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October 13, 1944

Dear Miss Tully:

The Secretary asked me to send you the enclosed speeches, with the thought that some of the material might be useful to Judge Rosenman and Mr. Sherwood. He delivered one in Atlantic City on October 7th, one in New Orleans on October 12th, and the third he will deliver in Los Angeles on October 14th.

Sincerely yours,

(Signed) H.S. Klotz

Miss Grace Tully,  
Secretary to the President,  
The White House,  
Washington, D.C.

TREASURY DEPARTMENT  
Washington

FOR RELEASE AT 1:30 P.M., E.W.T.  
Saturday, October 7, 1944.

Press Service  
No. 43-64

(The following address by Secretary Morgenthau at a War Bond Rally at the Hotel Claridge, Atlantic City, is scheduled for delivery at 1:30 P.M., EWT, Saturday, October 7, 1944, and is for release at that time.)

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, 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. 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.

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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 85,000,000 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 \$23,000,000,000 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 nonnegotiable 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%, is the highest obtainable on 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. Nonnegotiable 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.

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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 backlog 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 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.

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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.

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TREASURY DEPARTMENT  
Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,  
Thursday, October 12, 1944.

Press Service  
No. 43-65

(FOR RADIO RELEASE 1:45 P.M., CWT)

(The following address by Secretary Morgenthau at a War Bond Rally at the Hotel Roosevelt, New Orleans, is scheduled for delivery at 1:45 P.M., CWT, Thursday, October 12, 1944.)

Wars, now as always, are won on battlefields. 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. The nub of the problem has been to raise these sums in such a way 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 \$208,000,000,000. During this same period, non-war expenditures have been kept down to \$16,000,000,000, making a total government outlay for the course of the war to date of \$224,000,000,000.

Where has this tremendous sum come from? Well, \$87,000,000,000, or 39 percent of the total bill, has come from revenue.

During the fiscal year just ended, expenditures were slightly more than \$95,000,000,000, and net receipts climbed to a little over \$44,000,000,000, 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 \$5,500,000,000. The \$44,000,000,000 total which, as I have just told you the Government took in during the past year, was an eightfold 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 remarkably 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 \$137,000,000,000, 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 part of the increased debt be borrowed outside of the banking system -- that is from the general public.

In selecting the Series 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. The Treasury Department has considered itself a trustee for the men and women who purchased Government Securities primarily to help their country in time of stress. Such investors place their faith in their Government. We wanted, therefore, to protect them, through a nonnegotiable 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

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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, 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 inflationary pressures, has already amounted, by June 30 of this year, to \$70,000,000,000.

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 postwar 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 postwar world, we need have no fear of the future.

But the kind of postwar world which we desire must still be hatched 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.

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.

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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. Your job is to overcome any disposition among the American people 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.

-oOo-

TREASURY DEPARTMENT  
Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,  
Saturday, October 14, 1944.

Press Service  
No. 43-75.

(FOR RADIO RELEASE 1:45 P.M., PWT)

(The following address by Secretary Morgenthau at a War Bond Rally at the Hotel Biltmore, Los Angeles, is scheduled for delivery at 1:45 P.M., PWT, Saturday, October 14, 1944.)

For the last week I have been addressing a number of meetings such as this in various parts of the country. During the course of these talks, I have endeavored to outline briefly some of the philosophy behind American war finance as we at the Treasury Department view it.

The democratic manner in which the financing of the war has been handled, I described last Saturday at Atlantic City. About 85,000,000 individual Americans have bought bonds of their government. They have bought them not as a result of compulsion but for purely patriotic reasons and because they are the best investment in the world.

Thursday, addressing a gathering similar to this at New Orleans, I emphasized the part which war finance has played in economic stabilization. The heavy tax burdens which the American people, generally speaking, have accepted with extraordinarily good grace and the large proportion of the increase in the public debt which has been absorbed by the men and women of this country, have played a very important part in holding inflation in check. The OPA has estimated that if prices during this war had risen as sharply as in World War I, there would have been approximately a \$70,000,000,000 increase in government costs -- a \$70,000,000,000 additional burden fastened onto the country.

Today I would like to conclude this resume with a quick examination of interest rates and a glance at the postwar public debt problem as I see it.

The great expansion in the Federal debt has been achieved with virtually stable interest rates--thanks largely to your efforts. Such change as has occurred has been to slightly lower levels. This contrasts with World War I when almost each new

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series of bonds carried a higher interest rate, so that the cost trend was almost constantly upward. As a result, the average interest cost has been only 1-3/4 percent on the wartime increase in the public debt. This contrasts with 4-1/4 percent for World War I.

The resulting interest saving approximates \$4,000,000,000 a year -- quite a tidy sum to have saved for the taxpayers of this nation. Realization of your part in this saving, I believe, should give you, as it has us at the Treasury, a feeling of real accomplishment.

Moreover, and this is a point deserving of particular emphasis, the interest on all securities sold during the war has been fully taxable while the issues marketed during World War I were all either wholly or partially tax-exempt. This has resulted in a further net saving to the Treasury amounting to several hundred million dollars a year. Further through removal of tax exemption, all purchasers of Government securities are taxed their share of the war cost in proportion to their ability to pay. This is a point which may not have occurred to you but which should be of help in the sale of E Bonds.

Incidentally, the Government in eliminating tax exemption relinquished any "unfair" advantage it might have had over private borrowers in securing credit. It thereby served to strengthen the private enterprise system.

President Roosevelt, in his 1945 Budget Message summarized the situation as follows--

"The primary achievement of our debt policy has been the maintenance of low and stable rates of interest. Average interest rates payable on the public debt now are less than 2 percent. Interest received from all new issues is fully taxable. As a result, the net cost per dollar borrowed since Pearl Harbor has been about a third the cost of borrowing in the first World War."

Personally, I do not anticipate a rise in interest rates in the foreseeable future. Savings are abundant and promise to be adequate to meet all likely demands. We believe, therefore, that we shall be able to refund our obligations, as they come due, at rates comparable to those now prevailing. Thus, the saving to the Treasury will continue over a long period of years. At the same time the people to whom you have sold the war bonds will continue to be satisfied rather than disgruntled customers.

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Moreover, quite apart from its value to the Treasury -- and, hence to the taxpayers -- the continuance of low interest rates, will provide a stimulus to the national economy in the postwar period. High interest rates limit enterprise and discourage employment. Low interest rates stimulate business and make for expanding employment.

Just as I see no reason for substantially higher interest rates in the postwar period, I do not see any need for a wholesale postwar funding of the public debt into long-term bonds.

In the first place, it would cost the taxpayers more in interest. Next, it would shift whatever risk there is inherent in fluctuating interest rates from the Government, which is able to bear it, to individuals, institutions and corporations. Certainly the day is past when the United States Government need ask its citizens or its business enterprises to insure it against changes in the rate of interest.

Finally, we have endeavored to tailor the debt structure to the needs of those who lend us the money and of the national economy.

The small investor who purchases the Series E Savings Bonds places his faith in his Government. Could we do less than see to it that the securities offered him were suited to his needs?

The Savings Bonds, while not a war development, having been first offered ten years ago, have proved an admirable war finance medium which we expect to carry over into the postwar period. We hope that many millions of people will continue to hold a financial stake in their Government.

Industrial corporations, as you know, have principally purchased certificates of indebtedness and Series C Notes. These constitute a substantial part of their reserves for reconversion and postwar development. It is clearly advantageous not only to the corporations but to the whole economy that these reserves be liquid. The corporations thus know that the money will be available and without loss whenever they need it. When the proper time comes they can proceed full speed not only with their conversion but with any expansion plans they may have.

Finally, there are the Government securities which now constitute a large proportion of the assets of the commercial banks. Many of you are bankers. You know it has been our policy to encourage the banks to purchase issues of short maturity. As a

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consequence, about half the securities acquired by the commercial banking system since the beginning of the war have been bills and certificates maturing within one year and practically all have had a maturity of ten years or under.

The result is that the banking system of the country is in a position of unparalleled liquidity. This, we believe, affords assurance against a recurrence of such unsettling deflation as came in the aftermath of World War I. Further, it places the banking system in a strong position to meet the shifts in deposits that many of you anticipate with reconversion and the new business demands for funds that should accompany the development of a healthy, expanding economy.

In a word, the banks' part in war finance, great as it has been, instead of hamstringing them, has left them in a position to service enthusiastically a virile private enterprise system.

I might point out that the banks have not only been able to maintain a strongly liquid position as a result of the manner in which the nation's war finance has been handled, but also they have found an opportunity for public service. This has enhanced the esteem with which they are held in their respective communities. Moreover, while they have been making this contribution to the war effort they have enjoyed an increase in earnings. Net profits of all member banks of the Federal Reserve system last year were back at almost exactly the all-time high level of 1929.\*

I want to thank you who have been the leaders in the war finance work in these great western states -- thank you upon the part of the Treasury, whose job it has been to direct the program, and, more important, thank you on behalf of the United States of America, which, of course, is the real beneficiary.

I am no prophet as to the duration of the war, but today we are hopeful that unconditional surrender by Germany may not be far away. At such time all eyes will turn to the West. The eleven states represented at this meeting will take on new importance in the war. The Pacific coast will become the springboard for the all-out offensive against Japan.

This should prompt you who have the job of raising the necessary money to redouble your efforts.

Our immediate task is to put over the Sixth War Loan, to do so just as decisively as our fighting men are establishing their positions in Europe and in the islands of the Pacific.

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I know you understand the importance of this absolutely essential link in the war effort. But you must do more than understand it, you must make the people understand it, the men and the women in stores and offices, in factories, on the farms and in their homes.

These people must understand, as you do, that the time has not yet come to relax or celebrate, that we must speed weapons and supplies far across the Pacific to our armed forces who know full well that a hard fight still lies ahead before they can bring us victory over the Japanese -- and these weapons and supplies must be paid for. That is our task -- I know America can count upon you!

oOo

TO: Mrs. Klatz.

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I asked Mr. Olrich to  
bring up matter discussed  
in last four paragraphs  
on page 3 at his  
conference tomorrow  
with Secretary.

(Note: Checked with *see B*  
Mr. Olrich on 10/26, 10/16/44  
who said at Mr. Bell's  
suggestion he handled this  
informally and issued orders that no  
contracts will be cancelled for some  
little time. Nothing to be in writing)  
Office of the Under Secretary



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

October 13, 1944.

CABINET MEETING

The President said he had nothing of interest to say to the Cabinet and everything seemed to be going very well on all fronts.

Mr. Stettinius reported on Sweden. He said Sweden had now stopped all aid to the enemy and he thought the War and Navy Departments ought to be very grateful to the State Department for the action it had taken. He said this also disposed of the matter of S & K. He said he had received very favorable publicity on the Dumbarton Oaks proposal, both from the domestic and foreign viewpoint. The cables they had gotten in from abroad indicated it was accepted generally throughout the world except, of course, in the enemy countries. He thought there was pressure now to set a date for the general meeting. He had told his press conference that the date depended on the next meeting between the Big Four. He advised them that the President would probably be tied up until after the election and the chances are that the foreign diplomats would not want to go to a meeting before Christmas. It looked to him, therefore, that the meeting might not be held until early next year. The President said he had no word yet about a meeting of the Big Four but might have something definite on it within the next few days.

I had nothing to report.

Mr. Stimson said he had nothing in particular to report. He had a number of matters he would like to discuss with the President after the Cabinet was over - matters which normally would be discussed between the President and General Marshall. General Marshall was away so he would like to discuss them.

The President asked him what was being done to further the program of rehabilitation of returning soldiers. He said that was making progress. The Army had started out on rather a small scale and it was now developed to the point where he thought they could handle the situation very well.

Mr. Biddle had nothing, although he asked to see the President after the Cabinet.

Mr. Walker said they were making progress on the Christmas mail although it was going to be quite a job delivering all of the volume of packages they expect to receive. He said last year they handled



and mailed 23 million packages to the boys overseas. It is estimated this year they will handle more than 70 million. They have a temporary one-story building on Long Island with a floor space of 500,000 square feet and another at Los Angeles with 350,000 square feet. They are having some difficulty in keeping employees. Last Sunday more employees stayed at home than came to work, but they are unloading from seventy to eighty cars a day in New York alone.

The President brought up at this point the matter of sending some relief supplies to Italy. He said he would like to suggest that the first ship load that goes, he would have Governor Poletti meet the boat at the wharf with Italians crowding around receiving the supplies and have a moving picture taken of it and sent back to this country. Of course he had in mind this would be done before election.

Mr. Walker also brought up the question of the returning ballots of the soldiers. He said unfortunately a few of them had been opened by mistake by the censor. Mr. Stimson said he had knowledge of two ballots being opened. Of course a great deal of criticism has been directed at the censor for this act, but he says the censor has to pass thousands of pieces of mail a day and in tearing them open and stamping them they are bound, now and then, to get a ballot. They sent abroad about four million ballots and if half of them are returned you can see the volume of mail the censor must watch for.

Mr. Forrestal had nothing, but said he would like to see the President a few minutes after Cabinet.

Mr. Fortas had nothing.

Mrs. Perkins commented on the prices in Canada and the United States. She said she thought we had done a better job than Canada and that the President might very well use the material they had gotten together in some of his speeches. The President said he would like to see the statistics on it and asked her also to get up some data with respect to England.

Mr. Jones had nothing, although he wanted to see the President a few minutes after Cabinet.

Mr. McNutt had nothing.

Mr. Blandford had nothing.

Captain Krug had nothing.

Mr. Vinson had nothing and wanted to see the President after the Cabinet.

Mr. Crowley had nothing, and here the President raised the question of what organization should handle the relief when Russia occupies Poland.

- 3 -

He wondered if UNRRA couldn't handle the whole matter. Crowley said he thought UNRRA could handle the first phases of direct relief, but they couldn't furnish any rehabilitation. This again brought up the question of what the Army was doing in Italy in furnishing relief to the Italians. Mr. Stimson said he would like for the Army to get out of that business so long as it was not connected with the battle-front. I said I thought the purpose to be gained by the approval by the President of the recent memorandum permitting the use by Italy of the dollars for our troop pay was to relieve the Army about October 1st of this function. Leo Crowley said that was right, but he wanted to call attention to the fact that neither UNRRA nor the Army can furnish rehabilitation. Mr. Stimson then said he had some doubt as to the legality of lend-lease being used for rehabilitation purposes unless it was directly tied in with the battle. He said he had a great deal to do with getting the original Lend-Lease Act through and the subsequent appropriations and it was all put on a basis of helping those people who would help us to fight. He thought if any rehabilitation was going to be furnished to any great extent we should go back to Congress. The President said "Yes, that's right," but I was not quite sure whether or not he fully understood the question.

The President said he had one other thing. There had been brought to his attention the possibility of some of the contracting officers of the various departments cancelling contracts which would throw thousands of people out of work all at once. He said this certainly would be a bad thing before election and would require a great deal of explanation, all of which would be very unpleasant. He said that he would like to issue an executive order to Treasury, War, and Navy requiring that the Secretaries of those departments pass upon each contract to be cancelled.

I stated that there would be certain implications if the President issued such an order, and raised the question of whether we should not take what the President said at the Cabinet meeting as a direction and let each Secretary issue his own internal orders.

Fred Vinson readily agreed with this. He said it would be bad for the President to issue such an order at this time, within three weeks of election. The President said all right, he would like each Secretary to do that.

I talked with Jim Forrestal before I left the meeting and he said he thought we all should do it on an informal basis.

*sub*



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

October 13, 1944.

MEMORANDUM TO THE SECRETARY:

In compliance with your request for information with respect to the issuance of GI Bonds, I am told the Army has received 555,652 allotments of these bonds up to September 30th, which amount to a little over \$4 million. In addition, they report 1,207 bonds sold for cash overseas and 22,000 bonds sold for cash within the continental limits of the United States amounting to another \$150,000, a total of less than \$5 million for the two months that GI Bonds have been on sale.

These are not very impressive figures, but then of course it takes an awfully long time to get reports from the field offices, and these figures do not represent the total bonds that have been sold.

*sub*



25

October 13, 1944

Your Excellency:

This is to acknowledge your letter of October 9, 1944 with respect to Dr. Kung's request to have US\$20 million worth of gold transferred. In accordance with this request, US\$20,050,763.98 has been transferred from the credit in the name of the Government of the Republic of China with the U.S. Treasury, and 571,428.554 fine troy ounces of gold, valued at \$19,999,999.38 have been earmarked to "The Central Bank of China as fiscal agent of the Government of the Republic of China" gold account with the Federal Reserve Bank of New York.

The following table summarizes the cost of the gold purchased:

Cost of 571,428.554 fine ounces of gold at \$35 per ounce	\$19,999,999.38
1/4 percent handling charge	50,000.00
Labor, transportation and insurance costs	<u>764.60</u>
<b>Total cost</b>	<b>\$20,050,763.98</b>

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency,  
The Ambassador of the Republic of China,  
Washington, D. C.

**CHINESE EMBASSY  
WASHINGTON**

October 9, 1944.

My dear Mr. Secretary:

I have the honor to refer to my letter of July 23, 1943 and your reply of July 27, 1943 regarding the transfer of US\$200,000,000 (Two hundred million Dollars) for the purchase of Gold.

I am again instructed by Dr. H. H. Kung to request your consideration of a transfer of US\$20,000,000 (Twenty million Dollars) worth of Gold from the US\$200,000,000 (Two hundred million Dollars) Gold Account with the United States Treasury to the Central Bank of China Gold Account with the Federal Reserve Bank of New York for the purpose of making further shipments of gold to Chungking, China.

I am, my dear Mr. Secretary,

Very sincerely yours,

*Wei Tao-Ming*

Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury.

ORIGINAL TEXT OF TELEGRAM SENT

FROM : Secretary of State, Washington  
TO : American Embassy, Quito  
DATE : October 13, 1944  
NUMBER: 813

SECRET

The following cable has been received from Amembassy Bern:

QUOTE A note with regard to protection of individuals in Germany claiming Ecuadoran Nationality of Federal Political Department was forwarded on May 12 by the Ecuadoran Consulate, we are told by Swiss. Contradictions of such a nature were contained therein that its meaning was difficult for the Swiss to interpret. It is said the Consulate was not able to supply explanatory interpretation of the note and the Consulate concurred with Swiss that in order to avert misconstruction, they should ignore note of May 12. In the meantime, contents of the note were sent by Federal Political Department to Swiss Legation Berlin for informational purposes while waiting for clarification. Ecuadoran Consulate decided to ask Government of Ecuador for such clarification. UNQUOTE

Please endeavor to ensure that clarifying message is sent to Ecuadorean consulate in Bern consistent with the humanitarian ends sought to be achieved, and advise Department and Board of date and contents of such message.

HULL

CABLE TO AMBASSADOR WINANT, LONDON, FOR MANN FROM WAR REFUGEE BOARD

Please advise appropriate trustees to furnish reports through Embassy to WRB on use of funds sent from United States for rescue projects of United Czechoslovak Relief, Polish War Relief and French War Relief. Amounts remitted are \$150,000, \$250,000 and \$75,000 respectively. Licenses call for regular reports from trustees and National War Fund has been advised that such reports would be made.

Interested groups here very anxious for information concerning use of such funds. They also advise that there probably will be available for the last quarter of 1944 the following additional amounts for operations in enemy controlled areas: \$100,000 for the Czechoslovak program; \$150,000 for the French program; and \$150,000 for the Polish program. They request that the trustees be informed of this and, if they feel the additional funds can be used by them for operations in enemy controlled areas, they should be requested to submit detailed programs to you for forwarding to the WRB. Interested groups here would also appreciate opinion of trustees concerning the desirability of channelling future operations of these programs through Switzerland or Sweden rather than London.

The trustees of the three programs should also be advised that if funds already remitted cannot be profitably used by them, such funds should be returned to the remitting organizations in the United States.

THIS IS WRB CABLE TO LONDON NO. 13.

10:15 a.m.  
October 13, 1944

Miss Chauncey (for the Sec'y) Abrahamson, Cohn, DuBois, Friedland, Hoden, Lesser, Mannon, McCormack, Piles

FR:BN 10/11/44

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

October 13, 1944

Midnight

AMEMBASSY,

LONDON  
8467

The following for Mann from Pehle is WRb 12.

There is presently being cleared with the British the proposal of this Government to make payment in full to the refugees evacuated to the United States and the 550 evacuated from Italy to Palestine for the Italian lire, AM lire, BMA notes and U.S. yellow and blue seal dollars turned in by such refugees to ACC upon leaving Italy. JDC is willing to make the payments in the United States and in Palestine against reimbursement in lire by ACC. Since it appears that the refugees in question turned in their valutz on the assumption that they would be paid in full and in view of delays already involved and numerous complaints, we are urging the aforementioned special treatment for these cases. Please consult with Aarons with a view to expediting clearance of our proposal in London.

HULL  
(GLW)

WRB:MMV:OMH  
10/12/44

CABLE TO AMERICAN MISSION, PARIS, FROM WAR REFUGEE BOARD.

Please deliver the following message to Maitre David, 117 Rue Breteuil, Marseille, from Rabbi Langer, New York:

QUOTE ON BEHALF EDOUARD DE ROTHSCHILD CHAIRMAN OF ARIF  
CABLE MOST REQUISITE NECESSITIES NEEDED FOR CHILDREN AND  
ADULTS SHALL ENDEAVOR MEET REQUIREMENTS UNQUOTE

10:15 a.m.  
October 13, 1944

CABLE TO AMERICAN MISSION, PARIS, FROM WAR REFUGEE BOARD.

Please deliver the following message to Grand Rabbin Julien Weil,  
44 Rue de la Victoire, Paris, from Rabbi Langer, New York:

QUOTE ON BEHALF EDOUARD DE ROTHSCHILD CHAIRMAN OF ARIE CABLE  
MOST REQUISITE NECESSITIES NEEDED FOR CHILDREN AND ADULTS  
SHALL ENDEAVOR MEET REQUIREMENTS UNQUOTE

10:15 a.m.  
October 13, 1944

CABLE TO AMERICAN MISSION, PARIS, FROM WAR REFUGEE BOARD.

Please deliver the following message to Leon Meiss c/o Temple  
Israelite, Quai de Tilsit, Lyon, from Rabbi Langer, New York:

QUOTE ON BEHALF EDOUARD DE ROTHSCHILD CHAIRMAN OF ARIF CABLE  
MOST REQUISITE NECESSITIES NEEDED FOR CHILDREN AND ADULTS  
SHALL ENDEAVOR MEET REQUIREMENTS UNQUOTE

10:15 a.m.  
October 13, 1944

AIRGRAMSECRET

FROM AMERICAN CONSULATE GENERAL

Jerusalem

Dated October 13, 1944, 5 p.m.

Courier departure: October 14,  
1944, 6 a.m.

Rec'd: October 26, 2 p.m.

Secretary of State,

Washington

A-51, October 13, 1944, 5 p.m.

Have received confidential information from competent Jewish source that Colonial Office has agreed to admit Jewish immigrants at the rate of 1,500 per month distributed as follows: Bulgaria and Rumania, 5,000; Italy, 900; Aden, 1,000; France 2,000 children; Belgium 200 mostly children. Turkey, 200 mostly children; Switzerland 1,000 children.

Previous commitment to admit all escaping to Turkey has been abrogated and all other commitments, except those for Spain and Portugal are to be met from above allocation. Monthly rate of admissions is subject to revision in January. Remainder of White Paper quota will be reallocated when present allocation nears completion.

If immigrants are brought in from unincorporated countries or more than indicated from any included country, other will be decreased correspondingly.

Jewish Agency is pressing for increased monthly rate and for the eligibility of adults from France and Switzerland.

PINKERTON

BJR - 991  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Lisbon

Dated October 13, 1944

Rec'd 12:20 p.m.

Secretary of State,

Washington.

1136, October 13, Noon

THIS IS WRB 220 FOR CHARLES JOY FROM ELISABETH  
DEXTER UNITARIAN 347.

Ask New York office notify Hoftan Family Max  
leaving for England immediately. Address Larek Hotel  
Terminm 103 Ferry Road, London SE 14. Please continue  
payments to wife. Writing explanatory letter.

HORNED

JAS:MB

CABLE TO MINISTER HARRISON, BERN, FOR MC CLELLAND, FROM WAR REFUGEE BOARD.

Please deliver the following message to Saly Mayer from M. A.

Leavitt of the American Jewish Joint Distribution Committee:

QUOTE WE AUTHORIZE ADDITIONAL EXPENDITURE BEHALF HUNGARIAN  
JEWS BOTH FOR RESCUE ACTIVITIES OR RELIEF IN HUNGARY UP TO  
\$300,000 ON CONDITION THAT YOU CAN PURCHASE PENGOES IN  
SWITZERLAND FROM SOURCES KNOWN TO YOU TO BE RELIABLE AND  
SO THAT SWISS CURRENCY WILL NOT AID ENEMY OR ENEMY  
COLLABORATIONISTS. UPON YOUR REQUEST WE WILL TRANSMIT  
THE SUM TO YOU AND WOULD ASK YOU SET THIS UP AS A SEPARATE  
ACCOUNT TO BE REPORTED ON SEPARATE AND APART FROM OUR REGULAR  
FUNDS AT YOUR DISPOSAL UNQUOTE

THIS IS WRB CABLE TO BERN NO. 214.

10:15 a.m.  
October 13, 1944

ORIGINAL TEXT OF TELEGRAM SENT

FROM : Secretary of State, Washington  
 TO : American Legation, Bern  
 DATE : October 13, 1944  
 NUMBER : 3496

CONFIDENTIAL

To Minister Harrison and McClelland.

1. With reference to Department's 3120 of September 9, 3255 of September 21 and earlier communications regarding admission of Jewish children from Hungary, Paraguayan Minister of Education by communication of August 30 agreed in principle to extend to children from Hungary previous Paraguayan consent to give asylum to a number of refugee children from France to be determined later, subject to certain economic conditions.

On September 14, Ecuadorean ministry of foreign affairs informed Amembassy that "it is believed that Ecuador would be able to receive up to three hundred children provided that WRB furnished the funds necessary for the case."

By note of August 31, Dominican Foreign Minister informed Amembassy that since it made "no distinction in the nationality of the children which it would receive there is no inconvenience that they should also proceed from Hungary." This applies to a previous Dominican agreement to accept between 1000 and 2000 refugee children.

2. Substance of your 6469 of September 29 is being communicated to Amembassy Quito for appropriate action. In the meantime, the following Ecuadorean aide-memoire to Amembassy of August 24 has been received.

QUOTE The Ministry for Foreign Affairs, having been informed of the persecution which at present is taking place in Hungary against persons of a certain race, among whom are many who possess passports issued in the names of American Republics, has addressed its diplomatic representative in Switzerland to arrange for the Federal Government as representative of the interests of Ecuador in Axis nations or satellites thereof to notify the Government of Hungary that the Government of Ecuador recognizes the validity of documents or passports issued in its name and that accordingly it is expected that the bearers of such papers will be accorded the rights, privileges and immunities which Ecuadorean nationals enjoy. Likewise it has been requested to state that the United States is authorized to negotiate the exchange of such persons.

The

-2-

The Ecuadoran Ministry for Foreign Affairs, in replying to the aide memoire of the Embassy of the United States dated August 19, reiterates its intention of not declaring invalid passports granted illegally while they may serve to protect the life and property of their holders but (reiterates) that these persons are not thereby authorized to enter Ecuador. UNQUOTE

Pending further action by Ecuador, please try to make use of above to ensure prompt action by Ecuadoran consulate and Swiss government in defense of holders of Ecuadorean documents.

3. With reference to last paragraph of your 6469 of September 29 it is difficult to perceive why Swiss authorities should not have treated Ecuadorean request regarding Hungary as implying a request to represent Ecuador in Hungary to the extent stated, and have adopted procedure analogous to that described in your 6219 of September 20. Department's 2490 of July 21 item six applies to this case.

4. By note of August 14 Haitian Foreign Ministry informed Amembassy that the following note has been sent on August 11 to Haitian legation Bern:

Quote Referring to cablegram of the 31st of July please ask Federal Government to communicate the following declaration to the German Government: 'Having learned that the following persons, namely, Abraham Berger, Eugenia Berger, Leon Muszynski and Lili Muszynski, holders of passports delivered in the name of Haiti, have been removed by the German authorities from the civilian internment camp at Vittel to an unknown destination, the Haitian Government protests energetically against the treatment inflicted upon the above-mentioned persons, STOP The Haitian Government urgently asks for information concerning their address and their health and expects their immediate transfer to a civilian internment camp where they would be easily available for exchange and where, in awaiting this exchange, they will be placed under the supervision of the Protecting Power and the International Red Cross. STOP. The Haitian Government also declares that it will not permit that Germany place in doubt the validity of any documents delivered in its name and that it expects that the German Government will accord the holders of these documents the same treatment which the German Government expects to obtain for its nationals in the Western Hemisphere. STOP. Finally, the Haitian Government reserves the right to take action against any ill treatment which might be inflicted upon the above-mentioned persons and upon all persons who may be in the same position. UNQUOTE.

5. With

-3-

5. With reference to your 5281 of August 14, the following note from Cuban Ministry of State was received by Amembassy on September 19:

QUOTE Although the data on Gelernter are not sufficient to enable a quick search, since it is a humanitarian matter the Government of Cuba desires to avail itself of the good offices of the Government of the United States of America to the end that all possible protection be given to Gelernter through the means which the North American Government uses in similar cases. The Ministry will continue the investigation started in the Department of Citizenship and Immigration in order to verify the exactness of the information and the Embassy will be duly informed. UNQUOTE.

Please take appropriate action.

6. With reference to your 6524 of September 30, please express to Swiss authorities this Government's appreciation of their action in conveying to Hungarian officials the message referred to therein.

THIS IS WRB CABLE TO BERN NO. 213.

HULL

## PARAPHRASE OF TELEGRAM SENT

FROM : Secretary of State, Washington  
TO : American Legation, Bern  
DATED : October 13, 1944  
NUMBER : 3498

## CONFIDENTIAL

Your cable of September 5, 1944, No. 5820, is referred to herewith.

It is requested that the Foreign Office of Switzerland be informed that due to extensive mining operations in the Danube River by Allied forces, the Government of the United States is not able to grant to group of Hungarian Jews safe conduct for travel on Danube vessels.

HULL

MB-154

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

Bern

Dated October 13, 1944

Rec'd 4:30 p.m.

