indicating the opportunities for training available to WACS.

D. Duration and Emphasis of the Information Job. Recruitment will continue after V-E Day, but emphasis to be placed on the information program will be determined by the Army's needs.

IV WAVES

A. Possible Public Belief After V-E Day. That the Navy probably already has enough WAVES to finish the war against Japan.

B. The Facts. The Navy reports that with Naval activities against Japan enormously increased, more WAVES will be needed to help in organization and supply work.

C. Present Program. To explain the need for WAVES and to stimulate recruitment by indicating the opportunities for training available to WAVES.

D. Duration and Emphasis of the Information Job. The present WAVE quota is 92,900. Enlistments as of July 20, 1944 number 72,350. Plans call for a recruiting rate of approximately 1,000 women per week at least until this quota is filled and possibly longer. No diminution of emphasis contemplated at least before January 1, 1945.

V Cadet Nurses

A. Possible Public Belief After V-E Day. That the Government will no longer need to train new nurses and that the recruiting of Cadet Nurses will cease.

B. The Facts. The U. S. Public Health Service reports that regardless of Germany's collapse, the Government wants a total of 60,000 new nurses enrolled in training schools for the September-October and February classes. If this quota is met, there probably will be no need for a June, 1945 class. And, regardless of Germany's collapse, the 1945-46 quota will be approximately 50,000 new student nurses. The Bolton Nurse Training Act provides for the training of nurses not only for the armed forces, but also for governmental and civilian hospitals as well as for health agencies. An enormously increased need for nurses

after the war is anticipated, due to war casualties and greatly expanded public health activities.

C. Present Program. To explain the need for nurses and to stimulate recruitment.

D. Duration and Emphasis of the Information Job. The program will continue through 1945-46. Emphasis after V-E Day will be determined by the degree to which quotas remain unfilled and will be more on Governmental and civilian hospital needs, less on active service with the armed forces.

VETERANS' RETRAINING AND REHABILITATION

A. Possible Public Belief After V-E Day. That Veterans will have difficulty readjusting themselves to civilian life.

B. The Facts. All government agencies concerned with the armed forces expect that in many cases returned Veterans will find that readjusting themselves to civilian life will be both difficult and complicated. The Veterans' Retraining and Reemployment Administration, in collaboration with the War Department, War Manpower Commission, Civil Service Commission, Department of Labor, Navy Department, Selective Service, United States Employment Service, and the Office of Education has already worked out comprehensive plans to implement the GI Bill of Rights and other bills providing benefits for Veterans. These plans include mustering-out pay, insurance, employment, apprentice and vocational training, unemployment compensation, loans for homes, farms and business, education, hospital care, medical attention, disability pensions, care at national soldiers' homes, legal protection, income tax provisions and assistance with special problems. Plans for the entire demobilization job are designed to help about ten million Veterans make the transition from uniform to civilian life as swiftly, easily and confidently as is humanly possible.

C. Present Program. The information program has just started. This program will have a dual purpose:

1. To inform the Veteran and the serviceman of his rights, benefits and privileges on his return to civilian life, and to tell him where he should apply for them.
2. To create the greatest possible understanding of the Veterans' problems by the civilian, and of the civilian's part in the war by the Veteran.

D. Duration and Emphasis of the Information Job. This information program must be intensively sustained even after Japan is defeated, for so long as OWI may continue to exist, that is, not exceeding six months after the termination of hostilities.

WAR FINANCE

A. Possible Public Beliefs After V-E Day. That the need for buying and holding War Bonds will become progressively less with diminishing war production and evident decrease in total cost of the war effort. That additional war loans and between-drive purchases of War Bonds may seem unnecessary.

B. The Facts. The necessity for raising vast sums from the public will continue practically undiminished for some time after V-E Day, according to the Treasury Department. During the fiscal year that ended June 30, 1944, actual cash expenditures for war were 89.7 billion dollars. For the fiscal year ending June 30, 1945, war expenditures are estimated at about 90 billion dollars, according to the Bureau of the Budget. If Germany should collapse within the next few months, expenditures would not be very much less. A huge armed force must still be maintained and supplied, and nearly every service man mustered out will get the equivalent of six months pay. Some of the military equipment already supplied is only partly paid for; there will be a considerable time lag before payments are completed. Where contracts are cancelled, there will be large termination payments for work in process that will extend over some months. Above all there will be a Pacific War to be prosecuted, and this promises to keep war expenditures at a high level for some time to come.

Therefore, even if the fiscal year deficit estimated by the Budget Bureau at 53.4 billion dollars, is cut to 45 billion or 40 billion, or even to 30 billion dollars by the end of the European War, the amount to be raised through Treasury borrowing is still tremendous. In addition, it will be necessary for the Government to borrow about 15 billion dollars to refund its maturing issues and securities presented for redemption. In the aggregate, although borrowing may not total 67 billion dollars, it still will be sizeable in this fiscal year even if Germany collapses in a few weeks.

As the public becomes increasingly peace-minded, patriotic reasons for buying War Bonds ("backing the boys" by providing equipment) will lose compelling force. Creating a wartime drive psychology, necessary in War Loan Drives, will become increasingly difficult. Drives will be faced with the additional sales problem of growing reluctance of volunteers to man booths and solicit sales from neighbors. There have been from five to six million such volunteers during past drives, and four to five hundred thousand between drives.

C. Present Program. To persuade the public to invest as heavily as possible in government securities during periodic War Bond Drives, and between drives through payroll allotments, stamps, etc.

D. Duration and Emphasis of the Information Job. According to the Treasury Department, the need for War Bond Drives will continue so long as the war with either Germany or Japan is in progress. It is also possible, although not definitely predicted, that a Victory or Peace Loan Drive may even be required after all hostilities have ceased.

The course of events after V-E Day, with their repercussions on the domestic economy will undoubtedly change the atmosphere in which bond selling will have to be carried on. However, to a large extent the emphasis in drives, as in the past, will be upon patriotism, making self-interest appeals secondary.

ECONOMIC STABILIZATION

A. Possible Public Beliefs After V-E Day. That the war is virtually over and that postwar spending plans have a green light. That the time has come to buy new cars, new house furnishings, new appliances, new clothes, new everything. That War Bonds can properly be cashed to get the first new products off the assembly lines. That economic controls should be released.

B. The Facts. Reconversion will necessarily take some time. Certain goods, notably durable consumer goods, may be extremely short for a year or more after V-E Day. Demand for consumer goods and services probably will far exceed available goods and services, to which must be added unprecedented amounts of liquid savings. Hence, inflationary pressures in certain areas will probably be greater than ever after V-E Day.

There is thus no reason to expect that the danger of rapidly rising prices will disappear after V-E Day, or even after the defeat of Japan.

It will continue until reconversion is relatively far advanced and the available supply of goods is in approximate balance with demand in all important categories. Forty percent of the rise in the cost of living in the first World War occurred after the Armistice. Between November, 1918, and June, 1920, prices rose more than TWICE as rapidly as they had during the war period.

Price controls accordingly may be continued for quite some time. They have been extended by Congress until June, 1945. They will be discontinued only as fast as Congress deems it safe to do so.

C. Present Program. The public is being urged to buy only what it really needs. To pay no more than ceiling prices. To pay ration points in full. To refrain from demanding higher wages or prices. To save through War Bonds, and savings and insurance.

This basic program is being supplemented by a "Planned Spending and Saving" program which urges the people to manage their finances sensibly, and an auxiliary program directed specifically to farmers to manage wartime income wisely, to discourage land speculation, and to encourage the accumulation of reserves in War Bonds.

D. Duration and Emphasis of the Information Job. The Economic Stabilization program must, if anything, be intensified after V-E Day and indefinitely thereafter. Inflationary pressures will increase as continuing war needs delay reconversion and as private post-war plans are frustrated by the continuing shortage of civilian goods. Emphasis should be placed on the continuing danger of rising prices, on unavoidable delays in reconversion and on the tremendous financial as well as material cost of the Japanese War.

SALVAGE AND CONSERVATION

A. Possible Public Belief After V-E Day. That there will be no further need to salvage waste paper, waste fat, or tin, and that paper conservation will no longer be necessary.

B. The Facts. According to WFB, the shortage of wood will continue for several months. Accordingly there will continue to be need for paper salvage and, to a lesser degree, paper conservation. There also will continue to be a shortage of fats until the import situation can be improved.

C. Present Program. There are at present programs in operation covering all these needs. There is also an overall Fight Waste Program.

D. Duration and Emphasis of the Information Job. WFB reports that paper salvage should be continued. Extent of the paper conservation program after V-E Day cannot yet be determined. Waste fat salvage probably can be promoted adequately by industry without OWI assistance. Tin salvage will continue on a regional basis for some time. The present Fight Waste program will be discontinued.

GASOLINE, TIRES AND CARS

A. Possible Public Beliefs After V-E Day. That gasoline restrictions will be lifted almost immediately. That plenty of tires will be available very soon. That pre-war car models will soon be for sale.

B. The Facts. Gasoline rationing will be eased very gradually over a period of several months, according to OPA, ODT, and PAW. Immediate lifting of rationing will be impossible due to demands on our petroleum products for the Pacific War and for the rehabilitation of liberated nations. Passenger car tire rationing will probably be terminated within three months after V-E Day. The truck tire situation will also be easier. During the first fifteen months of reconversion the automobile industry will be unable to produce more than 2-1/2 million cars and one million trucks—less than the 1939 output, and only a fraction of the estimated demand. Most of these will not be available until the second six months.

C. Present Programs. Information programs now in force cover the gasoline black market, car sharing and car conservation.

D. Duration and Emphasis of the Information Job. Present programs will continue and will have to incorporate explanations for the continuing need for the conservation of gasoline, tires, and cars.

RAIL TRAVEL

A. Possible Public Beliefs After V-E Day. That passenger trains will no longer be crowded. That it will no longer be necessary to refrain from traveling in order that furlough and other military travel needs can be handled.

B. The Facts. The Office of Defense Transportation expects that immediately after V-E Day there will be an upsurge of railroad travel due primarily to war worker migration, and that there will also be tremendous increases in vacation travel for several months. After that, railroad travel is expected to decline considerably from its wartime peak.

C. Present Program. The Don't Travel program urges the public to refrain from making unnecessary trips.

D. Duration and Emphasis of the Information Job. After the initial upsurge of travel immediately after the collapse of Germany, which probably will last for several months, there will no longer be a need for cautioning the public against unnecessary trips.

SOLID FUELS

A. Possible Public Beliefs After V-E Day. That plenty of coal will be available in all parts of the country.

B. The Facts. The Solid Fuels Administrator for War reports that cutbacks in steel production after V-E Day will considerably ease the industrial coal supply, and possibly bring some relief in the shortage of high-grade Appalachian bituminous coals for domestic heating. There is little prospect that anthracite will be more ample during the winter. Manpower and truck shortages will continue to handicap retail coal dealers in making deliveries. Railroad transportation in the East will be adequate, but will continue tight in the Northwest.

C. Present Program. The coal conservation program is part of the over-all fuel conservation program currently in operation. It urges people to winterize their homes, to order coal early and to conserve heat in every way possible.

D. Duration and Emphasis of the Information Job. The public must continue to be told at least on a regional basis, to order fuel early, to accept coal sizes the dealer has available, and to conserve fuel by conserving heat in the home.

FUEL OIL

A. Possible Public Belief After V-E Day. That ample fuel oil will become immediately available and that rationing will cease.

B. The Facts. The Petroleum Administration for War, the Office of Defense Transportation and the Office of Price Administration report that serious problems of petroleum supply and transportation will persist. A large part of the military petroleum requirements in the Pacific area must be supplied, as well as unpredictable relief and rehabilitation needs. Some sections of the country will be affected more than others. But unless there is an unforeseen easing of the supply and transportation problem, fuel oil rationing will be necessary during the 1944-45 heating season. Rationing probably will be unnecessary for the 1945-46 season.

C. Present Program. The fuel oil conservation program is part of the over-all fuel conservation program which urges the public to winterize homes, order fuel oil early and conserve heat in every way possible.

D. Duration and Emphasis of the Information Job. The fuel oil program will continue through the 1944-45 heating season with scheduled emphasis on winterizing homes, ordering fuel oil early and conserving heat.

FOOD

A. Possible Public Beliefs After V-E Day. That food rationing will be terminated. That food price ceilings may be ignored. That there will no longer be a need for planting Victory Gardens, for conserving food in canneries and kitchens, for helping farmers and food processors.

B. The Facts. Except for rationing of certain popular foods and observance of food price ceilings, the probable public beliefs will be justifiable. According to War Food Administration, military and Lend-Lease drains on our food should substantially decrease. Relief feeding of war-stricken countries will require less than originally anticipated. Surpluses of certain foods will develop for three reasons; reduced non-civilian demands, strained storage facilities, and price supports on twenty major foods for a period of two years AFTER the cessation of hostilities on ALL fronts--as directed by Congress. Hence, production will continue at 1944 goal levels at least, barring unforeseen developments such as severe drought, etc.

Foods short (and probably rationed) for six or more months after V-E Day—sugar and butter. Foods short (with variable rationing) for first six months and plentiful thereafter—the better grades and cuts of meat, fats and oils, fluid milk and cream, cheese, dried skim and dried whole milk, evaporated milk and milk by-products. Foods adequate (not rationed) for first six months after V-E Day with a surplus thereafter—processed foods, fresh fruits and vegetables, poultry and eggs, dried beans and peas, wheat and other grains.

C. Present Programs. Recruitment of farm workers to help with the harvest. The "Eat Wisely" nutrition program, with special emphasis on better breakfasts and luncheons. And, for later in the fall, the program to urge greater awareness of and compliance with ceiling prices.

D. Duration and Emphasis of the Information Job. The three most important food information jobs to emphasize for at least six months after V-E Day will be better nutrition, compliance with food price ceilings and a more widespread use of abundant surplus foods. With respect to price ceilings on food, these will be removed as supply approximates demand, and the time when this will actually occur will vary by commodity groups. There will be no further information program on the need for growing more food on farms and in Victory Gardens, for recruiting volunteer labor for farms or food processing plants, or for conserving more food in canneries and kitchens. First emphasis should be placed consistently on the need for public and retail compliance with food price ceilings.

FOREST FIRE PREVENTION

A. Possible Public Belief After V-E Day. That forest fires are unfortunate but are caused by acts of God and cannot be prevented.

B. The Facts. Nine out of ten forest fires can be prevented because they are caused by human negligence. The Forest Service expects an increase after gasoline restrictions are lifted and there is more travel to and through forests.

C. Present Program. To explain that nine out of ten forest fires can be prevented and show specific things which should be done.

D. Duration and Emphasis of the Information Job. This program began long before the war. It was made a wartime program because the great need for lumber in the prosecution of the war demanded it. The need for it will continue indefinitely. The Forest Service will request that our efforts be accelerated in direct ratio to the relaxing of gasoline restrictions.

CIVILIAN WELFARE

I Accident Prevention and Safety

A. Possible Public Belief After V-E Day. That accident prevention and safety measures in plants, in homes, and on the highways are no longer a vital wartime problem of national concern.

B. The Facts. Many government agencies active in the safety field, including War, Navy, the Department of Labor, and the Office of Defense Transportation, report that war plants must continue to stress accident prevention and safety. Traffic safety will be of even greater importance than before V-E Day. Transportation facilities will be strained by migrant workers. Car conservation accordingly will be more vital until new cars are available. Car conservation will be menaced by increased driving, probably increased speeds, worn mechanical parts, neglected highways and generally relaxed driving. Traffic accidents will in turn increase the strain on the nation's doctors, nurses and hospital facilities.

C. Present Program. The need for accident prevention and safety in plants, in homes, and on the highways is explained in the present information program.

D. Duration and Emphasis of the Information Job. Aspects of this program which deal with safety in war plants will be relatively less important after V-E Day, although it will continue. Programs on home accident prevention and highway safety must be constantly emphasized.

II Public Health

A. Possible Public Belief After V-E Day. No appraisal is possible.

B. The Facts. The Federal Security Agency expects that unemployment, worker migration, and return of troops will present threats to personal and community health all over the country. Doctors, nurses, and public health facilities will not be adequate for certain areas. It probably will be impossible to reconvert State and local health department personnel rapidly enough to maintain basic services without continued Federal assistance.

C. Present Program. Programs of VD control, TB control, malaria control and industrial hygiene are the major Public Health Service activities which will be given increased emphasis during the interim period. Scientific research and foreign quarantine activities will continue to be important.

D. Duration and Emphasis of the Information Job. The Public Health Service believes that information activities in all of the above fields will have to be intensified. A continuing information job on public health in general will have to be done after V-E Day.

PRIVATE RELIEF
STANLEY HALLIDAY

A. Possible Public Belief After V-E Day. That victory and demobilization will sharply reduce the financial needs of the American Red Cross and the National War Fund and that contributions accordingly may be curtailed.

B. The Facts. As reported by the respective organizations, facilities of the American Red Cross and those within the jurisdiction of the National War Fund will be used for the relief of demobilized soldiers and their families, as well as migrant workers. Both organizations will continue their welfare and recreational work for our maimed, mangled, and hospitalized troops until they are demobilized or discharged. The Red Cross will participate in many aspects of relief work for the distressed populations of Europe. The National War Fund will continue its activities on behalf of the USO, United Seamen's Service and the War Prisoners Aid. Present Programs: The next National War Fund Drive is scheduled for September 25-November 1, with a goal of \$250,000,000. Needs will be re-examined every quarter and revised downward as the situation may warrant. The next Red Cross War Fund Drive is scheduled for March, 1945, and contemplates no diminution of quotas.

D. Duration and Emphasis of the Information Job. The National War Fund will continue to need maximum public support for at least another year. War-connected activities of the American Red Cross will continue on a large scale for many years after the end of the war with Japan. Due emphasis accordingly should be given to both during their respective drives for funds. The information job after V-E Day also will involve telling the public that relief facilities are available to them through these two organizations.

MISCELLANEOUS MILITARY PROGRAMS

I Security of War Information

A. Possible Public Belief After V-E Day. That efficient German espionage in this country was the basic reason for curbing careless talk. That the need for caution is gone.

B. The Facts. When the European War ends, there will be many more countries (neutral, non-belligerent, or re-occupied) through which the Japanese can get and transmit information. Control of information channels in these countries, particularly in the re-occupied areas, will be extremely difficult. Returning servicemen, eager to talk, may divulge details about classified weapons, battle techniques, or general strategy—all data which will aid the enemy in the Pacific War.

C. Present Program. To convince the public of the dangers of careless talk. To explain what kinds of talk are dangerous, and why.

D. Duration and Emphasis of the Information Job. The Security Program will continue for the duration of the Pacific War. Some intensification of the program, with fresh appeals, may be necessary to impress the public with the fact that secrecy is still important.

II V-Mail

A. Possible Public Belief After V-E Day. That there will be plenty of air transport available for regular airmail letters. That there will be plenty of cargo space available for regular letters.

B. The Facts. The Army and Navy report that air transport probably will be used for many high priority shipments after V-E Day and that the transportation of regular airmail letters accordingly will be restricted. Of all mail, V-Mail has the highest priority in air transportation. Therefore, it will be possible that all airmail, other than V-Mail, may sometimes be held up for days and even for weeks. Cargo space in ships still will be at a premium.

C. Present Program. The public is being urged to send letters by V-Mail because of its speed, its safety, its morale value to troops overseas, and its conservation of precious cargo space.