Secretary of State,

Washington.

6837, October 13, 5 p.m.

FOR WRB FROM MCCLELLAND

Department's 326, September 22.

Received 85,334.45 Swiss francs net on October 3, through Swiss National Bank from friends of Luxemburg.

Krier and Clement both left for Luxemburg on orders of their Government on October 9. They were very anxious know whether these funds could not now be spent in Luxemburg. Since possibility use this money effectively in enemy territory very limited I therefore recommend license be amended authorize expenditure equivalent \$15,000 in Luxemburg, \$5,000 being reserved for expenditure enemy territory (Germany) pending elaboration acceptable plans.

If permission use funds in Luxemburg forthcoming Krier and Clement desire know if donors wish favor special categories beneficiaries.

HARRISON

MEV

GEP-67

Bern

35

This telegram must be paraphrased before being communicated to anyone other than a Government Agency. (SECRET-0)

Dated October 13, 1944

Rec'd 4:40 p.m.

Secretary of State,

Washington.

6839, October 13, 7 p.m.

FOR WRB FROM MCCLELLAND

Legation's 6619, October 5.

Detailed letter of October 4 from Kasztner in Budapest, which arrived by Swiss courier October 7, gives following information situation Jews in Slovakia.

Night September 28 to 29, SS soldiers and Hlinka Guards blocked off Jewish quarter of Bratislava (Pressburg) and conducted a brutal house to house roundup taking off between three to four thousand. Mrs. Fleischmann and Dr. Kovacs of Central Jewish organization were ordered to their office to supply authorities with necessary information. All other members Jewish Central including Dr. Oskar Neumann and Rabbi Weiss-Mandel along with mass Jews arrested were taken to camp of Sereď. This camp, originally built for one thousand persons, housed five to seven thousand Jews. Number of Jews thus concentrated represents about one-third remaining Jewish population of Slovakia. Other two-thirds either in Partisan controlled territory or able remain in hiding. News was received October 2 in Budapest that first transport of two thousand Jews had already been deported from Sereď.

This action in Bratislava was directed by a certain "Hauptsturm Fuehrer" Brunner who was sent there by Eichmann in Budapest on September 26. Brunner, whose past record of brutality is well known, has been charged with similar actions against Jews during recent month (\*)sdrancy (Vienna and Poland).

Kasztner had fair hopes that Eichmann could be influenced to release at least leading members of Bratislava Jewish Center.

Situation of Budapest Jews very critical. Un-confirmed

-2- #6839, October 13, 7 p.m., from Bern

confirmed rumors speak of deportation "en masse" having already begun. Am trying by every available channel secure reliable information. Wire from Kasztner dated October 11 does not indicate any such radical change in status quo.

HARRISON

WTD

(\*) apparent omission

*Handwritten scribbles and markings on the right edge of the page.*

EMBASSY OF THE  
UNITED STATES OF AMERICA

38

SECRET

Caracas, October 13, 1944

No. 6583

Subject: Protection of Bearers of Venezuelan Documents  
in Territory occupied by Germany.

The Honorable  
The Secretary of State,  
Washington.

Sir:

With reference to the Department's secret circular airgram of September 18, 8:15 a.m., entitled "Safe-guarding of Lives of American Republics Document Holders", I have the honor to furnish the following information which has been supplied in strict confidence by the Ministry for Foreign Affairs in response to representations made by this Embassy as instructed in the airgram above-cited:

1. The Ministry stated that it had notified the Swiss Government through the Venezuelan Charge d'Affaires at Bern by cable that the Venezuelan Government ratifies the lists described in the memorandum of this Embassy of September 23, 1944, in so far as concerns persons named in Venezuelan documents.

2. The Foreign Office expressed the appreciation of the Venezuelan Government of the offer of the State Department with regard to protecting the said persons and is in agreement with the lists mentioned be delivered to the Swiss authorities for the consequent purposes.

Respectfully yours,

/s/ Frank P. Corrigan

Frank P. Corrigan

Enclosures:

- 8 1. Copy of Strictly Confidential Memorandum No. 1872, September 23, 1944, left at Foreign Office.  
2. Copy of Strictly Confidential Memorandum from Foreign Office (No. 2796 of October 13, 1944).

548 JF:ces

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akzin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

Enclosure No. 1, Despatch No. 6583, October 13, 1944,  
from the American Embassy, Caracas.

STRICTLY CONFIDENTIAL

No. 1872

MEMORANDUM

The Embassy of the United States of America has the honor to refer to the Ministry's esteemed Memorandum 2121 (Confidential) of August 3, 1944 and to furnish below certain additional information which has been received from the Department of State with regard to holders of documents of nationality of the American Republics in German controlled territory:

The United States Government, at the suggestion of the Swiss Government, is endeavoring to compile lists of such holders for transmission to the German Government. In this connection the State Department mentioned that disturbed war communications have interfered with communications between the Governments of the American Republics and their European Missions, resulting in incomplete records which make the compilation of such lists difficult. However, to assist the Swiss in this matter, the Department of State suggested to the United States Legation at Bern that it endeavor to obtain, with the aid of local representatives of organizations that have records on the subject, lists that are as complete as possible with the view to transmitting them to the Swiss authorities.

In the foregoing connection, the Department of State suggests that the Governments of the other American Republics be informed of the urgent desirability of confirming to the Swiss authorities the authenticity of such lists and the State Department has expressed the hope that, in view of the humanitarian consideration involved, the Venezuelan Government, for its part, may be willing to confirm the authenticity of the list submitted by the United States Legation at Bern in so far as bearers of Venezuelan documents may be concerned. The State Department reiterated that the assurances previously given on behalf of the United States Government that the Venezuelan Government will not be expected to grant physical admission to the persons involved and that no objection will be raised to an examination by the Venezuelan Government of the status of such persons once they are safe from enemy persecution fully apply

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akzin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

Page 2, Enclosure No. 1, Despatch No. 6583, October 13, 1944, from the American Embassy, Caracas.

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to the persons whose names will be included in the lists envisaged.

The State Department has also stated that, in the event of the completion of the list of holders of documents issued in the name of the Venezuelan Government or of other persons under enemy control to whom it desires to give protection, the United States Government will be glad to extend to such persons the benefit of its activities intended to safeguard their lives and will, if desired by the Venezuelan Government, gladly transmit any such list to the Swiss Government.

Caracas, September 23, 1944.

JF:ces

SECRETOPTEL No. 333

Information received up to 10 a.m., 13th October, 1944.

1. NAVAL

One of our motor gun boats mined and sunk in the Gulf of Venice on 10th. A minesweeper also damaged by mine same area. On 10th and 11th U.S. Destroyers shelled bridges on the Franco-Italian frontier.

On 10th Carrier-borne aircraft attacked harbour installations Syra and Leros and on 11th sank 3 E-boats and damaged another, an escort ship and several small craft.

One of H.M. Submarines has sunk a small cargo ship and four caiques in the Aegean.

On 12th one of H.M. Cruisers bombarded Phleba Island, S.E. of Piraeus and one of H.M. Aircraft Cruisers bombarded a battery on the Island of Aegina.

2. MILITARY

WESTERN EUROPE. 2nd British Army has attacked S.E. from the corridor and occupied Overloon, 14 miles N.E. Helmond. Attack on Aachen renewed following refusal of German garrison to surrender. Unofficial reports state Allied troops already fighting in the streets of the city. Slight advances made East and S.E. of Epinal against determined resistance.

ITALY. Exploiting their bridgeheads over the Fiumicino troops of 8th Army made a little further progress towards Cesena. Our troops have also gained a small area N.E. of Bagno. 5th Army have moved forward very slightly in three sectors south of Bologna, north and east of Popretta and north of Borgo.

RUSSIA. Russians report progress to within 5 miles of Riga on the East. Advances in Memel area, including widening of frontage on Baltic Coast, arrival at East Prussian border due west of Kovno, progress up the Carpathians in North Transylvania and N.W. of Cluj; capture of Oradea and several railway stations S.W. and W. of Debrecon; capture of Subotica on Hungarian-Yugoslav frontier and progress S.E. of Belgrade.

3. AIR OPERATIONS

WESTERN FRONT. 12th. Provisional sorties 4,860 R.A.F. heavy bombers attacked Wanne Eickel oil plant near Bochum - 563 tons, and battery at Breskens - 558. U.S. heavy bombers bombed Osna-bruck railway centre - 618 tons and Bremen aircraft components factory 558. Good results claimed. Military objectives in battle area attacked by medium and fighter bombers, particularly in Aachen and Saarburg areas - 637 tons. German casualties 29,4,8 in the air and 8,1,12 on the ground. Ours - 21 missing and 1 crashed.

12th/13th. 70 Mosquitoes despatched: - Hamburg 52 (1 missing); other tasks - 18.

MEDITERRANEAN. 10th/11th. 39 aircraft (2 missing) dropped 91 tons on Verona railway centre.

11th. 178 escorted heavy bombers (3 missing) dropped 391 tons on industrial targets and communications in Austria, Yugoslavia and Northern Italy. 55 Mustangs (3 missing) attacked airfields and transport in Austria and Yugoslavia. Enemy casualties 3,0,1 in the air and 24,0,20 on the ground. 765 medium and fighter bombers and fighters attacked railways etc., in the Italian battle area.

12th. Preliminary reports state 1130 tons dropped by 658 escorted heavy bombers from Mediterranean on military objectives around Bologna in support of ground operations. Results good. 9 aircraft missing.

4. HOME SECURITY

OFFICE OF  
THE SECRETARY OF THE TREASURY

42

October 14, 1944

MEMORANDUM

Mr. Steve Early called today at 1:50 p.m. He said he wanted this office to know that the President had declined an invitation to participate in the N. Y. Herald-Tribune Forum. He said, "Confidentially, I would suggest that any Treasury people who might be invited to participate should also decline."

*P. B. Mannen*

*(advised Mr. D. W. Bell at 2:20 p.m.)*

*9:30 meeting*  
→

OCT 14 1944

12:15

43

- ROOSEVELT DECLINES INVITATION  
TO SPEAK AT HERALD TRIBUNE FORUM

WASHN - A P - WHITE HOUSE ANNOUNCED TODAY  
THAT PRESIDENT ROOSEVELT HAS DECLINED AN  
INVITATION TO SPEAK AT CONCLUDING SESSION  
NEXT WEDNESDAY NIGHT OF NEW YORK HERALD  
TRIBUNE FORUM

GOV THOMAS E DEWEY HIS REPUBLICAN OPPONENT  
WILL SPEAK ON THE FORUM THAT EVENING ON  
FOREIGN POLICY HIS TOPIC BEING -THIS MUST BE  
THE LAST WAR-

WHITE HOUSE PRESS SECRETARY STEPHEN EARLY  
REFERRED REPORTERS TO DEMOCRATIC NATIONAL  
CHAIRMAN ROBERT E HANNEGAN IN NEW YORK WHEN  
ASKED WHY PRESIDENT TURNED DOWN INVITATION -  
PRESIDENT USUALLY HAS ADDRESSED THE FORUM  
IN FORMER YEARS

-THE PRESIDENT- EARLY SAID -DECLINED THE  
INVITATION BY TELEGRAM LAST NIGHT - HE DIDN-T  
SAY WHY TO MY KNOWLEDGE AND IT WAS A VERY  
BRIEF TELEGRAM - YOU CAN ASK CHAIRMAN  
HANNEGAN WHY-

EARLY REPEATED WHAT THE PRESIDENT TOLD RE-  
PORTERS YESTERDAY ABOUT FUTURE CAMPAIGN PLANS -  
THAT THE PRESIDENT IS TALKING ABOUT OTHER SPEE-  
CHES BEYOND THE ONE PLANNED FOR OCTOBER 21 IN  
NEW YORK BUT - 95 -- BUT -NOTHING IS READY.  
FOR ANNOUNCEMENT-

-V-

44

October 14, 1944

○ heading copy of Secretary's Los Angeles  
speech.

Los Angeles Speech

For the last week I have been addressing a number of meetings such as this in various parts of the country. During the course of these talks, I have endeavored to outline briefly some of the philosophy behind American war finance as we at the Treasury Department view it.

The democratic manner in which the financing of the war has been handled, I described last Saturday at Atlantic City. About 85 million individual Americans have bought bonds of their Government. They have bought them not as a result of compulsion but for purely patriotic reasons and because they are the best investment in the world.

1612  
126  
1506

Thursday, addressing a gathering similar to this at New Orleans, I emphasized the part which war finance has played in economic stabilization. The heavy tax burdens which the American people, generally speaking, have accepted with extra-ordinarily good grace and the large proportion of the increase in the public debt which has been absorbed by the men and women of this country, have played a very important part in holding inflation in check. The OPA has estimated that if prices during this war had risen as sharply as in World War I, there would have been approximately a 70 billion dollar increase in Government costs -- a 70 billion dollar additional burden fastened onto the country.

1506  
104  
1402

Today I would like to conclude this resume with a quick examination of interest rates and a glance at the postwar public debt problem as I see it.

The great expansion in the Federal debt has been achieved with virtually stable interest rates-- thanks largely to your efforts. Such change as has occurred has been to slightly lower levels. This contrasts with World War I when almost each new series of bonds carried a higher interest rate, so that the cost trend was almost constantly upward. As a result, the average interest cost has been only 1-3/4 percent on the wartime increase in the public debt. This contrasts with 4-1/4 percent for World War I.

1402  
119  
1283

The resulting interest saving approximates  
4 billion dollars a year -- quite a tidy sum to  
have saved for the taxpayers of this nation.

Realization of your part in this saving, I believe,  
should give you, as it has us at the Treasury, a  
feeling of real accomplishment.

Moreover, and this is a point deserving of  
particular emphasis, the interest on all securities  
sold during the war has been fully taxable while  
the issues marketed during World War I were all  
either wholly or partially tax-exempt. This has  
resulted in a further net saving to the Treasury  
amounting to several hundred million dollars a  
year.

1/4

1283  
105  

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1178

Further, through the removal of tax exemption, all purchasers of Government securities are taxed their share of the war cost in proportion to their ability to pay. This is a point which may not have occurred to you but which should be of help in the sale of E Bonds.

Incidentally, the Government in eliminating tax exemption relinquished any "unfair" advantage it might have had over private borrowers in securing credit. It thereby served to strengthen the private enterprise system.

President Roosevelt, in his 1945 Budget Message, summarized the situation as follows:

"The primary achievement of our debt policy has been the maintenance of low and stable rates of interest.

1178  
110

-6-

Average interest rates payable on the public debt now are less than 2 percent. Interest received from all new issues is fully taxable. As a result, the net cost per dollar borrowed since Pearl Harbor has been about a third the cost of borrowing in the first World War."

Personally, I do not anticipate a rise in interest rates in the foreseeable future. Savings are abundant and promise to be adequate to meet all likely demands. We believe, therefore, that we shall be able to refund our obligations, as they come due, at rates comparable to those now prevailing. Thus, the saving to the Treasury will continue over a long period of years.

1068  
113

At the same time the people to whom you have sold the War bonds will continue to be satisfied rather than disgruntled customers.

Moreover, quite apart from its value to the Treasury -- and, hence to the taxpayers -- the continuance of low interest rates, will provide a stimulus to the national economy in the postwar period. High interest rates limit enterprise and discourage employment. Low interest rates stimulate business and make for expanding employment.

Just as I see no reason for substantially higher interest rates in the postwar period, I do not see any need for a wholesale postwar funding of the public debt into long-term bonds.

955  
107  
848

1/2

In the first place, it would cost the taxpayers more in interest. Next, it would shift whatever risk there is inherent in fluctuating interest rates from the Government, which is able to bear it, to individuals, institutions and corporations. Certainly the day is past when the United States Government need ask its citizens or its business enterprises to insure it against changes in the rate of interest.

Finally, we have endeavored to tailor the debt structure to the needs of those who lend us the money and of the national economy.

The small investor who purchases the Series E savings bonds places his faith in his Government.

848  
107  
741

Could we do less than see to it that the securities offered him were suited to his needs?

The savings bonds, while not a war development, having been first offered ten years ago, have proved an admirable war finance medium which we expect to carry over into the postwar period. We hope that many millions of people will continue to hold a financial stake in their Government.

Industrial corporations, as you know, have principally purchased certificates of indebtedness and Series C notes. These constitute a substantial part of their reserves for reconversion and postwar development. It is clearly advantageous not only to the corporations but to the whole economy that these reserves be liquid.

741

114

627

The corporations thus know that the money will be available and without loss whenever they need it. When the proper time comes they can proceed full speed not only with their conversion but with any expansion plans they may have.

Finally, there are the Government securities which now constitute a large proportion of the assets of the commercial banks. Many of you are bankers. You know it has been our policy to encourage the banks to purchase issues of short maturity. As a consequence, about half the securities acquired by the commercial banking system since the beginning of the war have been bills and certificates maturing within one year and practically all have had a maturity of ten years or under.

627  
123  

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504

The result is that the banking system of the country is in a position of unparalleled liquidity. This, we believe, affords assurance against a recurrence of such unsettling deflation as came in the aftermath of World War I. Further, it places the banking system in a strong position to meet the shifts in deposits that many of you anticipate with reconversion and the new business demands for funds that should accompany the development of a healthy, expanding economy.

3/4  
In a word, the banks' part in war finance, great as it has been, instead of hamstringing them, has left them in a position to service enthusi-  
astically a virile private enterprise system.

504  
110

I might point out that the banks have not only been able to maintain a strongly liquid position as a result of the manner in which the nation's war finance has been handled, but also they have found an opportunity for public service. This has enhanced the esteem with which they are held in their respective communities. Moreover, while they have been making this contribution to the war effort they have enjoyed an increase in earnings. Net profits of all member banks of the Federal Reserve System last year were back at almost exactly the-all-time high level of 1929.

394  
101  
293

Pause

I want to thank you who have been the leaders in the war finance work in these great western states -- thank you upon the part of the Treasury, whose job it has been to direct the program, and, more important, thank you on behalf of the United States of America, which, of course, is the real beneficiary.

I am no prophet as to the duration of the war, but today we are hopeful that unconditional surrender by Germany may not be far away. At such time all eyes will turn to the West. The <sup>*eleven*</sup> ~~seventeen~~ states represented at this meeting will take on new importance in the war. The Pacific Coast will become the springboard for the all-out offensive against Japan.

293  
122  
171

-14-

This should prompt you who have the job of raising the necessary money to redouble your efforts.

Our immediate task is to put over the Sixth War Loan, to do so just as decisively as our fighting men are establishing their positions in Europe and in the islands of the Pacific.

I know you understand the importance of this absolutely essential link in the war effort. But you must do more than understand it, you must make the people understand it, the men and the women in stores and offices, in factories, on the farms and in their homes.

171  
98  
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73

-15-

These people must understand, as you do, that the time has not yet come to relax or celebrate, that we must speed weapons and supplies far across the Pacific to our armed forces who know full well that a hard fight still lies ahead before they can bring us victory over the Japanese -- and these weapons and supplies must be paid for. That is our task -- I know America can count upon you!

73  
73

FOREIGN ECONOMIC ADMINISTRATION  
WASHINGTON

60 ✓

9:30 meeting  
→

Klaus 5<sup>30</sup> Yes

October 14, 1944

Dear Secretary Morgenthau:

If it is satisfactory to you, we would like to talk to Sam Klaus about signing him up on the FEA payroll.

Sincerely yours,

Oscar Cox

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

*gastm see Page 20*

*AA* 61

MEMORANDUM FOR THE SECRETARY.

October 14, 1944.

Mail Report

At the end of the third week, the controversy over the so-called Morgenthau plan for de-industrializing Germany has very nearly spent itself. This week there were only 40 communications on the subject, a number of which merely requested copies of the complete plan or submitted other proposals for postwar treatment of Germany. The ratio of favorable comment to unfavorable remained, roughly, 3 to 1.

Other mail was a bit heavier than in previous weeks, but covered only run-of-the-mill subjects that offered little of a quotable nature. However, for the first time, the political campaign was made an issue in quite a few of the letters. In requesting tax refunds, describing conditions that necessitated redemption of bonds, complaining of delays in handling them, or demanding that the Treasury forward at once their delayed allotment checks, correspondents frequently berated the Administration for its inefficiency and threatened to vote it out of office in November.

Although the over-the-counter plan has been in effect more than a week, there has as yet been no decline in the number of bonds submitted here for redemption. In fact, the number rose from 50 last week to 57 this week.

The volume of mail received from the White House during the month of September was exceptionally small. Out of a total of 174 pieces, 120 were re-routed to other offices, and 54 were acknowledged in the Correspondence Division.

*H. E. Forbush*  
*by Kay Pearson*

Favorable Comments on Postwar Plans for Germany

H. C. Minard, Davenport, Iowa. \* \* \* These "soft-hearted, sob-sister" people that want to be kind to the Germans, and not be too severe on them in making the peace, ought to have had the experience the small nations and Russia have endured. \* \* \* We can be assured of a permanent, lasting peace in the world only when the German and Japanese nations are destroyed as a nation, then the younger generations as they grow up may be educated away from Prussianism and militarism. There must not be any "soft-hearted, sob-sister" peace. Hon. F. D. Roosevelt and Secretary Morgenthau are the ones to speak for the United States, and Secretary Hull and Secretary Stimson should keep silent.

James Gruen, Los Angeles, California. Some call your postwar Germany plan drastic. Many of us, still taut over Germany's postwar World plan, call your attitude reasonable in the extreme. \* \* \* Who are the ones who so deplore the possibility of Germany being reduced to a fourth rate power status? Aren't they people with patent and production partnerships? Aren't they the ones who say that dividends know no flag? Soldiers don't deplore your plan; they don't fear German rakes and hoes and spades and farm wagons and cows. \* \* \* Many of us returned from World War I and looked sorrowfully at our sons and nephews. Failure of the League of Nations may have been the reason for our deep anxiety. But, Sir, speaking as a soldier, permit me to say that our real anxiety was caused by the fact that the enemy was not utterly and unquestionably defeated. Our anxiety grew with the years; so did our sons and nephews; they are now in a war. \* \* \* Certain very articulate intellectuals have a way of beginning what they say with, "Of course", thus essaying a truism. Like this: "Of course, no one would want to entirely

- 2 -

disarm Germany!" Or, for instance: "Of course, Germany must be given every consideration. It's the heart of European industry. Of course, you can't turn back the clock!" The clock has been turned back for many a gardener at Sing Sing and San Quentin. As for Carthage, well, we are not troubled by Carthage any more.

Paul M. Byk, Arnold Seligmann, Rey & Co., Inc., New York City. Your plan for Germany has aroused a violent reaction throughout the Press. You may be interested to know that I pleaded for this plan long ago in a committee meeting where the outlook for the German industry was discussed. I pointed out to them the fact that this was the remedy, and the only one, and that it would not be too hard for the German people because it was recommended by Mr. Hitler in his book as the solution for France. You may be interested to know that other people among which I am share fully your viewpoint in this matter.

Roy S. Stevens, Kansas City, Missouri. The writer wishes to express appreciation of your plan for post-war Germany. It seems to me the most practical, reasonable and humane offered as yet, and it is noticeable that its critics do not offer anything workable which would eliminate their objections. \* \* \* Your proposal, if carried out humanely, would not work any hardship on Germany which she has not already imposed on the peoples she conquered, and surely it is more kind than to permit any arrangement which would leave the door open for another similar war in the next generation. More kind not only to this country but to the German people. If this plan is too extreme, what were we fighting for? \* \* \*

Charles J. Mitchell, Los Angeles, California. I see by the latest issue of TIME that your scheme for abolishing the everlasting war spirit of Germany is

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receiving the widest acclaim in England. More particularly it should receive the highest support in the United States, as undoubtedly it will when our millions of service men return. Giving each German family ten acres of land and compelling them to stay thereon and improve their homesteads would be the most wonderful civilizing influence the world has ever seen, and you are entitled to universal acclaim. It will leave the Republican Party not a leg to stand on. It will gain support from every right-thinking man and woman who goes to the voting booth. War will be an unknown thing inside of five years, and the manufacture of destructive instruments of war will be condemned as roundly as is the manufacture and sale of destructive drugs -- the greatest work of the League of Nations. \* \* \*

Lewis C. Greer, Wichita, Kansas. I heartily approve of your postwar plans for Germany and believe that you will be able to obtain overwhelming popular support for your plan if there is any way for you to get it submitted to popular consideration. Hoping that you will continue to advocate, very firmly, the theories you have thus far advanced to the President.

Robert M. Dorris, Benton, Arkansas. \* \* \* Nearly everyone with whom I have talked are of the same opinion as yourself, namely, that Germany should be so crushed and impoverished that the mere mention of war or the preparation therefor would raise goose pimples on their spines. \* \* \* After the last war Germany was on probation, as it were; on parole, if you please, and she violated that parole by visiting upon the helpless peoples of Europe horrors that are almost inconceivable. \* \* \* It is true that you cannot destroy a nation by killing all of its inhabitants, and no one that I know wishes to even consider such a brutal thing; nevertheless, it is necessary to render impotent any maniac who goes about brandishing a dangerous weapon. \* \* \* If Germany is allowed

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to retain her heavy industry after this war, the blood and treasure spent by the fighting men of the Allies will have been spent in vain. \* \* \* Your proposal to make of the German people an agrarian people has more merit than any other proposal I have read. People who are close to the soil are basically peaceful.

Mrs. Socrates Drew, Birmingham, Alabama. Three cheers for your insistence on a hard peace, but do please make it harder! \* \* \* Germany should be divided into small growing farms and settled by peasants of non-German countries. If the boundaries of the surrounding countries should be extended so as to absorb the country there would be no Germany to which they might return. That's the way the English did the Acadians. I am 82 years old and members of my family have been in every war from the French and Indian to the present day. I have three grandsons in the service now and don't want any more Germans left for my great grandsons to fight.

Mrs. Hastings, Terre Haute, Indiana. I wish to congratulate you on your comment or suggestion as to means of preventing another war. There is much truth in the saying that they who conquer by force only partially conquer -- we must have some way of making the peace stick. \* \* \*

Herbert H. Neale, Los Angeles, California. If the Allies have the moral courage to adopt the plan outlined in the enclosed letter to the World Herald of Omaha, the world will not again have to combat the Nordic superman ideology. \* \* \* So long as the sadistic Nazis were victorious the civil population of Germany remained 99% pro-Nazi; therefore, Germany should pay full damages, either in labor, money, or territory, for the crimes for which they are responsible. \* \* \* For the past 20 years I have cut my living expenses to less than \$30 per month in order to devote a large

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share of my time to writing letters, trying (in vain) to wake up Britain and the United States to the German-Japanese menace. It is now 57 years since I became a naturalized citizen of the United States, and my earnest prayer is to live long enough to see the Nazis pay the just penalty for their crimes.

Seymour J. Wilner, Quittner, Weis & Wilner, Attorneys and Counselors at Law, New York City. Doubtlessly you heard of last night's radio debate on America's Town Meeting of the Air entitled, "Should the Allies Change Germany from an Industrial to an Agricultural Nation?". Apparently, it is not known whether or not you are the author of this plan, or even whether you favor it. Along with many other Americans, I hope you do favor it whether or not you are its author. In any event, it is quite obvious that the matter has evoked your interest. I am therefore taking the liberty of enclosing herewith copies of letters I have this day sent to Dr. Warren Seavey of the Harvard Law School and Dean Christian Gauss of Princeton. I am sending these in the sincere hope that it is quite unnecessary to furnish you with any additional ammunition. But the matter is so serious to all of us, and our children, that we cannot afford to take anything for granted. We must prevent another war of German aggression, and we must prevent it now. \* \* \*

A. L. Putnam, Arcata, California. It is the universal experience of anyone who dares to spring an idea a little in advance to current thinking on any subject whatever to have the whole world jump on him with both feet. You are getting yours now in respect to your only effective plan for disarming Germany. Since that plan was published, the Press has been filled with other plans to set up Germany again as an industrial, military, and financial swindling power. Forgotten entirely are the results of that past policy and the

- 6 -

ten billion in hard cash we dropped to them. Am so disgusted that all interest in the war has been lost as no matter what our military forces do, we have suffered complete defeat. Hope you keep up the role of one-man army as you may then have the satisfaction years hence of saying -- I told you so.

J. R. Hunneman, Boston, Massachusetts. (A circular letter of which the author sent us sample copies.) May I urge you to do ANYTHING to high pressure the British into a harsh peace (such as the Morgenthau plan). The British have no right to desert or stand in the way of a harsh peace and depend on us to save them. \* \* \* No public official is doing his duty who evades this critical menace to our national security.

Jacques Ebstein, Ex-Director de Cordre, Rio de Janeiro. Warmest congratulations for your Germany postwar plan. My friend Van Sittart and you are the only two Anglo-Saxons realizing what the word Germany means.

R. D. Risser, Kilgore, Texas. Please excuse card. I am for your program -- "Germany would be stripped of her industries and reduced from a modern industrial state to a country of small farms". (Colorado Springs Evening Telegram)

D. C. Abbott, Sarasota, Florida. I hope your idea of distributing Germany's industrial machinery among surrounding countries will prevail. It is said some Cabinet members want Germany built up into a good customer. But what is the good of a customer who is a liar or a cheat, and who will shoot you as soon as he is able to get a gun? To build up industrial Germany is to build up World War III. \* \* \*

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Milton H. Wind, New York City. The controversy among the administrators of the world to find an adequate solution to reduce Germany to a nonwarring nation should be uppermost in our minds. I wish to convey my suggestion and offer it for what it is worth. The Allied Nations in the world have suffered tremendous losses of manpower. If nothing is done about it, it will take these nations several generations to recover from the impact. While Germany too has suffered casualties, they have been justly rewarded for their destruction. Consequently, I suggest that each of the Allied Nations determine how many men they have lost in dead and seriously wounded, and then make application to have an equal number of German men transferred to these nations. \* \* \*

Professor F. W. Foerster, New York City. (Telegram) Society for prevention of World War Three wants to reply to criticism of your plan published by London Times and Economist. As this plan seems to be distorted by Press, we take liberty of asking you whether we are right in supposing that you did not propose destruction of the whole German industry but only of the six big industries connected with rearmament.

Arthur W. Gorbutt, Seattle, Washington. \* \* \* As a citizen, I am in accord with you re the division of Germany; more than this, I believe they warrant the punishment, for both their own good and the best welfare of the whole world, that their government should be supervised for the next fifty years; that their able-bodied work in all the lands they have laid waste until full restoration and restitution, if it takes a lifetime; that the "slaves" they kidnapped be allowed the choice of remaining in the lands held in bondage to become freeholders of the estates of the German upper class; these former slaves to use the option as to settling their families upon these lands, they to become the dominant ruling classes, etc. \* \* \*

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Mrs. Bessie A. House, Huntington Park, California. I am a voter of this nation, and a middle-aged woman, in business for myself. I am interested, of course, in the future welfare of my country. This includes what is meted out to Germany after the war. I wish to congratulate you regarding your postwar treatment of Germany, as I have read where you wanted to convert Germany from an industrial state into a nation of small farms. During my life I have always felt that it was not wise to be sorry for criminals. The law in the United States deals with them, and that law does not allow them to keep the loot they have gained in murder and stealing. If it did, we certainly would have more murder and more stealing and more crime. Now, when it comes to dealing with a nation that has murdered men and women, together with their children, by the thousands, and have tortured and murdered our own soldiers when captured, have even killed their own relatives and friends; that has committed atrocities past human understanding; now, when it comes to dealing with such a nation, we have men in power who say Germany should not be deprived of its industries because they occupy a key place in Europe's economy. \* \* \* Why not deal with criminals as criminals, instead of them as necessities. Certainly the world could get along without Germany or anything that it stands for.

Justin A. Rollman, Cincinnati, Ohio. Permit me to comment on your suggestion that Germany be reduced after the war to an agricultural state. I most certainly agree with this suggestion and I have personally advocated same for a long time. I see no other way to completely put the German people in a position where they cannot rearm unless they are handled in a manner which will prevent them from manufacturing anything of a war nature. All of us who have sons, relatives and friends in the armed services owe it to these boys and the future generations to completely and thoroughly disperse any thought that the German people may have of war or rearmament in the future.

W. L. Urquhart, W. L. Urquhart's International Purchasing Service, New York City. Having for the past several years advocated to my business associates and friends that Germany, or at least the industrial sections of the Reich, be reduced to a permanent agricultural economy, I am most interested to learn from this morning's New York Times that you also advocate such a plan. Unfortunately, I know of no organization or group of individuals whom I might approach on the subject to discuss and possibly help bring about the plan you have in mind. Can you guide me in this direction? Although the Times article indicates that foreign traders and government officials do not support your plan, I am firmly of the opinion from my own discussions with foreign traders that in principle, at least, many are in agreement with my views, which, incidentally, go much further than the mere destruction or removal from Germany of their heavy industries, as my theories include the re-education of German youth and the avoidance of despair which would result in anarchy among the German population, should their industries be destroyed, without an alternative given for livelihood of the individual German. Trusting I may have an opportunity of cooperating with you in the promulgation of your program.

W. M. Elliot, Hotel Astor, New York City. I wish you to know that the plan credited to you by the newspapers for turning Germany into a purely agricultural country has my complete support. In no other way will the world be safe from German aggression. The complete reason for this is so simple, so unanswerable, that I have been surprised to meet no reference to it in radio and other discussions. It is merely that, in twenty-five years from now, there will be a completely new set of personages at the heads of our and the other governments, to whom war will have become a memory. \* \* \* By that time, who knows what the situation will be between the Allies? And what set of men -- who never were, themselves, near any fighting, especially in this country -- is going to make a point of spying

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on Germany when there is their own country to serve? Business will expand as never in world history, and German industry will expand with it. Why not, when they have all the facilities? This is the crux of the problem: after many years of peace, a new set of men throughout the world will not feel as we do now, and differing viewpoints will permit Germany again to grow strong. This cannot happen if she has no such factories, and is, instead, doing as so many of her people are doing today in Wisconsin, Pennsylvania, etc., -- become farmers. Then they could be a blessing, instead of a curse. May your plan succeed!

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Unfavorable Comments on Postwar Plan for Germany

Anonymous -- Chicago, Illinois. I thought as a Cabinet Officer you had more brains than to advise Churchill and F.D. to crush Germany industrially, nor any other nation in that direction, as every country needs each other in order to exist. "I.M." (Sends cartoon captioned, "The Blunder That Prolonged The War -- Army Leaflets Urging German Soldiers to Surrender Were Very Effective Until Washington Politicians Released the Morgenthau Plan of Punishment for the German People". Copyrighted by The Chicago Tribune.)

The following is taken from the copy of a letter addressed to the President by Albert E. Barnett of Evanston, Illinois: "The proposals of Secretary of the Treasury Morgenthau for the economic destruction of Germany, as reported in the daily press of Sept. 24 and further detailed in last week's issue of 'Time' will not only cost the Allied Nations the lives of a half million boys but will cost you a decisive number of votes in the coming election. It was an affront both to the conscience and to the historical intelligence of the American people and only a vigorous disavowal of his views can relieve you of responsibility for them. Mr. Morgenthau's personal bitterness is entirely understandable, but that does not mean it is morally or historically justifiable as public policy. \* \* \* "

Paul Wengel, Michigan Baptist Convention, Adrian, Michigan. As Americans we have the privilege to appreciate our leadership if that leadership is on a high plain. Doubtless you will say that is not very often done and one must confess that public officials do not get as much commendation as they do criticism. That is true of every public servant, political, religious or otherwise. Though, knowing that, I feel strongly urged to

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offer my unqualified protest to the kind of postwar treatment of Germany as anticipated in your publicized program. There is no room for that kind of policy in the true American spirit. Hate breeds hate. I am concerned about our generations of children that are just born and going to be. They have a right to come into the kind of a world that has been wisely prepared. Nothing could be more unwise, unchristian, unscrupulous, ungodly, as the kind of thing you propose. That kind of policy is, to say the least, degrading the high standard of American leadership. \* \* \*

General Comments

E. C. Byers, Wm. Penn Senior High School, York, Pennsylvania. Kindly send me 25 copies of your Atlantic City address of October 7, if available, for our History Department.

John Spear, El Segundo, California. I wish to apologize to you for a letter disrespectfully addressed and written to you in either the latter part of 1939 or the fore part of 1940. I felt pretty bitter toward President Roosevelt and those associated with him, figuring that they were war mongering English stooges. It took time to show me how wrong I was, and how fortunate we were in having a strong-minded man like President Roosevelt at the head of our Government. Let's hope he continues at the head until this war is over. I hope this letter finds you in the best of health and you need not waste valuable time in replying to it.

Theophilus Meshach, New York City. PEACE Enclosed is the sum of twenty-seven dollars and ten cents. This being given voluntary by me to the United States Treasury as a retribution for misdeeds perpetrated years ago before I learned of Father Divine. About the year of 1923 I stolen some coal, I saw money dropped from a man one day and I took it, I have stolen sugar cane and potatoes, I worked on docks and stolen beans, sugar and shoes. I have stolen bread, I have jumped fishing boats in Nassau, Bahamas, and owe for tobacco and matches and the food I ate before I leave, and now I am making good with God and man, all credit goes to Father Divine for he stopped me from doing those things and caused me to live right, so all the glory and honor goes to Father Divine. I would appreciate your sending acknowledgment of the above to Father Divine at 764-772 South Broad Street, Philadelphia 46, Pennsylvania. Thank you and Peace.

- 14 -

Favorable Comments on Bonds

Alberta Fly Getchell, Sunnyvale, California. I had to send you some more bonds. I am sorry that I have to. It is this way. The bank here in Sunnyvale will not cash a bond unless the bondholder has an account with them, so I have to send them to you. This is why I am cashing bonds. I lost my wife by death in August. \* \* \* I have heart trouble now so that I cannot hardly stand to set here and write this. But I want you to know I was buying bonds right along until this trouble came on me. As soon as I can go to work, I will start buying Bonds. Thanking you. You are doing a good job.

Unfavorable Comments on Bonds

Congressman Luther A. Johnson (Texas) sends the following letter he has received from Ray Jarvis of Hubbard, Texas: "Information, please! I should like to ask you a \$64.00 question. Can you tell me what fertile Washington brain conceived the idea of having the banks of our nation run ads advising holders of A, B, C, D, and E Defense Bonds that they stood ready to provide instant redemption of their bonds? Immediately following which, there has been an unprecedented rush to cash them. One moment we hear a patriot pleading with us to buy these bonds for the dual purpose of financing the war and of avoiding inflation, and a moment later machinery is set up to encourage their sale. Does this make sense? I don't believe it would to my son who today is enduring the rigors of service on the Isle of Morotai."

J. Park Smith, Cashier, The National Bank of Topton, Topton, Pennsylvania. After hearing of the large volume of Savings Bonds that have been redeemed in our county since October 2nd, I have been wondering whether this condition may be nation-wide. If so, I should like to ask your consideration of a plan which is outlined in a general way in the following paragraph. \* \* \*

O. P. Jordan, Jr., Executive Vice President, The Pulaski National Bank, Pulaski, Virginia. Please pardon the presumption of a small town banker making a suggestion to the Secretary of the Treasury, but we have been somewhat alarmed at the rate Series E Bonds are being cashed in since banks were permitted to cash same on October 2nd. The writer is especially concerned since it has been my duty to sell same as chairman of our county in all of the War Loan Drives. While I think

it is a splendid thing to make the cash readily available in cases of real need, would it also not be wise to go one step further and help the bondholder to hold his bonds if he wishes to do so? \* \* \*

E. H. Crowson, Trustee of the India Mission Fund, Inc., Loughman, Florida. We have had occasion to notice in the press some discussion of a possible arrangement whereby U. S. Bonds might be relieved of interest payments later on. If there is ANY prospect of this, we would like to know it. We have a Special Fund in this Company known as The Pension Fund For Foreign Employees, and this fund has purchased U. S. Securities in full confidence that interest due would be payable on same at maturity. This Company has in effect a plan whereby money loaned from any Special Fund to the Maintenance Fund for maintenance uses receives quarterly a 5% increment posted to its credit. Thus, as we receive about 3% or less on Government Securities, our Pension Fund is in reality the loser by about 2% when we purchase these Government Securities. Yet, in the stringency of our war needs, we considered it a patriotic privilege to purchase these bonds, even at a loss. However, if resumption without interest is to be the order of procedure, we want to know it, as we would wish, in such a case, to liquidate the bonds and clear them through our General Fund, which will compensate for the use of such money quarterly at 5%. \* \* \*

Bernard W. Uhlin, Minneapolis, Minnesota. I wish to thank you for the little note of caution I received on cashing my last War Bond. However, I do not believe it will be necessary to continue to add notes of this nature in the near future, when I shall be compelled to cash in on the rest of my bonds. You see, my wife and I have deemed it our patriotic duty to buy bonds, and as many as we can. We had planned to have them for our two boys so they could go to school and receive an education, but there proved to be a joker in the plan. The high cost of living, taxes, and a limited salary for the four of us to live on makes it most difficult to meet a most unwholesome situation. \* \* \*

- 17 -

Stanley Meyer, System Vice Chairman, The Pullman Car Employees Association of the Repair Shops, Buffalo, New York. \* \* \* Where payroll subscriptions are made towards the purchase of Savings Bonds, the individual's payroll name appears on the bond purchased, along with the name of the beneficiary. In many cases we have men who for years are known to be working under an assumed name, for obvious reasons. Neither the Treasury Department of the United States Government nor the employer questioned the name of the subscriber or purchaser, but rather accepted the payment of (let us say) John Smith, but when John Smith, who may have a real name of John Smiczinski, finds it necessary to turn in a United States Savings Bond for cash with which to pay a bill that is due, the banks or the Post Office, we find, will not cash such Savings Bonds, even though the individual shows his social security card, or his pay check, unless they have a savings account or are endorsed by someone. It is unfortunate that conditions such as these exist, but we feel that the Treasury Department could make provisions to assist such people. We understand that the United States Treasury Department is guarding against possible cashing of stolen Savings Bonds. Nevertheless, when the individual finds it necessary to cash one or more of his Savings Bonds, he should be permitted to do so without embarrassment.

W. B. Rundell, Vice President, Farmers State Bank, Hillsboro, Wisconsin. Re: Sixth War Loan. On July 12, 1944, in connection with the Fifth War Loan, we entered the following open market purchase of bonds on books of this bank: 50M U.S. Treas. 1½%, due 3-15-47. Cost of bonds -- \$50,125.00 plus accrued interest to date of delivery. We are convinced the overnight profit of \$125.00 indicated above was merely a "joy ride" for somebody. We would be interested in knowing who got the \$125.00 profit. Now we note you are going right back into the same kind of a setup on the Sixth War Loan. This small country bank has sold one million dollars of War Bonds of one issue or another for our own account. We would be interested in having your comment in the premises.

Unfavorable Comments on Taxation

Senator Arthur H. Vandenberg, Washington, D. C.  
 I enclose herewith a self-explanatory letter from  
 Mr. Adolph Anderson of Montague, Michigan. \* \* \*  
 Even though this "cooperative" may not be entitled  
 to tax exemption it would appear that its infini-  
 tesimal small size (owning not more than \$7000 of  
 property) makes it impossible for it to comply with  
 all the demands for records, etc. It occurs to me  
 that this is a case in which a Special Agent might  
 well deal with the matter on the ground and arrive  
 at a reasonable compromise which will not entirely  
 destroy this tiny unit ( which - despite its size -  
 is of great importance to this isolated community).  
 \* \* \*

(The following is taken from the letter addressed to  
 the Senator by Mr. Anderson.) The Claybanks Cooperative  
 Creamery Association is a nonprofit corporation, organized,  
 operated and controlled by the farmers, and the stock-  
 holders as such have never been paid a dividend, a fact  
 to which I can attest, being one of the stockholders  
 myself. Their plan is to deduct the expenses of  
 operation and to pay the remainder to the patrons.  
 The officers and directors are farmers but they do not  
 give the company their full time -- in fact, give it  
 only the time required for board meetings and such like.  
 \* \* \* It has been in operation better than 30 years,  
 during which time they have changed officers at least  
 4 times, losing considerable records with each change.  
 They were careful to pay their bills and to keep their  
 record clear that way, but the keeping of records over  
 the years was never given much consideration. Yesterday  
 their secretary called on us with a large bulky envelope  
 bearing the return card of the Internal Revenue Collector  
 on it, enclosing a letter which stated that a Bureau  
 letter dated September 7, 1944, had informed the Detroit  
 Collector that the claim of this Creamery for exemption  
 from Federal Income Tax had been denied, and that they  
 should immediately file returns starting with the year  
1915 through 1943, also they should file Capital Stock

- 19 -

Tax returns for 1933 through 1944. They graciously granted them 30-days from September 23rd in which to do all this. The present secretary has held office for a little over 2 years, and has never filed a return inasmuch as the previous secretaries had been given to understand that nonprofit corporations of their character were exempt. This little company has a frame plant about 10 miles out in the country, with a small frame dwelling alongside for the butter maker. Aside from that, they own a delivery truck. The possible value of this property would range from \$5,000 to \$7,000 as a going concern. If closed, the value would be reduced at least 50%. \* \* \* It appears that it will be utterly impossible for this Creamery to comply with the Bureau's request because they do not have the data, but aside from that, any such request makes men fighting mad. It is entirely inconsistent with good policy and breaks down good citizenship. It is so utterly asinine to bring the matter up now, after all these years, that it borders on the ludicrous. If they should have filed, why were they allowed to go on under a false assumption all these years? \* \* \* None of their officers or directors are capable of complying with the request, neither have they the time as the management and operation of their individual farms demands their full time. To hire this work done would run their costs to such an extent they might as well quit -- in fact, the statement was made to let "them" have the creamery -- which makes far more sense than the request made of them. In short, the farmers are "burned-up" about this and one cannot censure them. \* \* \*

Norman Stone, Washington, D. C. I am writing to earnestly request that the tax taken from my wages during the year 1943 be returned to me without further delay. I only worked a relatively few weeks during the year 1943, and my total earnings were less than \$300.00. But almost \$40.00 were taken from this pitifully meagre sum in taxation. I spent most of

the year in a tuberculosis sanatorium and was not released until a few days ago. I need my money. There was a day when rich men were paid six percent interest on overpaid taxes, but now a poor citizen has his wretchedly insignificant income taxed unjustifiably with no recourse in the soulless bureaus and agencies which run our Government. I am both poor and ill of health - and I am going to vote for a change in November. \* \* \*

Lewis S. Vermillion, Wilkesburg, Pennsylvania. I was called into the Internal Revenue Office of this city and told by Cornelius Murphy, and his immediate supervisor, that if I did not have my 1943 income tax paid in full by the first of January, or before, amounting to \$359.00, the office would levy on my wages and earnings of my war job at the Westinghouse Electric Company, East Pittsburgh, Pennsylvania. I asked for time, and to pay it in quarterly payments over a period of a year, which has been refused. I have been informed that this is going to happen to thousands of others in this part of the country. This amount cannot be paid in time, between now and the first of the year, and I want to know whom to write to or contact to stretch this out over a period of a year. You have been deducting too much, with this other tax, considering the cost of living, to make such demands on working men with families. I would like to hear from you or someone who can stop this levying a man's income at its source, and go back to paying it the way it should be paid.

↑  
Phoned Gaster 10/24/44  
Gaster look  
into this please  
IMJ

CABLE TO AMERICAN EMBASSY, RIO DE JANEIRO, BRAZIL

United Lithuanian Relief Fund of America, Inc. is desirous of being of assistance to such Lithuanian refugees in Brazil as may need help. Please advise the Board of the number of such Lithuanians and the amount per month that you believe would be necessary to sustain them.

10:45 a.m.  
October 14, 1944

MS

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

October 14, 1944

9 p.m.

AMEMBASSY

RIO DE JANEIRO

3139

The following is from War Refugee Board.

In view of desire of United Lithuanian Relief Fund of America, Inc. to help such Lithuanian refugees in Brazil as may need assistance please inform Board of the number of such Lithuanians and the monthly amount that you consider needed for their maintenance.

HULL  
(GHW)

WRB:MMV:CMH

BA

EE

CABLE TO AMBASSADOR WINANT, LONDON, FROM WAR REFUGEE BOARD.

Please deliver the following message to Sir Herbert Emerson from Mr. Paul Baerwald of the American Jewish Joint Distribution Committee:

QUOTE WE ARE VERY HAPPY THAT INTERGOVERNMENTAL COMMITTEE AND BRITISH AUTHORITIES AGREE TO MODIFY OUR UNDERSTANDING FULL USE OF YOUR FUNDS BEHALF HUNGARIAN JEWS. WE HAVE IMMEDIATELY AUTHORIZED SALLY MAYER TO TAKE NECESSARY ACTION AND REQUESTED HIM TO KEEP SEPARATE ACCOUNTING THIS OPERATION. SCHWARTZ EXPECTS TO COME LONDON AS SOON AS BRITISH VISA RECEIVED. WILL DISCUSS WITH YOU PROPOSALS FOR LAST QUARTER. WARMEST GREETINGS. UNQUOTE

THIS IS WRB CABLE TO LONDON NO. 14.

9:00 a.m.  
October 14, 1944

RDrury 10/13/hh

CABLE TO AMERICAN DELEGATE, ROME, FROM WAR REFUGEE BOARD.

Please deliver the following message to Arthur Greenleigh,  
Rome, from M. A. Leavitt of the American Jewish Joint Distribution  
Committee:

QUOTE MINISTRY OF PUBLIC HEALTH OF PROVISIONAL FRENCH  
GOVERNMENT HAS APPROVED VISA FOR YOU AND SCHWARTZ TO  
ENTER FRANCE. YOU MAY WISH NOTIFY COMPETENT AUTHORITIES  
OF THIS APPROVAL. WILL KEEP YOU ADVISED OF SCHWARTZ'S  
PLANS. UNQUOTE

9 a.m.  
October 14, 1944

CABLE TO NORWEB, LISBON, FROM WAR REFUGEE BOARD.

Please deliver the following message to Robert Pilpel from  
M. A. Leavitt of the American Jewish Joint Distribution Committee:

QUOTE ADVISE SALLY MAYER WE REMITTED TO HIM \$45,000 FOR SHANGHAI  
REPRESENTING \$10,000 INCREASE FOR MONTH OF SEPTEMBER AND \$35,000  
FOR OCTOBER BUDGET. UNQUOTE

THIS IS WRB CABLE TO LISBON NO. 107.

9:00 a.m.  
October 14, 1944

RDrury 10/13/44

CABLE TO MINISTER JOHNSON FOR OLSEN, STOCKHOLM, SWEDEN

United Lithuanian Relief Fund of America, Inc. is desirous of being of assistance to such Lithuanian refugees in Sweden as may need help. Please advise the Board of the number of such Lithuanians and the amount per month that you believe would be necessary to sustain them.

THIS IS WRB STOCKHOLM CABLE NO. 109.

10:45 a.m.  
October 14, 1944

Minister Johnson for

*Handwritten notes on the right edge of the page, including a large '1' and some illegible scribbles.*

October 14, 1944

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

midnight

AMLEGATION,

STOCKHOLM

2069

The following for Olsen is WRB 109.

United Lithuanian Relief Fund of America, Inc. is  
desirous of being of assistance to such Lithuanian refugees  
in Sweden as may need help. Please advise the Board of the  
number of such Lithuanians and the amount per month that  
you believe would be necessary to sustain them.

HULL

(GEW)

WRB:MMV:OMH  
10/14/44

NOE

EE

**FROM:** American Legation, Stockholm  
**TO:** Secretary of State, Washington  
**DATED:** October 14, 1944  
**NUMBR:** 4181

**SECRET**

**U S URGENT**

We repeat below cable No. 1281 which has been sent to London today.

With reference to Embassy's cable dated October 8, No. 545, to Legation and Department's message No. 8244 to Embassy dated October 7, in connection with food parcels for Jews interned in Germany. According to World Jewish Congress representatives in Sweden, as a rule Germans do not allow IRC control of Jewish concentration camps. However, they have sent a telegram asking aid in whatever control possible, to IRC in Geneva. It is claimed by Jews that parcels sent previously from Switzerland, Portugal and close relatives in Sweden reached their destination satisfactorily. Letters from recipients confirm this.

Swedish YMCA will forward feedstuffs in packages of one to three kilos via parcelpost. Their representatives in Germany will try to help in securing information that parcels are reaching recipients. Germans will not be aware of part Congress takes in plan. Confirmation from addressees by card or letter (which will be made available to Legation for control) will be asked by Swedish YMCA. With possible exception of camp at Bergenbelsen, it is believed recipients will be allowed to write confirmation that parcels have been received, in most cases. The majority of the recipients will consist of individuals which the World Jewish Congress in Switzerland has authorized.

In the event confirmations do not reach Sweden regularly, or if conditions justify, forwarding of parcels can be stopped at once.

According to reports, food situation in Jewish concentration camps, particularly in Bergenbelsen, is desperate.

The above arrangements are satisfactory, Legation is convinced, (and British Legation agrees), and urgent approval is recommended.

DCR:GPW  
 10-17-44

JOHNSON

HM-478  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Stockholm

Dated October 14, 1944

Rec'd. 8:38 p.m.

Secretary of State

Washington

4185, October 14, 9 a.m.

We do not presently have effective channels for transmitting a message of the character suggested in WRB'S 10 (Department's 2041, October 11, midnight) but are making efforts to develop such channels to the end that this statement may be transmitted at the earliest possible moment. (THIS IS OUR WRB 91).

You may wish to consider, in view of the urgency of the matter, the feasibility of making a public statement in the United States along the line of the reference telegram and similar to the recent public statements put out in the United States with respect to other prospective acts of liquidation by the Germans of persons in their concentration camps.

JOHNSON

WJF  
WMB

HM-470  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Stockholm  
Dated October 14, 1944  
Rec'd. 7:59 p.m.

Secretary of State

Washington

4186, October 14, 9 p.m.

THIS IS OUR NO. 92 FOR WRB.

Wallenberg is being instructed by the Swedish  
FOROFF to obtain any available information regarding  
the persons mentioned in last paragraph of WRB cable  
No. 94 and to extend all possible assistance to them  
as requested in WRB cable 101. FOROFF was not sanguine  
that any positive result would follow as the only  
Swedish Government representative in Slovakia is an  
honorary consul and there are no cipher or pouch  
communications with him.

Furthermore, Wallenberg is technically able to  
conduct operations in Hungary. FOROFF assumed he had  
all the funds he could use under present circumstances  
but would check this aspect with him.

EEC

JOHNSON

HM-485  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Stockholm

Dated October 14, 1944

Rec'd. 9:36 p.m.

Secretary of State

Washington

4187, October 14, 10 a.m. (SECTION ONE OF TWO)

Storch has informed us that Kleist (see last paragraph our 854 WRB) during his recent visit to Stockholm made the following statements: (1) It is impossible to buy release of Jews in Germany with money. (2) His real mission here was to negotiate release of the 100,000 Estonians on Osel and to arrange for their entry into Sweden. (3) He was to take up on his return to Berlin general subject of release of Jews. He claims Swedes had put pressure on him to do something for the Jews and he expected to have some measure of success in Berlin as he wished to do the Swedes a favor.

(4) He claimed that in a recent Berlin meeting on the general subject of treatment of Jews following points were discussed: A. All Jews should be treated kindly now and endeavor made to prove to the world that they had never been abused, the idea being that surviving Jews who would be treated kindly would speak up for the Germans after the war. B. Remaining Jews should all be killed. This point was turned down. C. As the Germans cannot expect the Allies to treat them any better than they themselves have treated the Jews or the inhabitants of occupied countries the Germans must work out some plan other than A or B above, hence they are now considering the use of Jews as hostages. He claimed in this connection the Germans have not killed remaining Lithuanian Jews.

JOHNSON

JMS  
WMB

HM-469  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Stockholm  
Dated October 14, 1944  
Rec'd. 7:55 p.m.

Secretary of State

Washington

4187, October 14, 10 p.m. (SECTION TWO)

THIS IS WAR REFUGEE BOARD CABLE NO. 90

as was once intended but have taken them to work on East Prussian fortifications and are reserving them for possible use as hostages.

Five. Kleist is expected back here any day and hopes to have concrete plans to present before a conference consisting of Count Bernardotte, Professor Ehren Preis, Storch and Austrian representative.

Storch feels Kleist wants to convey impression at least he tried to do the Jews a favor so he may gain favor in Allied eyes. Storch wishes Iver Olson in London to get in touch with Mr. Easterman or some other official of the World Jewish Congress there as he feels that organization is not clearly informed of the negotiations taking place here regarding the Jews.

(END OF MESSAGE.)

JOHNSON

WMB

CABLE TO MINISTER HARRISON AT BERN FOR MCCLELLAND

United Lithuanian Relief Fund of America, Inc. is desirous of being of assistance to such Lithuanian refugees in Switzerland as may need help. Please advise the Board of the number of such Lithuanians and the amount per month that you believe would be necessary to sustain them.

THIS IS WRB BERN CABLE NO. 216.

10:45 a.m.  
October 14, 1944

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

October 14, 1944  
10 p.m.

AMLEGATION,

BERN

3512

The cable below for McClelland is WRB 216.

In view of desire of United Lithuanian Relief Fund of  
America, Inc. to help such Lithuanian refugees in Switzer-  
land as may need assistance please inform Board of the  
number of such Lithuanians and the monthly amount that you  
consider needed for their maintenance.

HULL  
(GHW)

WRB:MMV:OMH  
10/14/44

WE

EE

RP-680

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

Ankara

Dated October 14, 1944

Rec'd 2:30 p.m., 16th

Secretary of State

Washington

1976, October 14, midnight.

FOR WAR REFUGEE BOARD ANKARA'S 164

A report dated September 29 just received in Ankara indicates that over 5,000 Jews have been interned in concentration camps at Slovakia under the worst conditions and that 2,000 persons were threatened with deportation. Jewish community representatives in Budapest have been able to postpone action against the internees but assistance of the Vatican, the International Red Cross and our Government is urgently requested to prevent deportations from Slovakia. According to the report no word had been received in Bratislava from either the International Red Cross or the Vatican both of which had been approached for aid in Switzerland.

The foregoing is for your information and consideration in relation to steps which you may already have taken to protect the Jewish people in Slovakia.

STEINHARDT

MRM

NOT TO BE RE-TRANSMITTED

OPTEL No. 334

Information received up to 10 A.M. 14th October 1944.

1. NAVAL

On 11th a Tank Landing Craft capsized and sank off ISLE OF WIGHT and yesterday another was driven ashore by the gales at PORTLAND and considered total loss. A British Destroyer damaged by mine off RIMINI 12th. No casualties. On 6th. A British Submarine sank a submarine chaser S.W. of SABANG.

2. MILITARY

Western Europe French have advanced and captured several villages VOSGES Sector. Slow progress by U.S. troops AACHEN and German counter attacks repulsed. U.K. troops have advanced about 2,000 yards in their attack OVERLOON area. Canadians have made slight progress north of ANTWERP and have reinforced and extended their bridgehead south of SCHELDT.

Italy Heavy fighting but little progress on 8th Army Front. U.K. troops have crossed RIVER PISCIATELLO and made advances west, of from 1 to 2 miles.

Russia Russians have captured RIGA. In Northern TRANSYLVANIA they have taken BISTRITA and have made further progress S.E. of BELGRADE.

3. AIR OPERATIONS

Western Front 13th. A.E.A.F. Bombers dropped total 42 tons Railway Centres AMERSFOORT and UTRECHT. 963 fighters and fighter bombers (5 missing) attacked gun positions, railways, strongpoints and transport in HOLLAND and RHINE area 454 transport aircraft carried supplies to the Continent. 13th/14th. Bomber Command sent 57 Mosquitoes to COLOGNE and 4 to STUTTGART.

Mediterranean. 12th. 160 Mustangs (2 missing) attacked airfields and communications HUNGARY and AUSTRIA. 13 enemy aircraft shot down and 46 destroyed on the ground besides. 38 locomotives destroyed and large number railway carriages damaged. 919 Tactical aircraft (6 missing) successfully attacked many close support targets Italian Battle Area and destroyed an ammunition train of 30 wagons

German Activity Twelve flying bombs plotted.

## WAR REFUGEE BOARD

Executive Office of the President

Washington

RELEASE NO. 15

(The following address by John W. Pehle, Executive Director of the War Refugee Board, before a dinner meeting of the Combined Jewish Appeal, at the Statler Hotel, Boston, is scheduled for delivery at 8 p. m., Eastern War Time, Sunday, October 15, 1944, and is for release at that time.)