D. Duration and Emphasis of the Information Job. The public should be urged to continue using V-Mail as long as our troops are serving overseas in large numbers, but no extensive V-Mail program will be undertaken until after the termination of the Christmas Mailing Campaign. Emphasis should be given the program after January, 1945. However, the element of speed should not be stressed. V-Mail cannot be as fast as regular airmail if transportation is available for both types of mail. But, V-Mail remains the safest means of corresponding.

Group Captains
Para Production Corps
First Wave
Food Conservation
Victory Gardens

S U M M A R Y

INFORMATION PROGRAMS TO CONTINUE FOR AT LEAST SIX MONTHS AFTER V-E DAY WITH PRESENT, OR EVEN GREATER EMPHASIS:

Accident Prevention and Safety (Traffic Hazard Aspects Only)
American Red Cross
* Cadet Nurses
Economic Stabilization
Food Price Ceilings
Forest Fire Prevention
Gasoline Black Markets
Merchant Marine Recruiting
National War Fund
Nutrition
Paper Salvage and Conservation
Planned Spending and Saving
Security of War Information
VD
V-Mail
War Bonds
WACS

INFORMATION PROGRAMS THAT WILL PROBABLY DIMINISH IN IMPORTANCE DURING THE FIRST SIX MONTHS AFTER V-E DAY:

Accident Prevention and Safety (Industrial Aspects Only)
Don't Travel
Fat Salvage
* Fuel Conservation
Rubber Conservation
* Turnover
* Tin Can Salvage
..... WAVES
Womanpower (Local)

INFORMATION PROGRAMS THAT WILL PROBABLY TERMINATE WITH V-E DAY:

Crop Corps
Farm Production Goals
Fight Waste
Food Conservation
Victory Gardens
Womanpower (National)

* Probably on a regional basis only.

UNRESTRICTED

EMBASSY OF THE
UNITED STATES OF AMERICA

184

No. 18213

Rio de Janeiro, October 6, 1944

SUBJECT: Refuge Problems - Visit of Dr. Morris
David Waldman of the War Refugee Board.

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

Referring to previous reports from the Embassy concerning the War Refugee Board, I have the honor to apprise the Department of a visit I received yesterday from Dr. Morris David Waldman of the War Refugee Board who is in Brazil in the course of a trip around Latin America in the interests of the refugee problem.

Dr. Waldman and I talked at some length about the refugee problem in general and about the Brazilian position in particular. Dr. Waldman is sanguine about the Brazilian Government's and people's long range attitude in this regard and he demonstrated an appreciation of the problems in this regard.

I informed Dr. Waldman of the contents of the Embassy's airgram No. A-1568 of August 22 concerning President Vargas' approval of the plan to bring 500 refugee children to Brazil. Dr. Waldman had not heard of this before and he was very pleased by this concrete evidence of Brazil's desire to aid the unfortunate victims of Axis brutality.

I have invited Dr. Waldman to meet this evening with me and Senhor Wolf Klabin, prominent Jewish leader in Brazil, to exchange further ideas as to the conduct of his mission.

Dr. Waldman has expressed his appreciation of the Embassy's assistance and counsel. He plans to leave here on October 9 to resume his journey back to the United States.

Respectfully yours,

(Signed) Walter J. Donnelly,

Walter J. Donnelly,
Charge d'Affaires ad interim

File No. 800
RFC/am

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akzin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

October 6, 1944.

185

SECRET

FROM
LONDON
October 6, 1944.
Recd:
October 17, 5 p.m.

Secretary of State,
Washington.

A-1213, October 6

FOR DEPARTMENT, FEA AND WRB

Reference Embassy's telegrams 8373 October 5, and
8414 October 6.

Following is the text of the memorandum on monetary
relief submitted by the British members to the Special
Committee on Relief:

"Since the occupation by Germany of Norway, Denmark,
Holland, Belgium and France, there has been a natural
desire on the part of Allied nationals or sympathisers
to remit funds to occupied countries for relief purposes.
Their proposals have taken different forms. The most
common form was requests by individuals to be allowed to
send subsistence payments to their relatives in an
occupied country. There were also charitable schemes
for the collection of funds to be used for the care of
different groups of people, e.g. necessitous children, in
occupied country. There were also charitable schemes
for the collection of funds to be used for the care of
different groups of people, e. g. necessitous children, in
occupied countries. There were also proposals to purchase
food or clothing material in enemy countries for relief
purposes. With certain very limited exceptions we have
always refused to approve such proposals on the ground
that they would afford considerable benefit to the enemy
by providing foreign exchange.

"Recently another form of remittance of funds to
enemy territories for relief purposes has arisen, namely
the provision of funds for the rescue or maintenance pend-
ing rescue of persons in enemy territory. The War
Refugee Board in Washington has been active in procuring
the issue of licenses to private bodies for this purpose.
The licenses require that the funds should be obtained
either by borrowing from residents in enemy territory
against blocked funds for post war payment, or by purchase
from unobjectionable neutral holders of enemy currency.
Only in the last resort where it is strictly necessary in
order to carry out the rescue project is it permitted to
procure enemy currency by the direct use of "hard" currency
such as dollars or Swiss francs, but the decision on this
important/

important alternative appears to be left to the licensee.

"In the present circumstances the objections to allowing the enemy to acquire foreign exchange on the ground that the funds will be used for the prosecution of the war are greatly lessened. He has now little opportunity for import from neutral countries and thus for the spending of foreign exchange. The recent discussions with Swiss Banks have led to their imposing certain restrictions on enemy financial transactions which considerably detract from the enemy's free use of such Swiss francs as he may obtain. There is now less reason on this ground therefore to oppose projects which require the payment of a certain amount of foreign exchange to the enemy. On the other hand it is known that certain enemy persons and firms are taking steps to acquire and conceal funds in neutral countries against the day when they may have to seek refuge or for future use in restoring their foreign trade. Any project which means the payment of foreign exchange to the enemy may well assist these schemes for the acquisition of hidden neutral funds. This is especially true of schemes such as rescue projects which have to be carried out in secrecy and whose success may depend to a considerable degree on bribery of German officials. The same objections apply in perhaps lesser degree to the acquisition of enemy currency by borrowing from residents in enemy territories. In so far as such residents are of Allied nationality and unimpeachable standing there may be little danger but the fact that they are resident in enemy occupied countries removes them from the possibility of close investigation and there may well be war profiteers, or persons of enemy nationality such as officials, to participate in the credit scheme, possibly under cover names, and thereby to acquire the title to post-war repayment of the equivalent blocked credit.

..... "However, since the liberation of France and the partial liberation of Belgium and Holland, there will be less necessity to make use of funds procured in this way. This last danger is therefore correspondingly lessened in scope. But it may be that from this very fact there will be even greater necessity to employ funds in bribery and similar payments which involve their getting into the hands of enemy nationals.

"It is suggested that in order to avoid the dangers outlined above, licenses which involve or may involve the placing of funds in neutral territory at the disposal of enemy persons should only be issued after consultation

between/

- 3 -

London A1213.

between the United Kingdom and the United States Governments. Normally such consultation should take place between the State Department and His Majesty's Embassy in Washington, who would be given a wide discretion to agree to their issue, reference to London only being necessary in doubtful cases."

WINANT

MC:JH
Hectographed by:JH

ME-982
Distribution of true
reading only by special
arrangement. (SECRET W)

London

103

Dated October 6, 1944

Rec'd 8:58 p.m.

Secretary of State

Washington

8405, October 6, 8 p.m.

In conversation today with Sir Herbert Emerson I gave him the substance of Department's 7984 September 30 WRB. Sir Herbert was surprised that his reply had not been received. He transmitted his reply in a letter of September 14 addressed to Mr. Howard Bucknell but since the address did not give me Mr. Bucknell's position as Minister Counselor of Embassy it is possible that such was forwarded to him in the United States as personal mail. Accordingly there follows Sir Herbert's reply:

"With regard to Baerwalds message concerning proposed purchase in Switzerland of pengoes by Saly Mayer for Hungarian relief. The proposal modifies the original scheme approved by Britain and United States Governments. Support of WRB means I assume that United States Government agrees to proposed modification. My slight delay is due to fact that I had to obtain similar agreement of British Government. Such has now been obtained and I would appreciate your transmitting following to Baerwald:

"Intergovernmental, it agrees that Saly Mayer should be authorized by Joint to purchase in Switzerland for relief in Hungary pengoes up to amount \$300,000 for account intergovernmental, provided that Saly Mayer will satisfy himself that currency given in Switzerland for pengoes is not used to aid enemy or enemy collaborationists. It is presumed Joint will obtain necessary licenses from United States Treasury to transmit funds to Saly Mayer. Joint will then be repaid from our dollar account. We desire if possible that portion of the money be used to assist persons in escape from Hungary. If necessity is likely to extend beyond the sum of \$300,000 we should appreciate adequate notice especially as there might be a possibility of making pengoes available from here. Will Joint please see paragraph three my message July 20, in this connection IGC would like early proposals for last quarter of the year for all concerned.

WSB

WINANT

BJR - 920
Distribution of true
reading only by special
arrangement. (SECRET W)

London
Dated October 6, 1944
Rec'd 5:40 p.m.

Secretary of State,
Washington.

8406, October 6, 8 p.m.

FOR PELLE WRB FROM MANN

I have again talked with Mr. Herbert Pell, American member of the War Crimes Commission, and he has as yet received no instructions directing him to urge the commission to treat as war crimes those crimes committed by one Axis state against one of its nationals or against the nationals of another Axis state. I have informed Mr. Pell of the Board's memorandum of August 28 to Mr. Stettinius and both Mr. Pell and I are surprised that no instructions have been forthcoming. Lord Wright, British Lord of Appeal and Australian representative on War Crimes Commission has recently expressed the opinion that the above mentioned crimes are war crimes and should be treated by the Commission. Should Mr. Pell receive instructions along the lines of those transmitted to the Department of State with the above

mentioned

-2- #8406, October 6, 8 p.m., from London.

mentioned memorandum there is a good chance that the Commission would take the view that such were war crimes and thus within its jurisdiction. However, time is most important and I strongly urge that every effort be made to have instructions on this point transmitted to Mr. Pell at once.

WINANT

WMB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London
TO: Secretary of State, Washington
DATED: October 6, 1944
NUMBER: 8414

CONFIDENTIAL

Following is for the War Refugee Board, FEA, and the Department.

Reference is made herewith to Embassy's cable of October 5, no. 8373.

It was stated by the Ambassador, on the matter of monetary relief, that his Government wished this subject to be considered separately. The British members of special committee on relief submitted a memorandum on the question of monetary relief, the text of which is being sent by airgram to the Department. Paragraph 14 of recommendations of the committee (Embassy's A-1211 dated October 4) was based on this memorandum and in substance suggests that any license which involves or may involve the placing of funds in neutral territory at the disposal of enemy persons should be issued only after consultation between the Governments of the United States and Great Britain and that, normally, this consultation should take place between the Department of State and the British Embassy. The British Embassy would be given wide discretion and only in cases of doubt would reference to London (relief sub-committee) be necessary.

The position has been taken by the British that monetary relief as extended through WRB licenses to persons in enemy and enemy occupied countries is an integral part of any general ~~XXXXX~~ scheme of relief through the blockade and should be subject to joint approval. It is further pointed out by them that the two programs, relief in kind and monetary relief, are complementary and that it will ~~be~~ be difficult to avoid duplication unless those responsible for shipments of relief in kind are kept advised of payments which are being made.

It is felt by the British that the principal danger in letting the enemy obtain foreign exchange is no longer that the money will be used for the prosecution of the war, but that such funds may help enemy persons and firms in the efforts they are now known to be making to secure and conceal funds in neutral territory for use when they may have to seek refuge or for use in restoring their foreign trade.

The American representatives on special committee reserved their position on recommendation regarding monetary relief and stated that the Ambassador would submit the matter separately to Washington.

DCR:VAC 10/7/44

WINANT

CABLE TO AMERICAN CONSULATE GENERAL, CASERTA, FOR ACKERMANN FROM PEHLE,
WAR REFUGEE BOARD, AND TREASURY

You are instructed to return to Washington at once for urgent
consultation with Board and Treasury. Please advise concerning any
delays encountered in arranging for immediate transportation.

9:30 a.m.
October 6, 1944

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

October 6, 1944
6 p.m.

AMPOLAD
CASERTA
218

The cable below for Kirk and Ackermann is WRB 51.

In view of the recently announced Hungarian plan to remove Jews from Budapest to provincial camps, please convey the sense of the following message to Hungarian authorities through such channels as may be available to you:

QUOTE The Government of the United States has learned of the plan of Hungarian authorities to remove the Jews still remaining in Budapest to putative work camps in the provinces. In view of the fate of Jews who were removed in previous months from other cities to similar camps, and in view of the approach of winter, the Government of the United States has good reason to regard the present plan as a further measure of mass extermination, for mass extermination may be accomplished either by the methods employed at camps of final destination in Poland, or by subjecting large numbers of people to under-nourishment, hard physical labor and unhygienic living conditions in improvised camps. Consequently, the United States Government considers it appropriate to remind Hungarian authorities of its determination, as expressed by the President of the United States on March 24, that ~~INNERQUOTE~~ none who participate in these acts of savagery shall go unpunished***. All who share the guilt shall share the punishment. ~~CLOSE INNERQUOTE~~. This determination was publicly reaffirmed on May 31 and June 20 by members of the Senate Foreign Relations Committee and the House of Representatives Foreign Affairs Committee, respectively.

The Government of the United States, however, recognizes the possibility that the present plan may in fact have been evolved to achieve genuine humanitarian ends as has been claimed by various Hungarian authorities. To the extent that the plan, if put in operation, may achieve such ends, the Government of the United States will, of course, recognize the validity of such claims. On the other hand, should the removal of the Jews from Budapest

to provincial

-2-#218, October 6, 6 p.m. to Caserta.

to provincial camps be but a prelude to their further removal to extermination centers or otherwise result in their deaths, Hungarian authorities are fully apprised of the attitude of the people and Government of the United States. UNQUOTE

Amlegation Bern has been asked to request the Swiss Foreign Office to deliver the foregoing message to appropriate Hungarian authorities. Both Amlegation Bern and Amembassy Lisbon have been asked to use such unofficial channels as may be available to them for the same purpose. Please advise Department and Board of action taken by you.

HULL
(GHW)

WRB:MMV:KG
10/4/44

SE

WE

BJR -977
Distribution of true
reading only by special
arrangement. (SECRET W)

Caserta

Dated October 6, 1944

Rec'd 9:11 p.m.

Secretary of State,

Washington.

653, October 6, 5 p.m.

Ackermann's 113.

Following is summary of situation evacuation refugees from Yugoslavia referred to in WRB 50. On September 18 only 29 evacuated and none since then. Delay due in part to bad flying weather but may also be caused by political situation which has reduced number of planes substantially. Board may wish to discuss latter factor with State Department. When and if plane traffic commences again it is planned to resume evacuations but it is expected this will take several months since wounded and airmen have priority. Balance of approximately 650 refugees are in neighborhood of Topusko where I am informed they are relatively safe from Germans unless retreat should go through this section. In such case danger will increase substantially since this group with many old persons and children is difficult to move rapidly. Representative of British Military Mission which has handled preliminaries on this matter stated he would recommend allocation of additional planes as urgent humanitarian measure if retreat goes in this direction. He believes, however, that temporary relief he is trying to arrange will suffice meanwhile. I suggest you follow situation closely and if you learn that this area is about to become path of German retreat you recommend to appropriate authorities your end allocation of additional planes to back up our recommendations here. Approximately 20 transport planes can do job in one trip.

KIRK

RR

A-191

6:10 pm

October 6, 1944

American Embassy,
Tegucigalpa.

Reference your A-268 August 14.

Legation Bern has informed the Department that in a note dated September 25 the Swiss Foreign Office stated that according to the Swiss Legation Budapest the Hungarian Government gave its consent on September 15 to the representation by Switzerland of Honduran interests in Hungary.

Please inform Foreign Office.

HULL

aeo

... 706.1554/9-2444 ...

9/30/44

WRB

CCR

WE

GE

AIRGRAM

UNRESTRICTED

FROM

Casablanca, Morocco

Dated October 6, 1944

Rec'd October 10, 5 p.m.

Secretary of State

Washington

A-129, October 6, 10 a.m.

With further reference my proposal evacuate Sephardic group eastward, are there other Greek camps in Middle East where they could be admitted without prolonged negotiations? It is my belief that, in the event that some of these people are not accepted for Greek repatriation after the war, their most probable destination will be Palestine and consequently a real service would be rendered them at this point if they were moved to the Middle East, thereby coming physically closer to their ultimate destination whether Greece or Palestine. I again urge the fact that physical proximity to a desired destination strongly influences both practical and political considerations governing entry. While the fact that the Greek Government is now on notice with respect to this group weakens the utility which my proposal to merge them with a larger group of Greek refugees would originally have had, I still feel that it retains sufficient value to make it worthwhile to give further consideration to this movement at this time.

RUSSELL

103.9
HER:rlh

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

SECRET

Dated October 6, 1944

Rec'd 9:53 p.m.

Secretary of State,

Washington.

144, October 6, Noon.

MAGNES REQUESTS TRANSMISSION FOLLOWING TO JOINT DISTRIBUTION COMMITTEE NEW YORK FOR PAUL BEARWALD AND JOSEPH SCHWARTZ.

"233. Emil Sommerstein, member of Polish Committee of National Liberation, as representative of Polish Jews cabled Jewish agency on August 25 and September 21 asking for quick help for about 10,000 Polish Jews the greater number being aged, sick, exhausted, and children who need food, clothing and medicaments.

Sommerstein also stated that supplies should be sent via Tehran which we presume would have to be turned over in bulk to Russians who would provide transport. We also assume that Sommerstein, together with Jewish Committee, would supervise distribution.

As our supplies in Tehran, consisting primarily of Lend-Lease goods, are the only goods available for immediate despatch the Jewish agency asked that we sell them supplies

-2- #144, October 6, Noon from Jerusalem
 them supplies for \$100,000 which they would send as
 requested by Sommerstein. We pointed out that the prime
 question is whether the United States Government would
 agree to our turning over goods, especially Lend-Lease,
 for distribution through Polish Committee of Liberation.

We understand that conditions of Jews in liberated
 Poland are even more difficult than refugees in Union
 of Soviet Socialist Republics and therefore important
 that immediate help be extended to them. We therefore
 suggest that you take up this matter with the State
 Department.

We also think that if we should be permitted to use
 our Tehran supplies for this purpose then the relief
 should be extended by Joint Distribution Committee at
 its own expense. This would not require increasing
 your 1944 Tehran budget as we shall have surplus supplies
 after meeting 1944 parcels service program.

Segall here on a short visit from Tehran reports
 Polish refugees northern districts Asiatic Russia now
 being transferred Polish Ukrainians. This may increase
 relief needs Poland and necessitate revision parcels
 program. Please answer at once."

EEC

PINKERTON

BAS-951

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

Jerusalem

200

Dated October 6, 1944

Rec'd 7:49 p.m.

Secretary of State.

Washington.

145, October 6, 6 p.m.

Magnes requests transmission following to Joint Distribution Committee, New York for Paul Bearwald and Joseph Schwartz.

*234. Passman reports the following:

First communications between Istanbul and Sofia regular and from information received it appears that Bulgarian Government ready permit emigration to Palestine except men between ages 17 to 50. Railway connection between Bulgaria and Turkey exists but irregular.

First group of nine persons reached Istanbul overland on September 29 and we are informed that 140 children will leave Bulgaria shortly.