Tonight I want to tell you something about the rescue program which the War Refugee Board has been carrying on for the past eight months with the help of the voluntary philanthropic agencies of America, the governments of the neutral countries, the underground of Europe, and men of good will everywhere. I cannot blueprint all the details of that program, but I can give you some examples taken from the files of the War Refugee Board of the work that has gone ahead. And these illustrations bear witness to the practical and ingenious humanitarianism of the American people during the grimmest war in all history.

In Gothenburg, Sweden, 15,000 food parcels from America were recently unloaded -- destined for helpless inmates of internment camps . . . 285,000 more parcels are now on their way.

In a Balkan country a humanitarian volunteer arrives equipped with sufficient status, prestige and funds to aid the victims of enemy persecution. . . His first act is to furnish a shelter for Jewish refugees. . . He is currently using private funds that originated in America to provide food -- especially for children.

Of many couriers who have entered the Baltic countries to rescue refugees, some have been reported missing immediately after their arrival and others have even lost their lives in the effort.

Over the Pyrenees groups of children tortuously made their escape from France, prior to its liberation, to Spain, with the blessing of the Maquis, and with the aid of guides paid by funds from America. . . A few weeks later some are on their way to Palestine.

Along the Black Sea coast of Rumania small ships gather groups of refugees for a hazardous trip to Turkey. . . In Turkey, two Americans persuade local authorities to cut red tape and to permit refugees arriving on foot and in small boats to cross the country on their way from the Balkans to Palestine.

In a neutral country a prominent personage writes a personal letter in longhand for delivery to Horthy, asking that there be a stop to the deportation and extermination of Jews from Hungary. . . As a result of this and other protests, the British and American governments accepted the offer of the Hungarian government to release Jews and agreed to care for those reaching United Nations or neutral territories.

All over Europe listeners to secret radios hear statements of protest and warning against persecution of Jews issued by President Roosevelt, Secretary of State Hull, and two Congressional committees of the United States. . . Pamphlets drop over Hungary warning of retribution for her inhuman conduct.

In Southern Italy an American helps arrange for the escape in fragile ships of the downtrodden from Yugoslavia across the Adriatic to Italy. . . Some of those escaping later appear in African refugee camps and in an American Refugee Shelter.

In a camp at Casablanca several hundred wondering Sephardics at last find a temporary haven. . .

In upper New York State an American soldier visits his parents who, with almost 1,000 others have been brought to Oswego.

In Lisbon a committee meets to facilitate the departure of refugees who have come from France. . . Some arrive in Palestine. . . Some in Canada.

In London high government officials, American and British, join officers of an international organization to expedite the rescue of refugees.

In Poland, as in other occupied countries in Europe, underground groups protect exposed refugees by hiding them, by disguising them, by moving them from place to place.

These items constitute part of the story of the current war effort. America has been using every imaginable device to contest the enemy's barbaric determination to wipe out complete sections of the world's non-combatant population.

This is not idle rhetoric. There can be no doubt that Hitler and his partners in barbarism have a deliberate plan to exterminate entire segments of the population of Europe, including particularly the Jews.

This effort, as we know from the evidence at Lublin and Kharkov and from much unpublished material, has not been confined to the Jews. In obvious preparation for another war, the Germans have killed large numbers of non-Jewish intellectual and cultural leaders of Poland. Huge segments of the Russian civilian population have been slaughtered. Entire groups in all the other occupied countries have fallen under the crushing heel of Hitler and his followers.

- 3 -

And there have been tens of thousands of individuals who have been selected for death simply because they kept on being themselves -- which meant being an anti-Nazi preacher, a true democrat, a courageous patriot, an honest journalist, or a humane citizen.

We have been shocked to the extreme by this war of extermination. The barbarity of the enemy has aroused the conscience of America. It has mobilized our sympathies, and it has inspired the Government of the United States to do all that can be done to rescue the intended victims of enemy slaughter.

Specifically, this revulsion in America has expressed itself in the creation of the War Refugee Board by President Roosevelt. It has been my privilege to serve as Executive Director of this Board, the members of which are Secretary Hull, Secretary Morgenthau, and Secretary Stimson.

In creating the War Refugee Board the President declared: "It is the policy of this Government to take all measures within its power to rescue the victims of enemy oppression who are in imminent danger of death and otherwise to afford such victims all possible relief and assistance consistent with the successful prosecution of the war."

The creation of the Board and the statement of this goal are landmarks in the humanitarian history of America. The Government of the United States issued a solemn statement of policy in behalf of refugees, and it asked three members of the Cabinet to take all feasible steps to implement that policy.

As a result of my service with the Board, I have come to appreciate more than ever some typically American qualities in their true magnificence. I have learned that Americans are capable of heartfelt indignation when barbarities are committed during the course of a war. And I have learned that our American way permits indignation to be translated into action -- in time of war no less than in times of peace.

Without the widespread and insistent public interest in the perilous condition of European refugees, it would have been most difficult to establish the Board and to carry on its operations. Many of those who have been saved from Europe's deathtraps owe their lives to American sympathy and American effort.

There is evidence that the oppressed and endangered peoples of Europe are keenly aware of America's interest and America's activities. Ira A. Hirschmann, War Refugee Board representative in Ankara, has told us of a recent incident that illustrates this awareness.

Following the recent break in relations between Turkey and Germany, a number of individual Germans, Austrians and Czechs, known to be anti-Nazi, found themselves under a threat of expulsion from Turkey because they were technically Germans in the eyes of the Turkish authorities. Some approached the War Refugee Board representative for aid. They

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received it and I am happy to say that the Turkish Government has dealt sympathetically with these cases. One of them was a woman who had lived in Turkey for 12 years and who was accompanied by a one-year old child. When asked why she had come to the United States officials, she replied: "Where else should I go? It seemed only natural to come here. Who else really cares?"

Another typically American institution whose importance has emerged clearer than ever is the voluntary philanthropic agency. A quick and effective program of the War Refugee Board was made possible by generous contributions of suggestions, personnel, and funds by private agencies that had already existed in the field of international rescue and relief work.

I want to pay my unqualified respects to these agencies for their generous support. As matters have developed, the War Refugee Board has served as a central enabling and expediting body for all agencies — Jewish and non-Jewish, new and old, reform and orthodox, soft-spoken and outspoken.

To catalog these agencies would be impossible. But I want to mention a few. The constituent agencies of the United Jewish Appeal — the United Palestine Appeal, the National Refugee Service, and particularly the American Jewish Joint Distribution Committee — have contributed most of the funds that have carried on rescue and relief programs. Funds, ideas and unstinted cooperation have also come in varying amounts from other agencies, such as the World Jewish Congress and HIAS.

It is the purpose of the War Refugee Board to strengthen agencies like these by giving them the support of a clear-cut statement of sympathetic policy by this government and by using the diplomatic, licensing and communication facilities of the government to help them achieve their welfare ends.

I also want to pay tribute to many non-Jewish groups and individuals who have shown a true Christian spirit in their quick and friendly reaction in support of the helpless of Europe. This help has come from both Protestant and Catholic organizations. The American Friends Service Committee and the Unitarian Service Committee have made important contributions, as have other Protestant groups.

The record of the Catholic Church in this regard has been inspiring. All over Europe, Catholic priests have furnished hiding places and protection to the persecuted. His Holiness, Pope Pius XII, has interceded on many occasions in behalf of refugees in danger.

In this country, too, we have received help from Catholic leaders. At a most critical point in the Hungarian situation, Archbishop Spellman wrote a truly impressive supplication to the Catholics of that country to protect and help the Jews. This moving statement was broadcast in Hungarian, and reprints of it were dropped over Hungary.

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Of great assistance, too, was a statement of protest against Hungarian atrocities prepared by the late Alfred E. Smith in conjunction with over 100 other non-Jewish leaders.

The net result of all the efforts I have mentioned has been a significant contribution in the rescue of helpless human beings. It is difficult to measure the results of the Board's efforts in figures. Actually thousands of persons were rescued from enemy territory. There is reason to believe that several hundreds of thousands escaped death in the occupied countries as the result of the psychological and diplomatic efforts of the Board.

Thus, in the American tradition, as the result of a partnership between private groups and a government agency, there has been affirmed -- in word and in action -- the principle of human fellowship.

In the matter of philanthropic effort, there is danger in confining ourselves to the recent past or to the present. The instruments of humanitarianism must be plastic. They must be fashioned for use in the challenging new days that lie ahead -- days of liberation, days of peace, days of reconstruction.

We know from recent experience in Italy, in France, and in Belgium that there is a prodigious task ahead in the field of post-liberation relief and rehabilitation. We know, also, that UNRRA and the Intergovernmental Committee on Refugees have staked out certain areas of activity, and are hard at work. But we also know that important functions are even today being performed by voluntary agencies. And we have reason to believe that private groups will continue to play an important role. It is most important that voluntary agencies be supported fully during the period that lies before us.

This war has brought untold suffering and sorrow to the people of the world. It has been particularly severe on the Jewish population, which has been reduced nearly one-third by the atrocities of Hitler. Jews and Christians alike have shed dry, bitter tears at the unspeakable atrocities committed on the body and mind of man. The time for tears is almost over. The time for constructive action is near. Determined men and women must soon pick up the pieces of our civilization, reassemble them, and move forward into a world of peace, where human dignity and the brotherhood of man may once more prevail.

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Treasury Department  
Division of Monetary Research

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Date October 16, 1944

To: Secretary Morgenthau

From: Mr. White

Subject: Reports of the American Military  
Mission to Yen-an.

The actual texts of reports of the American Military Mission to Yen-an are not available to us. However, the War and State Departments allowed Mr. Adler to read these reports and make copious notes on them. The attached memoranda are based on these notes.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Oct. 12, 1944

TO Mr. White

FROM Mr. Adler

Subject: Highlights of American Military Mission reports from Yen-an.

1. The general impression made on the Mission was extremely favorable, particularly by contrast with Chungking. The typical comment of American Army men was "a different country, a different people" and that Yen-an was "the most modern place in China". There was no show and formality, no subservience to leaders, no bodyguard, no gendarmes and no claptrap. While living is simple, there are no beggars and no signs of desperate poverty. Morale is very high, and the Mission reacted most favorably to the fact that the Communists never explicitly asked for any kind of assistance-- a marked contrast with usual Chinese official behavior.

2. The following are the conclusions of Chungking G-2 on the first reports from Yen-an:

The head of Army Intelligence in Chungking in transmitting the reports of Colonel Barrett's mission states that the following conclusions are justified:

(a) For 7 years the Communists have engaged a large proportion of the Japanese forces in China.

(b) For 7 years the Communists have successfully defended large areas in North China against determined and well organized large scale Japanese attacks.

(c) Since 1941 they have supplied themselves entirely by arms and munitions either captured from the Japanese or puppet troops or produced by their own unaided efforts.

(d) They have effected improvements in the conditions of the people in large parts of the areas under their control. The population of the areas under their control is not less than 50 million. (The New York Herald Tribune correspondent gave the figure of 86 million.)

3. The Communists have successfully resisted the Japanese for 7 years.

(a) This resistance, conducted with no active support from Chungking for a period of from 4 to 6 years and of active hostility

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from Chungking in the form of a tight economic blockade and intermittent military attacks and sniping for at least 4 years, necessarily takes the form primarily of guerilla activities although there have also been many larger scale operations, particularly against puppet troops. Such resistance is based on an intimate alliance if not fusion on the political, economic, military and social level between the Communist troops and the people.

(b) The Communists have at least 240,000 first line troops and 130,000 second line troops who are comparatively well-trained, plus almost 2 million militia who have undergone some form of guerrilla training, but they are very short on equipment and munitions. There is barely one rifle per two men even for the first and second line troops, and men with rifles rarely have more than 30 cartridges. Most of the weapons in the possession of the Communists were captured from the Japanese or puppets.

(c) The Communist armies' strong points are their intimate ties with the people, their high mobility and the centralization of their command. Their weak points are their lack of equipment, particularly munitions, communications equipment and medicines, lack of specialized troops, and lack of uniformity. The center of activity of the largest army is in North China. The New 4th Army operates in Central China and there are a few thousand Communist guerrillas as far South as Kwangtung and Hainan.

(d) The extent of Communist military activity is best indicated by the fact that 21 Japanese divisions are engaged against them and by the following figures for the last year on which data are available. The 8th Group and New 4th Armies (i.e. the 470,000 first and second line troops) had 28,000 engagements in which 200,000 Japanese and puppets were killed [of which about a third were Japs - our Mission believes the number of Japs killed is somewhat exaggerated] and 73,000 taken prisoner, and in which 85,000 rifles and 1,000 machine guns were captured. Communist losses were 19,000 dead and 27,000 wounded. The technical operations of the Communists consist of minor engagements, the main purpose of which is also to prevent small Japanese forces from looting food, larger engagements with puppet troops and attacks on isolated forts and garrisons held by the Japanese, defensive operations on a still broader scale chiefly to protect key centers of food supply, and offensive operations for the purpose of expanding guerrilla areas into firmly held base areas.

4. The Communists are anxious to cooperate with us militarily in whatever way they can. They are not only ready to supply us with intelligence on enemy occupied areas and to extend facilities for air rescue work, for weather reporting, and interrogation of Japanese prisoners, but also to coordinate their military effort

with an Allied offensive by cutting the Japanese North-South Railroads and by undertaking to expel the Japanese from Manchuria if sufficiently strong. They would prefer to take orders from an Allied High Command in China rather than from the Kuomintang, which they say is bankrupt and not interested in fighting the Japanese. They were asked for a statement of their military needs but were informed that no commitments could be made by us; at the same time they went out of their way to avoid asking us specifically for any assistance. The Communists appear to believe that large land operations in North China and Manchuria will be necessary for the final defeat of Japan.

While there is nothing specific on this point in the reports of our Mission or the comments of Headquarters in Chungking, it would appear that our Mission is well disposed to the idea of cooperating with the Communists even to the extent of flying in a minimum of essential supplies such as munitions, bazookas, and medicine. (I understand that our Army in China has asked the Generalissimo for his agreement to our sending such supplies to Yen-an but that his agreement was not forthcoming.)

5. The Communist political program is moderate in the sphere both of domestic and foreign policy. According to the political expert of the American Military Mission the Chinese Communist party "has a healthy moderate maturity" and "it is strong and successful and has such drive behind it and has tied itself so closely to the people that it will not easily be killed". "Their interests do not run counter to those of the United States in the foreseeable future and merit a sympathetic and friendly attitude on our part."

Their domestic goal is what they call New Democracy, which includes defeating the Japanese, the institution and extension of internal democracy, and raising the standard of living by solving the agrarian problem and encouraging the growth of progressive capitalism in China. Mao Tse-tung indicated the Communists supported proper treatment of capital both Chinese and foreign after the war and as much free trade as possible. Concessions have been made to landlords in Communist areas; one of the objectives of Communist policy in this sphere was to reduce profits from the investments of capital in land in such a way as to encourage landlords to invest surplus capital in industrial projects.

With respect to racial minorities within China the Communists favor giving them a considerable degree of autonomy within a United States of China. They wish to apply such a policy to the Mongols of Outer and Inner Mongolia, the Tibetans and Chinese Mohamedans of the Northwest.

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In the sphere of foreign policy, the Communists favor China's adherence to the foreign policies already agreed upon by the United Nations in such documents as the Atlantic Charter and the Moscow and Teheran Declarations. They believe it is unrealistic to talk of the ultimate fate of Hong Kong as long as the Japanese are in China. With respect to the peace, they say that Japanese internal affairs must be solved by the Japanese people, although militarism and feudalism should be wiped out in the period immediately following on Japanese defeat. Democracy, they add, cannot be instituted in Japan as long as feudalism survives. They feel that the colonial countries of the Far East should have self rule. They deny having received any material support from the Russians. There would appear to be some division of opinion among them as to whether the Russians would come into the Far Eastern War or not.

6. Kuomintang--Communist relations. The Communists are pessimistic about the seriousness of Kuomintang intentions to bring about a settlement of outstanding Kuomintang--Communist issues. They claim that the Kuomintang is stalling and is putting on a show of negotiating for the benefit of public opinion both at home and abroad. The Kuomintang objective is to liquidate the Communists in a summary fashion immediately after the end of the war. [In this connection it is interesting to note that Mao Tse-tung, the leader of the Chinese Communist Party, raised the possibility of the opening of an American consulate in Yen-an, stating that the danger of the Kuomintang attack on the Communists would be greatest at the end of the war and implying that the presence of an American Government official in Yen-an would prevent such a clash. Mr. Gauss, our Ambassador in Chungking, feels that the National Government would never agree to our opening a consulate in Yen-an.] One Communist leader went so far as to say that if a turn for the better did not occur before the end of the year the situation might become hopeless. They recognize that American press criticism has played a constructive role in preventing the situation from becoming worse. Chou En-lai asserted that American Government officials' conversations with high Chinese officials had been and could be even more effective in this respect. He mentioned Wallace's visit and alluded to Kung's presence in America, with reference to which he specifically stated that Kung was more pliable and amenable than T.V. Soong. Communist leaders do not expect Chungking to collapse before the end of the war. The Communists attitude toward the Kuomintang appears on the whole to be fairly conciliatory. Mao said that if attacked they would retreat, but when the point to which they could retreat no farther was reached they would fight, adding that if civil war broke out it would be protracted.

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While the Communists attitude toward the Kuomintang is conciliatory, it is also firm. They realize that they are growing stronger and that the Kuomintang is growing weaker. At the same time they certainly do not want to provoke hostilities and would like to avert them if at all possible on terms which would not make them prisoners of the Generalissimo.

It is interesting to note that the Communist military leaders were sharper and more bitter in their criticisms of the Kuomintang than were the Communists civilian leaders. However, it is the latter who have the last word. While the former were very cynical in their comments on the Generalissimo and his immediate entourage (Chou En-lai referred to Shang Chen, the head of the Chinese Military Mission to the United States, as "empty headed"; he also poured ridicule on the Kuomintang plans to de-mobilize, asking when it had ever mobilized.) The latter go out of their way to recognize the National Government and the Generalissimo as the head of the National Government. Mao stated that what they wanted was recognition of the Border Area governments as lower organs of the National Government.

7. The economic situation in Communist China is much better than in Kuomintang China. An effective program for increasing production is being enforced and economic self-sufficiency has been attained with a consequent raising of living standards. Labor, including soldiers, students, and members of the Government and Party bureaucracy, is efficiently mobilized for agricultural and industrial production. The cultivation of cotton and the production of certain essentials such as soap and matches have been instituted for the first time in many areas.

The number of cooperatives, including productive and distributive cooperatives, has increased phenomenally. Private productive enterprise is encouraged by liberal Government credits. Owing to their measures for increasing production and their effective controls, inflation has not had serious effects on either the functioning of economy or on the living standards of the people. In fact, living standards have risen in areas which were previously among some of the poorest and most backward in China. Diet and health have improved, with wheat replacing millet as the staple.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Oct. 12, 1944

TO Mr. White

FROM Mr. Adler

Subject: Summary of Reports of American Military Mission to Yen-an.

(Colonel Barrett is the author of the military reports and Mr. Service of the political reports. I know them both well. Colonel Barrett has spent many years in China and was Military Attache until 1942. He is a sound and level-headed man. Mr. Service, who was born in China, has the well-earned reputation of being the best informed American on internal Chinese politics; he is a member of the Foreign Service and is now attached as a political adviser to General Stilwell's staff. Both speak and read Chinese with fluency and facility.)

A. MILITARY REPORTSI. Conclusions

The head of G-2 in Chungking in transmitting the reports of Colonel Barrett's Mission states that the following conclusions are justified:

(a) For 7 years the Communists have engaged a large proportion of the Japanese forces in China.

(b) For 7 years the Communists have successfully defended large areas in North China against determined and well organized large-scale Japanese attacks.

(c) Since 1941 they have supplied themselves entirely by arms and munitions either captured from the Japanese or puppet troops or produced by their own unaided efforts.

(d) They have effected improvements in the conditions of the people in large parts of the areas under their control.

II. The first military report was enthusiastic over the cooperation and sincere friendliness extended to the American Military Mission by the Yen-an military and civilian officials. The Communists had been informed by General Ho Ying-chin that the purpose of the American Military Mission was to obtain intelligence on enemy occupied areas and to make arrangements for air rescue work and were surprised to find that the objectives of

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the Mission were much broader and included making arrangements for weather reporting, obtaining reports on Communist military activities against the Japanese, the possibility of utilizing air bases in Communist areas, interrogation of Japanese prisoners, etc. Colonel Barrett added that he also wished to obtain information on Communist military needs, but made it clearly understood that he was in no position to make any commitment as to the possibility of meeting those needs. The Military Mission was entertained by the Yen-an Government at an official dinner after which there was music and dancing. Members of the Mission were asked to sing American songs which were greeted with tumultuous applause.

Mao Tse-tung asked Mr. Service about the possibility of opening an American Consulate at Yen-an, pointing out that the danger of a Kuomintang attack on the Communists would be greatest when the war ended, and implied that the presence of an American Consul in Yen-an would prevent a clash. Ambassador Gauss feels that the National Government would never permit a Consulate to be opened at Yen-an and would not even agree to the temporary detailing of an Embassy officer at Yen-an. However, Mr. Service expects to stay there for several months and will be replaced by another Embassy officer.

The Mission was impressed by the initiative and planning ability of the Communists, who are apparently doing everything to cooperate with it. They encountered no suspicion or procrastination, such as is too often the case in Chungking.

III. Report of Yeh Chien-ying, Chief of Staff of the 18th Route Army. /This report contains information disclosed to the American Military Mission but not to the Kuomintang./

Most of the weapons in the possession of the Communists were captured from the Japanese or from puppets. Much of the captured material cannot be used. The Communists have no regular arsenals and are short on munitions. There are 4 Base Areas in North China, in addition to the Yen-an Border Area, in which the 18th Route or 8th Group Army operates: the Shansi-Hopei-Chahar, the Shantung, the Shansi-Hopei-Honan and the Hopei-Shantung-Honan areas. In addition, the New 4th Army which was officially liquidated by the Central Government in 1941 but which has actually survived, operates from North Kiangsu right through central China as far South as Kiangsi. There are also small numbers of guerrillas in Kwangtung and Hainan Island. The 8th Group and New 4th Armies

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consist of field armies and local forces.

	<u>8th Group</u>		<u>New 4th</u>		<u>Total</u>	
	Men	Rifles	Men	Rifles	Men	Rifles
Field Armies	220,000	136,000	121,000	77,000	341,000	211,000
Local Forces	<u>100,000</u>	<u>50,000</u>	<u>31,000</u>	<u>16,000</u>	<u>131,000</u>	<u>66,000</u>
Total	320,000	184,000	152,000	93,000	472,000	277,000

It will be noted that there is barely one rifle per two men. Each man with a rifle is supposed to have 50 cartridges but often has only 30. Men are instructed not to shoot at a range of more than 200 yards except if they are particularly good shots, when they are allowed a range of up to 400 yards.

General Yeh pointed out that the main weaknesses of the Communists armies were that they had no special troops, that they were short even on light munitions and that the training of the officers needed improvement, lack of machine guns and light artillery, and lack of uniformity. On the other hand he claimed that its great strength was its high mobility and the high centralization of the command. Since 1938 when the National Government gave them 120 light machine guns and 6 anti-tank guns they had received nothing from Chungking. Some small arms were made by hand. He went out of his way to emphasize that he was not asking the American Military Mission for anything.

#### IV. Further Military reports from Yen-an

(a) It is the opinion of the American Military Mission that the greatest need of the Chinese Communist armies is munitions, portable weapons such as the bazooka, for example, communications equipment, and medicines. Such materials would have to be flown in by air, and would have to consist solely of essential supplies. The Communists claim that they could win the whole of Shansi with a little additional equipment and air support. While our Mission believes that this claim is over-optimistic, it agrees that the Communist could recapture substantial and significant areas under such circumstances.

(b) In addition to the members of the 8th Group and New 4th Armies, the Communists have 1,850,000 militia---i.e. presumably guerrillas. Morale is high. The Japanese are deeply hated owing to their savage conduct, and discipline is well maintained. Desertion to the enemy is rare and puppet support extremely good. The health of the troops was not particularly good.

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(c) The tactical operations of the Communists can be classified as follows:

(i) Minor engagements in which the purpose is often to prevent small Japanese forces from looting the food supplies of the peasantry.

(ii) Larger engagements with puppet troops and attacks on isolated forts and garrisons held by the Japanese.

(iii) Defensive operations on a still larger scale in which again the protection of key centers of food supplies is an important objective.

(iv) Offensive operations with the purpose of expanding guerrilla areas into base areas, chiefly against puppets.

(a) The Communists are engaging 21 Japanese divisions. The 18th Group Army in one year had 23 thousand engagements in which 65 thousand Japanese and 80 thousand puppets were killed, 300 Japanese and 59 thousand puppet prisoners were taken, and weapons captured totalled 51 thousand rifles and 626 machine guns. Their losses were 11 thousand killed and 18 thousand wounded. In the same year the New 4th Army had over 5 thousand engagements in which 53 thousand Japanese and puppets were killed and 14 thousand taken prisoner, and in which 34 thousand rifles and 376 machine guns were captured. Their losses were 8 thousand dead and 9 thousand wounded. The high proportion of Communist Army dead to wounded is due to the fact that it is very difficult to rescue men or to cure them if rescued. It is felt by our Military Mission that the above figures are somewhat exaggerated with respect to Japanese casualties.

V. Random points from the military reports.

(a) The Japanese have used gas against the Communists who suffered quite heavy casualties at one stage owing to the lack of anti-gas equipment.

(b) Even machine gun companies often do not have more than 4 light and 2 heavy machine guns.

(c) Central government forces, i.e. guerrillas, behind the Japanese lines total 20 to 30 thousand and play a very small part in fighting the Japanese. In fact, their main role appears to be to keep the Communists out and to wait until the end of the war and be in a position to occupy the big cities around which they are congregating before the Communists occupy them.

(d) The Communists claim that they have documentary proof of the fact that Central Government agents often give the Japanese information with respect to location, etc. of the Communist troops.

## B. POLITICAL REPORTS

### I. First report after six days in Yen-an.

People going to Yen-an have heard such favorable reports from foreigners who have passed through or foreign correspondents that they are very much on guard against being swept off their feet or being taken in. Nevertheless, discounting the above, the reaction of all members of the American Military Mission was extremely favorable. This reaction was confirmed by the foreign correspondents then visiting Yen-an.

The typical comment of American Army men was "a different country, a different people". There was no show and formality, no subservience to leaders, no bodyguards, no gendarmes and no claptrap, all of which are all too prevalent in Chungking. There were no beggars and no signs of desperate poverty. Living is simple and foreigners are entertained unostentatiously. The women are self-assured and unselfconscious, presumably as a result of the improvement in their social status. The general morale was extremely high. Almost everybody takes an interest in politics, even coolies reading the newspapers.

The atmosphere in Yen-an is that of a small town sectarian college or of a religious summer conference. Another comment by Army men was that it was "the most modern place in China". Mr. Service's conclusion was that the Chinese Communist Party has a healthy moderate maturity and that "it is strong and successful and has such drive behind it and has tied itself so closely with the people that it will not easily be killed".

II. Mr. Service's conversation with Chou En-lai (Chou is the number two man in the Chinese Communist Party. He is well known in Chungking foreign circles, where he was the Communist representative until the summer of 1943. It is generally believed that he would be Minister of Foreign Affairs in any Government in which the Communists are strongly represented.)

According to Chou the Kuomintang will not make reasonable concessions to the Communists. A compromise is most improbable, and the Kuomintang has entered the talks with the Communists for propaganda purposes and in order to create an impression on

foreigners, particularly Americans. The Generalissimo and the Kuomintang no longer have concrete policies, are drifting and are awaiting favorable developments. The Kuomintang hopes at the end of the war to liquidate the Communists in summary fashion. The Communists neither welcome nor fear Kuomintang plans for attacking them. In the summer of 1943, the Kuomintang was hesitating between two alternatives, the first being to attack and the second to delay the attack until a more favorable opportunity. They were all set for attack when the Communists found out the Kuomintang plans, and the Kuomintang accordingly switched to the second alternative.

There is a steady decline in Kuomintang China, but there will be no sudden collapse. The Japanese do not plan to capture Chungking because Kuomintang China is dying a slow death, and if Chungking were attacked the Kuomintang would be driven toward unity with the Communists.

The Generalissimo is surrounded by second-raters such as the "empty headed" Shang Chen, the head of the Chinese military mission to the United States. These people dare not tell him the truth and are only interested in maintaining their own position. Chou poured scorn on the Kuomintang plans to demobilize, asking when, if ever, they had mobilized. He also ridiculed Kung's plea to have cotton cloth flown into China saying that cargo space should be used only for bombs, munitions, gasoline, etc. and that the production of cotton had fallen off in China purely as a result of Kuomintang inept food and price control policy.

He admitted that American interest in Chinese affairs had been extremely helpful. Outspoken press criticism had been of some use, but frank talks by high American officials with high Chinese officials were even more important. He cited Wallace's and Nelson's and Hurley's trips to China and added that talks on the right lines with Kung now that he is in the United States would also be most helpful. In this respect he thought that Kung was more amenable and pliable than T.V. Soong. Chou thought there was a tendency to under-estimate the importance of the Chinese land theater as a result of the remarkable advances of the American Navy in the Central Pacific. He said it would still be necessary to rout Japanese troops in North China and Manchuria. He seemed to feel that the Soviet Union would come into the Far Eastern war but would not commit himself.

### III. Kuomintang-Communist Relations.

The Communist military leaders were much more outspoken and more bitter in their criticisms of the Kuomintang than were the political civilian leaders who, of course, have the last word.

It is understood that some of the military leaders had been rebuked for the sharp way in which they had expressed their criticisms to Americans. The political civilian leaders are obviously adopting an attitude of self-limitation with respect to the Kuomintang.

There are two possible explanations of the moderate program adopted by the Chinese Communists, not only in their relations with the Kuomintang but also in their political, social, and economic program.

(a) Theoretically the Chinese Communists are Marxists and believe that China is not yet ready for socialism, that she has to go through a stage of capitalist development before socialism will even be theoretically attainable. They also believe that socialism can be achieved in China by peaceful means as a result of a long and orderly democratic process.