As roads and railway traffic controlled by Russians it is to be assumed that they do not object to this movement. Unofficial Palestine representatives endeavoring stimulate emigration. Second communication even telegraphic with Rumania recently became very difficult if not impossible. A cable from Bucharest from Istanbul relayed via Switzerland received September 29 stating that Russians do not permit SS SMYRNY and SELAHEDIN to depart for Turkey and therefore asked for intervention from Istanbul. Another cable reaching Istanbul directly after long delay asks to intervene with Turkish Government to instruct its consul at Bucharest to grant transit visas to travelers overland for Palestine. This was done but at present no overland traffic between Bulgaria and Rumania possible. From above information it appears Russians do not object to emigration from Rumania for Palestine except that they will not permit the use of boats.

We wish to state that in our opinion such emigration from Bulgaria and Rumania is not now of rescue nature.

Information available makes it clear Jews in Bulgaria and Rumania had their full rights restored and are gradually getting back their property especially in Bulgaria.

Third, during last 4 weeks all direct (*) from Hungary to Istanbul discontinued but various reports reaching from Switzerland which often contradictory

Report dated September 6 from Kraus Bucharest to Posner Switzerland reaching by cable Istanbul September 29 states that of 800,000 Jews in Hungary only 200,000 left and the majority of them concentrated. This cable asks intervention on the part of the United States and British Governments so that International Red Cross given possibility watch over those Jews left so that they are not taken out of Hungary. Unable confirm this report. Representative International Red Cross in Turkey without information.

-2 #145, October 6, 6 p.m. from Jerusalem

Please cable any information you have about Hungary also about activities of Saly Mayer in this connection."

(*) apparent omission

PINKERTON

WB

AIR MAIL
No. 1040

EMBASSY OF THE
UNITED STATES OF AMERICA

Lisbon, October 6, 1944.

CONFIDENTIAL

Subject: Granting of Visas for Certain Categories
of Aliens from Enemy Countries.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to transmit herewith a copy of
the Embassy's Note Verbale No. 587, October 5, 1944,
to the Ministry of Foreign Affairs on the above-men-
tioned subject. This Note is sent following receipt
of the Department's telegram No. 2655, October 3. The
Embassy will advise the Department when it receives a
reply from the Ministry.

It is assumed that the War Refugee Board will be
interested in this despatch and the enclosed copy of
the Note Verbale, and if the Department perceives no
objection, it is requested that a copy be transmitted
to the Board.

Respectfully yours,

For the Ambassador:

.....

Edward S. Crocker,
Counselor of Embassy

Enclosure:
Copy of Note Verbale No. 587.

RCD:ew

Enclosure to despatch No. 1040, dated October 6, 1944, from the Embassy at Lisbon.

Copy of Note Verbale No. 587

The Embassy of the United States of America presents its compliments to the Portuguese Ministry of Foreign Affairs and has the honor again to invite the attention of the Ministry to the Embassy's Notes Verbale No. 498 of August 22 and No. 515 of August 31. It will be recalled that these Notes have to do with the entry into Portugal of persons residing in territory controlled by countries with which the United States is now at war, who either have received American visas since July 1, 1941 which they have been unable to use, or are the parents, husbands, wives or unmarried minor children of American citizens, or alien wives or unmarried minor children of aliens who have been lawfully admitted to the United States for permanent residence.

The Ministry will recall that after the receipt of these Notes, the Embassy was advised that the Ministry desired specific guarantees as to when such of these persons who did not receive United States visas would be evacuated from Portugal and some indication of their ultimate destination.

The Embassy has conveyed the comment of the Ministry to the United States Government and is now in receipt of a reply thereto. The United States Government states categorically that it will arrange for the maintenance in Portugal and for the evacuation to the United States or to countries other than Portugal of all refugees who are admitted in accordance with the terms of the above-mentioned Notes. It further states that such maintenance and removal is a definite obligation on the part of the United States Government. However, the United States Government cannot at the present moment, and until the number of such refugees and other facts concerning them are known, state exactly the destination of those who are not eligible for admission to the United States. The Embassy is instructed, however, to inform the Ministry that all available pieces of refuge under the control of the United Nations will be used to carry out the guarantees of the United States Government.

In view of this reply, it is hoped that the Ministry will see its way clear to use its good offices in arranging for the entry into Portugal of persons falling within the categories listed in the two Notes referred to. The Ministry will realize that this action on the part of the United States Government is undertaken purely for the purpose of saving the lives of these unfortunate victims of the war, and the Embassy trusts that the generosity of the Government of Portugal will allow it to assist.

Lisbon, October 5, 1944.

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

October 6, 1944

6 p.m.

AMEMBASSY

LISBON

2679

The cable below for Norweb and Dexter is WRB 104.

In view of the recently announced Hungarian plan to remove Jews from Budapest to provincial camps, please convey the sense of the following message to Hungarian authorities through such channels as may be available to you:

QUOTE The Government of the United States has learned of the plan of Hungarian authorities to remove the Jews still remaining in Budapest to putative work camps in the provinces. In view of the fate of Jews who were removed in previous months from other cities to similar camps, and in view of the approach of winter, the Government of the United States has good reason to regard the present plan as a further measure of mass extermination, for mass extermination may be accomplished either by the methods employed at camps of final destination in Poland, or by subjecting large numbers of people to under-nourishment, hard physical labor and unhygienic living conditions in improvised camps. Consequently, the United States Government considers it appropriate to remind Hungarian authorities of its determination, as expressed by the President of the United States on March 24, that ~~INNERQUOTE~~ none who participate in these acts of savagery shall go unpunished. All who share the guilt shall share the punishment. ~~CLOSE INNERQUOTE~~. This determination was publicly reaffirmed on May 31 and June 28 by members of the Senate Foreign Relations Committee and the House of Representatives Foreign Affairs Committee, respectively.

QUOTE The Government of the United States, however, recognizes the possibility that the present plan may in fact have been evolved to achieve genuine humanitarian ends as has been claimed by various Hungarian authorities. To the extent that the plan, if put in operation, may achieve such ends, the Government of the United States will, of course, recognize the validity of such claims. On the other

hand, should

-2-#2679, October 6, 6 p.m. to Lisbon.

hand, should the removal of the Jews from Budapest to provincial camps be but a prelude to their further removal to extermination centers of otherwise result in their deaths, Hungarian authorities are fully apprised of the attitude of the people and Government of the United States.
UNQUOTE

Amlegation Bern has been asked to request the Swiss Foreign Office to deliver the foregoing message to appropriate Hungarian authorities. Ampolad Caserta and Amlegation Bern have also been requested to transmit the foregoing message to appropriate Hungarian authorities through such other channels as may be available to them. Please advise Department and Board of action taken by you.

HULL
(GLW)

WRB:MMV:KG
10/4/44

WE

SE

CABLE TO MINISTER HARRISON, BERN, FROM WAR REFUGEE BOARD

Please deliver the following message to Isaac Sternbuch, St. Gallen, Switzerland, from the Vaad Hahatzala Emergency Committee:

QUOTE CABLED YOU 428, 816 SWISS FRANCS FOR RESCUE WORK. RECEIVED MESSAGE FROM GRIFFEL IN WHICH HE REQUESTS YOUR FINANCIAL AID LEAVING SHORTLY FOR ROUMANIA CONTACT HIM FOR DETAILS RESCUE PROJECTS AND GIVE FINANCIAL SUPPORT STOP RECEIVED ALARMING REPORT 45,000 CIVILIAN PRISONERS AT CONCENTRATION CAMP IN OSWIECIN POLAND IN IMMINENT DANGER EXTERMINATION STOP VITALLY NECESSARY ESTABLISH APPROPRIATE CONTACTS TO DEAL DIRECTLY WITH OSWIECIN AS WELL AS KROTINGEN AND OTHER CONCENTRATION CAMPS TO ARRANGE FOR RELEASE OF THOSE HELD IN THESE CAMPS STOP ALSO CABLED YOU 85,410 SWISS FRANCS THROUGH POLISH LEGATION FOR RABBI SZMULEWICZ IN SHANGHAI TO BE DISTRIBUTED AMONG RABBIS SCHOLARS THERE. PLEASE DISPATCH TO HIM WITH INSTRUCTIVE MESSAGE AND CABLE US WHEN DISPATCHED UNQUOTE

THIS IS WRB CABLE TO BERN NO. 204

9:00 a.m.
October 6, 1944

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Legation, Bern
DATED: October 6, 1944
NUMBER: 3435

SECRET

TO MINISTER HARRISON AND MCCLELLAND.

Reference your 6447 of September 28.

(1) The O.W.I. is informed of the situation.

(2) Please request the cooperation of the Swiss Foreign Office in conveying the sense of the following message to appropriate Hungarian authorities. You should also employ such unofficial channels as may be available to you to the same end.

QUOTE The Government of the United States has learned of the plan of Hungarian authorities to remove the Jews still remaining in Bucapest to putative work camps in the provinces. In view of the fate of Jews who were removed in previous months from other cities to similar camps, and in view of the approach of winter, the Government of the United States has good reason to regard the present plan as a further measure of mass extermination, for mass extermination may be accomplished either by the methods employed at camps of final destination in Poland, or by subjecting large numbers of people to under-nourishment, hard physical labor and unhygienic living conditions in improvised camps. Consequently, the United States Government considers it appropriate to remind Hungarian authorities of its determination, as expressed by the President of the United States on March 24, that INNERQUOTE none who participate in these acts of savagery shall go unpunished***. All who share the guilt shall share the punishment. CLOSE INNERQUOTE. This determination was publicly reaffirmed on May 31 and June 28 by members of the Senate Foreign Relations Committee and the House of Representatives Foreign Affairs Committee, respectively.

QUOTE The Government of the United States, however, recognizes the possibility that the present plan may in fact have been evolved to achieve genuine humanitarian ends as has been claimed by various Hungarian authorities. To the extent that the plan, if put in operation, may achieve such ends, the Government of the United States will, of course, recognize the validity of such claims. On the other hand, should the removal of the Jews from Budapest to provincial camps be but a prelude to their further removal to extermination centers or otherwise result in their deaths, Hungarian authorities are fully

apprised

- 2 -

apprised of the attitude of the people and Government of the United States. UNQUOTE

(3) Please advise the Department and Board of the action taken by you.

For your information, Amembassy Lisbon and Ampolad Caserta are being requested to convey a similar message to Hungarian authorities through such channels as are available to them.

THIS IS WRB CABLE NO. 198.

HULL

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Legation, Bern
DATED: October 6, 1944
NUMBER: 3436

SECRET

FOR MCCLELLAND FROM WAR REFUGEE BOARD.

Olsen advises us that you have asked him to supply details re discussions with Germans in Sweden on possibility of rescuing Jews in Europe. In view of Stockholm's lack of communication with Bern, Olsen has asked us to repeat the following cables to you.

(Here take in Stockholm's No. 2362 of June 28, Stockholm's No. 2419 of July 3, Stockholm's No. 2621 of July 15.)

Department's 3196 of September 16 contained latest information on this matter.

In a very recent report to the Board, Olsen has stated the following which may also be of interest to you:

"All available channels will, as they have in the past, be used to forestall further massacres in east Prussia and Poland, although we are extremely pessimistic that much can be accomplished since the contacts we have had in the past are not able to exert any influence upon the severe military control presently being maintained by the Germans over such matters. Threats of reprisals are meaningless to this group and it may be assumed that should any proposals ultimately be forthcoming through Kleist or other intermediaries for the Germans, such proposals will undoubtedly involve totally unacceptable military implications. We are pushing these negotiations as strongly as possible nevertheless, simply to stall for time."

THIS IS WRB CABLE TO BERN NO. 200.

HULL

COPY

210

American Consulate General
Jerusalem, Palestine

October 6, 1944

Memorandum of Conversation with Mr. Mikahilov, First Secretary of the Soviet Embassy, Ankara, October 3, 1944.

In order to pay my respects and say "au revoir" to the Russian Ambassador and his First Secretary with whom I had been conferring at the request of the War Refugee Board during my incumbency in Ankara, I visited the Soviet Embassy by appointment on Tuesday, October 3, at 11:30 a.m. The ambassador was ill at home, and I spoke for an hour informally with Mikahilov with whom I had been conferring from time to time following my conversations with the Bulgarian and Rumanian ministers and the Hungarian consul. . . . The conversation covered general lines without any special disclosures except the following:

1. Mikahilov asserted that he was happy that he had advised me not to take the Bagrianov Government too seriously, that it was playing with the Nazis, and that the Soviet intention to eventually override it was implied in his previous conversations. He referred to the freedom from Soviet direction with which the new Bulgarian Government was permitted to operate, and he referred, of course,

- 2 -

to the complete reinstatement of the Jewish citizens and all minorities which, he emphasized, was part of the Soviet policy.

Mikahilov stated that the Soviet Government had watched the work of Balabanoff with interest and sympathy and that among all officials of the former Governments who were disposed of, Balabanoff was saved for future usefulness.

He referred, in the same manner, to Cretzianu, Minister to Turkey from Rumania, whose sympathies and abilities he also lauded. He stated that it was his opinion that the Board had worked wisely in taking these two ministers into our confidence, as they have demonstrated that their sympathies and actions have been consistently though carefully opposed to the Nazi superimposition in their respective countries.

He referred to the "withdrawal" of the military missions of the British and Americans from Bulgaria with the statement that "the Turks have played up this incident and made it political 'far'; the Turks are horrible people".

Early in the conversation, Mikahilov asked whether I had any opinion on the Arab Conference, which was currently in session in Alexandria with relation to Palestine. I replied that I was not familiar with the reasons for the convocation of
the Conference

the Conference or the complex political situation in Palestine, but that I was planning to spend three or four days in Palestine with a view to learning something more about the country, the people and its possibilities; that Palestine was the one center where it had been possible to send homeless refugees; and that it interested me as a creative force in a world in the process of war.

Mikahilov volunteered that he had spent some weeks in Palestine making a study and that he was convinced that the country could not justify its aims as an independent Jewish State; that it was economically unsound and politically unnecessary. "With the United States treating its Jewish citizens as Americans, the British treating its Jewish citizens as Britains and the Soviet treating its Jewish citizens as Russians, there is no necessity in the future for a separate Jewish State," Mikahilov stated. He asked whether I had any opinion regarding the British attitude towards the Arabs and the Jews from a political point of view. I stated that I did not; though I had read a number of conflicting articles about this. Mikahilov then adroitly indicated, by implication rather than by a categorical statement, that the British skirts might not be entirely clean where the Arab unrest was concerned.

I stated

- 4 -

I stated that I had read in a magazine, which my memory suggested was the "Atlantic Monthly", an article indicating that the Soviet policy regarding Palestine as an independent Jewish State had recently undergone a change in the direction of favoring such a State. Mikahilov stated that he did not know of this article or any propaganda tending to suggest this change. I then asked Mikahilov if he could tell me the official position of the Soviet Government with regard to Palestine. After some hesitation, Mikahilov stated that the Soviet official position, as he knew it, was opposed to an independent Jewish State in Palestine in view of the lack of need for such a state in the new society and political orientation that would be developed in the future.

I gathered from this statement that Mikahilov was indicating his own definite views which unquestionably must have some support in official circles; although my impression was that the subject was one which was under consideration and was probably not closed or settled in principle from the Soviet point of view.

I referred again to the creative force and contribution that was apparently being made in Palestine as a good society, but these opinions apparently fell on barren soil.

After

Regraded Unclassified

- 5 -

After Mikahilov paid his respects to the valor and vigor of the American Army and its successes and referred to the impending drives of the Russian Armies which, he said, would culminate on the date of celebration of November 8, at which time all Russian soil would be freed from the Nazi blight, we parted with warm and friendly salutations.

/s/ Ira A. Hirschmann
Ira A. Hirschmann
Special Attache of Embassy in
Ankara of the United States
of America

CABLE TO AMBASSADOR STEINHARDT, ANKARA, FROM WAR REFUGEE BOARD

Please deliver the following message to Jacob Griffel, Hotel Continental Beyoglu, Istanbul, from the Vaad Hahatzala Emergency Committee:

QUOTE HAVE INFORMED STERNBUCH OF YOUR PLANS AND REQUEST HE WILL CONTACT YOU AND SEND YOU NECESSARY FUNDS WHEN NECESSARY. IMPORTANT YOU DETAIL TO AMBASSADOR STEINHARDT AND IRA HIRSCHMANN VAAD HAHATZALA WORK THAT \$750,000 ALREADY EXPENDED FOR RESCUE AND RELIEF THIS YEAR. GREATEST PORTION THIS SUM GIVEN SWISS COMMITTEE. IT WOULD HELP US IN OUR EFFORTS TO CONTINUE THIS WORK IF THE AMBASSADOR AND HIRSCHMANN WOULD EXPRESS THROUGH YOU THEIR APPRAISAL OF OUR WORK UNQUOTE

THIS IS WRB CABLE TO ANKARA NO. 115

9:00 a.m.
October 6, 1944

NO. 3561

AMERICAN CONSULATE

American Consulate General
Istanbul, Turkey, October 6, 1944

UNRESTRICTED

SUBJECT: Acknowledging receipt of five lists of
Hungarian citizens recommended for
Palestine certificates by Jewish Rescue
Organizations in the United States

The Honorable
The Secretary of State
Washington

Sir:

I have the honor to refer to the Department's confidential, unnumbered instruction of September 20, 1944, enclosing list No. 15 of Hungarian citizens recommended for Palestine certificates by the World Jewish Congress, and confidential unnumbered instructions of September 13 and September 20, 1944, enclosing lists Nos. 8, 9, 23 and 24 of Hungarian citizens recommended for Palestine certificates by the Zionist Organizations of America.

As directed in the instructions under reference, the lists have been delivered to Mr. Chaim Barlas, representative of the Palestine Agency in Istanbul, and have been acknowledged by Dr. J. Goldin of that organization. Dr. Goldin has requested that confirmation of delivery be forwarded to Dr. Kubowitzki of the World Jewish Congress and to Dr. Bernstein of the Zionist Organization of America.

Respectfully yours,

Burton Y. Berry
American Consul General

To Department in Ozalid
File No. 848
CPMcV:mp

EXCERPT OF
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking
TO: Secretary of State, Washington
DATE: October 6, 1944
NO.: 1654

CONFIDENTIAL

In commodity prices there was no marked change other than a further decline in the prices of rice. Although Shensi cotton harvest expected to be only 60 to 70% of normal yield, the overall agricultural conditions remained favorable. A program to collect one million piculs of current cotton crop with a total value of about twelve billions Chinese currency has been started by the government. Owing to the decline of rice prices and the expected importation of cotton cloth, medicines and other products from abroad, the retail trade was reported slack in anticipation of lower prices of consumer goods. On September 15, deposits in gold were idghotalqid in government bank. A factor in tightening the Chungking money market and causing large purchases of gold from government banks was reportedly the war situation in Southeast China. During one period the lack of gold for sale in government banks caused the Black Market gold price to reach CN \$30,000, but arrival of new supplies from the United States brought the decline of rate to \$18,000 at the end of the month. The monthly market rate of interest remained firm at 8 to 9%. In order to increase production and intensify the war effort, inter-alia through centralization of administrative control in new organization to be established in the near future, the government, according to press report, proposes to readjust the national production program.

GAUSS

DCR:MAS:MEM 10-9-44

ef:copy
10-12-44

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

218
DIVISION OF
COMMUNICATIONS
AND RECORDS

AMT-508

This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (SECRET-0)

Chungking via Navy

Dated October 6, 1944

Rec'd 5:20 p.m., 8th.

Secretary of State,
Washington.

1657, October 6, 10 a.m.