(b) This practical explanation runs in terms of expediency and might even be called Machiavellian. According to this explanation the Communists know that they are growing stronger while the Kuomintang is growing weaker, and that as this process continues they have everything to gain and nothing to lose by a policy of conciliation and moderation, as things are moving in their direction anyhow. Moreover, the policy of moderation wins them foreign sympathy. It is thus the easiest and most convenient way of obtaining power. While according to the theoretical explanation they do not desire power for themselves alone for a long time to come, according to the practical explanation they do and the policy of moderation is the best means of obtaining it.

Mr. Service definitely favors the theoretical explanation, but Mr. Drumright of the American Embassy in Chungking favors the second explanation. It should be noted that Mr. Drumright was formerly strongly pro-Kuomintang. While his predilection for the Kuomintang has weakened somewhat, his antipathy to the Communists has not. This would appear to be the reason for the difference of opinion within American diplomatic circles in China. Mr. Service's conclusion with respect to the Chinese Communists is "their interests do not run counter to those of the United States in the foreseeable future and merit a sympathetic and friendly attitude on our part".

IV. Economic Conditions in Communist China. (This report, while perfunctory, does bring out the most striking features of the economic situation in Communist China.)

There has been a definite economic improvement in the last two years due in the first place to the Communist production

campaign and to a succession of excellent crops. In the Yen-an Border Area there has been an improvement in diet, wheat having been substituted for millet and cotton is being grown for the first time. Banditry has been eliminated.

There has been a systematic campaign to mobilize every available hand for production and to eliminate loafing. Members of the Army must work either on the fields or in producing cloth or both. Students have to work two hours a day in addition to their studies. Government and Communist party officials also work on the cultivation of crops and vegetables and manufacturing cloth. The system of labor heroes has been introduced to stimulate production. The blacksmiths in Yen-an work day and night. Private productive enterprise is encouraged with liberal credits from the government and premiums are given to merchants engaged in the risky business of moving goods through the blockade. The number of C.I.C. units has increased from 30 to 343 in three years. (The number of C.I.C. units has fallen steadily during the same period in Kuomintang China.) The total number of Co-ops is 800 and include both producer and distributor co-ops.

Health has improved and there has been a reduction in mortality particularly from typhus epidemics. Taxes in kind are down to 12% and lower than elsewhere in China. As a result of original research in the locality, matches and soap are being produced for the first time from indigenous materials and are quite satisfactory and adequate in quality, which is unfortunately not the case in Kuomintang China. Paper is also being produced from a local grass.

The official exchange rate was recently reduced from Border Area \$10 to Border Area \$8 to CN\$1. The black market rate for Border Area dollars is actually higher, being \$6 to 1 but Mao Tse-tung explained to Mr. Service they did not want to lower the official rate too rapidly, as many peasants holding CN\$ would suffer. The inflation does not seem to have had an important effect on the lives of the ordinary people. Economic conditions in general are booming, the main difficulty being lack of technical personnel.

V. Interviews - off the record - between foreign journalists and prominent Communist leaders.

(a) Mao Tse-tung.

The Chinese Communist goal at present is not socialism but New Democracy in accordance with the Three Peoples' Principles. They wish to defeat Japan, to institute democracy and to solve the agrarian policy. Capitalism of a progressive character

- 9 -

can develop in China. While they are controlling rents they have made rent concessions to the landlords; their objective in this sphere was not only to protect the tenant but also to reduce the profits from investment of capital in land in such a way as to encourage landlords to invest surplus capital in industrial projects. They believe in the proper treatment of capital both Chinese and foreign after the war and as much free trade as possible. There will be three forms of industrialization in China - State, large scale private, and handicraft. They hope that their governments will become lower government organs of the National Government, but they claim equality of party status with the Kuomintang. Village governments should be elected by the people and higher governments by direct or indirect election.

Their foreign policy was in line with the Atlantic Charter and the Moscow and Teheran Declarations. The Comintern had no place in the Far East. They had received no material support from Russia. If strong enough, they will undertake to expel the Japanese from Manchuria. After the war there should be a demobilization of the Kuomintang and Communist armies in the proportion of 6 Kuomintang soldiers to 1 Communist soldier.

Outer Mongolia is a part of China but should be recognized as a national entity, and there should be a Mongolian Federation within a United States of China and similarly with the Tibetans and the Chinese Moslems of the Northwest who constitute distinct national groups.

Japanese internal affairs must be solved by the Japanese people though militarism and feudalism should be wiped out. It is unrealistic to talk of the institution of democracy in Japan as long as feudalism survives. Colonial countries in the Far East should have self-rule.

There is no likelihood of a breakdown of the National Government before the war ends. The Communists will retreat if attacked by the Kuomintang but when the point is reached when they can retreat no further they will fight. The Generalissimo does not want Allied Mediation between the Communist and Kuomintang or an Allied High Command for China. Civil war would be protracted. What China needs is internal peace.

(b) Chu Teh (the leader of the 8th Group Army)

The Chinese Communists are willing to cooperate with the United States and would coordinate their military effort with an Allied offensive by cutting the Japanese North-South railroads.

- 10 -

They had already rescued eight American airmen who had made forced landings. If permitted they could penetrate Kiangsi, Fukien, Hunan, Chekiang, and Kwangsi. They need ammunition as well as light arms, radio materials, medicines and technical personnel. The Kuomintang is not much interested in fighting the Japanese. Two Kuomintang generals had gone over to the Japanese under orders from Chungking for the purpose of fighting the Communists and sent their families to Chungking as guarantee of good behavior. The Kuomintang had hundreds of thousands of spies who in the occupied areas often cooperated with the Japanese. The Communists would accept an Allied Command in China, as the Kuomintang is bankrupt and is pursuing the inconsistent dual policy of fighting the Japanese and the Communists at the same time. While he was not specific, Chu did not believe the Russians would enter the war in the Far East as they were exhausted from the war in Europe.

(c) Lin Piao

During the last two or three years the quality of the Japanese troops in North China has perceptibly deteriorated.

DCG-1681

Chungking

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

Dated October 15, 1944

119

Rec'd 2:10 p.m.

Secretary of State,

Washington.

1681, October 15, 2 p.m. (SECTION ONE)

FOR TREASURY FROM FRIEDMAN.

One. Some discussion of gold sale program took place at PFC meeting but largely confined to asking for details of program. Interest shown in existence of black market and in difference between black market and official prices and questions asked as to why these conditions allowed to continue. Points made that ordinary merchants found difficulty in obtaining gold in market and that sale in form of large bars made it impossible for ordinary individuals to purchase at official price. No resolutions passed or introduced on this matter. Considerable discussion did take place on desirability of government commandeering foreign exchange

RESOURCES

-2-#1681, October 15, 2 p.m. from Chungking resources of private citizens and using them to help finance program of improving condition of soldiers and this still being discussed by standing committee of PPC. Suggestion made in PPC that dollars acquired in this manner could be converted into gold and sold. (Reurtel 1316, October 10).

Two. TAKUNG PAO on October 1 carried article by Prof. Wuchi-Yuan of South-West Associated Universities, Kunming adversely critical of gold sale policy. Wuchi-Yuan does not oppose sale of gold but feels should not be sold to "rich class at low prices." Sale gold price should be CN dollars 70,000 per ounce. If not sold at this price should be conserved for post war use. In off. record conversation Hu-lin, manager TAKUNG PAO told me that paper was in general agreement with United States position. COMMERCIAL DAILY NEWS on October 6 carried editorial opposing sudden increase to dollars 70,000 per ounce but favoring gradual increase: seriously questioned desirability of gold sale policy, said justifiable only as last resort because

-3-#1681, October 15, 2 p.m. from Chungking  
because there will be more important uses  
after the war. Attempting to obtain more  
on press criticism and PPC meeting on gold  
sale policy.

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Three. Widespread opinion that official  
gold price is too low: Kwok opposed to raising  
gold prices unless he has on hand stocks adequate  
to meet demand for week following change:  
expects increase in price would further stimulate  
demand.

GAUSS

JIS

DEPARTMENT  
OF  
STATE

INCOMING  
TELEGRAM

DIVISION OF  
COMMUNICATIONS  
AND RECORDS

Chungking

LSL-711

This telegram must be paraphrased before being communicated to anyone other than a Government Agency. (SECRET-0)

Dated October 15, 1944

122

Rec'd 4:20 p.m., 16th

CONFIDENTIAL

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

Secretary of State,  
Washington.

DEPARTMENT OF STATE  
DIVISION OF

OCT 18 1944

1681, October 15, 2 p.m. (SECRET-0)

Four. Regarding One. 'B. of your telegram word "forward" garbled. There is no difference between forward price and spot price. Central Bank requires full payment in advance and guarantee delivery on arrival without specifying time. This practice (A) guarantees speculators and hoards who are chief purchasers that will get gold since there is constant fear in market that Government will cease gold sale program and (B) protects purchasers against rise in price.

Five. There is considerable spread between official and black market prices. Black market rises whenever Central Bank sells forward because of shortage of stocks on hand. However, as Central Bank has repeatedly met its commitments when gold shipments have arrived, during each successive period of black market sales the price has tended not to rise as much from level which prevails during period of spot sales, e.g. during first half of September black market

--2- #1681, October 15, 2 p.m. (SECTION TWO) from Chungking.

market price reached high of \$28,500 peroz; in second half of September \$25,000; early October \$24,000 and on October 13 \$22,600. Speculators take advantage of this difference by selling own stocks on black market and buying forward from Central Bank at official prices. Kwok claims that government can not eliminate black market except by being always able to sell for immediate delivery. Gold sales October 1 through 13 total 108,007 oz, of which 57,600 undelivered commitments.

Six. Since September 28 old purchasers required to purchase "community welfare savings certificates" issued by four government banks and postal savings bank equal to 10% of gold purchases. Certificates mature in three years and pay 8% interest. Central Bank permitting goldsmiths to pass on this burden to ultimate purchaser in form of resale of certificates to customers.

Seven. Gold deposit programs aid to be still unimportant. Purchasers of gold deposits still not required to purchase certificates; no effect noted as yet on volume of gold deposit.

(END OF MESSAGE)

GAUSS

JMS  
HTM

COPY NO. 11NOT TO BE TRANSMITTED~~SECRET~~OPTEL No. 335

Information received up to 10 a.m. 15th Oct. 1944

1. NAVAL.

Reported Kiel Canal blocked since 8th May by a ship which was mined and sunk near Western entrance to Canal at Brunsbuttel. Weather yesterday again interfered with cross-channel sailings. A Canadian Frigate was torpedoed 14th in St. Lawrence River while on Anti U-boat patrol. Attempt being made to beach her. A 12,5000 ton British tanker carrying petrol and aircraft was in collision yesterday N.W. of Madeira with a 7,000 ton U.S. ship and is believed total loss. Ships were in convoy bound for Mediterranean from U.S., both abandoned on fire, five men missing.

2. MILITARY.

Italy. Little change on right flank in Canadian and New Zealand sector. Some slow but steady progress further left Eighth Army front, patrols reached River Savio. No appreciable change Fifth Army front.

Russia. In Transylvania Russians have gained some ground N.W. and N. of Cluj. In Yugoslavia they have captured places 12 miles S. of Belgrade.

3. AIR.

Western Front 13th. Further reports show 173 A.E.A.F. Bombers - two missing, dropped 272 tons mainly on railways Western Germany and 989 fighters - 15 missing, scored 18:11 in the air and destroyed 360 vehicles. 14th. 1,002 escorted bomber command aircraft dropped 4,684 tons on Duisburg through cloud. Bombing somewhat scattered although some good concentrations achieved, fifteen bombers and one fighter missing. 1,006 escorted U.S. heavy bombers bombed railway centres Western Germany including Cologne 2,151 tons, Kaiserautern 295 and Saarbrücken 215. Pathfinder technique used: 12 bombers, seven fighters missing. According to preliminary reports 35 escorted A.E.A.F. Bombers bombed a bridge near Zutphen while 651 fighters - one missing supported and covered troops in Holland and N.W. Germany and 532 aircraft carried supplies to the continent. 14th/15th. Bomber command sent out 1,555 aircraft:- Duisburg 1,008 - seven missing, Brunswick 241 - one missing, Berlin and three other targets 46 - one missing, bomber support 120 and Diversionary sweep 140 - one missing. Weather over Duisburg clear and bombing concentrated.

Mediterranean 12th/13th. 68 bombers from Mediterranean dropped 132 tons on Bronzello Railway Yards S.S.S. Bolzano. 13th. 762 escorted heavy bombers bombed S.E. Germany, Austria and Hungary dropping total 794 tons on two oil refineries and 752 on six railway centres. 228 medium bombers attacked Military objectives Bologna area and 818 fighters and fighter bombers operated over Italian battle area. 13th/14th. 79 bombers dropped 169 tons on a railway centre Hungary. Enemy casualties above operations:- two destroyed in the air and 24:0:18 on the ground. Ours 38 heavy bombers, one medium and ten fighters and fighter bombers.

4. HOME SECURITY.

14th/15th. Twenty-two flying bombs plotted in two phases. About 8 p.m. ten plotted and about 2 a.m. 12 plotted,

# TREASURY DEPARTMENT

125

## INTER OFFICE COMMUNICATION

DATE Oct. 16, 1944

TO Mrs. Klotz

FROM Mr. Shaeffer

*W.P.*

*M*

Secretary Morgenthau's Los Angeles speech was not distributed to Treasury officials until 9:00 Saturday morning. As the teletyped copy was full of errors it was stenciled before being shown to anyone. Unfortunately, D. W. Bell had ignored his copy, placed on his desk at 9:05 o'clock Saturday morning up to the time Mr. Morgenthau talked with him. It was available to Mr. Bell seven and one-half hours in advance of delivery.

No effort was made to show it to Mr. Bell earlier on the assumption that Henry Murphy, who accompanied the Secretary, was completely authorized to act for the Under Secretary on fiscal affairs.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Oct. 16, 1944

TO Secretary Morgenthau

FROM Harold Mager *Huc.*

I have arranged for the production and distribution of 4,500 sets of your three addresses to the Regional Conferences in Atlantic City, New Orleans and Los Angeles. They are being prepared in sufficient quantity for distribution to both State and County War Finance Committees. State and Local Chairmen will be urged to bring them to the attention of local Financial Editors, and to give them the widest possible distribution.

A copy of each address, with covering note, will be mailed to County Chairmen in those states for which we have authorized mailing lists of County Chairmen.

Bulk shipments of the addresses for remailing to Local Chairmen will be sent to state headquarters, on the basis of one set per county, in those states that have not furnished authorized lists of county chairmen.

Copies of speeches will be shipped to Chicago tomorrow (Tuesday, October 17) for remailing to the field.

The field is being informed that additional copies may be requisitioned in the usual manner.

# TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL  
DATE Oct. 16, 1944

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending October 14, 1944.

## Summary

Reconversion: In addition to the adverse psychological effects of declining income and employment after the defeat of Germany, present disparities between labor costs and civilian-goods price levels may raise serious problems in the transition to a peacetime economy. The labor cost per unit of factory output appears to have risen at least 12 percent since 1942, while prices of manufactured civilian goods have held virtually unchanged. Further concern over reconversion prospects is suggested by the possibility of sharper cutbacks in war contracts than official figures indicate.

Commodity prices: Moderate declines in grain futures featured an easing tendency in commodity markets last week. The Dow-Jones futures index declined 0.8 percent, but the BLS index of 28 basic commodities showed practically no change.

Crop prospects: As a result of improved growing conditions last month, 1944 crop production may attain the record levels of 1942, which would be 23 percent above the pre-war 1935-39 average. A new record is expected in corn production.

Wheat exports: The United States, Canada, Australia, and Argentina have agreed to divide the export market after the war, with this country being allocated 16 percent of the total.

Consumer debt: The volume of consumer debt outstanding has shown relatively little change since August 1943 following the long decline of more than 50 percent from the September 1941 peak. The total remains nearly \$5 billions below the peak reached in 1941.

- - - - -

- 2 -

### Difficult transition period

Recent developments suggest that the reconversion problems after the defeat of Germany may be more difficult than is generally expected, and may result in serious unemployment. This situation may arise from a number of possible developments: (1) from the psychological effect of declines in employment and incomes on consumer spending; (2) from the prospect of severe labor difficulties during the reconversion period; (3) from the possibility that a tight OPA pricing policy on civilian goods may discourage full production; (4) from the slow progress apparently being made in getting reconversion projects under way, and (5) from the possibility that outbacks in war contracts may be more severe than official statements have indicated.

While the chances are perhaps no more than 50-50 that a serious situation may develop, we believe the possibility is one that should be kept in mind in looking ahead.

### Effect of outbacks

The 40 percent outback in war contracts after the defeat of Germany, as envisaged in the latest official statement, will cause several million workers to lose their present jobs. It will also cause a substantially greater percentage decline in incomes than in employment, since the high-wage industries and high-rate overtime earnings will be most affected. Furthermore, the displaced workers will doubtless be reemployed in lower-paid jobs, and the surplus of labor may result in a general abandonment of overtime work and overtime pay on the remaining war contracts.

Price Administrator Bowles mentioned in a press conference last week that 4 to 6 million workers may be thrown out of work in the first months after V-E day, with a resulting drop in national income. In addition, he estimated that a change from the 48-hour week to a 40-hour week will mean a loss of \$12 to \$15 billions in workers' incomes.

While the war with Japan will require a continued large Government deficit, which will do much to maintain incomes during the reconversion period, the psychological effect of such a deficit when people are losing their jobs may be quite different from that during a period of expanding employment. People may wait until the outlook becomes clearer before spending freely for any but necessary items, a condition which

- 3 -

would not be favorable for a rapid expansion in civilian goods production. Mr. Bowles said last week that cancellation of war contracts may reduce Government spending by \$30 to \$40 billions, and that deflationary influences are likely to become cumulative for a time before inflationary factors become operative.

In view of the labor unsettlement which the cutbacks will cause, and judging from experience after the First World War, labor difficulties may have an important retarding effect on employment and national income during the transition period. Downgrading of jobs, curtailment of overtime pay, and laying-off of workers will provide numerous grounds for strikes. When war orders were cancelled after the last war, according to one author, "overtime work at the factories ceased and the war bonus system was abandoned. Labor became restless and dissatisfied. Strikes occurred in almost every line of industry. In November (1919) the great steel strike took place, involving over 365,000 men."

#### Disparity between labor costs and price level

The recently-announced policy of the OPA to hold prices of new civilian goods as closely as possible to the 1942 price level presents a difficult problem, since in the effort to prevent inflation it may unintentionally act as a brake on production and employment by narrowing too severely the profit margins of manufacturers. Actually, the readjustment of disparities to restore a peacetime balance between labor costs and prices will be one of the most difficult jobs of the reconversion period.

Labor costs have risen substantially since 1942, while prices of manufactured goods (excluding war materials) have held virtually unchanged. A rough measure of present labor cost per unit of output of all manufactured goods is obtained by dividing an index of factory payrolls by an index of factory production. Such an index is shown in Chart 1, in comparison with the BLS price index of nonagricultural products. The combined index, which averages 12 percent higher in 1944 than in 1942, doubtless understates the rise in labor costs for civilian goods, since it is affected by increasing production efficiency in such heavily-weighted war goods as ships, tanks, and planes. On the other hand, production costs other than for labor have doubtless shown a smaller rise.

While the disparity indicated in Chart 1 is being corrected, conflicts of interest may hinder a rapid reconversion and tend to increase unemployment. Labor will actively resist any

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reduction in pay when the shift is made to civilian goods -- in fact, the unions are now seeking higher wage rates to compensate for prospective reductions in overtime pay. Consumers may limit their buying if prices are increased during a period of declining incomes. Industry may restrict production if profit margins are unsatisfactory, and might actually welcome a period of severe unemployment to shake down labor costs.

It is difficult to foresee definitely whether, when factories shift from war contracts to civilian goods, the disparity will be adjusted by reduced labor costs, by higher prices, or a combination of both. However, it is possible that the pre-occupation of the OPA with holding prices down, and consumer reluctance to pay higher prices while jobs are uncertain, may result in pressure on wage rates which will tend to prolong the period of reconversion unemployment.

#### Bowles sees inflation threat

Mr. Bowles last week expressed his fear that the greatest inflationary pressure on prices, which may become a serious threat, will come four to six months after the defeat of Germany. In an effort to forestall inflation, he intends to set prices on civilian goods which will yield good profits to business "on the basis of high volume production." Some companies have already indicated, however, that they will be unable to attain high volume production until many months after V-E day, and that in the period of initial production their costs may be very high. Mr. Bowles indicated that the OPA has so far made no provision for this.

The expectation of Mr. Bowles and others that inflationary pressure is likely to develop within six months after the end of the war in Europe may be based in part (and perhaps mistakenly) on our experience after the last war. Our present economic dislocation, however, involving potential deflationary forces, is much more severe than at the end of the First World War, when only about 25 percent of our industrial production was involved. This would be approximately equivalent to the situation if the present war had ended three years ago -- in October 1941. By referring to Chart 1, it will be noted that the entire indicated disparity between prices and the index of labor costs has developed since that date.

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### Extent of cutbacks uncertain

While a 40 percent cutback in war contracts remains the official figure, and is used as the basis for various forecasts of national income and employment, statements have appeared recently which suggest that the actual cutback may be higher. This possibility is by no means certain, but should be given consideration. Chairman Sloan of General Motors, for example, told the Chamber of Commerce of New York State recently that he expected production to be cut back 70 percent rather than 40 percent. If the war in Europe were to end now, he expected that reconversion would require about six months, with a shorter period expected if the war should continue into next year.

### Progress of reconversion program

Although the number of applications to produce civilian goods under the spot authorization order has increased considerably recently, actual reconversion in progress under the program is still relatively small. Earlier in the month it was reported that only about 10 percent of applications were receiving approval, largely because of the stringent manpower situation. However, it is reported that WPB and WMC officials expect approvals to increase sharply before the end of this month, partly due to anticipated greater leniency of local WMC representatives.

In addition to efforts to speed up the spot authorization program, the WPB is reported to be working on other measures to facilitate the transition to civilian goods production after the end of the war in Europe. Among others, an order is to be issued shortly which will provide a modified form of high priority to manufacturers seeking machine tools for civilian goods production. While it is uncertain how effectively such action can be carried out, prospective delay in obtaining machine tools has been one of the major reconversion problems of numerous manufacturers, especially in the automobile industry.

Another reconversion measure now receiving WPB attention is that of releasing from war production before Germany falls some plants now producing bottleneck items, such as bearings and small electric motors. The prospective lack of such items has been a serious retarding factor in the resumption of civilian goods production, and solution of the problem would

- 6 -

enhance reconversion prospects. The WPB is also studying means whereby existing restrictions on construction activity can be revised to permit more civilian construction without interfering with the war effort.

#### Commodity prices show easing tendency

Featured by moderate declines in grain futures, commodity markets showed an easing tendency last week. The Dow-Jones futures index declined 0.8 percent, but the BLS spot index of 28 basic commodities was practically unchanged. (See Chart 2.) The declines in grain futures last week were due in part to the very favorable official crop report as well as to a belief that the recent reaction of the markets to the Government's parity purchase program had been too bullish. Cotton prices were off slightly.

In the week ended October 7 the BLS general index of wholesale prices registered a slight advance for the third consecutive week. Further advances in prices for grains, cotton, fresh fruits, eggs, and cotton yarns and higher prices for cereals and quicksilver largely accounted for the rise in the index. At 103.9 percent of the 1926 average, the index is now 1.1 percent higher than a year ago and is 38.5 percent above the pre-war level of August 1939.

#### Price stability likely to be broken

The high degree of stability which has characterized wholesale prices during the past year may not continue after the war ends in Europe, but the actual trend of prices will depend on the net effect of conflicting influences. The BLS general index of wholesale prices has varied less than 2 points since March 1943. Wholesale prices of farm products have fluctuated within a rather narrow range since the President issued his "hold-the-line" order in April 1943, and prices of industrial products are now only about 3 percent above the level of May 1942, when the General Maximum Price Regulation went into effect. (See Chart 3.)

Since the start of the war in 1939, wholesale prices of farm products have risen 101 percent, while industrial prices have risen only 23 percent. The very disparity between the amount of increases in farm prices and in industrial prices suggests the likelihood of readjustments in the post-war period. If farm production continues at the present high levels when demand tapers off, prices of farm products may decline despite the Government's support program, while prices of manufactured goods may be raised somewhat by increases in price ceilings.

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Farm prices are now 113 percent of parity, whereas the Government is obligated to support agricultural prices at only 90 percent of parity. Thus prices of many products could decline substantially before reaching the support level. Moreover, the prices of many farm products help to determine the level of parity, hence a decline in farm prices will in itself lower the parity level. Assuming no changes in prices of products in the parity index except farm products, farm prices could conceivably decline as much as 25 percent despite Government support. If business activity is maintained at fairly high levels, however, prices of all farm products may not decline the full extent to the support levels.

For many manufactured products, on the other hand, increased labor and material costs may force upward revisions in the price ceilings when production is resumed. The OPA apparently hopes that manufacturers can offset these increased costs by improved methods of production and by a reduction in selling and other distribution costs, which seems to us rather doubtful. In one of its first cases of reconversion pricing, the OPA announced last week interim prices for pianos at 13 percent above the existing (March 1942) ceiling price. The margins between the factory costs and the selling prices historically prevailing for the piano producers, it was indicated, were so narrow as to leave little room for absorption of cost increases. Although the OPA emphasized that the repricing of pianos should not be taken to set a general pattern for reconversion pricing, it is likely that similar situations will be encountered for other products.

1944 crop production may equal record 1942 crop

Crop production this year may equal the record levels of 1942 if weather conditions do not interfere unduly with the tremendous harvesting job, according to the October 1 crop report of the Department of Agriculture. At the level now indicated, crop production would be 23 percent larger than the pre-war 1935-39 average. Crop prospects improved last month as a result of more favorable growing conditions, and yields per acre are now expected to be higher than in any past year except 1942, on a harvested acreage larger than in any year since 1932. The corn crop, showing substantial improvement last month, is now estimated at 3,197 million bushels, which is slightly more than the previous record crop of 1942.

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In view of the high level of crop production this year, the United States has now passed the time when it will be threatened with food shortages caused by war needs, Food Administrator Jones stated last week. Civilian food supplies during the last 3 months of 1944, according to the Bureau of Agricultural Economics, will continue to be moderately large despite present heavy allocations for military and lend-lease use. An early end of the war in Europe, moreover, would reduce military allocations, with a consequent increase in civilian supplies.

#### Post-war wheat export market divided

The four great wheat producing countries, Australia, Canada, Argentina, and the United States, with Great Britain sitting in for the Empire, have agreed to divide the wheat export market after the war, Secretary of Agriculture Wickard stated last week. This country would be allocated 16 percent, or 72 million bushels, of the estimated annual world exports of 450 million bushels. Allocations can be changed by mutual agreement, and eventually an agreement on prices is planned.

Average exports of this country in the pre-war years 1935-39 were approximately 63 million bushels, or 8.3 percent, of the average production of that period. Wheat production, however, has increased substantially during the war period. If production in the post-war years should continue at the high wartime levels, our export allocation would represent only 7.4 percent of our total crop. Moreover, the wartime use of tremendous quantities of wheat for grain alcohol and feed is unlikely to continue. In view of prospective consumption, Secretary Wickard indicated that with crops of 1 billion bushels (the 1942-44 production averaged 975,502,000 bushels) "there will be 200 or 300 million bushels of wheat carried over."

#### WLB refuses to make recommendations in Little Steel wage case

The War Labor Board last week finally took definite action on the long-pending controversy over the Little Steel wage formula raised by wage demands of the CIO and AFL. By a vote of 8 to 4 the Board refused to make recommendation one way or the other with regard to the formula on the grounds that it "is not sufficiently informed as to the possible effects of a modification of the Little Steel formula on the price structure and on the national economy generally."

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In lieu of a specific recommendation in the matter, the Board will send a report to the President through the Director of Economic Stabilization, setting forth pertinent data relative to the relationship between wages and the cost of living, and an appraisal of inequities resulting from recent trends. The labor members of the WLB sharply criticized the Board for its failure to recommend a change in the Little Steel formula, and indicated that they would make their own recommendations directly to the President.