FOR SECRETARY OF THE TREASURY FROM FRIEDMAN

(One) Available evidence indicates general price level Chungking during September remained stable although individual commodities such as coal rose. Price indices not available for September. For August Farmers Bank general retail price indices for Chungking, Chengtu, Kunming, Lanchow and Kweilin were 36,100, 41,466, 65,061, 15,300 and 45,202, respectively.

(Two) During most of September Chungking money market firm. Principal causes seem to have been (A) policy of further restriction of loans by government banks, to be continued during October; (B) large gold sales; (C) demand for funds to meet obligations settled at autumn festival; (D) banks losing substantial assets in military disasters in southeast China; (E) payment of taxes; August (F) increase in outward remittances, particularly during first part of month. Commercial

interest

CONFIDENTIAL
For security reasons the
text of this message must
be kept secret.

-2- #1657, October 6, 10 a.m., from Chungking via Navy.

interest rate rose from 6 to 8% per month during first half of month and 10% during last week. Now about 8%. Pichi rate 7 to 8% per month.

Three. Central Bank gold sales in September totalled 150,326 ounces as compared with 51416 in August and 125,462 in July. September 16-30 sold 91893 ounces as compared with 58434 in first half of month. From September 21 through 27 able to sell for immediate delivery 32,935 ounces. As of October 3, expect immediate arrival of 80,000 ounces against which already sold about 40,000 ounces. Kwok says no other gold held by Government; urges further shipments. Says more gold could be sold if smaller bars and tokens were offered for sale. Receipt from gold sales now major item of revenue totalling about CN dollars 2631 million in September.

Four. Open market price for gold rising again as Central Bank only able to offer gold for future delivery; October 2 about CN dollars 21,000-21,500 per ounce (selling) in Chungking and 24,000 in Kunming.

(Five) During second half September market for U.S. notes thin; rate varied between 225 and 240; in Kunming rate about 225-230; U. S. dollar savings certificates sell from 150 to 140.

(Six)

-3- #1657, October 6, 10 a.m., from Chungking via Navy.

(Six) United Clearing Board sold about U. S. dollars 1,190,000 in September of which about dollars 167,000 spot (tentative figures). Spot rate was 170; average rate about 140. No more forward contracts accepted; all December sales will be spot. Still informing public exchange not available; using backlog. Decided to reduce minimum to U. S. dollars 2,000 from U. S. dollars 10,000; set tentative quotas for Chengtu, Chungking, Kunming at 15% 50%, 35% respectively. Have been informed by New York of Treasury's issuing license making it possible for U. S. firms here to sell U. S. dollar checks to Chinese firms; fear such firms may sell large quantities of such checks thus competing with them.

(Seven) Joint Acceptance House opened in Chungking on October 2; formed by banks of China and Communications, Farmers Bank, Central Trust, Postal Savings, together with commercial banks and native exchange shops (72 in all). Kung is chairman and Kwok acting chairman. Will confine activities to so-called first class paper; do not expect to do much business.

(Eight) In Shanghai during September CMC at 5 CMC to 1 CRB; now 4 CMC to 1 CRB; gold now at CRB 180,000 per ounce. In August gold sold in occupied Shansi for FRB 7,000 per ounce; now CMC 60,000 per ounce. Reports received that in August Bank of Japan extended yen 400 million loan to Nanking regime.

JT LMS

GAUSS

SECRETOPTEL No. 325

Information received up to 10 a.m., 6th October, 1944.

1. NAVAL

EASTERN MEDITERRANEAN. 5th. After being bombarded the garrison of LEVITA (W. of LEROS) surrendered to landing parties of one of H.M. Cruisers and one of H.M. Destroyers.

2. MILITARY

WESTERN EUROPE. In 7th U.S. Army sector strong enemy opposition encountered, but slight local gains in EPINAL area.

In 1st U.S. Army area slow progress made north of AACHEN against particularly heavy opposition. U.S. armour in OVERLOON area (16 miles south of NIJMEGEN) retarded by marshy ground and heavy mining.

South of ARNHEM, U.K. forces made advance of up to 2 miles against strong opposition. Progress made towards TILBURG by Polish armour and U.K. infantry. 1st Canadian Army have cleared banks of SCHELDE, N.W. of ANTWERP, for several miles and captured a considerable stretch of ANTWERP-BREDA Road.

ITALY. In 8th Army sector Indian troops made progress N.E. of MERCATO.

5th Army advanced two to three miles towards BOLOGNA. On left U.S. troops reached within two miles PORRETA (25 miles N.N.E. PISTOIA). Further west Brazilian troops made limited advance north of BORGIA (10 miles N. of LUCCA).

BALKANS. Russians have captured PANCEVO, 10 miles east of BELGRADE.

GREECE. U.K. troops have occupied PATRAS evacuated by Germans on night of 3rd/4th.

3. AIR

WESTERN FRONT. 4th/5th. Coastal Command aircraft damaged and possibly sank 7 ships off Dutch Islands and Norway,

5th. 199 Lancasters (1 missing) dropped 1119 tons on WILHELMSHAVEN. 935 U.S. heavies, 12 bombers and 6 supporting fighters missing, dropped 649 tons on COLOGNE, 174 tons RHEINE Marshalling Yard, 1195 tons on four airfields and 166 tons on other targets. Results unobserved at COLOGNE, otherwise good. 27 Mitchells bombed troop concentrations north of NIJMEGEN. 644 aircraft flew armed reconnaissances over HOLLAND and N.W. GERMANY, shooting down 6 enemy aircraft and destroying 9 locomotives, 32 M.T., 18 barges and various other transport units. 225 aircraft carried out airborne supply operations.

5th/6th. Aircraft despatched: SAARBRUCKEN town - 361, results good; SAARBRUCKEN Marshalling yard 191, results poor; BERLIN - 20 Mosquitoes, sea-mining 24, Bomber support and other targets - 97.

MEDITERRANEAN. 4th. 692 heavies (13 missing besides 3 escorting fighters) dropped 712 tons with good results on MUNICH railway centre, 937 tons on other railway targets in N. ITALY. 728 other aircraft (4 missing) attacked communications and other targets in battle area.

4. HOME SECURITY

5th/6th, 12 flying bombs plotted.



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

October 7, 1944.

Dear Henry:

I talked to Lyle Wilson and Charlie Shaeffer talked to heads of the other two agencies about the problem of release time. All agree that we will get a better play by making it a straight P.M. release rather than a timed release and advise the P.M. release if we are not fussy about its appearing on the street in a few places before it is actually delivered. I have instructed Charlie to put a straight P.M. release on the New Orleans speech and also on the Los Angeles speech but to have Little, the man who will go ahead of you, ask the local papers not to use it in morning editions if they have any.

There is one other minor complication, which is that of radio use. A straight P.M. release would enable any radio station to use any part or all of the speech at any time after nine o'clock in the morning and a rival station might thus spoil it for the station which has agreed to broadcast it for you. Therefore, we will have a straight P.M. release for the newspapers but a 1:45 P.M. release for the radio stations. Lyle Wilson told me this could be done.

Sincerely,

The Honorable Henry Morgenthau, Jr.,
Fishkill, New York.



10/7/44

223

Reading copy of the Secretary's address
to War Finance group at Atlantic City, N.J.

You may not be aware of it but this meeting today is a kind of birthday celebration - a very important birthday in my calendar. Just about ten years ago the first United States Savings Bonds - they used to be called Baby Bonds in those days - were sold to the American public. And in just a few months - next March to be precise - the oldest of these Bonds will reach its maturity and be presented to the Treasury of the United States for redemption.

A birthday is a family affair. And I am especially happy to be able to celebrate this birthday with members of the immediate family that made savings bonds the most popular and most widely held form of investment ever conceived in the United States.

- 2 -

I think you can be very proud of your adopted child.

When the history of this war comes to be written I believe, ~~indeed~~, that the savings bond program will have a highly honored place in it and that the job which you have done so generously and so effectively will be recorded as one of the major contributions to our victory.

Pause

I should like to go back with you for a few minutes to those early days, a decade ago, when War Bonds were Baby Bonds. They were conceived then with a very definite purpose in view. That purpose was, in a phrase, to democratize public finance in the United States.

- 3 -

We in the Treasury wanted to give every American a direct personal stake in the maintenance of sound Federal finances. Every man and woman who owned a Government Bond, we believed, would serve as a bulwark against the constant threats to Uncle Sam's pocketbook from pressure blocs and special interest groups. In short, we wanted the ownership of America to be in the hands of the American people.

We had made only a start in this direction, you will remember, when war broke out in Europe and threatened the security of the United States. But the foundation had been laid for real popular participation in an American preparedness program. Savings Bonds became known as Defense Bonds.

- 4 -

And, as you all know, they played an important part in making the Nation ready for the great crisis which came upon us at the end of 1941. They served not only as a vital factor in financing the rearmament of our fighting forces but, what seems to me even more important, they gave to the average citizen a sense of the war's meaning and of the urgent nature of the national danger. $\frac{1}{4}$

When the enemy struck, the machinery was ready and in operation for the people's financing of the war.

Defense Bonds became War Bonds and through your efforts they have been put into the hands of eighty-five million individual Americans. I congratulate you on the accomplishment. ~~Think of it!~~

- 5 -

Think of it!

Out of every thirteen men, women, children and babies in the United States, more than eight have purchased Bonds of their Government. Today there are approximately 23 billion dollars of Series E Bonds - the people's Bond - outstanding, all held by individual investors.

This Series E Bond was tailored specifically to meet the need of the average American citizen able to set aside modest savings for investment purposes. As all of you know, it is non-negotiable and through arrangements which have recently been inaugurated, it is payable on demand 60 days after issue date, at any bank. Its investment yield if held to maturity, 2.9 per cent, is the highest obtainable on any United States Government security.

- 6 -

We designed this security in order to protect the small investor against any possibility of loss as a result of fluctuations in market value. Non-negotiable securities with guaranteed redemption values are not subject to panicky liquidation which, experience shows, develops among small holders of marketable securities in the event of decline in market value. In short, they are more likely to be retained as investments.

It is worth while to recall the experience following World War I when Liberty Bonds plunged down into the eighties, and frightened buyers, inexperienced as investors, unloaded. They felt that their trust in their Government had been betrayed.

Later they awoke to find that their loss had been the gain of the speculators and the wealthy who then owned their Bonds at prices that brought them truly handsome yields on the safest securities in the world.

The Series E War Bonds will have an immense value, I believe, not only for the individual holder^s, but for the economy of the country as a whole when the war is ended. They will constitute an invaluable back log of purchasing power in the post-war decade. Only a part, and I believe the smaller part of this purchasing power will come from cashing the Bonds themselves.

- 8 -

The most important part will come from the greater spending of current incomes growing out of the sense of security afforded to individuals by their War Bond holdings. They will provide, therefore, a strong bulwark against the sort of deflation which struck this nation so disastrously in 1920 and 1921. $\frac{1}{2}$

There is one aspect of the War Bond program in which I take particular pride and upon which I want to offer my warm congratulations to you. Throughout, the program has been conducted on a genuinely voluntary, democratic basis. From the beginning, we were resolved to avoid certain high-pressure sales tactics which, unavoidably, attended the fund-raising of World War I.

It was determined that there should be no compulsion, no hysteria, no slacker lists and no invidious comparisons between those who bought Bonds and those who did not.

There was to be room in this program for the individual with special burdens and responsibilities who could contribute only in very small amounts - and even for the individual who could not share at all. I think you know, and the whole Nation knows, how scrupulously this policy has been observed.

There was a good reason for it. In the early days of 1941, when I first asked Congress for authorization to borrow from the general public through a Defense Savings Bond Campaign, I said this: "There exists in the country today an overwhelming desire on the part of nearly every man, woman and child to make some direct and tangible contribution to the national defense.

845
149
201

We ought to give them a sense of personal participation beyond that which comes from doing their daily job faithfully and well. Every day, letters come to me from people who ask, 'What can I do to help?' Our plan to offer securities attractive to all classes of investors is an attempt to answer this question. I can think of no other single way in which so many people can become partners of their Government in facing this emergency. It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale."

- 11 -

The desire of the people "to help," the sense of participation in the national cause, could never have been realized except through a voluntary program. You will recall, of course, the clamor that arose for forced or compulsory savings. There were many who declared that only in this way could the stupendous sums needed for victory be raised. There were times, indeed, when those of us who had faith in voluntary methods seemed lonely voices crying in the wilderness. But there was one voice that never failed to support us - the voice of the President of the United States. He believed always that the people would respond to any call that was made upon them. He knew that the enlistment of their support could be best attained through a voluntary program adapted to the democratic pattern of American life.

3/4

- 12 -

But a voluntary program could succeed, of course, only through the efforts of volunteer workers. We in the Treasury could fulfill only the functions of a general staff. The real battle had to be fought and won in the field - fought and won by sustained, unstinting, tireless service. You have given that service. You have given it with a resourcefulness and enthusiasm and good cheer that have overridden every difficulty. You have given it at real sacrifice of time and comfort and self-interest. I think that the job that you have done is beyond my praise. I know that the richest reward you can receive for it is the knowledge that it has been done supremely well, that it has played an indispensable part in our forward march to victory.

- 13 -

Still, I should like, on behalf of the Treasury Department, to say one simple word to you - Thanks.

I shall venture nothing more than this. But I know that this one word is echoed, and will be re-echoed, by every one of your fellow-Americans.

When you enlisted in this program, you enlisted for the duration. The term of your service has not yet reached its end. The truth is that the toughest part of your job still lies ahead.

Let us look at the future realistically. The war news of late has been extremely good. The enemy in Europe is on the run. How soon he will collapse, none of us can tell.

- 14 -

But even when that great day comes, there will still be a hard and costly victory to be won in Asia. Our military and naval authorities made the grim assertion just recently that it will take us at least a year and a half to defeat Japan after Germany is beaten. And we shall be able to do it in that time only if we put every bit of our strength into the effort. The enemy has short, interior lines of communication, while we must move men and materials across the vast distances of the Pacific before we can bring our power to bear. The costs of this kind of warfare will certainly be very high, higher even than they were in Europe.

- 15 -

You cannot rest on your laurels. The Sixth War Loan campaign lies immediately ahead. Its challenge must be confronted just as resolutely as in the past. And I tell you frankly that even on the most optimistic assumption there will have to be a Seventh Loan. Your job is to make the people of America understand that there can be no let-down on the Home Front now, that the time has not yet come to relax or celebrate. I know that America can count upon you to see your job through to its end.

.....

OFFICE OF WAR INFORMATION

WASHINGTON

239

October 7, 1944

Mr. Herbert Gaston
Assistant Secretary of the Treasury
Washington, D. C.

Dear Mr. Gaston:

Attached you will find a supplement
to the report on German propaganda
concerning the postwar treatment of
Germany.

Very sincerely yours.

H. J. Krould
M. W.

Harry J. Krould
Deputy Chief
Bureau of Overseas Intelligence

GERMAN PROPAGANDA CONCERNING ALLIED

PLANS FOR GERMANY: SUPPLEMENT

The so-called Morgenthau plan continued to be the main subject of German propaganda designed to stiffen popular resistance and will to fight. The VOELKISCHER BEOACHTER of September 27 declared that "an Allied victory would be tantamount to a declaration of permanent war" and illustrated Allied post-war plans by referring to armistice terms accepted by Germany's former allies:

"The Morgenthau plan has once again shown how our enemies imagine the post-war world. We can also glean it from the misery which grows as parasitically in the Anglo-American vacuum as Bolshevism, which is again raging mercilessly. The last word about the post-war era was not the Atlantic Charter but the murderous dictates forced on Italy, Rumania, Finland, Bulgaria, and the devilish plan devised by the Jew Morgenthau for the hard treatment of Germany demanded by Roosevelt.

The people were told that, according to Allied intentions, they would not be allowed to rebuild their destroyed homes. Speaking of "plans dictated by the Jews within the governments of the enemies of Moscow, London, and Washington, the German Home Service of September 26 stated:

"According to their opinion, no steps should be taken for the reconstruction of Germany. It should be prohibited to assist the German people with food, clothing, or other commodities. Morgenthau as the spokesman of international Jewry and their henchmen...expressly stated that a reconstruction of destroyed industries and transportation systems as well as destroyed housings of the German population could not be contemplated."

The same statement was made by Fritzsche (German Home Service and to North and Latin America, September 30):

"Things are no different in the United States, where the Jewish Secretary of the Treasury Morgenthau has just now set up a plan for the destruction of Germany, a plan which in effect calls for forbidding Germany to do any rebuilding, even as regards her destroyed homes, and for depriving her of her natural possibilities for work."

Fritzsche also stressed Allied unity with regard to this specific point:

"...it is surprising how frankly the agreement between Morgenthau's plans and those of Moscow is admitted. Thus we see...the existence of political agreement between such dissimilar partners as Moscow's Bolshevism and American plutocracy, with the help of Jewry."

- 2 -

On September 30, a broadcast to the German Forces discussed "Morgenthau's plan of hate" and quoted a New York commentator by the name of Rosensaar as having said:

"The Ruhr district will have to be razed to the ground. Education of German youth ought to be simplified until such time when there will be sufficient Jewish teachers. To provide for university education of German youth will not be advisable, since in any case all German males will be deported to U.S.S.R. for forced labor."

The same day the German press service to Europe outside Germany, quoting "a New York commentator," described the Morgenthau plan thus:

"Apart from the grotesque plans for splitting up the Reich, Germany is to lose her entire steel industry and her chemical works and factories for the manufacture of synthetic gasoline, which are to be moved to other countries. The Ruhr district is to be expropriated, and most of its mines are to be closed down and their gates are to be sealed. It is also stated that this plan was drafted at the central office of the United States Jewish Committee, whose president Wertheim is Morgenthau's brother-in-law."

Speaking of the unpleasant prospect of another war winter, Wilfried von Oven (German Home Service, September 29) said:

"Rather another winter in Germany, even if in danger of air attacks and assaulted from all sides, than in a Siberian salt mine."

Transocean (September 28) elaborated Dr. Schmidt's statement about the "justification of our anti-Jewish policy" (cf. the previous report, page 5) this way:

"The plan confirms the National Socialist thesis that the Jews should be completely eliminated from politics. Morgenthau's statement once again proves that people of his race are a menace when they occupy leading positions, because they are unable to carry out any constructive policy."

Two outstanding personalities in German propaganda dealt with the subject recently. Goebbels, in his speech in the workshop of a factory close to the Western front (DNB to Germany, October 4), mentioned "the plans of hatred and revenge of a truly Old Testamentarian character cooked by the United States Jew Morgenthau. These had literally planned to turn industrial Germany into one vast potato field." The DNB report here records "tumultuous shouts of shame" as the workers' answer. Goebbels also asserted:

"This will of destruction on the part of the enemy only adds to our hardness and resolution to fight."

- 3 -

Lieutenant General Dittmar in his weekly talk (to Germany and abroad, October 5) referred to Allied post-war plans twice:

"The plans of hate against Germany expressed by a Morgenthau are not without precedent. They spring from Jewish ideology as well as Puritanism which is related to it--the basic characteristics of both being a Pharisaic smugness."

Quoting from Hamlet: "The time is out of joint," he remarked:

"He who doubts that should have a look at the plans prepared by our enemies which they intend to carry out in the event of their victory. Never has the inability for a creative new order, never has the desire for the silence of a graveyard in the very area of occidental culture been more plainly expressed than by these intentions filled with hatred. Toward those who are the advocates of such thoughts we must show an enmity that has no parallel, an enmity which knows nothing but fight, work, and planning for victory and survival...."

This is a typical example of how German propaganda uses the "Morgenthau plan" as a stimulant to boost fighting morale.

Secretary Eden's statement in the Commons that he was not interested in such terms as "good or bad Germans" (NEW YORK TIMES, September 30) was capitalized upon by Hertel in a broadcast to the home audience (September 30) as an Allied recognition of the unity of the German people:

"By declining to differentiate in this manner Eden writes off the hope of German treason on the pattern of 1918. He understands that our people are united in this struggle which will determine our fate...."

Prime Minister Churchill's reference in the Commons to a Jewish fighting unit, "which will not only take part in the struggle but also in the occupation which will follow" (September 28), was distorted by Von Oven (German Home Service, September 29) as follows:

"Not that (the Itzigs) now intend to storm the West Wall; oh, no, they are to be used for the occupation of Germany. This is another link in our enemies' plan for destruction."

Similarly, a German broadcast in English to Europe of September 28 commented on the same subject:

"The real purpose of the new Jewish brigade is revealed in Mr. Churchill's prophecy that this pseudo-military organization will take part in the occupation of any German soil gained by the Allies. It has long been realized in the Reich that an Allied victory would be a Jewish victory, and it is understood that this is a war of Jewish revenge. The proposal, however, that Germany should be occupied by Jewish troops can only strengthen the German will to resist to the utmost and turn resistance into final victory."

CABLE TO AMERICAN EMBASSY, LONDON

The War Refugee Board requests that you deliver the following message to Dr. Ignacy Schwarzbart, 45 Queens Court, Queensway, London:

QUOTE Conferred again matter deathcamps with Soviet Embassy which promised favorable action. Concerning Anglo-American action War Department here informed fully General Wilson Allied Mediterranean Commander. Urge our friends take up matter British War Office. Inform Easterman Reiss. Signed A. Leon Kubowitzki, World Jewish Congress. UNQUOTE

THIS IS WRB CABLE TO LONDON 10

10:00 a.m.
October 7, 1944

ISLesser:tmh 10-3-44

PARAPHRASE OF TELEGRAM SENT

FROM : Secretary of State, Washington
TO : AMEMBASSY, London
DATED : October 7, 1944
NUMBER: 8244

SECRET

With regard to Embassy's 8097, dated September 28, the Department and FEA are in agreement with the views of EMB in telegram under reference. In accordance with Legation's 4039 dated the fifth of October and repeated to London as 1210, which requests answer by the ninth of October, advise Stockholm at once.

HULL

SWP:VIO

PARAPHRASED:

DCR:EMS
10/10/44

MS-180
Distribution of true
reading only by special
arrangement. (SECRET W)

London

Dated October 7, 1944

Rec'd 1:05 p.m.

Secretary of State,
Washington.

8452, October 7, 4 p.m.

PEHLE, WRB, FROM MANN.

Please deliver a paraphrase of the following message to Joseph Schwartz, American Jewish Joint Distribution Committee from Joseph Linton.

"Regarding 650 from Yugoslavia we have just received a grant of certificates for a number of countries including 900 souls from Italy, which we intended to use for refugees already in Italy. We are trying to send a representative to Italy for selection of candidates. Our representative will be asked to ~~new~~ ~~comers~~ come into consideration. If additional certificates become necessary we might make them available from quotas from other countries as we cannot just now ask the Government for special allocation in view of the present allotment. Please treat this confidentially."

Following for Pehle:

The above is in connection with WRB 5. I assume reply is satisfactory. Linton advises me that it is most important that he get a representative into Italy and I am attempting to help him arrange this.

WINANT

JT

CABLE TO AMBASSADOR KIRK, AMPOLAD, CASERTA, AND ACKERMANN

The following message has been sent to Bern as Department's 3461 of October 7:

QUOTE The Department has received information indicating that orders have been given to exterminate the Jews in three concentration camps, namely Osviecim, Birkenau, and Naeuss. Probably some 65,000 Jews are involved.

QUOTE You are requested, through any channels available to you, to convey to the German Representative at Bern that the United States has this information and further understands that the death order has been personally authorized by Himmler, to be carried out by certain other officials. Direct responsibility for this proposed crime is thus fixed, and if it is carried out appropriate consequences will follow in accordance with the declared policy of the United States Government, and will attach to all participants. UNQUOTE

Please make use of whatever channels may be available to you to convey a similar message to German authorities. You should add that the warning applies with equal force to crimes committed at camps other than those specified.

Please report all developments in the situation as soon as they become known to you.

THIS IS WRB CABLE TO CASERTA NO. 53

CABLE TO AMABASSADOR NORWEB AT LISBON AND DEXTER

The following message has been sent to Bern as Department's 3461 of October 7:

QUOTE The Department has received information indicating that orders have been given to exterminate the Jews in three concentration camps, namely Osswiecin, Birkenau, and Naeuss. Probably some 65,000 Jews are involved.

QUOTE You are requested, through any channels available to you, to convey to the German Representative at Bern that the United States has this information and further understands that the death order has been personally authorized by Himmler, to be carried out by certain other officials. Direct responsibility for this proposed crime is thus fixed, and if it is carried out appropriate consequences will follow in accordance with the declared policy of the United States Government, and will attach to all participants. UNQUOTE

Please make use of whatever channels may be available to you to convey a similar message to German authorities. You should add that the warning applies with equal force to crimes committed at camps other than those specified.

Please report all developments in the situation as soon as they become known to you.

THIS IS WRB CABLE TO LISBON NO. 105.

CABLE TO MINISTER JOHNSON AT STOCKHOLM AND OLSEN

The following message has been sent to Bern as Department's 3461 of October 7:

QUOTE The Department has received information indicating that orders have been given to exterminate the Jews in three concentration camps, namely Oświęcim, Birkenau, and Naeuss. Probably some 65,000 Jews are involved.

QUOTE You are requested, through any channels available to you, to convey to the German Representative at Bern that the United States has this information and further understands that the death order has been personally authorized by Himmler, to be carried out by certain other officials. Direct responsibility for this proposed crime is thus fixed, and if it is carried out appropriate consequences will follow in accordance with the declared policy of the United States Government, and will attach to all participants. UNQUOTE

Please make use of whatever channels may be available to you to convey a similar message to German authorities. You should add that the warning applies with equal force to crimes committed at camps other than those specified.

Please report all developments in the situation as soon as they become known to you.

THIS IS WRB STOCKHOLM CABLE NO. 105.

PARAPHRASE OF TELISORAM RECEIVED

FROM: American Legation, Stockholm
 TO: Secretary of State, Washington
 DATED: October 7, 1944
 NUMBER: 4088

CONFIDENTIAL

SECTION ONE

From the Italian Legation we have received under date of October 6 a note pointing out that the Swedish Government was approached, following our representation, and it stated that it would provide to Italian unofficial refugees who had no employment free lodging, but without food, plus a monetary stipend of 20 crowns per man per week.

It is stated by the Italian Legation that this relief is not sufficient even to pay for the food for such refugees. Italians who have jobs earn per month approximately 140 kronor here, while those working in factories as laborers earn 70 crowns per week. Many of the refugees arrived here without adequate clothing and in poor health, however, still others have not found jobs due to language difficulties. In its note it is suggested by the Italian Legation, and it was more strongly emphasized in oral conversation, that this group of Italian seamen refugees would be liable to suasion by neo-Fascist Italian agents here or would automatically be subject to Communist propaganda if this group is denied further aid. Therefore, the Italian Legation asks us to continue with our British colleagues to pay, in addition to the help which the Swedes have promised, the minimum of refugee relief based on one crown per man per day for the 75 refugees here, or 2,250 crowns per month. Also, it is requested by the Italian Legation that the sum as previously paid jointly by British and U. S., namely 3000 crowns per month, be maintained in order to give it a little leeway and to meet costs of further relief. (Comment by the Legation: The request made by the Italian Legation is, by local standards, modest. For example, the Belgian Legation pays seven kronor per man, and the French Legation pays seven kronor fifty ore per day to all French refugees. U.S.A. internees in Sweden, who are highest paid of any foreign community of this type, are in the popular view also refugees from Germany in a sense.)

On the third of October the British Legation wrote to London describing steps which had been taken by the Department and stated that should this Legation not feel it possible to bring the matter to the attention of the Department again, it might have to request the Foreign Office to take up the matter in Washington or else authorize the British Legation here to carry all the sum, as it was not felt by the British Legation that it would be useful to the Allied cause if Stockholm had a number of tough Italian escapees who, if they are not given enough to live on, will certainly go Communist and cause trouble.

SECTION TWO

Although we are fully aware of the motives which have determined the decision taken in this case by the Department, I submit that a problem whose nuisance value is considerable is being built up for very little monetary savings. If such expenditure cannot be authorized by the Department, the War Refugee Board might find it possible to give to its representative here authority to defray these costs for unofficial Italian refugee relief (this section is cable 89 from War Refugee Board's representative at the Legation).

With respect to the question of Stefani correspondents, it was pointed out in the note from the Italian Legation that it would be necessary to repatriate these men as quickly as possible if their stipends now cease, and the Italian Legation begs this and the British Legation to do everything possible to obtain means for repatriating the three correspondents concerned, continuing to pay them relief in the meantime. I am prepared, for our part, to authorize the transportation of Messrs. Arista, Bojano, and Sarti to England by American plane, but no instructions as to whether they would be permitted to land in England or to proceed to Italy have been received by the British as yet. The Stefani correspondents are clearly not fitted for remunerative employment in Sweden, which is already burdened with thousands of foreign refugees, and it is recommended by me that until means can be found for their speedy repatriation, we be authorized at least to pay to Stefani men a subsistence allowance in conjunction with the British.

The Italian Legation, goes on in a third section of its note to request that we continue to pay in round figures 50,000 crowns monthly originally decided upon and approved by Department and Foreign Office in London, if it is at all possible to do so. It is pointed out by the Italian Legation that salary and other payments totaling over 68,000 crowns per month have been authorized by its own Foreign Office but that the Foreign Office at Rome has stated in instruction No. 37, dated the twenty-fifth of September, that the Allied Control Commission had demanded that the Stockholm Royal Legation's expenses be confined to the sum of 50 crowns. The Statement is construed by the Italian Legation here as being a negative approval by Control Commission of continued payment of this sum.

It is felt by us that for a very little saving in money we are developing a small hornet's nest which may have unfavorable repercussions against cause of the Allied Nations, especially since the Italians are increasingly being accepted by us in other field as bona fide co-belligerents against the Axis. We should appreciate reconsideration of this problem by the War Refugee Board and the Department.

JOHNSON

CABLE TO HARRISON, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Reference Legation's 6460, September 28, 7 p.m.

Proposal of American Friends Service Committee, Geneva, to purchase foodstuffs for refugees France outlined in your 5718, September 1, 2 p.m., approved by interested government agencies as well as the military. Accordingly, authorization to make purchases may be granted.

THIS IS WRB CABLE TO BERN NO. 205

1:45 p.m.
October 7, 1944

FH:hd 10/7/44

PLAIN

October 7, 1944

AMLEGATION,

BERN.

3461, Seventh

The Department has received information indicating that orders have been given to exterminate the Jews in three concentration camps, namely Oświęcim, Birkenau and Naeuss. Probably some 65,000 Jews are involved.

You are requested, through any channels available to you, to convey to the German Representative at Bern that the United States has this information and further understands that the death order has been personally authorized by Himmler, to be carried out by certain other officials. DIRECT responsibility for this proposed crime is thus fixed, and if it is carried out appropriate consequences will follow in accordance with the declared policy of the United States Government, and will attach to all participants.

Kindly report any developments in the situation as soon as they become known to you.

HULL
(AWL)

A B AAB:CES

WRB

MS-109

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

Bern

Dated October 7, 1944

Rec'd 9:10 a.m.

Secretary of State,

Washington.

6674, October 7, 10 a.m.

FOR WRB FROM MCCLELLAND

For Leo Wulman American OSE from Lazor Gurvitch.

"International Red Cross has no direct possibilities send medicines Lublin. Attempting find other ways through National Red Cross organizations. Please communicate all details concerning Herssenborn particularly number saved and help possibilities. In France next several months shall maintain at least 5000 children mostly abandoned. About 2000 of these are helped together families. Have started reopening homes for 1000 children most equipment haveng been saved. Organized special family research service Geneva and France view further repatriation and emigration. Reopened social medical centers emphasize necessity energetic measures behalf sich persons particularly tuberculars. Necessary we organize sending medicines fortifying foods. Informed over 3500 abandoned children in Belgium. Expecting report and program local organizations soon."

HARRISON

WSB

CABLE TO AMBASSADOR STEINHARDT AT ANKARA AND KATZKI

The following message has been sent to Bern as Department's 3461 of October 7:

QUOTE The Department has received information indicating that orders have been given to exterminate the Jews in three concentration camps, namely Osviecim, Birkenau, and Naeuss. Probably some 65,000 Jews are involved.

QUOTE You are requested, through any channels available to you, to convey to the German Representative at Bern that the United States has this information and further understands that the death order has been personally authorized by Himmler, to be carried out by certain other officials. Direct responsibility for this proposed crime is thus fixed, and if it is carried out appropriate consequences will follow in accordance with the declared policy of the United States Government, and will attach to all participants. UNQUOTE

Please make use of whatever channels may be available to you to convey a similar message to German authorities. You should add that the warning applies with equal force to crimes committed at camps other than those specified.

Please report all developments in the situation as soon as they become known to you.

THIS IS WRB CABLE TO ANKARA NO. 116

TOPSECRETOPTEL No. 326.

Information received up to 10 a.m. 7th October, 1944.

1. NAVAL

On 5th a British yacht minesweeper was sunk by mine whilst at anchor in Boulogne Harbour. One of H.M.S. ships sank enemy destroyer, armed trawler and large caique South of Gulf of Salonika. Patras Harbour reported largely intact owing to failure demolition charges.

2. MILITARY

Western Europe. In U.S. Sector, German salient N.E. St. Vith pinched out but elsewhere little change. Attack North of Aachen has made some headway against determined opposition in the corridor, two German counter attacks in the N.W. resulted in some infiltration South of Lower Rhine but situation has been stabilised. Local advances reported East of Nijmegen and Canadians continuing their attack North of Antwerp are within four miles of the Isthmus leading to Walcheren. An attack across Leopold Canal, launched at 5.30 a.m. yesterday secured a bridgehead over canal 11 miles East of Bruges.

Italy. Heavy rain Adriatic Sector continues to hamper operations. Gains made South of Savignano where our troops are within 1500 yards of Roncefreddo. In Fifth Army Sector U.S. troops at one point are 2,000 yards North of Loiano.

Russia. Russians have captured Eastern Part of Oesel Island and N.W. of Arad have penetrated about 15 miles into Hungary.

3. AIR

Western Front; 5th/6th. 2,052 tons dropped Saarbrucken.
6th. 321 bomber command aircraft despatched:- 146 - six missing bombed Buer Synthetic Oil Plant visually with good results 494 tons; 145 - three missing successfully bombed Sterkdrade Synthetic Oil Plant 578, no German fighter opposition of 1271 escorted U.S. heavy bombers despatched, 272 bombed airfields 20 miles S.E. of Stettin - 441 tons, results good; and at Neubrandenburg - 158, good. 217 bombed ordnance depots Hamburg - 196 tons, very good and at Berlin - 288 tons, unobserved; 238 attacked armoured vehicle and aero-engine works Berlin - 513 tons, good; and 79 bombed aero-engine works near Hamburg - 296 tons, good; 368 bombed other targets with varying success. 19 U.S. heavy bombers and eight fighters missing; 22 German aircraft shot down and 36 flying boats destroyed on the water. 69 A.E.A.F. medium bombers made a concentrated attack on petrol dump near Amersfoort. 992 aircraft - eight missing flew normal reconnaissances and patrols over Northern Holland and N.W. Germany destroying several transport units. 336 aircraft - two missing carried supplies.

6th/7th. Bomber command sent out 931 aircraft - 12 missing:- 520 successfully bombed Dortmund and 253 Bremen in good visibility; 20 mosquitoes attacked Berlin; of the remainder 102 were engaged in bomber support and 19 sea mining.

Mediterranean. 4th/5th. Sea mines were laid in Danube.
5th. Bad weather restricted operations. Beaufighters sank a tanker in the Gulf of Venice.

Gard.

NOT TO BE RE-TRANSMITTED

COPY NO. 11SECRET

OPTTEL No. 327

Information received up to 10 a.m., 8th October, 1944.

1. NAVAL

AEGEAN. On 3rd/4th one of H.M. Antiaircraft Ships bombarded HERAKLION. Two of H.M. Destroyers destroyed 6 large assault craft N.E. of Rhodes. On 4th one of H.M. Cruisers damaged a coaster off MILO.

INDIAN OCEAN. 30th Sept. One of H.M. Submarines destroyed an observation post in Great Coco Island.

2. MILITARY

WESTERN EUROPE. Germans have continued their pressure on the Corridor but their troops who infiltrated south of OPHEUSDEN yesterday were quickly liquidated and the Eastern half of the town was recaptured. The Canadians are continuing their attack across the LEOPOLD Canal in the face of stiff resistance.

ITALY. 7th. Good progress by 5th army troops South of BOLOGNA and in the area North of PISTOIA and LUCCA: they are now about 13 miles from the outskirts of BOLOGNA.

RUSSIA. In area North West ARAD Russians have captured BEKESCABA and OROSHAZA in Hungary: in YUGOSLAVIA they have taken VELIKA-KIKINDA.

3. AIR OPERATIONS

WESTERN FRONT. 6th/7th. 1,657 tons on DORTMUND and 1,081 on BREMEN.

7th. 846 escorted Bomber Command heavy bombers despatched: 333 (2 missing) very successfully dropped 1,709 tons CLEVE; 337 (3 missing) dropped 2,001 EMMERICH with good results; 122 dropped 720 WALCHEREN Sea Wall, results unobserved. Of 1,422 escorted U.S. heavy bombers despatched 529 dropped 1,270 tons on 6 synthetic oil plants in GERMANY; 140 dropped 423 on an armament and aero engine works MAGDEBURG; 180 dropped 472 on two tank and M.T. works KASSEL; 452 dropped 1,127 on other objectives. Results were almost all unobserved except at MAGDEBURG where very good. German casualties 22, 0, 1 in the air and 17, 0, 3 on the ground, and water. Ours - 52 bombers, 15 fighters missing. 191 fighter bombers and fighters (3 missing) attacked transport north west GERMANY destroying or damaging 8 locomotives and 190 railway wagons. 325 aircraft carried supplies to FRANCE and BELGIUM.

MEDITERRANEAN. Bad weather restricted operations on 6th but 90 fighter bombers attacked airfields ATHENS and SALONIKA areas scoring 18, 0, 18 on the ground for the loss of 10.

7th. Of 710 Mediterranean heavy bombers despatched, 286 dropped 506 tons on two oil targets near VIENNA, 269 dropped 539 on two railway centres BUDAPEST area, 66 dropped 145 on airfield near BUDAPEST. All results good. 16 bombers missing.

4. HOME SECURITY

Early last night 11 flying bombs plotted.

TREASURY DEPARTMENT

25

October 9, 1944

Dear Mr. Hassett:

In the absence of the Secretary
I am returning the telegram of October 6,
1944, from Mr. Cyrus Eaton, Cleveland,
Ohio, together with a suggested reply.

Very truly yours,

(Signed) D. W. BELL

Mr. William D. Hassett
Secretary to the President
The White House.