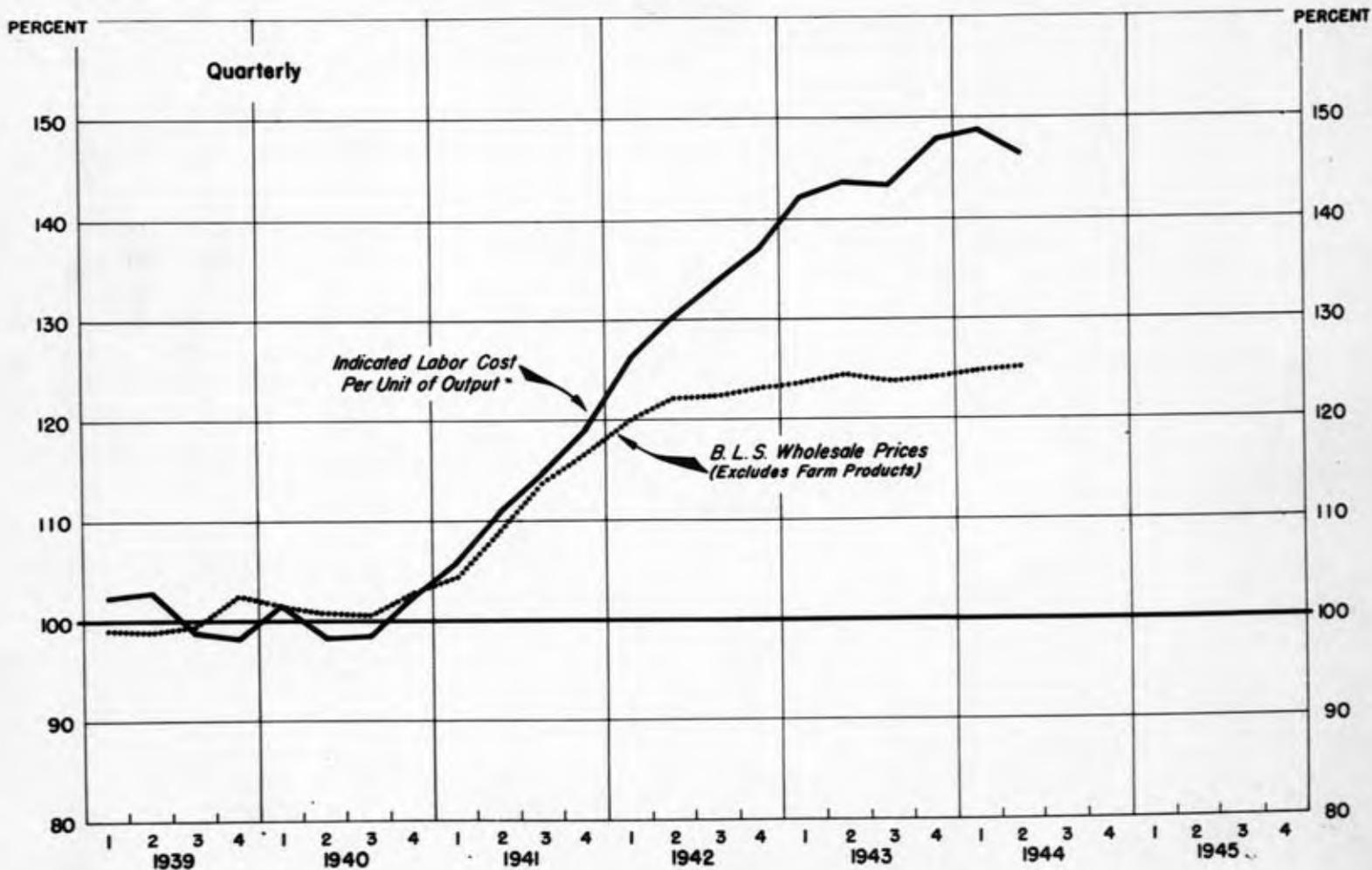
Consumer debt restricted despite heavy retail sales

Continuing the gain shown earlier in 1944, the value of total retail sales in August exceeded year-earlier levels by 8 percent. This compares with a rise of 4 percent in the retail price index of the Department of Commerce during the same period. Although nearly all major groups shared in the sales rise, the widest gains were shown by the apparel and general merchandise stores, with increases of 18 percent and 14 percent, respectively. Sales of the "other retail stores" group were bolstered by a rise in liquor store sales to 50 percent above the August 1943 level. This sharp gain is attributed largely to a more abundant liquor supply resulting from the August "holiday" granted to alcohol producers.

Despite the notable expansion in the aggregate value of retail trade under wartime conditions, total consumer debt declined steadily for 20 months after our entry into the war. By August 1943 the total outstanding was less than one-half the peak figure attained in September 1941. This heavy decline reflected the stoppage of production of passenger automobiles and other consumer durable goods as well as the restrictions on consumer credit imposed by Federal Reserve Board regulations. (See Chart 4.) Since August 1943 the decline in consumer debt has levelled off and a slight rise has occurred in recent months, but the total is still nearly \$5 billions below the 1941 peak.

# LABOR COST AND COMMODITY PRICES

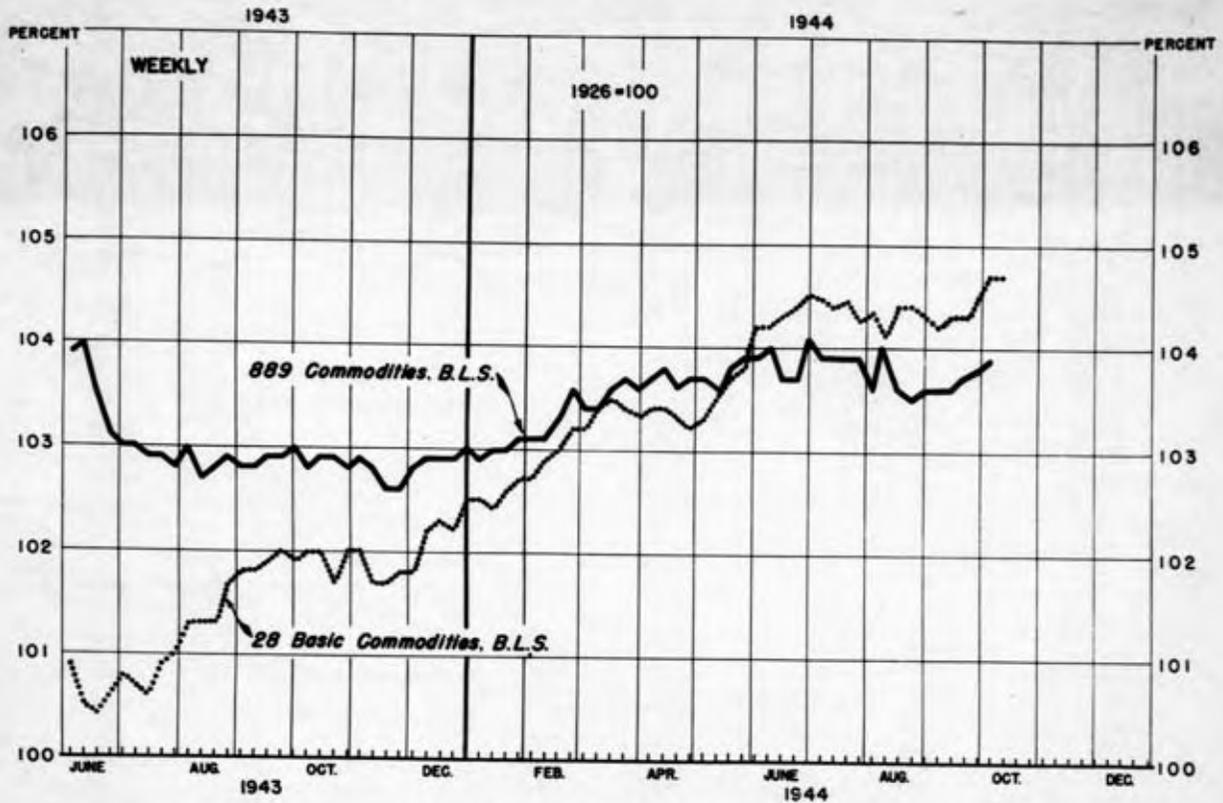
1939 = 100



\* B. L. S. index of payrolls in manufacturing, divided by F.R.B. production index

Chart 1  
135

# WHOLESALE COMMODITY PRICES



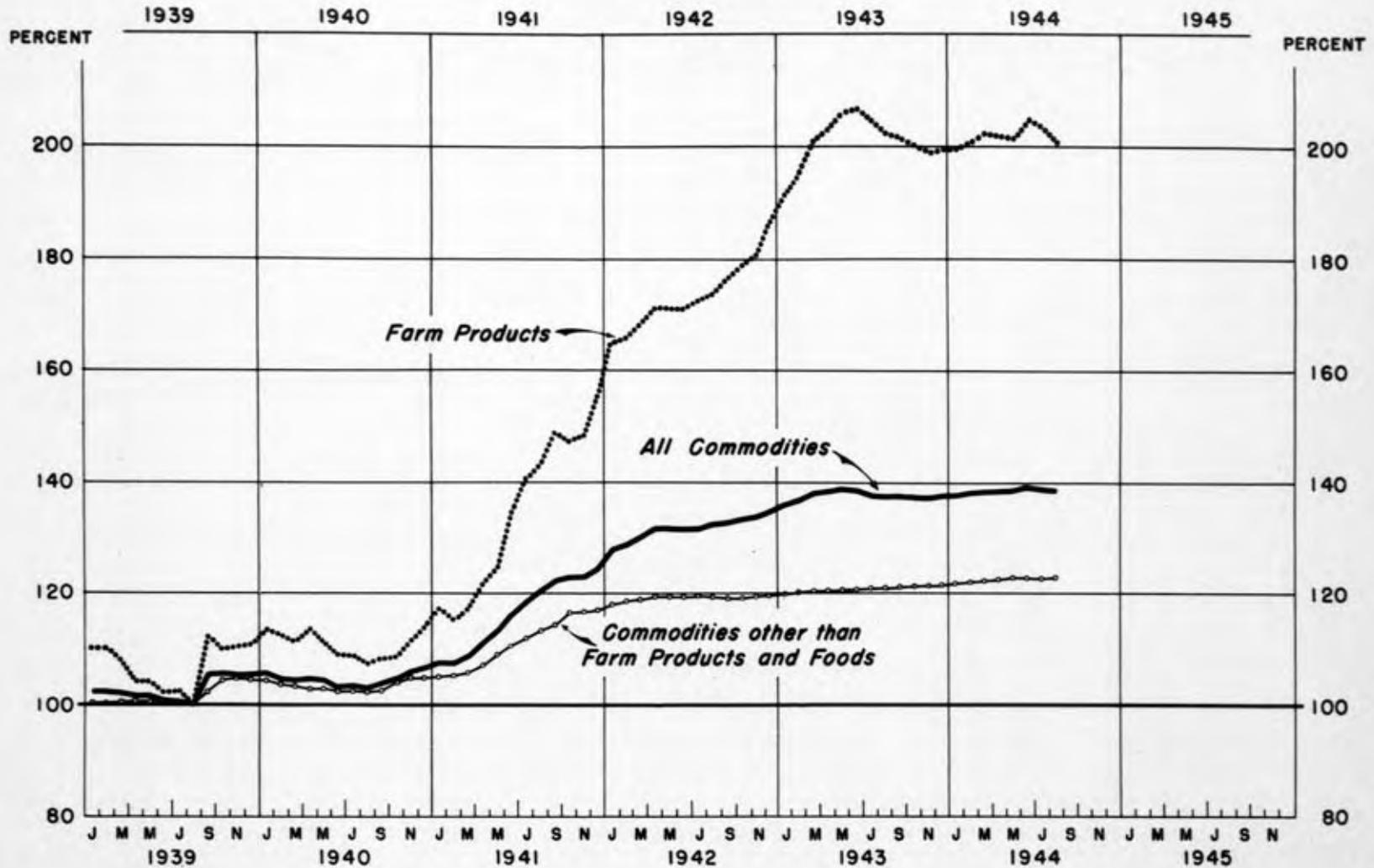
**SELECTED BASIC COMMODITIES**  
Percentage Change December 6, 1941 to Oct 6 and Oct. 13, 1944



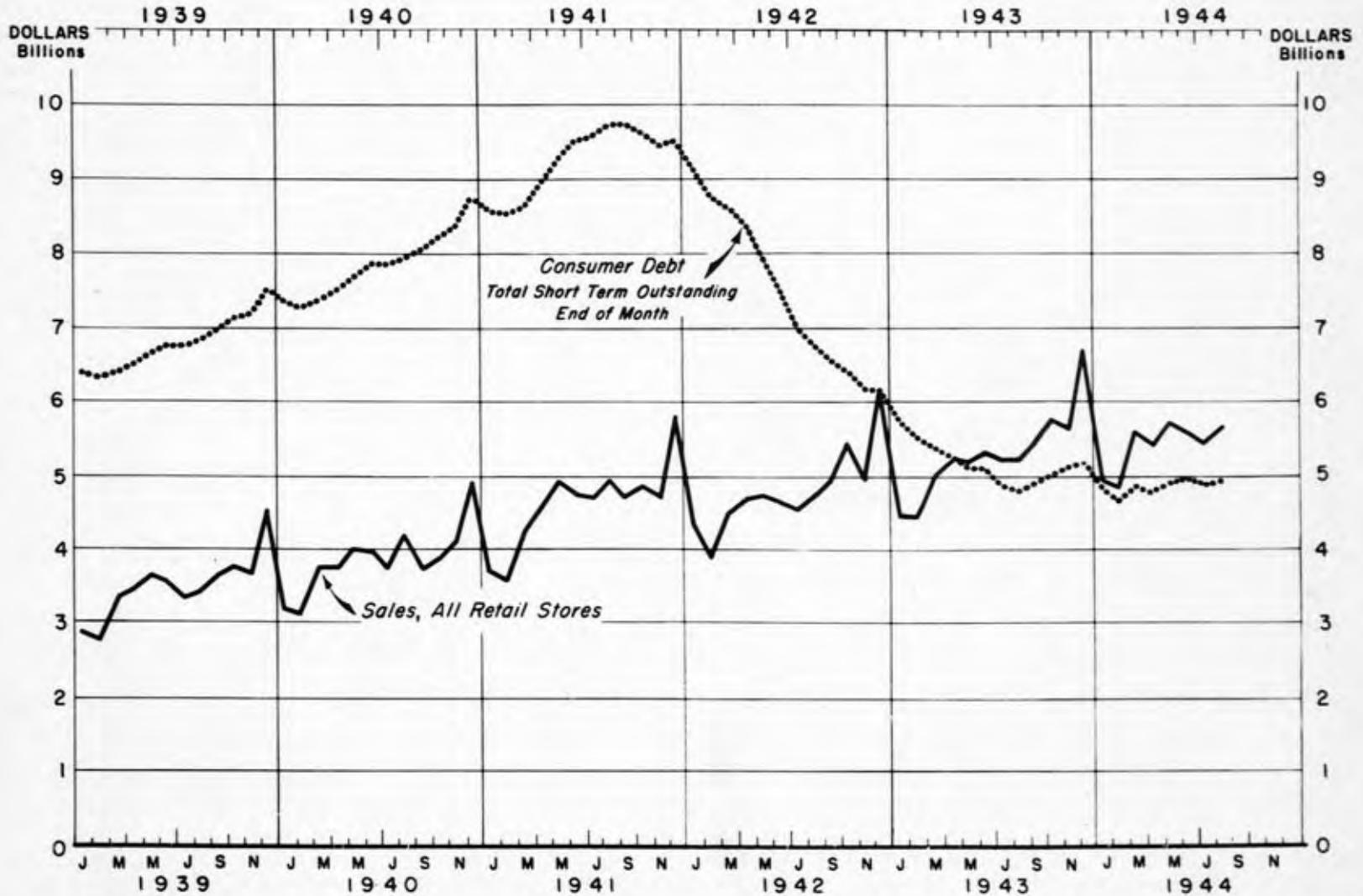
137

# WHOLESALE PRICES

August 1939 = 100



# RETAIL SALES AND CONSUMER DEBT





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He mentions that "fear of prolonged unemployment can make people hesitant to spend their savings except for necessities. A man out of work goes slow in building a new home - even though his savings account is still ample. . . . If reconversion is slow, the national income will be dangerously down while millions of people are waiting to return to work."

#### Objectives of OPA pricing policy.

The pricing policy on reconverted civilian products, in Mr. Bowles' opinion, must accomplish the following: (1) Encourage maximum production, (2) be easy to apply, (3) encourage the continued payment of high wage rates in order to maintain purchasing power, (4) protect the public against increases in living costs, (5) avoid contributing to another collapse in farm prices, and (6) provide for removal of price controls as rapidly as possible.

#### General statement of policy.

As a general policy, the present ceilings will be continued on civilian goods now being produced, subject to adjustment in individual hardship cases. Price increases will continue to be allowed to industries whose profits have fallen below the 1936-1939 level. On products which have been off the market during the war, the general objective will be to set prices at the manufacturer's 1942 level, absorbing any increases in labor and material costs through increased plant efficiency and lower selling costs. (Mr. Bowles is confident that this can be done in most cases). However, "in those cases where an increase over the 1942 price level is really needed to bring any product back on the market, an increase will be given." For the smaller firms, provision is being made for price ceilings to be determined by the 93 OPA district offices, with a possibility that very small concerns or those making minor articles may be exempted from price control.

#### Personal observations by Mr. Bowles.

In a few concluding remarks on general economic policies, Mr. Bowles says that as a practical matter we cannot go back to the production levels of 1940, since, under assumed conditions in 1946, this would mean that 19 million would be unemployed. For this reason, industry must abandon previous policies of high unit profits based on curtailed production, and must seek larger profits through increased volume and lower unit costs. However, if major segments of industry attempt to cut prices by depressing wage rates, we will face the dangers of another disastrous depression.

MEMORANDUM

To: All Members of OPA Advisory Committees  
From: Chester Bowles, Administrator  
Subject: Our Pricing Objectives in the Reconversion Period

For two and a half difficult years we have been striving to maintain a stable wartime economy. In general our efforts have been successful.

Since the Spring of 1942, when price control first became effective, the Department of Labor tells us that industrial prices have risen less than three percent. The cost of living, expressed in the individual prices of items purchased by the average middle income family, has, according to the same authority, risen only about nine percent in this same period.

FOUR REASONS WHY

There are, I believe, four basic reasons why we have been able to establish this record:

1. The tremendous wartime production of American farmers and American industry, which, in addition to our huge production earmarked for war, has provided us with 90 billion dollars worth of consumer goods and services in the past year.
2. The patriotic desire of the American people to save their money instead of spending it during wartimes.
3. The basic honesty of the American people which has kept the vast majority of them from patronizing the black market.
4. The government stabilization program authorized by Congress in the Stabilization Act.

It has been the responsibility of the OPA under the Stabilization Act to administer the actual pricing of 8,000,000 products and services, and to establish rents for 14,500,000 dwelling units. It has been a staggering task.

The ground over which we have travelled has been new and unfamiliar. There have been no sign posts to guide us. Our policies have been developed laboriously by trial and error. Inevitably there have been mistakes, delays and irritations.

ALL GROUPS HAVE BENEFITED

But the fact remains that the job so far has been accomplished. Prices and rents have remained relatively stable. Moreover, this stability has been accomplished without hardship to any major economic group.

Industry profits in 1943, even after the payment of high wartime taxes, actually exceeded net profits after taxes in 1929. They were more than double the net profits after taxes in 1939. Net farm income after all expenses exceeded prewar levels by 170 percent. Industrial wages are at an all time peak.

V-E DAY WILL BRING NEW PROBLEMS

The pricing policies which we have followed during the war period have been effective under wartime conditions. But today we look forward to more and more cut backs in war production and the increased production of peacetime goods.

EARNINGS OF CORPORATIONS, FARMERS AND LABOR



During the next ninety days we are hopeful that the war will be brought to a close in Europe. During the next 18 months or so we are looking forward to victory in the Pacific. As our economy partially reconverts to peacetime requirements we will be called upon to face rapidly changing economic conditions.

Within three months after Germany is defeated it is estimated that plants now producing 40 percent of our war goods can be freed for the manufacture of civilian goods. More than 4,000,000 war workers will be made available for the production of goods for which the American people are eagerly waiting.

The Federal Government has made it clear that industry will be assisted and encouraged to resume the manufacture of civilian goods as rapidly as possible. To this end, the War Production Board has announced that it will lift controls over most materials and manufacturing immediately after V-E Day. The War Manpower Commission has stated all manpower controls will be lifted except in relatively few areas where they are essential to continued war production.

The only lasting answer to inflation is full production of civilian goods with all possible speed. For this reason we in the OPA welcome these developments as a major aid in holding prices stable.

But even under the most favorable conditions our pricing task will be a ticklish one. A weak price policy during the next few months can set in motion all the powerful inflationary forces that surround us. A rigid price policy in which no allowance is made for legitimate increases in costs could stifle employment and production and head us straight for a major depression.

### WHAT HAPPENED IN 1919

In 1919 we met this same problem, on a greatly reduced scale, and fumbled it badly. While there are many factors now which are totally different from those we faced after the last World War, it will be wise to examine carefully what happened to prices immediately after Armistice Day 1918.

During the first World War, with a minimum of price control, the cost of living increased by 62 percent from July 1914 to Armistice Day. Both corporation profits, and net farm income rose to record levels.

Immediately after the Armistice, in November and December, war controls were dropped. In March 1919 the price level again started upward as a wild scramble for inventories and new goods developed.

This postwar inflationary rise continued at an increasing pace. By June 1920 living costs had risen to 108 percent above the 1914 level - an additional 46 percent increase after Armistice Day. Wholesale prices, which had risen 102 percent, went on to a peak of 148 percent above prewar levels. Wages and payrolls, business earnings and farm income - these too continued their climb.

And then came the collapse. Within 22 months factory payrolls dropped 44 percent to bring misery and privation to millions of our workers. Net farm income dropped 66 percent. 436,000 farmers lost their properties through foreclosures during the next four years.

Corporate profits after taxes dropped from \$6,419,000,000 in 1919 to a net loss of \$55,000,000 in 1921. Inventory losses, amounting to 11 billions, wiped out practically all the reserves accumulated out of wartime profits.

That's the story of our price levels after the last war. Everybody had moved up together and everybody came down together. We went up fast; we came down hard. It's a story that provides a perfect lesson on how not to handle our pricing problems during the next few months. It's a story which we must all be determined shall not be repeated this time.

During the war our efforts have aimed solely at checking inflation. On V-E Day the picture will change. When the telegrams go out canceling war orders, the forces of deflation will begin to develop.

From that day on until full production is achieved and supply and demand come into reasonable balance, the forces of inflation and deflation will exist in our economy side by side. Right now it is impossible for anyone to say with finality which will be the greater.

## PRICES: LAST WAR AND THIS WAR

INDEXES: LAST WAR-1914=100, THIS WAR-1939=100



## THE DANGER OF INFLATION

Let's first take a look at the huge inflationary pressures all ready to push prices up as soon as the war in Europe ends.

By the end of 1944, 100 billion dollars of wartime savings will be waiting in the hands of people who have been unable to buy many of the things they wanted most - a new car, an electric refrigerator, a washing machine, a sewing machine, a new stove, new farm machinery, a new house.

Obviously, it will be impossible to produce all of these articles in sufficient quantities immediately. But people don't like to wait. The pressure of buyers with good jobs and a backlog of wartime savings will be tremendous.

Merchants will be anxious to be among the first to offer new goods for sale. The retailer who can quickly build a good inventory will be in a position to capture the business.

Every manufacturer, too, will want to be among the first to produce these goods. The competition for materials will be considerable. To back up this competitive desire for inventories and raw materials are billions of dollars in wartime reserves.

## THE DANGER OF DEFLATION

But, as I have pointed out, inflationary pressures are only one-half the story. Deflationary pressures - some of them inescapable, some of them potential, are equally dangerous.

The closing of plants built only for war production (which probably cannot make peacetime goods) will require an estimated 2 million people to look for peacetime jobs elsewhere. Millions of others will face temporary unemployment while the plants in which they work set up their new production lines for civilian goods.

In all plants changing over to civilian production, the return to the 40 hour week will reduce the workers' weekly take-home pay. Even a 10 percent cut in hours, which seems probable soon after V-E Day, will cut salaries and wages by something like 12 billion dollars in a year.

Adequate unemployment compensation will, of course, help to some degree to hold up purchasing power. Our huge backlog of savings will also

serve as an anti-depression asset. But fear of prolonged unemployment can make people hesitant to spend their savings except for necessities. A man out of work goes slow in building a new home - even though his savings account is still ample.

Up to now business and industry have been able to absorb the men - more than 1,250,000 of them - who have been mustered out of the armed forces. However, when our soldiers and sailors start coming home after V-E Day there may be more men than jobs until industry hits its stride.

If reconversion is slow, the national income will be dangerously down while millions of workers are waiting to return to work. Slowness in reconversion would also mean a let-down in demand for basic raw materials.

The Government has been spending about 70 billion dollars a year for war materials and construction, and that money has provided good jobs at high wages. Within three months after the defeat of Germany it is estimated that this will be cut about 40 billions. To a major extent that's money out of our pockets, until we get civilian production going on a comparable scale.

Some of these deflationary threats we cannot hope to avoid. Some of them are temporary and the speed or slowness of reconversion will determine the extent of their influence. Others may not materialize, unless businessmen and their customers -- frightened of the future -- are afraid to invest and spend their money.

But after V-E Day the threat of deflation cannot be ignored.

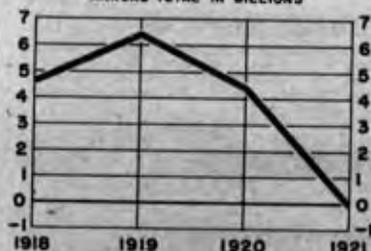
## WE MUST RESIST BOTH FORCES

Statistics alone cannot measure either of these dangerous economic forces. Behind them lie the psychological factors of over-optimism on the one side or fear on the other. Both of these are products of uncertainty.

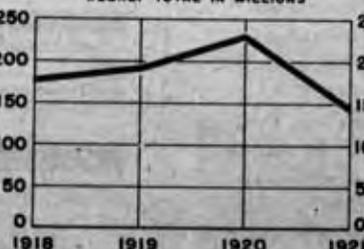
Uncertainty about prices is one of the most dangerous. It could lead to a wild speculation or to a drying up of purchasing power. That is why we are determined to do all in our power to hold prices stable during the months ahead.

## WHAT HAPPENED WHEN INFLATED PRICES CRASHED 1918 - 1921

**CORPORATION PROFITS  
TURNED TO LOSSES**  
ANNUAL TOTAL IN BILLIONS



**FACTORY PAYROLLS  
DECLINED SHARPLY**  
WEEKLY TOTAL IN MILLIONS



**FARM INCOME  
FELL RAPIDLY**  
ANNUAL TOTAL IN BILLIONS



It will take careful planning and intelligent cooperation on the part of all of us as a nation - Government, industry, labor, farmers - if we are to guide ourselves successfully through this difficult transition period.

There are many factors which will determine our success or our failure. The pricing policy we follow is only one of them. Our export policy, our tax policies, our disposal of government owned war plants and surplus war goods will all play an important part.

But our OPA responsibility is for pricing and for pricing alone. What shall our reconversion price policies be?

### WHAT OUR PRICING POLICY MUST ACCOMPLISH

The pricing policy on the reconverted civilian products which we adopt to meet the difficult conditions which lie ahead must, in my opinion, accomplish the following:

1. It must encourage maximum production. It must not stand in the way of the manufacturer's desire to produce to the limit of his capacity. This means prices which yield good profits for business, large or small, on the basis of high volume production.
2. Our pricing policy must be easy to apply. Decisions must be made rapidly. Manufacturers have a right to expect from us the quickest possible answers on requests for prices on new items. We must realize, however, that prices cannot be set without adequate information from the businesses affected.
3. Our pricing policies in the reconversion period must encourage the continued payment of high wage rates. When wages are reduced purchasing power begins to dry up. Through the loss of overtime and through some unavoidable unemployment, as plants are reconverted from wartime production to peace some deflation in the take-

home wages of our industrial workers is inevitable. If this trend were increased by pricing policies that would result in a general lowering of wage rates, we would soon face a serious depression.

4. Our pricing policies must continue to protect the public against general increases in the cost of living. Rents, food prices and clothing prices must be held at no higher than present levels. On consumer goods which have been out of production for some time, price increases must be given only when absolutely necessary, and then held to the minimum amounts needed to encourage volume production.
5. Our pricing policy must not contribute to any repetition of the farm collapse which followed the inflation in prices after World War I. The ability of our farmers to purchase industrial products and generally to increase their standard of living has been tremendously improved during the war period.

With sustained high purchasing power our farmers can furnish one of the largest and most profitable markets for industrial products. In my judgment that market, in the reconversion period as well as during the postwar period, must be encouraged vigorously and sustained. The responsibility for that, of course, lies in other agencies.

6. Our OPA pricing policy must call for the elimination of price controls as rapidly as possible. This means that ceilings should be removed on each product or in each industry one after another, when there is no longer any danger of inflationary price rises in that particular field.

If we decontrol too quickly we will find ourselves in serious trouble with the possible need for reimposing controls at a later date. But if we hold controls in effect after they are no longer needed it will tend to discourage production and initiative on the part of industry.

It is obvious that the development of a pricing policy to meet all these objectives is

## TWIN DANGERS TO OUR NATIONAL ECONOMY IN 1945

### THREAT OF INFLATION

#### BILLIONS OF DOLLARS SAVINGS OF INDIVIDUALS

1941

1944 (EST.)

\$1000

ACCUMULATED FROM PEARL HARBOR THRU 1944 (EST.)

#### DEMAND DEPOSITS

END OF MONTH

INCLUDES ALL DEPOSITS EXCEPT INTERBANK AND U. S. GOVERNMENT, LESS CASH ITEMS IN PROCESS OF COLLECTION

1943

DEC. 1941

1940

DEC. 1944 (EST.)

#### MONEY IN CIRCULATION

END OF MONTH

1941

DEC. 1941

1942

DEC. 1944 (EST.)

#### UNSATISFIED DEMAND

##### BIG, BUT HOW BIG?

DURING 1942, 1943, AND 1944 THESE CONSUMERS' DURABLES HAVE BEEN OUT OF PRODUCTION, EITHER COMPLETELY OR IN MAJOR PART. IF DURING THESE 3 YEARS THE 1941 RATE OF PRODUCTION HAD CONTINUED HERE IS THE NUMBER OF THESE GOODS THAT WOULD HAVE BEEN PUT ON THE MARKET FOR AMERICAN CONSUMERS:

10,980,000	AUTOMOBILES
10,500,000	REFRIGERATORS
6,042,000	WASHING MACHINES
6,381,000	VACUUM CLEANERS
16,755,000	ELECTRIC IRONS
7,923,000	TOASTERS
41,100,000	RADIOS
82,380,000	CLOCKS AND WATCHES
10,400,000	FURNACES AND HEATERS
14,010,000	STOVES AND RANGES

### THREAT OF DEFLATION

AT PRESENT, CIVILIAN SALARIES AND WAGES (OFF THE FARM) ARE RUNNING ABOUT \$94 BILLION A YEAR

0 10 20 30 40 50 60 70 80 90 94

DURING RECONVERSION, HOURS WILL BE REDUCED AN ESTIMATED 10 PERCENT. THE EFFECT ON WAGES INCLUDING OVERTIME WILL REDUCE THIS TOTAL BY \$12 BILLION

0 82 84

RECONVERSION WILL ENTAIL A CUT OF 10 PERCENT (5 MILLION) IN EMPLOYMENT. THIS WILL REDUCE SALARIES AND WAGES BY A FURTHER \$ 8 BILLION

0 76 82 84

OPERATING MORE SLOWLY, THERE WILL BE A REVERSAL OF THE UPGRADING PROCESS WHICH OCCURRED DURING THE WAR, AND MEN WILL LEAVE HIGH PAYING WAR JOBS FOR LOWER-PAYING JOBS IN PEACE-TIME PRODUCTION. THIS WILL REDUCE SALARIES AND WAGES BY NO LESS THAN \$ 10 BILLION.

0 64 74 82 84

ALTOGETHER, WE FACE A CUT OF \$30 BILLION IN SALARIES AND WAGES AFTER V-E DAY.

**THIS MEANS SHRINKING MARKETS  
—A SERIOUS DEFLATIONARY FACTOR**

a difficult task. But if we are to achieve a vigorous, full production economy with a high standard of living and with full opportunity for every group, it must be successfully accomplished.

### THE SIZE OF THE JOB

Let's take a look at the types of companies and products that have been under price control. Let's compare them with the others that will need to have their ceiling prices reviewed. In other words, let's take a look at the job ahead from the standpoint of administration.

Many companies have continued to make peacetime products throughout the war production period. Others have continued the production of civilian goods, side by side with wartime commodities. Still others have for at least two years been wholly converted to the making of war materials. Some peacetime products have been entirely off the market since the first quarter of 1942. During the next few months they will become available to the general public for the first time in more than two years.

Price control now covers all civilian goods and many services. The principal consumer items now under price control have an estimated 1943 retail value of 78 billions of dollars, or 85 percent of total consumer expenditures in 1943. Among the most important of these are food, clothing, rent, furniture and furnishings, fuels and certain services.

The regulations setting up ceiling prices in the fields now covered have been geared to the individual requirements of the businesses and industries affected. With few exceptions they have been fair both to buyers and sellers. They meet the legal obligation that they must be "generally fair and equitable."

The important point is that these ceiling prices are already in effect and are working. They have stood the test of time and, as the record amply demonstrates, they have permitted full production and record profits. Our hard-earned experience in setting them has given us the know-how to work out ceilings for the industries coming back into civilian production.

These present price controls present no new problem. They will be continued in substantially their present form. We shall continue to use the same pricing standards, standards which during the last few months have been carefully reviewed and approved by Congress. In other words, we will expect absorption of cost increases on less profitable items, as well as on more profitable items, by industries which manufacture several lines and whose total profits are satisfactory.

We have been adjusting prices in cases of individual hardship ever since ceiling prices were established, and we will, of course, continue to do so.

We will also continue to allow price increases to industries whose profits have fallen below the level of the 1936-39 period. But in most of these consumer lines now in production, volume should increase as war restrictions are removed and as raw materials become more plentiful.

Overtime payments will probably decrease, and more efficient labor will become available. As a result of these factors, unit production costs should decrease. It is my belief, therefore, that with relatively few exceptions, firms which are now manufacturing consumer peacetime products will continue to prosper under present ceiling prices.

## THE SIZE OF OUR RECONVERSION PRICE PROBLEM

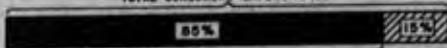
### PRODUCTS NOW UNDER PRICE CONTROL

TOTAL CONSUMERS' EXPENDITURES  
IN 1943 CAME TO **\$92 BILLION**  
OF THIS, PRICE CONTROL REACHED **\$78 BILLION**  
OR **85 PERCENT**

#### MAJOR GROUPS UNDER CONTROL WERE:

FOOD.....	\$33 BILLION
CLOTHING.....	13 BILLION
RENT.....	7 BILLION
FURNITURE, ETC.....	3 BILLION
HOUSEHOLD FUELS.....	3 BILLION
SERVICES.....	3 BILLION

#### TOTAL CONSUMERS' EXPENDITURES



CONTROL OF RECONVERSION PRICES IS A MINOR ITEM IN COMPARISON

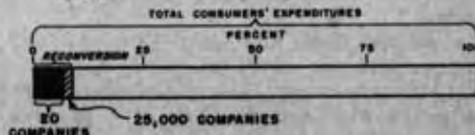
IN 1941, WHEN THESE ITEMS (CONSUMERS' METAL-USING DURABLES) WERE LAST IN PRODUCTION, THEY AMOUNTED TO \$6½ BILLION OR 8½ PERCENT OF CONSUMERS' EXPENDITURES

#### TOTAL CONSUMERS' EXPENDITURES

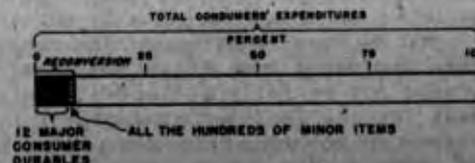


### VOLUME OF RECONVERSION GOODS

FURTHERMORE, ABOUT 80 PERCENT OF THIS VOLUME WAS IN 1941 PRODUCED BY A SCORE OF COMPANIES



OR, ON A PRODUCT BASIS, A DOZEN ITEMS - PASSENGER CARS, REFRIGERATORS, RADIOS, ETC. - CONSTITUTED 85% OF THE TOTAL



## PRODUCTS WHICH HAVE BEEN OFF THE MARKET

What industries may need new ceiling prices? As we see it, they will be largely in the metal using industries in the consumer durable goods fields - industries which for the most part have been out of civilian production since early 1942.

The retail value of the products made by these industries in 1941 was 6.5 billion dollars. That represents only 8.5 percent of total consumer expenditures in 1941. Obviously, the percentage may differ for 1945, depending upon the speed and extent of reconversion, the progress of the war in the Pacific, consumer spending power and many other factors. But it gives us an idea of the size of the problem.

Fewer than a dozen types of goods make up over 85 percent of the value of all items which many need a reconversion price. These are automobiles and parts, refrigerators, sewing machines, washing machines, vacuum cleaners and other electrical household appliances, radios, phonographs, pianos, heating and cooking equipment, clocks and watches.

The hundreds of miscellaneous items in the durable goods field amount to only 15 percent of the problem. These, like the 85 percent, may or may not need new prices.

About a score of companies manufacture 80 percent of all the items which will soon be coming back into production. The remaining 20 percent are produced by about 25,000 additional firms of varying sizes.

From our administrative point of view the problem is substantial. But it is not as great as generally assumed. It is smaller than others which we have handled successfully in the past.

## WHAT WILL NEW PRODUCTS COST?

In general, our objective in setting ceiling prices for these new goods will be the manufacturer's own 1942 prices. These are the prices he was charging when he converted from civilian to war production. And, with few exceptions, these are the ceilings in effect today for any manufacturer still producing the same or similar goods.

This means that any manufacturer who is planning to put new civilian goods on the market at 1942 prices or less knows now that his ceiling price will not be lowered. As soon as production and manpower controls are released, he can proceed at once. Reconversion pricing will not be one of his problems.

In practically all consumer durable goods industries there have, of course, been increases in wage rates and some increases in material prices. But we know from the wartime experience that increased wage rates and material prices need not be fully reflected in price increases for the finished product.

In industries now under price control, such as textiles, meat packing, paper and pulp, for ex-

ample, substantial increases in either hourly wages or materials prices, or both, have occurred. In none of these cases, however, has it been necessary to allow price increases anywhere near equivalent to the cost increases.

In most cases the price increase has been only a small fraction of the full equivalent. Nevertheless, profits have moved up sharply - so sharply, in fact, as to suggest that the cost increases should often have been entirely absorbed without unfairness to the industry.

In cotton textiles, average hourly earnings increased 25 percent between December, 1941 and May, 1944, while materials prices rose 19 percent during the same period. To offset these increases in full, a price rise of 17 percent would have been necessary. The actual price increases during this period averaged only six percent. Profits of the industry before taxes nevertheless rose 33.3 percent between 1941 and 1943.

In slaughtering and meat packing, the experience has been similar. To reflect fully increases in average hourly earnings and material costs between 1941 and 1943 would have required a price increase of 30 percent. The actual increase (including subsidies as a 10 percent price increase) was the equivalent of only a 16 percent price increase. Cost absorption here was therefore about 50 percent. Yet industry profits in 1943 were 68.2 percent above 1941 levels.

In the paper and pulp industry, average hourly earnings have increased 17.7 percent since 1941. Material costs have increased 11 percent during the same period. If these increases had been fully reflected, prices would have had to increase by 14.6 percent. Actually, paper and pulp price increases during this period averaged only 4.2 percent while industry profits have continued at the 1941 level.

Our experience in these fields and dozens of others strongly suggests that in the consumer durable goods industries, where increases in wage rates have been no greater and increases in materials prices have been substantially less, production for most companies can be resumed at approximately 1942 prices.

There are some companies, however, and perhaps a few industries whose costs have risen so far above their 1942 level as to make full absorption impossible. These will need new prices. They will need them quickly, and we intend to see that they get them.

## HOW NEW PRICES WILL BE SET

It is our hope that ceiling prices for the major fields can be arrived at through industry-wide conferences in Washington. We are now planning meetings with members of the automobile, electric refrigerator, washing machine, radio and a few other industries - representi-

on a dollar volume basis 80 percent of the entire reconversion pricing problem.

At these meetings we will discuss the volume each industry plans to achieve; what they are going to pay for labor and materials; the savings they expect to make through increased plant efficiency, and lower sales costs. We will also be guided by prices which they feel, on the basis of their own experience, are most likely to assure the wide-scale consumer buying necessary to maintain volume production.

In those cases where an increase over the 1942 price level is really needed to bring any product back on the market, an increase will be given. We will make every effort to set ceilings at a point that will lead manufacturers to expand, not restrict, their production.

### PRICES FOR 25,000 SMALLER MANUFACTURERS

I am well aware that any delay on our part in setting prices would be an even greater hardship for small manufacturers than for large ones. We must make sure that any manufacturer who needs a new price can get a decision quickly. In order to do this, we will authorize the 93 OPA District Offices, located in all parts of the country, to set the final ceiling prices for all reconverted products not on the key list of 12 major items.

Many firms have already indicated that they plan to sell at their 1942 prices, or even lower, as soon as they can get back with civilian production. They will not need to call on our field offices at all.

Firms whose higher production costs make a price adjustment necessary will be able to present the facts to the nearest office and receive a price based on a set of standards arrived at in Washington. These will be standards that can be quickly applied without referring back to Washington.

The exact method by which the prices for the smaller firms will be set and the standards which will be followed are now under discussion with many of our advisory groups and with our field officers, on whom much of the administrative burden will fall.

Barring the sudden end of the war in Europe, the details will be withheld until these discussions are finished.

A complete plan, including pricing standards for the smaller manufacturers, however, has been fully developed. If necessary, we are prepared to announce full details of the pricing procedure that each manufacturer (with the exception of those making the "major items" listed above) will follow within 48 hours after V-E Day.

Finally, we are studying the possibility of completely exempting from price control certain manufacturers in the consumer durable goods field. This might be done in two ways: First, by exempting all manufacturers doing less than a certain annual volume of business - say

\$100,000; second, by exempting manufacturers of minor parts or miscellaneous products.

We are anxious to do this in order to eliminate as rapidly as possible all unnecessary red tape and needless regulation. We are investigating the extent to which this can be done without endangering effective price control in the consumer durable goods field.

### WHEN WILL CONTROLS BE LIFTED?

We have always looked upon price control as a stop-gap, a stabilizing wartime control to be dropped as soon as production brings supply and demand reasonably in balance. The last war, with its false economic calm after the Armistice, followed by a ruinous inflation and collapse, taught us the danger of moving abruptly and thoughtlessly. To maintain controls needlessly even for a few extra months would be equally mistaken.

The wartime lack of balance between supply and demand made price control necessary. When supply and demand come back into balance price controls will not be needed. As soon as there is no further danger of price increases in a particular commodity field there will be no reason for price ceilings in that field and we will drop them.

The exact timing will vary widely from item to item. But, working with Industry Advisory Committees we will watch each field closely. We will rely heavily on their recommendations as to when controls can be safely removed.

### INDUSTRY'S RESPONSIBILITY FOR THE FUTURE

(Some Personal Observations)

In this memorandum I have discussed government wartime controls over prices and rents. I would like to add, however, a few personal thoughts on the problems which industry will face when all government controls have been eliminated.

I must emphasize that these ideas represent my personal opinion only. They are based on my own experience and observations gathered in my own business before the war and, more recently, in dealing with policy problems as a wartime employee of our government.

Most of us think of free enterprise as a system in which prices are set by competition and the law of supply and demand. Unfortunately, before the war this concept was true only in part of our economy.

In too many industries prices were held up artificially in order to provide higher unit profits. Because of this policy, in some industries full production and employment were curbed. In many cases, business men pursued a policy of high unit profits based on curtailed production, rather than going after the larger total profits that might have come through larger volume at a lower profit per unit.

During the war we have all had an opportunity to learn much about our economic system. Before

the war few of us visualized the tremendous productive power of our American economy. The fact that this miracle of production has been achieved during wartime will have a significant influence on our peacetime industrial planning.

It is unlikely after the war that our people, including our 11,000,000 returning service men, will long tolerate any economic system which does not provide reasonably full production with reasonably full employment at a high standard of wages and farm income.

As a practical matter, we cannot go back to the production levels of 1940. The Department of Commerce recently estimated that if in 1946 we were to go back to 1940 total production at 1940 hours of labor there would be 19 million unemployed. There would be a cut of more than 30 percent from our present level of production.

Such an economic reversal would mean shrinking markets and falling prices for farm products as well as the products of our factories. It would mean that our farmers, our workers, and our returning soldiers would again have to compete bitterly with each other for their frugal individual shares of economic scarcity. It is obviously unthinkable.

If we attain full production and experience a corresponding increase in the national purchasing power, the Department of Commerce says we would be able to spend 40 percent more for food - in terms of a more varied diet, better qualities and increased services in connection with processing and distributing food products - 45% more for clothing, 55% more for refrigerators and other electrical equipment, 70% more for household furniture, 90% more for new farm machinery and 2½ times more for new homes than in 1940.

We who have been close to American industry during the war period believe that industry can

successfully meet this test of the future. But I believe we are all aware, both in government and in industry, that in order to reach this goal we must establish and maintain close cooperation among all groups - business, labor, farmers and government.

During the next five years, of all periods in our history, we will need economic courage, good sense and a common understanding of the problems that we face.

If, during the next few years, major segments of American industry operate on a high price, high unit profit basis, we are going to have diminished production and dangerous unemployment. If major segments of American industry attempt to cut prices by depressing wage rates, we will face the dangers of another disastrous depression.

The basic answer to our economic future, it seems to me, lies in the maximum hourly production on the part of labor; high wage rates, low unit profits and the greatest possible volume on the part of industry; the maintenance of high farm income; and the joint realization of all groups that the prosperity of each depends on the prosperity of the others.

During this difficult war period we have all learned to cooperate and to work together on a constructive give and take basis. We are winning the war today because each group - our soldiers and sailors, our industrial workers, our leaders of enterprise, our farmers and our government - have worked as part of a team.

We have had our occasional differences of opinion. But we have never had to argue about where we wanted to go or the speed with which we wished to get there.

Our economic future, like the winning of the war, rests in our own hands. This challenge is as great as the war itself.

## WHICH ROAD WILL WE TRAVEL?

### IF WE GO BACK TO 1940 PRODUCTION

IN 1940 THERE WERE . . .



9 MILLION UNEMPLOYED.

FOR THE PAST YEAR, WITH WAR PRODUCTION AT PEAK LEVELS, UNEMPLOYMENT HAS RUN AT APPROXIMATELY . . .



1 MILLION

SINCE 1940, THE GROWTH OF POPULATION HAS ADDED . . .



2½ MILLION WORKERS.

MEANTIME PRODUCTIVITY OF INDUSTRY HAS GROWN STEADILY. AFTER THE WAR, UNDER A 1940 WORK WEEK, 1940 PRODUCTION CAN BE ATTAINED WITH 8 MILLION FEWER WORKERS.



AFTER THE WAR, THEREFORE, IF WE WENT BACK TO 1940 PRODUCTION (THE HIGHEST ON RECORD UP TO THEN) WE SHOULD HAVE, NOT 9 MILLION UNEMPLOYED AS IN 1940, BUT OVER . . .

19 MILLION UNEMPLOYED



THIS MEANS **HARDSHIP** - AND IT MEANS **DEPRESSION**

### IF WE MAINTAIN FULL PRODUCTION

AFTER THE WAR WE CAN SPEND THIS MUCH MORE THAN IN 1940

PERCENTAGE INCREASE IN CONSUMER EXPENDITURES



THIS MEANS **JOBS** AND **PROSPERITY** FOR ALL

25

October 10, 1944.

**Dear Mr. Bowles:**

Your letter of October 6, which transmitted a copy of a memorandum you have sent to the members of your Advisory Committee, has reached this office during the Secretary's absence. I shall be glad to bring your letter and the enclosure to Mr. Morgenthau's attention as soon as he is again at his desk, and I know he will be most interested in seeing the material you have prepared.

**Sincerely yours,****(Signed) H. S. Klots**  
2**H. S. Klots,  
Private Secretary.****Honorable Chester Bowles,  
Administrator, Office of Price  
Administration,  
Washington 25, D. C.**

KP/dbs

OFFICE OF PRICE ADMINISTRATION  
WASHINGTON 25, D. C

October 6, 1944

OFFICE OF THE ADMINISTRATOR

*Handwritten:*  
Hess  
C  
J  
h

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

Dear Mr. Morgenthau:

I am attaching a copy of a memorandum to the eight thousand members of our Advisory Committees on the inflationary and deflationary dangers which we are likely to face during the coming year, together with a general outline of the program which we are developing to meet them.

I will be glad to get any suggestions or criticisms.

Sincerely,

*Handwritten signature:* Chester Bowles

Chester Bowles  
Administrator

Attachment

24 OCT 8 AM 8 32

SECRETARY OF TREASURY  
OFFICE

APR 1 1945

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 16, 1944

TO Secretary Morgenthau

FROM Mr. White *H.W.*

This is a comparative statement of the earnings and expenses of the Stabilization Fund for the months of August and September, 1944.

<u>Earnings</u>	<u>August</u>	<u>September</u>
Interest earned on investments	\$ 41,169.99	\$ 40,010.00
Profits on handling charges on gold	211,418.54	259,423.63
Handling charges on gold (Stabilization) - Accrued	12,499.88	---
Profits on other gold and exchange transactions	3,000,000.00	1,000,000.00
Miscellaneous profits	<u>12.37</u>	<u>17.25</u>
Total	\$3,265,100.78	\$1,299,451.68
 <u>Expenses</u>		
Salaries	\$ 31,652.72	\$ 27,482.26
Travel	454.78	2,815.07
Subsistence	4,619.25	1,354.50
Telephone & Telegraph	4,255.66	3,542.19
Stationery	84.03	27.35
All other	<u>187,342.64</u> <sup>1/</sup>	<u>623.87</u>
Total	\$ 228,409.08	\$ 35,845.24
Net earnings	\$3,036,691.70	\$1,263,606.44

This report was completed from figures supplied by Mr. O'Daniel.

<sup>1/</sup> \$186,387.83 of this item represents cost of moving gold from Fort Knox to New York.

9:30 meeting

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date  
OCT 16 1944

TO Secretary Morgenthau  
FROM Mr. O'Connell

F.E.A. has proposed that the President make a public statement to the effect that this country will not recognize the acquisition by neutrals of German-owned patent and patent rights. The purpose behind the proposal is to prevent German industrialists from finding safe havens for their patents.

On October 2, 1944, this Government formally requested neutral countries to take the measures called for by Resolution VI of the Bretton Woods conference. The next step, obviously, is to advise neutral countries of the measures we are prepared to take to enforce our request. It is my view, however, that our approach in this regard should be as broad as the requirements of Resolution VI, and that patents should not be dealt with separately and apart from other forms of property. To deal with the problem piecemeal may well lead to confusion, and to complexities of such a nature as to create unsuspected loop-holes.

In my opinion, therefore, the proposed statement should not be issued. If you agree, I will call Mr. Cox and advise him accordingly.

*Joseph J. O'Connell Jr*

FROM: MR. O'CONNELL

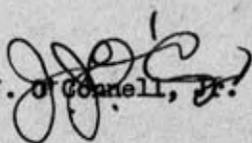
150

10/11/44

TO: Mr. DuBois

This letter has been acknowledged and the Secretary wants our comments, either by a letter to Oscar Cox for the signature of the Secretary or a memo to the Secretary, or both, by Monday, October 16th.

If possible, I would like to have something on it Saturday, October 14th.

  
J.J. O'Connell, Jr.

FOREIGN ECONOMIC ADMINISTRATION  
Office of the General Counsel  
OFFICE OF THE ADMINISTRATOR  
WASHINGTON 25, D. C.

151

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- 6 x

October 7, 1944

Dear Secretary Morgenthau:

Attached is a rough draft of a  
proposed statement which might be used by the  
President.

It has been suggested that I get  
your comments on it.

Sincerely yours,

*Oscar Cox*

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

Draft - October 6, 1944

In their frantic efforts to try to put German property in safe-keeping beyond the borders of Germany, Nazi industrialists have been offering German patents and patent rights for sale in neutral countries. One purpose of such transactions is to put ownership temporarily in a neutral name as a cover until the Germans feel it is safe to transfer the patents back to their own names. Another purpose of the Nazis, in the cases where the transfers are not used merely as a cover, is to realize on these assets and acquire useable funds outside of Germany.

No such transfers or licenses will be granted any recognition by this country. The patents and all rights thereunder will continue to be regarded by the United States as enemy property subject to seizure. Neutral purchasers or licensees who participate in such transactions will be unable to protect their claimed rights by registration in the United States. They will, moreover, find themselves subjected to infringement suits if they attempt to market products in this country based on enemy patents already vested by the United States.

In view of this, it is hoped that no neutral individuals or companies will lend themselves to any of these Nazi schemes to dispose of or hide German property.

October 11, 1944

Dear

Mr. Cox:  
In the absence of the Secretary, I am acknowledging receipt of your letter of October 7th with which you enclosed the draft of a proposed statement for the President.

As soon as Mr. Morgenthau returns, I shall bring your letter to his attention.

With kind regards,

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary

Mr. Oscar Cox,  
Office of the General Counsel,  
Foreign Economic Administration,  
Washington 25, D. C.

FOREIGN ECONOMIC ADMINISTRATION

154

WASHINGTON 25, D. C.

October 13, 1944

Dear Mrs. Klotz:

I appreciate very much your letter of October 11th about the draft of the proposed patent statement, telling me that you will bring the letter to Mr. Morgenthau's attention as soon as he returns.

Sincerely yours,

*Oscar Cox*

Mrs. H. S. Klotz  
Office of the Secretary  
Treasury Department  
Washington, D. C.

Treasury Department  
Division of Monetary Research

155

Date Oct. 19, 1944

To: Mrs. McHugh

This memo is in response to the Secretary's request of Oct. 4, 1944, as follows: "Would you please look into the matter mentioned in the attached article". The newspaper article is returned herewith.

L. Shanahan

MR. WHITE  
Branch 2058 - Room 214-1/2

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 16, 1944.

TO Secretary Morgenthau  
FROM H. D. White *HDW* FOR YOUR INFORMATION

You wanted me to consider the proposals made by Dr. Antonin Basch in the report published by the Committee on International Economic Policy.

Dr. Basch proposes that in order to reach looted property, the United Nations declare invalid all property rights acquired by the Germans or their satellites in the occupied countries after certain dates, and that all German property rights outside of Germany be taken into custody to meet all "eventualities." Dr. Basch warns the United Nations against being misled by the "legal" methods employed by the Germans in looting the occupied countries, and "cloaking" by neutrals. He stresses the importance, however, of putting plants and factories to work at the earliest possible moment, and proposes that they be operated under national trusteeships until their ownership is clarified. Dr. Basch also considers certain problems related to the future domestic economic policies of the formerly occupied countries. While Dr. Basch would prefer the creation of an international agency representing the United Nations to act as trustee for the victims of German economic penetration, he recognizes that politically it may be impossible to take that course. He, therefore, suggests the desirability of an agreement between the United Nations establishing common international standards of procedure.

Foreign Funds Control and the Legal Division have been studying this problem and its related aspects for some time and have special units handling the matter. It ties in closely with the unfreezing of blocked assets and the measures we will have to take with respect to looted assets in Germany and in neutral countries. Our Gold Declaration and Resolution VI of the Bretton Woods Conference are samples of some measures we have already taken.

We all think that we will have to have some of our men not only in Germany but in the neutrals devoting their time to locating German loot and in getting leads to German assets secreted outside of Germany.

## FACTORY TRUSTEES URGED FOR EUROPE

Economist Says Plants Seized  
From Nazis Should Be Put  
to Use Without Delay

Special to THE NEW YORK TIMES.

WASHINGTON, Oct. 1—Proposals for seizing, naming trustees for and restoring to operation under their rightful owners all industrial properties plundered by the Nazis are set forth in a pamphlet report issued today by the Committee on International Economic Policy.

Winthrop W. Aldrich, who as the committee's chairman released the report, emphasized that the views it expressed were those of the author, Dr. Antonin Basch, formerly corporation executive and professor in Czechoslovakia and now a member of the economics department of Columbia University. The committee's aim, he said, is to present for public information and consideration thoughtful studies of various aspects of the international economic problem.

Dr. Basch's report, entitled, "Industrial Property in Europe," says it is probably now too late to organize an international agency to represent the victims of German economic penetration, and thinks that action should be national rather than international. At the same time, he thinks the work should be conducted in accordance with an agreement among the United Nations, which would establish a common form of procedure.

"Two particularly important tasks must be faced," says the report. "One of them, which is often greatly underrated, is to restore the rule of law throughout Europe. The other task is to put all the seized enterprises back to work as rapidly as possible. Questions of ownership should not stand in the way of starting and continuing operations of factories, mines and other enterprises."

Dr. Basch opposes having governments take over the mines and principal industries, but favors trusteeship so long as the property cannot be returned to the rightful owners.

"An agreement among the United Nations," he says, "and perhaps incorporated in the peace treaties will have to be concluded. Such an agreement should establish common international standards and set up a special international tribunal to deal with individual cases, granting the right of appeal against the decisions of the national governments."

The pamphlet studies in detail the German policy of achieving economic domination throughout occupied and controlled Europe, which he says was all part of a blueprint for the new German empire and provided supremacy for the Nazis under the name of a "new economic and political order."

In conclusion, the author declares: "It would be a tragic aftermath of nazism if the solution of the changes of property caused by the Germans were to interfere unduly with political consolidation and economic reconstruction."

"For all these reasons," he adds, "the problem of industrial property should be considered as one of general international importance, and an effective means of dealing with it should be adopted by the United Nations."

## UNITED KINGDOM TREASURY DELEGATION

BOX 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

REFERENCE:

TELEPHONE EXECUTIVE 2020

October 16, 1944.

*Dear Mr Secretary,*

As promised I am sending you a document explaining our case for Lend-Lease in Stage II and giving the relevant figures. I trust it is the sort of thing you want. It has got rather long, I fear; certain points also are repeated in different chapters since we thought you might wish to restrict circulation of different parts of the document to various individuals.

With this host of figures originating in different departments, there may well be minor discrepancies, but we have made every effort to check them and to make sure they are consistent. The munitions figures, of course, derive from Service demands. If your people wish to discuss them in detail we have the necessary experts available here to explain them. There are also representatives of the other departments available should questions arise on any of the other figures.

I trust you had a pleasant time on the Coast, and remain, *as ever*

*Yours very sincerely*

*Cherwell.*

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

*Handwritten:* 10/14/44

-----  
**MEMORANDUM ON PALESTINE POLICY**  
 submitted by the  
**JEWISH AGENCY FOR PALESTINE**  
 to  
**HIS MAJESTY'S GOVERNMENT**  
 -----

STRICTLY CONFIDENTIAL

The war is approaching its end, and the Jewish problem in its post-war setting calls for immediate consideration. Of the six million European Jews outside of USSR and the British Isles, probably not more than one-and-a-half million are alive today, and not all yet safe. The Jews in Soviet territory under German occupation have probably lost another million. Even in this war, no other people in proportion to their numbers have suffered such losses, accompanied by such horrors.

2. Allied victories are bringing immediate security to the survivors. But the root of the tragedy is the inherent weakness of the position of the Jews as a homeless people. As long as that endures, Hitler's solution of the Jewish problem by extermination will continue to haunt mankind, as a nightmare to some, as a temptation to others. To offer to the surviving European Jews, deported and broken, a return to the "status quo ante," propped up by philanthropic palliatives and paper guarantees, is morally unthinkable. For the large mass, true rehabilitation can only be achieved by a fresh start in new surroundings. Moreover, the problem is not merely one of finding homes for refugees; it is one of finding a country for a people. The solution must be constructive and permanent. It involves not only the fate of the remnants of European Jewry; the curse of homelessness must be lifted from the entire race.

3. "Some place must be found." Tropical or sub-arctic regions, such as Guiana, Madagascar, or Alaska -- to mention some recent suggestions - can hardly be seriously considered. The colonisation attempt made in San Domingo has proved a fiasco. Even under the more favourable climatic and economic conditions of Argentina, Southern Russia, and Biro-Bidjan, experience has shown that where the national idea and tradition are inoperative, Jewish settlement cannot develop on a large scale for lack of driving power. An inspiration of high intensity is needed to transform a people of town-dwellers into agriculturists, middle-men into manual workers.

4. The renaissance of the Jewish nation is bound up with Palestine. The choice made by destiny cannot be undone. Palestine is the Jewish people's birthplace, and it gave birth to no other. It owes its place in history to the Jews, and to no other people. The Jews as a people, and Palestine as a country, ceased to be truly creative when the bond between them was severed. But the hope of renewing that bond has kept the Jewish people alive, and meantime, Palestine remained desolate. The Jews have never ceased to pray for their return to Palestine. The urge to go back has been continuous, and in every generation practical efforts were made to return. Zionism is a final and determined bid for achievement.

5. The British people have always been conscious of the unique connection of the Jews with Palestine. From that consciousness the Balfour Declaration was born. But vision and statesmanship have not been translated into administrative practice. Jewish endeavour has received scant encouragement. Official policy has been far more alive to the difficulties of implementing the Mandate than to its creative aim. Step by step the original conception has been whittled down until a complete negation of the primary purpose of the Balfour Declaration and the Mandate was reached in the White Paper of 1939. But Jewish work has attained a stage of development which precludes Palestine from becoming an Arab country.

6. If the war had found two million Jews in Palestine instead of half-a-million, the task of the Allies in the Middle East would have been greatly eased, and the position of the Jewish people would have been totally different. But even the half-million proved their value, both to their people and to the Allies. Palestine has received tens of thousands of Jewish refugees, and were it not for the paralysing effect of the White Paper policy, the dimensions of rescue would have been far greater. All resources of Palestinian Jewry, in man-power, productive capacity, and scientific knowledge, were harnessed to the war effort. Palestinian Jewish units served with the British Forces in Palestine, France, Ethiopia, Eritrea, Egypt, Greece, Crete, Syria, Libya, and Italy. Civilian volunteers risked and laid down their lives in hazardous para-military operations under British command. Palestine provided a source of information, unique in the Middle East, on the industrial, technical and scientific position in enemy countries. Jewish technicians and artisans were mobilised to perform urgent war tasks in all the neighbouring countries. This war effort would have been far more fruitful had it not been cramped and thwarted by the present negative policy.