DWB:NLE

Suggested Reply to Telegram
of October 6, 1944, from
Mr. Cyrus Eaton

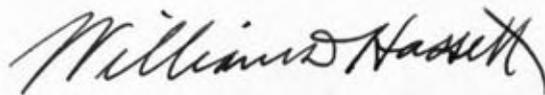
"Thanks very much for your telegram of October six. I suggest that you discuss the steps you would like to see taken regarding our banking system with the Secretary of the Treasury. I am sure he will be glad to talk to you about the matter."

THE WHITE HOUSE
WASHINGTON

October 7, 1944

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

The attached telegram which the President has received from Mr. Cyrus Eaton is respectfully referred to you for attention and appropriate acknowledgment.



WILLIAM D. HASSETT
Secretary to the President

1944 OCT 7 10 41 AM

COPY

Oct 6 4:01 pm 1944

WU48 78

Cleveland Ohio Oct 6 325P 1944

Hon Franklin D Roosevelt

President of the United States The White House
Further financial reforms are urgently needed to
foster the free competitive enterprise to which
you so ringingly referred in your stirring radio
address last night. Henry Kaiser's New York speech
reported in today's New York Times again calls
attention to our archaic banking system. I know
what steps should be taken. May I discuss them
with your economic adviser? A statement on the
subject by you before the election would rally
immense numbers of average businessmen to your
standards.

CYRUS EATON

25

October 9, 1944.

Dear Mr. Fadiman:

Your letter of October 6 has been received during the Secretary's absence from the city. Mr. Morgenthau will be away for a week or ten days, but I shall be glad to show him your letter immediately upon his return to the office. Meanwhile, I am sure he would wish me to thank you for writing him as you did.

Sincerely yours,

(Signed) H.S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Clifton Fadiman,
Writers' War Board,
122 East 42nd Street,
New York 17, New York.

IP/dbs

WRITERS' WAR BOARD

262

122 EAST 42ND STREET, NEW YORK 17, N. Y.

Telephone, Murray Hill 3-6800

REX STOUT, *Chairman*
FRANKLIN P. ADAMS
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RUSSEL CROUSE
CLIFTON FADIMAN
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RITA HALLE KLEEMAN
CHRISTOPHER LA FARGE
ROBERT J. LANDRY
MARGARET LEECH
JOHN P. MARQUAND
HOBE MORRISON
JEAN ELLIS POLETTI
KATHARINE SEYMOUR
WILLIAM L. SHIRER
LUISE SILLCOX
FREDERICA BARACH,
Executive Secretary

October 6, 1944

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

Dear Mr. Secretary:

I have made a number of phone calls and inquiries to see whether I could get you the man you want, without success. The good men can't get away for a month, and those who are at large are not of the calibre you require.

Have you thought of just getting Elmer Davis on the phone and seeing whether he can't produce someone already in Washington?

I'm terribly sorry about this failure, but we have honestly made a genuine attempt to fulfill your request.

Sincerely,

Clifton Fadiman

Clifton Fadiman

CF:SC

Advisory Council

LOUIS ADAMIC
FREDERICK LEWIS ALLEN
FAITH BALDWIN
MARGARET CULKIN BANNING
WILLIAM ROSE BENET
ROARK BRADFORD
LOUIS BROMFIELD
VAN WYCK BROOKS
CECIL BROWN
KATHARINE BRUSH
SIDNEY BUCHMAN
PEARL S. BUCK
HENRY SEIDEL CANDY
MARY ELLEN CHASE
MARC CONNELLY
NORMAN CORWIN
GEORGE CREEL
RUSSELL DAVENPORT
WALTER DAVENPORT
BERNARD DeVOTO
WALTER D. EDMONDS
EDNA FEEBER
DOROTHY CANFIELD FISHER
COREY FORD
ROSE FRANKEN
LEWIS GANNETT
JOHN GUNTHER
LANGSTON HUGHES
FANNIE HURST
MARQUIS JAMES
OWEN JOHNSON
MACKINLAY KANTOR
GEORGE S. KAUFMAN
JOHN KERRAN
MANUEL KOMROFF
JOSEPH WOOD KRUTCH
HOWARD LINDSAY
EDNA ST. VINCENT MILLAY
EDWARD R. MURROW
ROBERT NATHAN
ALLAN NEVINS
CLIFFORD ODETS
EUGENE O'NEILL
ROI OTTLEY
DONALD CULROSS PRATTIE
FLETCHER PRATT
HENRY PRINGLE
MARJORIE KINNAN RAWLINGS
QUENTIN REYNOLDS
ELMER RICE
MARY ROBERTS RINEHART
KENNETH ROBERTS
ROBERT ST. JOHN
JOHN STEINBECK
DONALD OGDEN STEWART
FRANK SULLIVAN
DOROTHY THOMPSON
SOPHIE KERR UNDERWOOD
CARL VAN DOREN
MARK VAN DOREN
WALTER WHITE
WILLIAM L. WHITE
MARGARET WIDDEMER
THORNTON WILDER

OFFICE
SECRETARY OF TREASURY
OCT 6 1944

W. RANDOLPH BURGESS
55 WALL STREET
NEW YORK 15, N. Y.

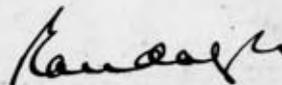
October 9, 1944.

Dear Henry:

Back at my desk this morning, a relatively rare experience, I want to put in writing what I said to you orally - that I appreciate no end your taking the time to write me as you do in your letter of October 4 congratulating me on the presidency of the A. B. A.

It means a great deal to feel that we can work side by side with the Treasury at this critical time.

Sincerely yours,



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

NOV 10 1944

RECEIVED
OFFICE

SECRET

264

THE WHITE HOUSE
WASHINGTON

264 ✓
[Handwritten signature]

October 9, 1944

MEMORANDUM FOR THE HON. HENRY MORGENTHAU, Jr.

Dear Henry:

The P.M. has replied to the message about the Directive that you and I talked about and he is very much opposed to publication.

I will tell you more about this when I see you.

[Handwritten signature]

H.L.H.

SECRET

WAR DEPARTMENT
WASHINGTON

10/11/44

265

photostats to
Mr. Ganton
Mr. White
Mr. Pable

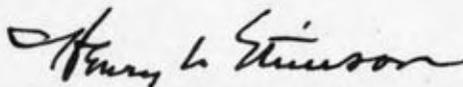
October 9, 1944.

Confidential.

My dear Henry:

I have your letter of October 6th and am grateful to you for calling my attention to the letter in the Times. I think that, like you, I realize the danger of our friends, the Nazis, slipping something over on us and the necessity of eternal vigilance in guarding against it. I shall send your letter to the people who handle those matters.

Faithfully yours,



Secretary of War.

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

OCT 6 1944

My dear Mr. Secretary:

I think you will be interested in reading the attached letter to the editor of the New York Times which was published in that paper on October 5, if you have not already read it.

It was this sort of situation, and the questions which such incidents are bound to raise in the public mind, which we all were conscious of when we drew the provision contained in the interim directive for Germany agreed upon by Secretary Hull, you and I, requiring that all members of the Nazi party and ardent supporters of Nazism be removed immediately from all Government positions (other than clerks and other non-policy making functionaries) and from all leading positions in public services.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Attachment.

The Honorable

The Secretary of War.

JEDuBois:ecr
10/6/44

JH W

267
NEW YORK TIMES
October 5, 1944

Letters to the Times

Warning Against Nazi Plot

Accepting Help from German Officials Regarded as Dangerous

To the Editor of the New York Times:

The report by Drew Middleton in your issue of Oct. 2 "Germans Obeying United States Army Rules," brings to the fore some peculiar facts which cause considerable alarm to those who know Nazism from experience.

I am fully aware of the difficult task the Allied Military Government has to tackle in the occupied German territory. The responsibility of assuring smooth functioning of an area so close to the front line as Roetgen and the other places now occupied by the American Army is complex and requires careful consideration of what to do in order to avoid friction with the German population, which could easily hamper military operations.

I understand that the AMG has to choose the quickest and most expedient way of restoring order and guaranteeing full freedom for our military governments. But I do not understand why a Mr. Barth - known to be pro-Nazi - has to be chosen as the mediator between the AMG and the German civilians. Mr. Middleton stresses the fact that Barth's services have been accepted as "temporary" only and so are the collaboration of the chief of police and two other officials appointed by the latter.

But temporary or not - this is a big victory of the Nazis who succeeded in their first step to go underground to undermine the Allied occupation. They have set the pattern for events to come. You can be sure that in each place occupied by the Americans there will be an "opportunist" at hand, a former Nazi official who was "just left behind" when the German Army withdrew.

Experienced Assistance

A buergermeister here, a police chief there, merely someone who knows how to run the place, who knows how the sewer system

functions, where the city's records are - and who first happened to be a Nazi official. He will be extremely polite, correct, reasonable and go clicking his heels while serving the invasion forces, only concerned with having everything run smoothly and that the AMG does not have to bother at all with the German population.

We can be sure that those Barths left behind are very carefully selected for this job. They have to play the obedient servant. Let's not fool ourselves. A Mayor of a German town, a police chief are not just officials. They are 100 proof Nazis entrusted by their party with the task of taking over under the Allied Military Government; to assure the establishment of an "underground" nucleus which will come out into the open later - as guerrillas in two months or as "saviors" of the Fatherland in five years.

It is an old trick. I had the chance to study this kind of strategy as I watched Nazism in prison. Once behind bars, the supermen have strict party orders to be very obedient, correct, clean, polite, to please their guards with those little attentive tricks which avoid trouble in the daily jail routine. But the whole show is staged with the carefully calculated aim to win the confidence of their jailers in order to get certain favors - to get the jobs of orderlies which would enable them to get in touch with their fellow-prisoners in other cells, and similar things. Everyone can translate this episode into the part of Mr. Barth in Roetgen. Even if he has to leave after the present AMG leaves Roetgen - and who knows whether the next AMG won't use him again - Mr. Barth will have had ample time to do the job the Nazi party expects him to perform.

Action Held Inconsistent

Furthermore, we are telling the Germans through the radio and leaflets that they should get rid of the Nazis and that our prime task will be to oust them wherever they have established themselves. In the first area occupied by our troops we hasten to get their collaboration, and our military police are patrolling the streets together with the former Nazis. That they don't wear their swastikas can't fool anybody - at least not the Germans.

- 3 -

I am waiting for the first reports that our troops are amazed at the fact that the Germans in the occupied areas don't complain about their former masters. The AMG will get very few of those complaints as long as the Barths and their police chiefs are keeping a watchful eye on how the population reacts.

I do not believe that our Intelligence Service should not be able to pick among the 14,000 Germans now under the rule of the AMG a man whose record is not connected with the Nazi party as are those of Mr. Barth and his friends.

And what happens in Roetgen now, with Mr. Barth just an "opportunist," may be repeated later in Berlin with a bigger opportunist - it does not necessarily have to be Mr. Ribbentrop - who will assure order and will guarantee to pacify the German people. In the last war it was the German Officers Corps that offered to restore order - for which our boys now die - tomorrow it will be the Nazis who will offer their collaboration, which apparently will be accepted by the Allied Military Government.

FREDERICK JAHNEL

New York, Oct. 2, 1944.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL
DATE Oct. 9, 1944

TO Secretary Morgenthau
 FROM Mr. Hagg *[Signature]*
 Subject: The Business Situation,
 Week ending October 7, 1944.

Summary

Stock market: Stock prices have shown increasing strength recently, as fears of imminent reconversion difficulties have diminished somewhat with the stiffening of German resistance threatening to prolong the European war into 1945. At the end of last week the Dow-Jones average of 65 stocks was 5 percent above last month's low point, while railroad stocks and second-grade bonds have shown larger gains.

Reconversion: The President's dissatisfaction with the surplus property bill is shared, among others, by the National Association of Purchasing Agents, who recently issued a sharp criticism of the measure. Despite some improvement recently, the interim reconversion program under the spot authorization order of mid-August continues to lag. A clarification of OPA reconversion pricing policy by Administrator Bowles reiterates the general intention of holding prices at 1942 levels.

National income: The annual rate of payments in August rose to a new record high of \$157.6 billions from \$156.0 billions in the previous month. Payments of salaries and wages showed a further gain, while cash farm incomes rose more than seasonally.

Commodity prices: The new parity purchase program continues to influence the commodity markets. The Dow-Jones futures index declined somewhat last week, following the sharp rise in the preceding week, but the BLS index of 28 basic commodities rose 0.2 percent to a new high.

Railroad situation: Freight car loadings in the last quarter of this year are expected to run about 1 percent above last year. Despite a 6 percent rise in total operating revenues in the first 8 months of 1944, net railway operating income dropped 22 percent, largely due to increased operating expenses.

- - - - -

Reconversion fears diminish as German defense stiffens

Recent concern over reconversion problems and dislocations arising from an early end of the war in Europe have diminished somewhat as stiff German resistance threatens to prolong the European phase of the war into 1945. Realization that continued heavy fighting in Europe will defer heavy cut-backs in war contracts, and afford more time to work out knotty reconversion problems, seemingly has tempered the concern which had been strongly apparent last month.

Evidence to this effect is seen in the recent action of the stock market. In contrast to the noticeable weakness shown in the early part of last month, stock prices recently have strengthened considerably. Following gradually firming tendencies in the latter part of September, industrial, railroad and utility shares all showed noticeable gains last week, with the Dow-Jones average of 65 stocks showing a rise of 2 percent. (See Chart 1.) Moreover, trading showed a tendency to expand on the upswing, with transactions on the New York Stock Exchange on Thursday rising above one million shares for the first time since September 7.

Reflecting the apparent shift in market opinion toward prospects of a longer war, prices of railroad securities have shown noticeable gains in the past few weeks. Since September 14, when the lows for the month were recorded, the Dow-Jones averages of railroad stocks and second-grade railroad bonds have risen 8 percent and 7 percent, respectively.

Formidable reconversion tasks still ahead

While the country may have more time to work out reconversion measures than was feared about a month ago, the formidable problems which lie ahead must temper optimism over the outlook. While the President last week finally signed the laws governing demobilization and reconversion, and the disposal of surplus war property, he did so with considerable reluctance. In connection with the surplus property bill he asserted that the confused methods of disposition and restrictions imposed by its provisions in many instances seem likely to delay rather than expedite reconversion. Support for the President's criticism was seen in the resignation last week of the present Surplus Property Administrator, who had previously indicated that the surplus property bill was too cumbersome to permit a business-like job.

- 3 -

The surplus property legislation is also criticized in the current bulletin of the National Association of Purchasing Agents, in which Secretary Renard writes: "This legislative blueprint for handling surplus does not permit the use of normal channels of trade and commerce. It seems to block the export of manufactured products unless we give them away. It does promote excessive profits for favored producers."

Meanwhile the WPB is reported to be continuing efforts to speed the interim reconversion program under the spot authorization order of August 15. After a very slow start, the percentage of approvals granted to applicants under the program has risen to about 10 percent, but a much higher rate will have to be attained if the limited reconversion program is to be effective. Present efforts to speed up the program point toward shifting the WMC review of applications to the local rather than regional or district offices, as well as the revision of forms which have unnecessarily slowed up progress of the program.

Reconversion pricing plans clarified

Price Administrator Bowles has clarified in a memorandum to all members of OPA advisory committees the course he intends to follow in reconversion pricing. While pointing out that the OPA's objective will in general be the 1942 price levels, Mr. Bowles cites the following considerations which will be taken into account in determining a pricing policy:

- (1) The pricing policy must encourage maximum production, which means prices that will yield good profits for business on the basis of high volume production.
- (2) The pricing plan must be easy to apply, and rapid decisions must be possible.
- (3) It must encourage the continued payment of high wage rates in the reconversion period.
- (4) It must protect the public against general increases in living costs.
- (5) It must not contribute to any repetition of the farm collapse which occurred after World War I.
- (6) Price control must be eliminated as rapidly as possible.

- 4 -

National income at new high

In contrast to the prevailing concern over unemployment and loss of consumer purchasing power in the post-war period, the annual rate of national income payments in August rose to a new record high. Actual payments in August were moderately lower, due almost entirely to the usual August decrease in interest and dividend disbursements. However, after allowance for such seasonal factors, the annual rate of income payments in August rose to \$157.6 billions as compared to \$156.0 billions a month earlier. (See Chart 2, upper section.)

Benefiting from the longer work month, salaries and wages in manufacturing industries increased during August, while small gains also occurred in Government (including military) salaries and wages, as well as those in trade and industry. Cash farm income rose in August, and after allowance for seasonal factors was about 4 percent above the July level, although slightly lower than in August last year. Cash receipts from farm marketings in the first 8 months of 1944 were 8 percent above the corresponding period in 1943, with income from crops showing a gain of 10 percent and income from live-stock and products rising 6 percent.

During the 5-year interval between the outbreak of war in Europe and August 1944, national income payments rose 131 percent. Reference to the lower section of Chart 2 will show that the dominant factors in this huge expansion have been the rise in Government payments, largely due to the great growth of the armed forces, as well as the increases accruing to factory workers and farm operators. In sharp contrast to these gains, interest and dividend payments in August 1944 were only 14 percent higher than 5 years earlier, showing by far the smallest gain of any major income component.

Commodity prices steady

Commodity prices were steadier last week, following the sharp advances in grain and cotton prices in the preceding week engendered by the announcement of the new parity purchase program. Cotton prices settled somewhat, while grains fluctuated around moderately higher levels. The Dow-Jones futures index at the end of last week was 0.8 percent lower than a week earlier but Moody's spot index was practically unchanged. (See Chart 3.)

- 5 -

Due to higher prices for wheat, steers, and wool tops, the BLS index of 28 basic commodities advanced 0.2 percent to a new high. (It should be noted in connection with the latter index that its steel scrap quotations are still carried by the BLS at ceiling levels, despite the noticeable declines reported by authoritative trade journals in recent weeks.)

General wholesale price index slightly higher

The BLS general index of wholesale prices advanced 0.1 percent in the week ended September 30. (See Chart 4.) An increase of nearly 3 percent in wheat prices and higher prices for livestock, cotton and cotton textiles were largely responsible for the rise in the index. The increase in cotton textiles over the past several weeks has reflected the upward revision in ceiling prices necessitated by the Stabilization Extension Act. A decline in steel scrap prices of from \$1 to \$2 was noted. The index now stands at 103.8 percent of the 1926 average, which is 0.8 percent above that of a year ago and is 38.4 percent above the pre-war August 1939 average.

Cotton prices below level of CCC purchase prices

Although cotton price quotations are substantially above the levels just preceding the announcement of the purchase program, they are still somewhat below the initial purchase prices of the CCC. Despite this fact, the volume of sales in the ten spot markets was relatively heavy last week, and considerably above the level of a year ago. It is believed that these sales reflect in part cotton owned by merchants which is not eligible for sale to the CCC. However, farmers also are reported to be selling cotton freely, preferring immediate cash to the delays and complications involved in sales to the Government. Moreover, much of this cotton may be of better qualities, which are selling at prices closer to parity than are the poorer grades.

The volume of trading in cotton futures declined noticeably last week, tending to confirm trade forecasts that the new parity purchase program would severely limit operations in the futures market. The New York Cotton Exchange announced, however, that futures trading would be extended from a 12 months' to a 17 months' trading period, effective October 17. Since the CCC purchase program applies only to the 1944 crop, the extension of the trading period is expected to preserve a functioning futures market even if trading in 1944 crop delivery months should dry up.

Severe criticism of the new purchase program was made by the cotton trade last week. The President of the New York Cotton Exchange, John H. Scatterty, stated that the program threatens to destroy the existing merchandising system. "Merchants would find it impossible to continue assuming the normal risks of price fluctuations, differences in quality and weight, and to maintain organizations of technical experts. They would be unable to compete with a Government agency that would be able to charge such overhead to administrative expense." Moreover, the President of the Association of Cotton Textile Merchants, Mr. W. Ray Bell, indicated that the program vastly complicated existing problems of textile manufacturers and threatened major difficulties in the post-war competition for markets. Mills are reported to have bought very little cotton since the CCC purchase program was announced.

Private estimates now place this year's cotton crop at around 11,500,000 bales, or slightly more than the Government's forecast of last month. Severe shortages of labor to pick the crop are reported in most of the Southern States, however, and it is possible that the amount of cotton finally harvested may be appreciably lower than the crop now estimated.

Heavy flour purchases bolster wheat prices

Heavy flour purchases following an increase in the subsidy to wheat flour millers helped support wheat prices last week: Cash wheat reached ceiling levels in some markets. However, wheat prices are still generally below the ceilings, which are based on parity. The details of the new wheat loan-purchase program have not yet been announced, but some observers believe that storage and handling charges on the farmer's grain accruing during the loan period would dissipate most of the 15 cents a bushel parity payment as of May 1, 1945. If this should be confirmed, market prices for wheat would very likely continue below the equivalent parity price.

A uniform wheat flour subsidy for all types of wheat in all areas, starting October 11, was ordered by Stabilization Director Vinson recently. The rates have been set at 17 cents a bushel from October 11 to October 31, at 18 cents a bushel during November, and at 19 cents during December. The announcement of the subsidy for three months in advance undoubtedly indicates the Government's expectation that the wheat loan-purchase program will hold wheat prices firm in the coming months. Under the old wheat flour subsidy, the rates were announced each month.

Foreign food producers expect higher prices

The recent coffee rationing scare serves to focus attention on the general problem of a growing reluctance of producers in some foreign countries to export to this country under existing price ceilings. While Mobilization Director Byrnes recently announced that adequate imports of Brazilian coffee are assured during the remainder of this year, and thus rationing will not be resumed, the problem has been only temporarily solved. The government of Colombia has reportedly started to buy up the coffee crop there and apparently to lift internal prices above the United States ceiling. Moreover, Cuba is refusing to sell next year's sugar crop at the same price as the CCC has been paying during the past 3 years, and negotiations between the two countries are apparently deadlocked. Puerto Rican producers have already been granted an increase of 20 cents per hundred pounds for the next sugar crop. Price difficulties earlier this year in the importation of Brazilian cocoa have apparently been resolved, at least temporarily, by a special inter-government agreement between Brazil and the United States.

The increasing reluctance of foreign producers to sell at the present level of prices has been due in part to the expectation of large post-war demands from Europe, with resulting higher prices. Since this attitude on the part of the foreign producers is likely to become more pronounced with the ending of the war in Europe, we can doubtless expect increasing difficulties in the importation of some important foods unless price ceilings are revised upward. It is possible that this problem may be eliminated, however, through international commodity agreements.

Railroad earnings below 1943 levels despite heavy traffic

.....Railroad freight traffic (measured in ton-miles) in the first half of this year showed a gain of 5 percent, but the gain has been reduced in recent months, and in the first 3 weeks of September carloadings dropped below the corresponding period of last year. During the last week in September, however, carloadings again rose slightly above last year's levels, and the Shippers Advisory Boards recently estimated that carloadings in the last quarter of this year would run about 1 percent above the corresponding period of 1943, despite declines in the New England, Northwest, and Southwest areas. Among the major commodity items, the largest traffic gains in the fourth quarter are expected in fruits, agricultural

- 8 -

implements, and vehicles other than automobiles, while the largest decreases are forecast for cement, potatoes, and petroleum and petroleum products.

Despite the fact that total operating revenues of the railroads have been running at record levels, net railway operating income thus far in 1944 has fallen consistently below the previous year's levels, although it is still far above the 1935-39 average. (See Chart 5.) Thus in the face of a 6 percent increase in operating revenues in the first 8 months of 1944, net railway operating income dropped 22 percent, due to a 16 percent rise in operating expenses. As a consequence of the rise in railroad wages and material costs, the Association of American Railroads recently requested that the freight rate increases suspended since May 1943 should be restored at the beginning of 1945.

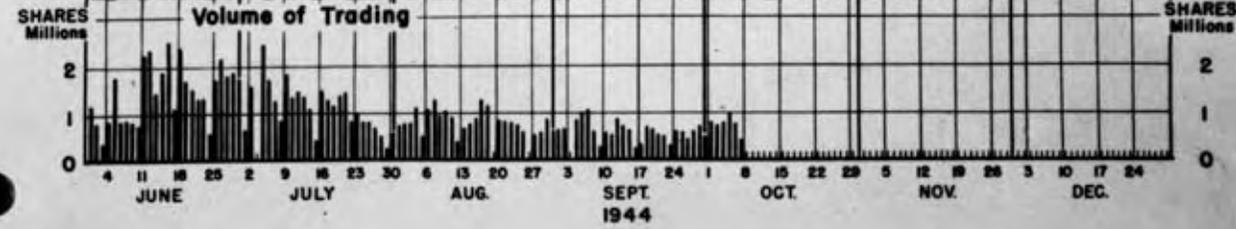
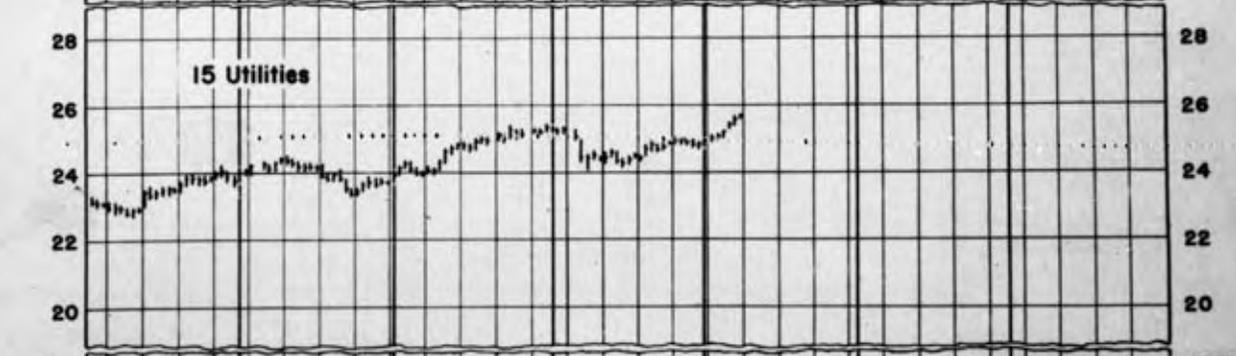
STOCK PRICES, DOW-JONES AVERAGES

Daily

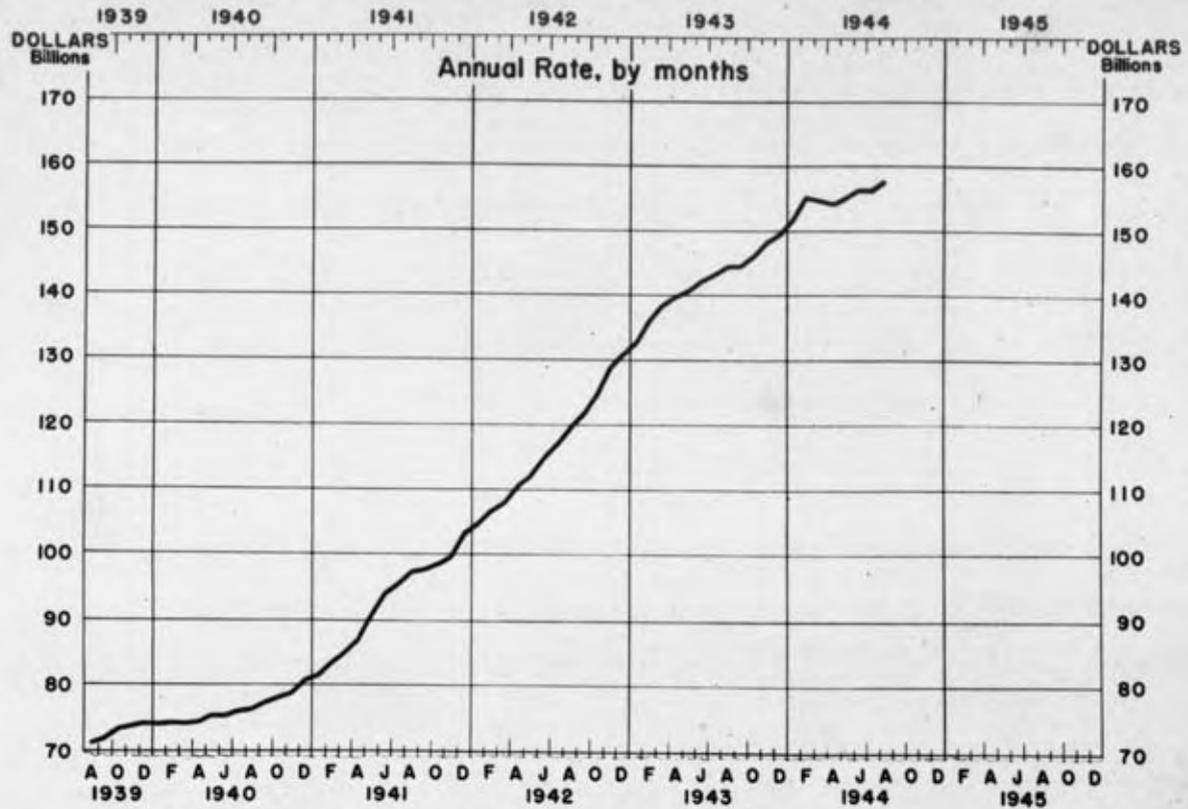
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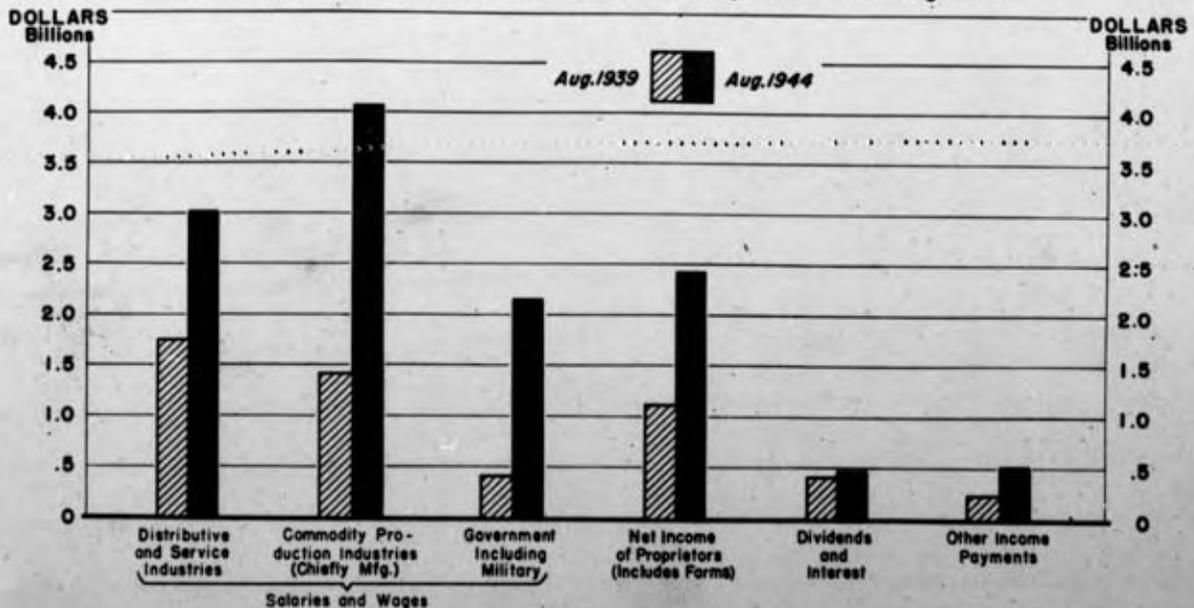
JUNE 4 11 18 25 2 9 16 23 30 6 13 20 27 3 10 17 24 1 8 15 22 29 5 12 19 26 3 10 17 24 DOLLARS



NATIONAL INCOME PAYMENTS AND COMPONENTS

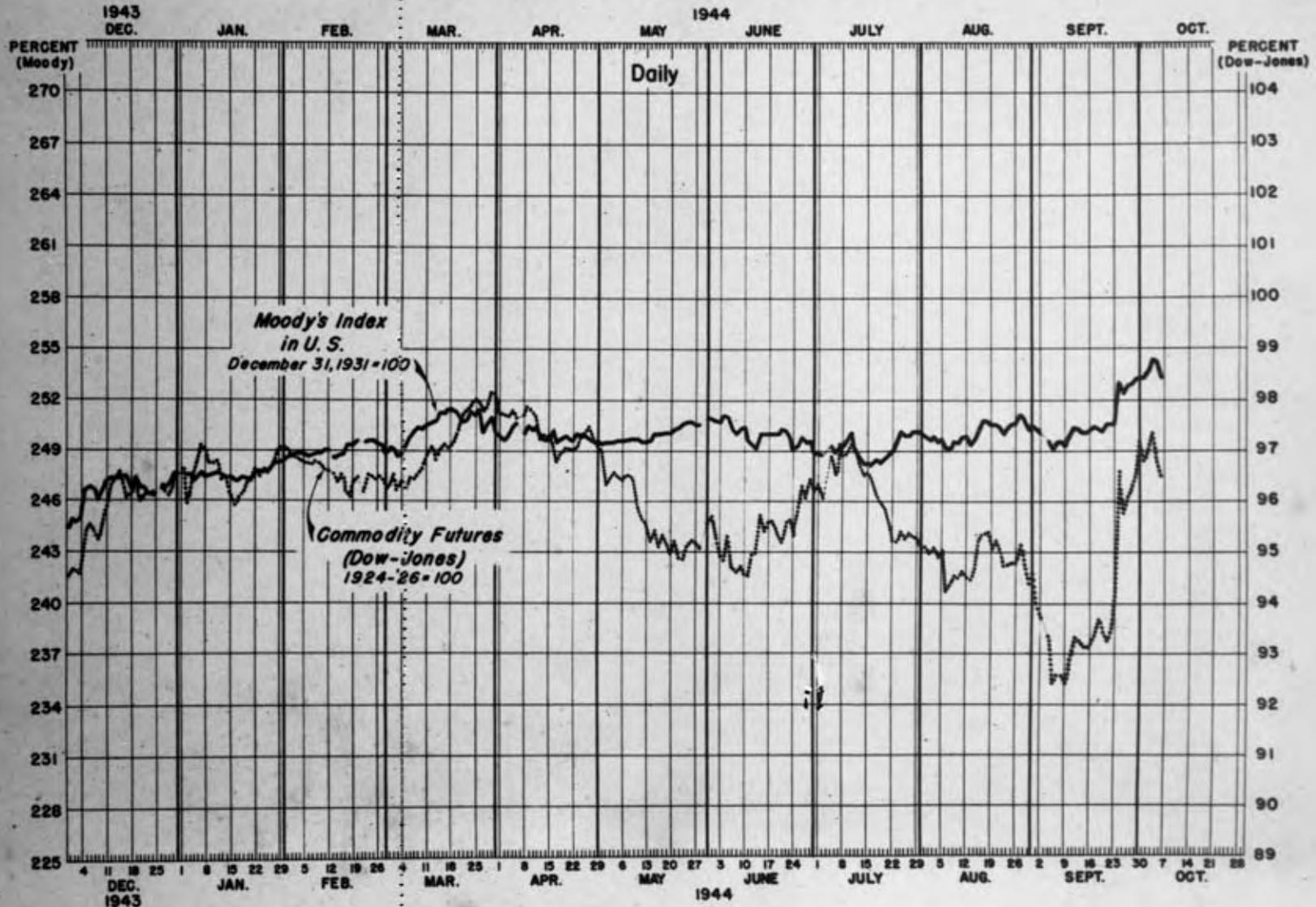


Dollar Totals for Selected Components, Aug. 1939 and Aug. 1944



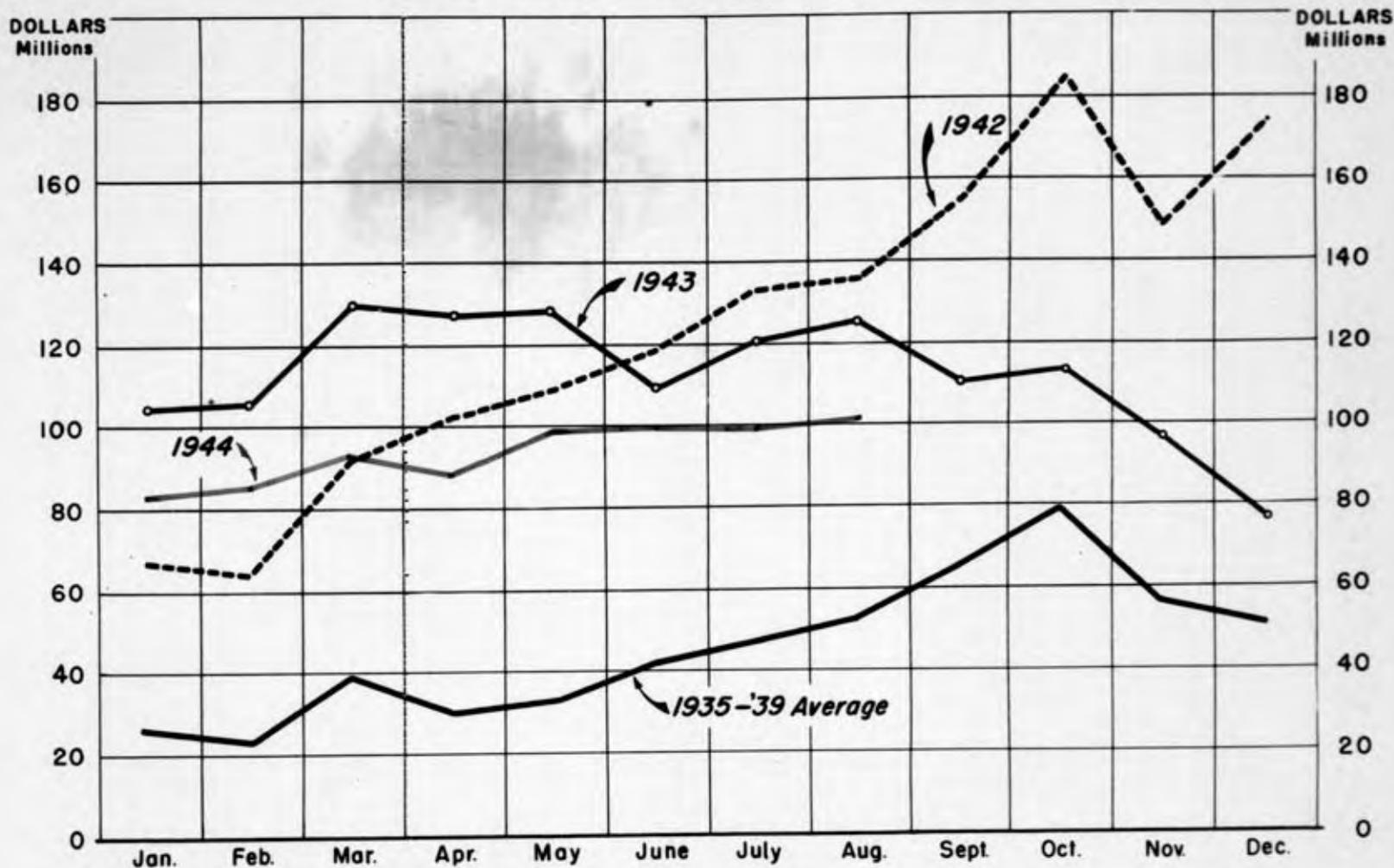
Source: Department of Commerce

COMMODITY PRICE INDEXES IN U.S.



RAILROAD EARNINGS

Net Railway Operating Income*, Class I Railroads



*Earnings after taxes, but before interest and other fixed charges.

Office of the Secretary of the Treasury
Division of Research and Statistics

C-483-A

Chart 5. 28



TREASURY DEPARTMENT

WASHINGTON 25

October 9, 1944

A handwritten signature in dark ink, appearing to be "M.A.", written over the date.



MEMORANDUM TO THE SECRETARY

Attached is a memorandum that Mr. Mack, Director of Procurement, prepared dealing with the shipment of electrical wire and cable for use in the Caspian Sea. I am sending you a sample of cable for your desk. I think you will find it of more than passing interest.

A handwritten signature in dark ink, appearing to be "E. Olrich", written over the typed name.
E. Olrich
Assistant to the Secretary

Attachment



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON 25



OFFICE OF THE DIRECTOR

October 4, 1944

MEMORANDUM TO MR. ERNEST L. OLRICH:

Since the beginning of Lend-Lease, the electrical wire and cable purchased has totaled approximately 150 millions of dollars involving some 25 thousand carloads of shipping and a copper content of about 250 million pounds. We have purchased all kinds and types of cables such as power, communication, control, overhead transmission, submarine and railway signal. All contracts were placed by us on a competitive basis with over fifty companies.

Some of these purchases were quite unusual; for example, submarine cable for communication facilities across the Caspian Sea, approximately 240 kilometers, or 144 miles, providing for two-way communication simultaneously in ranges of frequency for eight circuits. The sample I have given you is illustrative of the specifications and construction. The shipping of the cable presented an interesting problem because the lengths were up to approximately 28 miles each, which necessitated loading on several flat cars in coils and figure-eights. The job was completed and scheduled deliveries made. The cable not only met the specification requirement in all respects, but its overall transmission capabilities were approximately ten percent better.

We also purchased a power cable 4 1/2 inches in diameter and 350 thousand feet in length which is the largest paper lead cable manufactured in the United States with separately leaded conductors. I have given you a cross-section of this cable.

We purchased a special single conductor for underwater harbor use, which is yet undisclosed because of its military use, and required in 4 to 15 mile lengths, non-magnetic with tensile strength of 4500 pounds.

Mr. Olrich

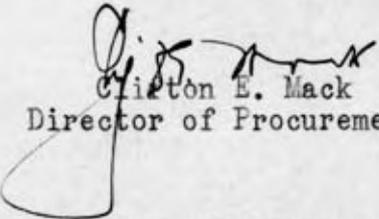
- 2 -

October 4, 1944

Over 100 million pounds of overhead transmission cable for power and telephone use was purchased.

We have bought about 1000 miles of submarine cable in lengths of up to 66 miles in one piece with an overall diameter of 2-3/4 inches. Again it was necessary to load single lengths of cable on several flat cars which made a very interesting operation when the cars were loaded on a series of floats.

The wire and cable industry have stated that the largest procurement of railway signal cable was a 300 million conductor feet requirement purchased by the Procurement Division. This quantity is the equivalent of the amount required for ten years of maintenance on all railroads in the United States.


Clifton E. Mack
Director of Procurement



TREASURY DEPARTMENT

WASHINGTON 25

October 9, 1944



MEMORANDUM TO THE SECRETARY

Attached is a memorandum prepared by Mr. Mack, indicating the situation as regards the United Kingdom's requisitions and those of Russia. You will note that the United Kingdom is lagging in placing requisitions against their budget estimate, whereas Russia is well ahead of it.

E. Olrich
E. Olrich
Assistant to the Secretary

..... Attachment



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON 25



OFFICE OF THE DIRECTOR

October 7, 1944

MEMORANDUM TO MR. ERNEST L. OLRICH:

Representatives of the Soviet Purchasing Commission have asked that we expedite the purchase of their requirements, emphasizing their desire to have signed copies of the contracts applicable to their purchases as promptly as possible, and indicating that they are apprehensive of a tendency to "slow down" because of the favorable progress of the war in Europe.

Requisitions are submitted by the Soviet Purchasing Commission to F.E.A. and after approval by F.E.A. for eligibility under the Lend-Lease Act, are forwarded to W.P.B. for determination as to availability of the necessary materials. We then purchase, subject, however, to a check of available surpluses which might be applied to the requirements.

We cannot purchase until these clearances are effected, however, a special checkup has been made and we do not have any requisitions cleared for purchases that have been in our purchase groups over thirty days. The average time for making purchase commitments is much less. We do find that the suppliers are slow in returning the signed copies of contracts and we have inaugurated a much tighter follow-up which is showing good results.

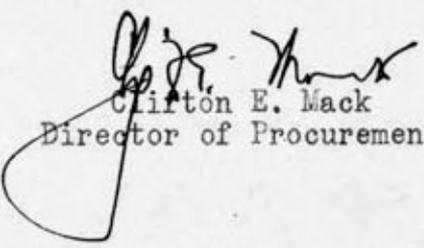
An analysis of our Lend-Lease purchases for the period from July 1 to September 30, 1944, shows that the requirements submitted for the United Kingdom against which purchases have been made are but \$80,200,000 as against their budget estimate of \$156,900,000 for that period, or 51.1 percent; while the requirements submitted by the U.S.S.R. against which purchases have been made total \$192,400,000 as against their estimate for budget purposes of \$161,400,000, or 119.2 percent.

Mr. Olrich

- 2 -

October 7, 1944.

The foregoing indicates that the U.S.S.R. have thus far submitted requisitions at a rate in excess of their estimate for budgetary purposes; whereas, the United Kingdom is submitting requisitions at a rate much less than their original estimates. It is an interesting observation.


Clinton E. Mack
Director of Procurement

AGREEMENT made as of the 30th day of June, 1944, at the City of Washington, District of Columbia, between the Secretary of the Treasury of the United States of America (hereinafter called the Secretary), and the Government of the Republic of Ecuador (hereinafter called Ecuador).

1. The Secretary and Ecuador agree that the date "June 30, 1945" is hereby substituted for the date "June 30, 1944" in paragraph 14 of the Agreement dated as of March 1, 1942, as amended by the Agreement dated as of June 30, 1943, entered into between the Secretary and Ecuador, and that all of the provisions of the Agreement dated as of March 1, 1942, as amended, shall continue in full force and effect in accordance with their terms.

2. This Agreement shall come into operation and effect as between the parties hereto when Ecuador shall file with the State Department of the United States an appropriate document or documents satisfactorily evidencing the authority of Ecuador to enter into the Agreement or satisfactorily evidencing ratification of the action of Ecuador in entering into this Agreement. Ecuador represents and agrees that upon the delivery of the aforementioned document or documents, the execution and delivery of this Agreement shall have in all respects been duly authorized or ratified, and that all

acts, conditions, and legal formalities which should have been completed prior to this Agreement becoming effective shall have been completed as required by the constitution, laws, statutes, decrees, and regulations of Ecuador, and in conformity therewith.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate.

Henry M. Smith and Jr.
SECRETARY OF THE TREASURY OF THE UNITED STATES

GOVERNMENT OF THE REPUBLIC OF ECUADOR

By Lyals T. F.
Ambassador Extraordinary and Plenipotentiary

CABLE TO AMERICAN CONSULATE GENERAL, JERUSALEM, FROM WAR REFUGEE BOARD.

Please deliver the following message to Charles Passman, 18 Alfassi Street, Jerusalem, from M. A. Leavitt of the American Jewish Joint Distribution Committee:

QUOTE WE HAVE GIVEN SERIOUS CONSIDERATION TO YOUR CABLE ON FURTHER VOYAGES OF SMALL BULGARIAN AND TURKISH BOATS WITHOUT SAFE CONDUCT. WE AGREE FULLY WITH YOUR AND HIRSCHMANN'S VIEWPOINT THAT THERE IS NO NECESSITY TO EVACUATE RUMANIAN OR BULGARIAN JEWS UNDER SAME CONDITIONS AS HERETOFORE AND THEREFORE WE WOULD ASK YOU TO INFORM JEWISH AGENCY THAT OUR UNDERSTANDING REGARDING OUR FINANCIAL PARTICIPATION IN THESE VOYAGES IS TERMINATED BY US AND JEWISH AGENCY IS NOT AUTHORIZED TO PROCEED WITH SUCH VOYAGES COUNTING ON OUR FINANCIAL PARTICIPATION. WE ARE HOWEVER, PREPARED TO CONSIDER FINANCIAL PARTICIPATION IN EVERY FUTURE BOAT PROJECT FOR TRANSPORTATION OF REFUGEES TO PALESTINE ON ITS MERITS AND ONLY IF WE APPROVE EACH PROJECT BEFORE BEING CARRIED OUT CAN JEWISH AGENCY EXPECT REIMBURSEMENT FROM US. REMITTED \$100,000 TO TEHERAN SEPTEMBER 26 DO NOT UNDERSTAND DELAY REACHING TEHERAN. PLEASE CONFIRM RECEIPT. UNQUOTE

3:15 p.m.
October 9, 1944

R Drury 10/7/44

EMBASSY OF THE
UNITED STATES OF AMERICA

CONFIDENTIAL

No. 3208

Madrid, Spain, October 9, 1944.

Subject: Transmitting copy of Embassy's Note Verbale to
Ministry of Foreign Affairs Concerning
Issuance of New Paraguayan Passports to
Persons in German Concentration Camps

The Honorable
The Secretary of State,
Washington.

Sir:

1/ With reference to telegram No. 459 of September 28, 1944,
5 p.m. addressed to the Department by the American Ambassador
in Asuncion and repeated to this Embassy, I have the honor to
enclose a copy of the Embassy's Note Verbale No. 3194 of this
date conveying to the Ministry of Foreign Affairs, pursuant to
information contained in that telegram, the authorization of the
Government of Paraguay for the issuance by the Spanish Government,
through its Embassy in Berlin, of new passports in replacement
of Paraguayan passports held by persons to whom the protection
of the Paraguayan Government has been extended and who are now
interned at Belsen Bergen and in other concentration camps in
German-controlled territory, in cases in which such passports
are due to expire in the near future.

The Embassy's Note Verbale No. 3122, to which reference is
made in the enclosed Note Verbale, was transmitted to the Department
under cover of the Embassy's despatch No. 3121 of September 21, 1944.

Respectfully yours,

/s/ CARLTON J. H. HAYES
Carlton J. H. Hayes

Enclosure:

To Foreign Office, No. 3194
October 9, 1944

File No. 704
NWB/jf
Original to Department
(for Ozalid machine)
Copy to Asuncion

J. H. Hayes, American Ambassador, at Madrid, Spain on subject of
Issuance of New Paraguayan Passports to Persons in German Concentra-
tion Camps to despatch No. 3208 dated October 9, 1944 from Carlton
Enclosure No. 3194

NOTE VERBALE

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs and, with reference to the Note Verbale No. 3122 of September 21, 1944 requesting the cooperation of the Spanish Government in safeguarding the lives of persons in German-controlled areas of Europe in possession of documents reflecting a claim to the protection of the Paraguayan and Bolivian Governments, has the honor to advise the Ministry that the Embassy has been authorized to inform the Spanish Government on behalf of the Government of Paraguay that the former is hereby empowered to issue new passports, through its Embassy in Berlin, in replacement of Paraguayan passports held by persons to whom the protection of the Paraguayan Government has been extended and who are now interned at Belsen Bergen and in other concentration camps in German-controlled territory, in cases in which such passports are due to expire in the near future.

CABLE TO MINISTER HARRISON, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD.

Please deliver the following message to ~~Saly Mayer~~ from
Joseph Schwartz of the American Jewish Joint Distribution
Committee:

QUOTE REMITTING TO YOU \$178,000 UNDER SPECIAL LICENSE
W-2106 TO BE UTILIZED IN CONNECTION HUNGARIAN AND SLOVAKIAN
SITUATION STOP UNDERSTAND THAT RABBI UNGAR OF NEUTRA HAS
BEEN DEPORTED AND THAT YOU AND STERNBUCH ARE COOPERATING
IN EVERY POSSIBLE ASSISTANCE TO HIM. WE WOULD AUTHORIZE
ANY EXPENDITURE WHICH YOU WOULD FIND NECESSARY TO BRING
HELP TO HIM AND ANYTHING WHICH COULD POSSIBLY SAVE HIM.
UNQUOTE.

THIS IS WRB CABLE TO BERN NO. 206

.....
1:05 p.m.
October 9, 1944

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Legation, Bern
DATED: October 9, 1944
NUMBER: 3468

SECRET

FROM WAR REFUGEE BOARD.

Please deliver the following message to Rene Bertholet, Wasserstrasse 14, Zurich, from Sheba Strunsky of the International Rescue and Relief Committee:

QUOTE ANXIOUSLY AWAITING YOUR REPORT ON FRENCH OFFICE COMMUNICATE WITH GUIGUI AND MAYER WHOM WE ALREADY CONTACTED REGARDING FRENCH WORK. CONSULT GUISEPTE CHIOSTERGI 10 AVENUE DE LA CROISETTE GENEVA FOR NAMES OF SPANISH REFUGEES NEEDING HELP. ASK FABIAN FOR ADDRESS MRS. GRUSS FORMERLY WITH AMERICAN CONSULATE MARSEILLE UNDERSTAND SHE DISTRIBUTED OUR FUNDS AFTER FABIANS DEPARTURE. DANNYS FAMILY HEARD HE IS SAFE. TRY TO CABLE US WEEKLY IF YOU NOT AVAILABLE ARRANGE SOMEONE ELSE CABLE. UNQUOTE

THIS IS WRB CABLE TO BERN NO. 203.

HULL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: October 9, 1944
NUMBER: 6713

SECRET

Reference Department's 3246, dated September 20, 1944.

There follows the summary of Huber's October 2 response.

Great satisfaction was given by information that 1500 further Spanish visas authorized Jews Hungary. As done in case which involved 500 Jewish children, promptly contacted Inter-cross Delegation Budapest with instructions to take proper measures.

The Embassy finds it difficult to give well based data concerning the degree of effective control supervision which the committee can exercise over departure and in particular security prior thereto as committee's efforts are only starting to show certain degree of practical results and also as trend of military and political events seems to make such departure more than problematical.

Budapest representatives were given instructions by the committee to set up placards in all places where Jews are enforced residence stating that the committee has the inhabitants under its protection. Information has not yet been given us as to whether or not the placards have been set up, unfortunately.

The Government of Hungary made a promise to the committee to cease further deportation of Jewish people. Apparently Hungarian officials have tried to keep this promise, but have not always been able to resist certain German arbitrary actions. Instances such as these appear rare, unfortunately. The question is being closely followed by the committees' delegations with the thought in mind of possible intervention as means allow. Such means are only moral and it's obvious that we are at the mercy of reactions in Hungary coming more from German than Hungarian officials. Consequently, the committee has no assurance as the success of its endeavor.

HARRISON

DCR:MED:CR
10-11-44

Miss Chauncey (for the Sec'y) Abrahamson, Akzin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Mannon, Marks, McCormack, Pehle, Files

NCB-625

This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (SECRET 0)

Bern

Dated October 9, 1944

Rec'd 4 p.m.

Secretary of State,

Washington.

6721, October 9, 1 p.m.

Reference Department's 3427 October 5.

Please repeat opening and closing phrases of
paragraph 3. Department 's 2490, July 21.

HARRISON

CSB

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

298
DIVISION OF
COMMUNICATIONS
AND RECORDS

DMH-543

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

Chungking via Navy

Dated October 9, 1944

Rec'd 10.19 a.m.

Secretary of State

Washington

1665, October 9, 3 p.m.

FOR SECRETARY OF TREASURY FROM FRIEDMAN.

(One) Informed O K Yui of contents of your September 2, A-193. He requested formal statement from Treasury indicating effect of blanket licenses on outstanding general licenses governing remittances to China et cetera. Indicated to him that probably general licenses not affected and that both procedures were now available; promised to obtain formal Treasury statement as desired. Yui said this necessary as he would receive many inquiries from Chinese on this matter. Seemed concerned with effects on enforcement of currency exchange regulations.

(Two) Yui also raised possibility of Central Government issuing regulation ordering all Chinese to register and surrender their foreign exchange holdings. Says this suggestion made by People's Political Council as one way to finance program of improving conditions of soldiers.

DEPARTMENT OF STATE
DIVISION OF
OCT 10 1944
COMMUNICATIONS
AND RECORDS

CONFIDENTIAL
For security reasons the
contents of this message must
be kept confidential

-2- #1665, October 9, 3 p.m., from Chungking via Navy soldiers. He said he wished to have informal reaction of Treasury to possible request from Chinese Government that Treasury take steps to help enforce such measure and suggested government might issue such regulation even if Treasury not willing to assist in enforcement. I pointed out some difficulties and complexities involved in Treasury taking such steps and said that Treasury might not (repeat not) wish to give informal opinion on such matter but I would refer it to Treasury.

GAUSS

JT

NOT TO BE RE-TRANSMITTEDCOPY NO. 11SECRETOPTEL No. 328

Information received up to 10 a.m., 9th October, 1944.

1. NAVAL

M.T.B.'s. were in action last night off Dutch Coast. No details received. Two Norwegian M.T.B.'s sank a coaster off NORWAY between 6th and 8th.

One of H.M. Minesweepers damaged and British yacht minesweeper sunk while sweeping off HAVRE 8th.

Entrance to NIEUPOORT Harbour has been blocked and quays extensively damaged. Estimated unloading capacity when blockships removed 400 tens per day.

2. MILITARY

WESTERN EUROPE. The attack north of AACHEN has gained ground and U.S. troops reported in outskirts ALSDORF. Canadians have made further progress north of ANTWERP. In EPINAL sector U.S. forces gained some ground against very stiff opposition, but south of AUTREY were forced by German counter attacks to withdraw slightly.

ITALY. In ADRIATIC Sector our forces have fought their way forward one to two miles in two thrusts in the hills south of the RIMINI-BOLOGNA Road. 5th Army have made slight advances towards BOLOGNA from the south.

RUSSIA. Russians report 60 mile advance on 175 mile front N.W. and S.W. SIAULIAI. In HUNGARY they have captured MESOTUR and SZENTES, N.W. of BEKESCSABA. S.W. of TURNUL SEVERIN they have made further progress and destroyed two encircled enemy groups.

3. AIR OPERATIONS

WESTERN FRONT. 7th. 13 escorted Lancasters (2 missing) dropped 9 12,000 pound delayed action bombs on the Dam at KEMBS near MULHOUSE, some from 8,000, other from 600 feet. Reconnaissance revealed that a breach had been made. Further reports state that A.E.A.F. aircraft (5 missing) flew 2,300 additional offensive sorties during which German casualties 17, 1, 4 in the air and 10, 0, 5 on the ground. About 350 vehicles claimed destroyed.

8th. Operations restricted by weather. 55 fighters and fighter bombers (1 missing) operated over HOLLAND and 98 aircraft landed supplies on continent.

4. HOME SECURITY

During three air attacks 13 flying bombs plotted.

1944 OCT 10 10 100 1944