7. The Jewish Agency appeals to H. M. Government to inaugurate a new era for Palestine and the Jewish people by drawing the logical conclusion from the Balfour Declaration as originally conceived. At this juncture they regard as imperative a decision designating Palestine as a Jewish Commonwealth — a country where the Jewish people shall be free to work out its salvation by large-scale settlement and by the achievement of full nationhood.

8. The Jewish Agency is fully aware of the difficulty with which this policy is fraught on account of Arab opposition. But if Arab consent is to be a pre-condition of any political settlement, hope must be given up of justice to the Jewish people. The Arabs demand that the Jews should be made a permanent minority in an Arab Palestinian State, which should become one in a cluster of Arab States. The Jews ask that a Jewish State be established with Palestine West of the Jordan for its territory, and hope that this State, while maintaining friendly relations with all its neighbours, may be organically connected with the British Commonwealth of Nations. The Arab programme would deny to the Jews a place among the nations, which they can only obtain through Palestine. The Jewish programme would have no such effect on the Arabs, who are already possessed of many States with enormous undeveloped potentialities. A Jewish minority in an Arab Palestine would be like the Czechs in Greater Germany; but an Arab minority in a Jewish Palestine will not merely have every guarantee of equality of rights, religious freedom, autonomy in cultural and municipal affairs, and a full share in the benefits of development; the fact that Palestine is surrounded by Arab countries will add to their security. In view of what Great Britain and her allies have done, outside Palestine, since 1914, to promote and protect Arab nationhood and independence, Arab objections to the Jews being given full national status in their ancient homeland lack moral

validity. The movement towards Arab unity is an additional reason why Jewish effort in Palestine should once and for all be established on a firm territorial and political basis.

9. Some who have come to recognise that the Jews ought to have their State, think that this could best be achieved by partitioning Palestine between Jews and Arabs. The Jewish Agency would view with deep apprehension an attempt to revive the partition idea. In 1937, a major consideration was the impending war. Now the most must be made of the potentialities of Palestine for immediate large-scale immigration. Palestine is already a twice-partitioned country, as compared with what it was at the time of the Balfour Declaration. Its further dismemberment is liable to be fatal to the viability of the Jewish State. A proper land basis is vital to Jewish development. This entails the promotion of intensive farming throughout Palestine, and access for Jews to undeveloped areas scattered all over the country. With the sea in the West, the Jordan and the Power and Potash concessions in the East, the chief water-resources in the North, and the main land-reserve in the South, any partition scheme seems bound to disrupt the country's economic frame, and wreck the chances of large-scale development.

10. In facing Arab opposition, the decisive element is time. Once Palestine has become a Jewish State, its existence would be accepted as an accomplished fact, just as the present Jewish population is accepted, though in the past there was strong opposition, accompanied by violence, to the increase of Jews even up to the present number. The prospect for the future is by no means one of perpetual strife and unsettled conditions, but of an ultimate equilibrium and collaboration. It is both the desire and the interest of the Jews to live in peace with their neighbours, and develop close intercourse with them. Even now, Palestine can render important services, industrial and scientific, to the neighbouring countries, which are taking a keen interest in these results of Jewish work.

11. The political programme here set forth required, first and foremost, the quickest possible increase of the Jewish population. Two things are urgent: to create a Jewish majority in Palestine in order to ensure the effective functioning of the Jewish State, and to rehabilitate the survivors of the European tragedy. Most, if not all, of these people, certainly the children among them, would anyhow be a charge on public funds for a considerable time after the cessation of hostilities. Such funds would be much more profitably spent on their settlement in Palestine. Apart from the survivors in Europe, the main groups of would-be immigrants are (i) refugees scattered throughout the world who have not been absorbed; (ii) Jews in those oriental countries where their safety and well-being are in permanent jeopardy; and (iii) Jews in English-speaking countries, among whom a movement to settle in Palestine is spreading.

12. For the proper organisation of this immigration, its control should be entrusted to the Jewish Agency. Large funds will be required, and an international loan may be necessary. Detailed plans of absorption are being prepared by the Jewish Agency, comprising reclamation works, irrigation schemes, and projects of intensive agricultural and industrial development. The return of the Jews to Palestine has revolutionised their social structure and the country's economics. Sixty years of trial and error, experiment and achievement, is a firm basis on which to build the edifice of the future. With modern technique and adequate powers, what has been achieved so far can be turned into a lever for further and greater progress.

13. The present is a unique opportunity for righting a historic wrong, and solving a burning international problem. Millions of Jews throughout the world are now pinning their age-long hope on Allied victory. Its fulfilment will bring salvation to the Jewish people, and everlasting credit to Great Britain and her Allies.

10/15/44

SECRET

AIRGRAM

FROM : Ciudad Trujillo, D. R.

DATE : October 16, 1944

Rec'd: October 21 6 p.m.

Secretary of State

Washington

A-516 October 17 - 10:30 A.M.

Reference is made to the Department's secret airgram, September 19, 9:15 a.m. with regard to holders of Latin American documents in enemy territory.

The Acting Minister for Foreign Affairs has informed the Embassy that no such documents have been issued by the Dominican Government and consequently no lists are available. He stated that the Dominican Government has not been notified that action along these lines is being taken by other American Republics nor that the Political Defense Committee in Montevideo has been notified. In this respect please see the Embassy's secret airgrams A-397 of August 19, 10:30 a.m. and A-420, August 26, 10:30 a.m.

NEWBEGIN

848  
RN:MC

cc: Miss Chauncey (for the Sec'y) Abrahamson, Aksin, Cohn, Drury, DuBois, Friedman, Gaston, Madel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

MS-699  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

London

Dated October 16, 1944

Rec'd 3:50 p.m.

Secretary of State,

Washington.

8776, October 16 2 p.m.

FOR DEPARTMENT AND PEHLE WAR REF BD

Re your 8341 of October 10. Delighted to have Mann  
appointed as special representative and with the arrange-  
ment that Goodhardt be available for special consultation  
and advice.

WINANT

DU

**EX-766**  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Lisbon

Dated October 16, 1944

Rec'd 7:08 p.m.

Secretary of State,

Washington.

3156 October 16, 6 p.m.

THIS WBS 222 JBC 91 FOR LEAVITT FROM PILPEL.

Saly reports Bulgarian Jews have same status as other Bulgarians hence require no special aid at present.

Saly acknowledges receipt regular grant October but not informed regarding purpose of \$180,000. He is endeavoring arrange for shipments Bergen Belsen and other camps and has bought 5,000 blankets for former camp. Saly just informed regarding special camp in Slovakia with 250 United States, Argentine, Bolivian and other American passport and visa holders. Camp leader is Milton Haar, born, New York, July 16, 1910. Filderman has secured 150 lei against credit of 300,000 Swiss francs. Saly has authorized Filderman to repeat transaction.

NOV 1944

JMS

BJR - 767  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Lisbon

Dated October 16, 1944

Rec'd 7:07 p.m.

Secretary of State,  
Washington.

3158, October 16, 6 p.m.

THIS WRB 223 JDC 90 FOR LEAVITT FROM PILPEL.

Jefroykin with wife and new born son probably  
Toulouse. All well, Have telegraphed Jefroykin's  
father Montevideo. Daly has made available additional  
forty million French francs for France and is dealing  
with joint representatives on interim basis. Saly  
informs us that Dr. Joseph Weil and Pierre Bigar left  
for Paris. Will report to him.

NORWEB

JMS:EEC

CABLE TO MINISTER JOHNSON FOR OLSEN, STOCKHOLM, SWEDEN

Reference your 4008 to Department, Section 2, WRB's 89 of October 7, 1944.

The Board's concern with the welfare of refugees in neutral countries arises only when it bears a direct relationship to the reception of additional refugees from enemy controlled areas. Consequently, the Board does not consider that the matter raised in the telegram under reference is one which is properly to be dealt with by it. For that reason, the Board has referred the problem in its entirety to the Department of State.

THIS IS WRB STOCKHOLM CABLE NO. 110.

11:00 a.m.  
October 16, 1944

DMH-709 .  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Stockholm

Dated October 16, 1944

Rec'd 4:20 p.m.

Secretary of State

Washington

4206, October 16, 7 p.m.

Substance of Department's 2041, October 12, midnight  
(WRB's 105) has been communicated to Eric von Post, head  
of Political Department Swedish Foreign Office) (This is  
our 93 for WRB) and he has undertaken to make every effort  
to have the message conveyed to the German authorities.

JOHNSON

RB

ORIGINAL TEXT OF TELEGRAM SENT  
FROM: Secretary of State, Washington  
TO: American Legation, Bern  
DATE: October 16, 1944  
NUMBER: 3523

## SECRET

For McClelland, from War Refugee Board.

Please deliver the following message to Saly Mayer from  
M. A. Leavitt of the American Jewish Joint Distribution  
Committee:

QUOTE WE AUTHORIZE ADDITIONAL EXPENDITURE BEHALF  
HUNGARIAN JEWS BOTH FOR RESCUE ACTIVITIES OR RELIEF  
IN HUNGARY UP TO \$300,000 ON CONDITION THAT YOU CAN  
PURCHASE PENGOES IN SWITZERLAND FROM SOURCES KNOWN  
TO YOU TO BE RELIABLE AND SO THAT SWISS CURRENCY WILL  
NOT AID ENEMY OR ENEMY COLLABORATIONISTS. UPON YOUR  
REQUEST WE WILL TRANSMIT THE SUM TO YOU AND WOULD ASK  
YOU SET THIS UP AS A SEPARATE ACCOUNT TO BE REPORTED  
ON SEPARATE AND APART FROM OUR REGULAR FUNDS AT YOUR  
DISPOSAL UNQUOTE

THIS IS WRB CABLE TO BERN NO. 214.

HULL

CABLE TO MINISTER HARRISON AT BERN AND MCCLELLAND FROM WAR REFUGEE BOARD

Reference your 6721 of October 9.

Paragraph 3 of Department's 2490 of July 21 commences as follows:

QUOTE Please endeavor through any unofficial channels that may be available to you UNQUOTE

The same paragraph closes

QUOTE the consequences for which formed the subject of President Roosevelt's statement of March 24. UNQUOTE

THIS IS WRB BERN CABLE NO. 218.

3:45 p.m.  
October 16, 1944

DMH-676

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

Ankara

Dated October 16, 1944

Rec'd 2:18 p.m.

Secretary of State

Washington

1977, October 16, midnight.

FROM KATZKY TO PEHLE, WAR REFUGEE BOARD, ANKARA'S 165.

Reports reaching Istanbul describe the dangerous situation of Jewish people in Hungary and Slovakia and the continuing urgent need to evacuate them to safe havens as rapidly as possible. All avenues of escape, therefore, should be explored at the earliest possible moment. Recent authorization of American Mission to proceed to Rumania may provide occasion (see Department's 810 of September 20, WRB 112) to request State Department permission for me to proceed to Bucharest, with secretarial assistance while there, in order to investigate means of rescue at that place. Passman of JDC would accompany me. Telegraphic authorization requested.

STEINHARDT

RB

cc: Miss Chauncey (for the Sec'y) Abrahamson, Akzin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

NOT TO BE RE-TRANSMITTED

OFFICE  
SECRETARY OF TREASURY COPY NO. 11

SECRET

OPTEL No. 336

1944 OCT 17 AM 9 10

Information received up to 10 a.m. on 17th October, 1944. TREASURY DEPARTMENT

1. NAVAL

On 12th one of our motor minesweepers was mined and sunk off Leghorn. On 13th a French destroyer bombarded enemy positions Bordighera.

2. MILITARY

WESTERN EUROPE. Heavy fighting continues immediately north of Aachen where U.S. troops are meeting fierce resistance. Some progress in street fighting in the northeastern outskirts of the city. U.K. troops have advanced 1,000 yards S.E. from Overloon and are nearing Venray. Canadians have enlarged their bridgehead on the south bank of the Scheldt and have linked up with other Canadians who have crossed the Dutch frontier from Belgium.

RUSSIA. Russians have captured Petsamo, have made further progress west of Riga, have taken Dej N.E. of Cluj and have captured Krusevac, N.W. of Nis.

3. AIR OPERATIONS

WESTERN FRONT. 14th/15th. 4,382 tons including 499 incendiary on Duisburg and 858 on Brunswick.

15th. 1089 escorted U.S. heavy bombers (21 missing) bombed Cologne railway centre - 1993 tons, factory 196; Mannheim - oil 138; Reisholz - oil 143; other targets 134. 687 supporting aircraft (7 missing) claim 7, 0, 1 in action, also 26 locomotives and 54 vehicles destroyed.

Sorpe Dam S.E. Dortmund, attacked by 16 Lancasters escorted by 61 Mustangs. 16 12,000 pound bombs dropped. Some fell on crest of Dam but no breach seen. No opposition.

778 fighters and fighter bombers supported ground forces in Holland, Western Germany. One Mosquito sent to Kolberg airfield destroyed 8 aircraft on the ground. 38 Coastal Command aircraft sank a 2,000 ton tanker and a coaster off Norway. Two other coasters set on fire off Heligoland.

15th/16th. 667 bombers including 54 Mosquitoes sent out:-

Wilhelmshaven	506 (7 missing)
Sea Mining	37 (4 missing)
Bomber support	70
Hamburg	44 Mosquitoes

Much cloud Wilhelmshaven. Attack considered scattered.

MEDITERRANEAN. 14th. 384 escorted U.S. heavy bombers (23 missing) dropped 707 tons on oil refineries and rail centres Central Europe. Oil - Blechhammer 217 tons and Odertal 163; railways - Maribor 131; other targets 196. 54 Mustangs (2 missing) attacked two airfields in Hungary. 31 aircraft destroyed on the ground.

4. HOME SECURITY

15th/16th. 22 flying bombs plotted in two phases at about 10:30 p.m. and 4:45 a.m.

October 17, 1944  
9:45 a.m.

GROUP

Present: Mr. D. W. Bell  
Mr. Gaston  
Mr. White  
Mr. O'Connell  
Mr. Penle  
Mr. Blough  
Mr. C. S. Bell  
Mrs. Klotz

H.M.JR: The funniest thing happened in Los Angeles. It turned out that Murphy's being there was very useful, because some newspaperman had a question. He was trying to tie up the relationship between the deficit in '33, the present deficit, and the national income. I said to the fellow, "I don't know what you are driving at; for political purposes it is no good, but Mr. Murphy will give you the figures, anyway."

Then I said, "If you really want something good, I don't know the answer, but I will give it to you. What you want is the net deficit and the national income."

I have never seen those figures before. They are very good. The net deficit in '33 was a billion and a half, and the net deficit in '39 was only three billion.

MR. D. W. BELL: I can't remember the figures.

H.M.JR: Those are the figures that Murphy gave. Then you compare the national income; it was around fifty or sixty billion at that time.

MR. D. W. BELL: Forty then.

H.M.JR: But they are interesting figures.

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MR. D. W. BELL: Percentage-wise.

H.M.JR: I mean from a billion and a half to three billion. You talk about a three billion deficit today, and it sounds almost like nothing. And then you show that the deficit really began to grow when we began to spend for war.

MR. D. W. BELL: Yes, your debt was below fifty billion dollars when you started on your defense program.

H.M.JR: Somebody gave these fellows some crazy figures, and, of course, it didn't work out. They didn't ask for any tax figures, but I missed your (Blough's) company. I realize you didn't have a chance to talk taxes to me, but I was so rushed on the way back.

MRS. KLOTZ: On the whole trip.

H.M.JR: I didn't get a chance to talk on the whole trip.

MR. BLOUGH: After all, from here to New Orleans it was the Los Angeles speech, and there wasn't anything after New Orleans.

H.M.JR: I slept from here to Atlanta.

MR. BLOUGH: Well, I didn't care to bring that up.  
(Laughter)

H.M.JR: And from Atlanta to there we did the speech.

I would like to get a sample of what they sent out last night. How did they send it out?

Herbert, I didn't have a chance to see an awful lot of Vanderpoel, but Murphy did, and he thinks he is really tops. He said he is half way between a very good writer and a good economist, and he said the way he took that stuff and the speed with which he turns out his stuff is perfectly amazing. And I thought that you might, if you would, sound him out. As I remember, he was willing to come with us at one time.

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MR. GASTON: Yes, he was.

H.M.JR: You might sound him out.

I wish you would, in the first place, write a letter for my signature telling him how well the speech was received.

MR. GASTON: He did the Los Angeles speech?

H.M.JR: He has the same quality of a different type, but this quality he has is the same as Alan Barth's. You can talk at him, and then he will take my idea and give me the result.

The last time I talked three hours to these three script writers from Washington to Nashville, I gave them three hours of my time. Then when I got to Los Angeles in the middle of the night, I found out I had no speech, and I had to get this Columbia Broadcasting--or somebody else--to rewrite the thing over night, but this fellow is good. And I thought you might see whether he would like to come with us. I don't know whether you have had a chance or not.

MR. BLOUGH: Yes, I did. And I am very favorably impressed. He seems to have the right attitude toward things on the one hand, and he seems to be a very able fellow.

H.M.JR: And he does not make me nervous, which is important. But doesn't he turn out his work very fast?

MR. BLOUGH: I am not in a position to judge that side of it.

H.M.JR: Murphy says it is unbelievable. He said in an hour he took this thing and just did it, that is all. He said he is accustomed to working against a deadline. And I believe he is a thorough New Dealer. He seems to be.

MR. GASTON: Yes, he is.

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MR. BLOUGH: I talked to him at some length about points of view, and so forth, and I think he is.

H.M.JR: He is perfectly willing to make the statements about the banks and all the rest of that.

MR. BLOUGH: He believes that, too, I am pretty sure.

MR. D. W. BELL: He certainly came out strongly against Brooks in Illinois some time ago.

H.M.JR: Did he?

Well, he did something else last week. He says his editor jumped all over him.

Will you do that, Herbert?

MR. GASTON: Yes, I think there is probably a good chance of getting him. The only objection I have ever had about getting Vanderpoel is taking him away from the Middle West. He is practically the only financial writer in the country who is constantly writing stuff in our favor, doing us good.

H.M.JR: Well, I am like Churchill and Eden when they were discussing this question of Germany and they got a little excited. Churchill said that between the German children and the English children, he was for the English children. I am for Morgenthau against the Middle West.

MR. GASTON: I don't think that is the question. It is a question of where he can do the most good for you. I still think the other way, but I will be very glad to talk to you.

H.M.JR: Thank you, sir.

Incidentally, you look refreshed.

MR. GASTON: I am.

H.M.JR: I am not very cantankerous this morning. I still haven't gotten enough sleep.

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MR. WHITE: As long as you have it your way!

H.M.JR: Well, it is very hard to find somebody who can write, who has the financial background; it is terribly important. And listen, Herbert, if he comes, he is here to work for Morgenthau. He is not to do speeches for Sullivan and the rest of them, or Bell.

MR. D. W. BELL: Bell has quit making speeches. You don't have to worry about that.

MRS. KLOTZ: Then you will have to be making a lot of speeches, or he won't have enough to do.

H.M.JR: I tell you, living through this month of working these three speeches out and for the first time putting down in pencil the Treasury's fiscal policy has been very good for me. If Blough can give me the time, I would like to do the same thing on taxes.

MR. BLOUGH: My time is very crowded, Mr. Secretary, and I am very sorry that I haven't been able to give you the time.

H.M.JR: I don't know whether any of you people have read those three speeches, but I thought they were pretty good. Commissioner Allen, formerly of Washington, who is out there heard me at the press conference. He is doing advance work for Truman. He was kind enough to say that he thought that speech and the press conference were the best for Roosevelt he has heard since the campaign started. He was very enthusiastic. And he said, "You get radio time for nothing. That is what burns me."

MR. GASTON: How is he betting?

H.M.JR: He has a list of States. He is getting even money that Roosevelt will carry California by two hundred thousand. That is one of his bets. But he has his own list. You know, he makes a living out of this betting. He is very, very confident. There is no question out West that Roosevelt will carry the whole Pacific Coast.

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MR. GASTON: Well, on the general result he is pretty confident, is he?

H.M.JR: Oh, yes, he says the betting is three to one. But, of course, Winchell gave it three and a half to one Sunday night. But he says the odds everywhere are three to one. He has no doubts.

Of course, I had dinner, just to gossip a little bit, at Twentieth Century Fox as the guest of Mr. Skouras. The interesting thing is, he had his top-flight scenario writers. He had three of his young stars as table decorations, but they were as mentally stimulating as flowers usually are.

MR. WHITE: They smelled nice.

H.M.JR: Yes, but I didn't get close enough.

Anyway, they tell me there they raised a million dollars a month for Republicans, just in the State of California--for Dewey. So there is plenty of money. But they are working very hard. They can't get any publicity out, that is the thing. The papers just won't carry it for Roosevelt.

MR. WHITE: What kind of an audience was it you spoke to?

H.M.JR: Ten or eleven States--War Bonds. They have this thing in this Hotel Biltmore, what they call the Bowl. They had about nine hundred people there. But the point is, that in itself wouldn't be worth while, but they get me a broadcast for the whole Pacific Coast, I mean, a rebroadcast at four-thirty. There are five radio stations in New Orleans, so when I spoke there I had anywhere from fifty thousand to half a million people listening.

MR. WHITE: Wouldn't it be worth while to duplicate the speech in the East?

H.M.JR: The trouble is, Ted Gamble can't set me up that kind of an audience. Alan was very, very anxious that

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I go to New England and do the same thing. He thought it was terribly important. But if Ted manufactured it--you see, he had the New England people come down to Atlantic City. If he did the thing, it would be too obvious.

MR. GASTON: Let's see, the drive doesn't start until after November 7, does it?

H.M.JR: No, but Alan was very anxious that I go to Boston. But I think a better man than I will go to Boston, so I don't think it will be necessary.

Now, I have a lot of stuff here. The trip was very hard, but I think it was worth while. But it wouldn't have been worth while if I hadn't had that radio hookup.

General Joseph Stilwell, according to Mr. Stimson, is very much worried about the speculation in money, and he happens to have two Treasury people working for him, Special Agent Dowling, and Special Agent somebody else.

MRS. KLOTZ: Isn't that in China?

H.M.JR: Yes, but I want the Treasury Department to cooperate. Wouldn't that go to you, Herbert?

MR. GASTON: Yes, but there is cooperation already underway. There has been a lot of theft by Army officers out there, smuggling, and so forth. That man Dowling did the primary investigating in the field, and now it has been made into a Bureau of Internal Revenue Intelligence investigation from the tax standpoint. There are thirty or forty of those fellows.

H.M.JR: General Stillwell has ordered Colonel Harry Cooper--is he a Treasury man?

MR. GASTON: He was formerly supervising agent of this district. He is in town now, or was a day or two ago.

H.M.JR: Would you prepare the answer to this for me?

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MR. GASTON: Yes.

MR. WHITE: Does that smuggling also refer to the fact that they are getting large sums of currency out there and then buying it at the official rate, or does he have reference only to goods?

MR. GASTON: Dowling, this Treasury man who is in the Provost Marshall's Office, is the man who stirred this up and got the letter written, but it is both, Harry, it is money smuggling, and it is smuggling of other goods.

MR. D. W. BELL: Speculation.

MR. GASTON: Gold smuggling and--

MR. WHITE: Such large profits could be made.

H.M.JR: Well, that needs an answer.

MR. GASTON: Right.

H.M.JR: Then this is confidential: Steve Early telephoned that in as much as the President declined speaking at the Herald Tribune Forum, he hoped nobody from the Treasury would speak. Is anybody speaking?

MR. D. W. BELL: No, but I assumed that that would go to all the other departments; Somervell and Hines are speaking.

H.M.JR: It just says here that any Treasury people who might be invited to participate would also decline.

MR. D. W. BELL: So far as I know, nobody is on from the Treasury.

H.M.JR: Then this is Oscar Cox: "If satisfactory to you, we would like to talk to Sam Klaus about signing him up for FEA pay roll." Now don't say no.

MR. PEHLE: Me?

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H.M.JR: He rose to that one! If you insist, or you (O'Connell) insist on keeping him--

MR. O'CONNELL: I would be very happy to have Sam work for FEA. He has really been working for them, and certainly not working for us, in the past few months, and I think that would be a very desirable thing.

H.M.JR: You reluctantly--

MR. O'CONNELL: Let's say reluctantly.

H.M.JR: All right. We reluctantly give him up. But Sam has asked to see me, and I will see him when I can catch my breath. You just make a note.

Now, has anybody seen Sam?

MR. WHITE: I have seen Sam. He wants to see you, as far as I know, about Spain. I think you ought to hear him. He may have something personal in addition, but I don't think so.

MR. O'CONNELL: About Spain?

MR. WHITE: Yes, the Embassy in Spain.

H.M.JR: This is from Joseph J. O'Connell (refers to memorandum of October 16), "F.E.A. has proposed that the President make a public statement to the effect that this country will not recognize the acquisition by neutrals of German-owned patent and patent rights. The purpose behind the proposal is to prevent German industrialists from finding safe havens for their patents.

"On October 2, 1944, this Government formally requested neutral countries to take the measures called for by Resolution VI of the Bretton Woods conference. The next step, obviously, is to advise neutral countries of the measures we are prepared to take to enforce our request. It is my view, however, that our approach in this regard should be as broad as the requirements of Resolution VI, and that patents should not be dealt with separately and

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apart from other forms of property. To deal with the problem piecemeal may well lead to confusion, and to complexities of such a nature as to create unsuspected loop-holes.

"In my opinion, therefore, the proposed statement should not be issued. If you agree, I will call Mr. Cox and advise him accordingly."

I am reading this to be sure everybody is familiar and everybody agrees with Mr. O'Connell.

MR. O'CONNELL: I don't know how many have seen it.

Oscar sent you a short note with a two-paragraph statement which he suggested that the President might put out with respect to German-owned patents which might be cloaked by saying it meant other countries, and that was our reaction.

I have only talked to the people in Foreign Funds Control who deal with the ABC office all the time and are familiar with the patent situation.

H.M.JR: You call Oscar and tell him. You might tell him to be getting a letter, because the man works for you. But we will release Sammy, do you see?

MR. O'CONNELL: Yes.

MR. WHITE: Instead of telling Cox that, why not have some of his men meet with Foreign Funds besides and thresh it out, instead of telling him not to do it. Maybe he has some good arguments. Let Schmidt and one of his men thresh it out.

MR. O'CONNELL: That is all right.

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I think we could meet your point by saying substantially what I said in the memorandum, but that if there are considerations we haven't thought of, there may be some point in having one of Oscar Cox's men talk to him.

But there doesn't seem to be a reason why the President should concentrate on such a narrow field as the patent situation in Germany.

MR. WHITE: They are familiar with that. I don't know--if you use the second approach--

H.M.JR: Well, will you still call him up?

MR. O'CONNELL: Yes.

H.M.JR: Now, Mr. Gaston?

MR. GASTON: I haven't anything.

H.M.JR: Good, Herbert, would you have a look to see if there are any editorials that have come in?

MR. GASTON: Yes, I have a book of them out there to look over.

H.M.JR: Would you write a little note for my signature to this Mr. Fritchey? I forget his first name. He is the managing editor of the evening paper in New Orleans.

MR. GASTON: Yes.

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H.M.JR: He saw me off at the airport and in the great excitement I had to send a message to him that I couldn't say goodbye to him. He is a great friend of Henry's. I'll address him by his first name and simply say I was pleased to see him and I was sorry I had to rush off the way I did; if he ever comes to Washington, look us up. He is a very attractive New Dealer. But he was the man who was responsible for cleaning up the Louisiana thing on the delegates for Roosevelt. He took three reporters up there to Baton Rouge and just sat there until he got the thing through. He was formerly with the Cleveland Plain Dealer.

Joe?

MR. O'CONNELL: Did you see the memo I sent you after I talked with Ben Cohen about that matter you asked John and me to see him about? John wasn't able to go; he was laid up. But I think the memorandum described it. There is nothing we need to do. Probably nothing will happen. If a business man asks us whether leave with pay is deductible, why the Bureau will tell him yes and tell him so as a matter of course; but I have indicated to Ben that we didn't want to take the initiative. We didn't think much purpose would be served by finding a business man to make the inquiry, but if they do it so it is clear that--

H.M.JR: I have asked you to be here at ten-thirty when Olrich comes in, and I thought Lynch, too, and Charles Bell.

MR. O'CONNELL: How about Dan?

H.M.JR: He is always welcome.

MR. D. W. BELL: Okay.

H.M.JR: I gave Dan an engraved invitation when he became Under Secretary. That is a season pass! At least, while Roosevelt continues.

D.W.BELL: After that time, I'm on my own.

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MR. O'CONNELL: I have nothing else.

MR. PEHLE: I spoke in Boston yesterday. We had a very good meeting. There were twelve hundred at a dinner meeting; it was very large. Hirschmann is back and will be around the first part of this week; if you have a few minutes to talk to him, it would be very nice.

I haven't anything else.

H.M.JR: Let's see. There is nothing pressing, is there?

MR. PEHLE: No.

H.M.JR: I have a number of things that are.

MR. PEHLE: I'll tell Fitz. I haven't anything else this morning.

H.M.JR: Any local political gossip?

MR. PEHLE: No, I came back from the station with Dave Niles.

H.M.JR: Is he for Roosevelt?

MR. PEHLE: I think so. He seemed not too disturbed. I think the jitters that have been getting everybody is probably a healthy thing, because they are getting out now and really doing some pitching.

I thought the White House analysis of the Dewey statement and what the facts were was a very devastating document, and they really got it printed before the opposition papers. It is very, very strong. Niles said they are doing a series of those.

H.M.JR: Dewey said in the press conference that this is the same as the Democratic National Committee got out. They couldn't get it printed, so they had to use the White House, which I guess is correct.

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MR. O'CONNELL: I understand they are awfully short of money for the campaign on the Democratic side. Senator O'Mahoney mentioned yesterday that newspapers were not printing the material that the Democrats have available, and he mentioned how terribly expensive broadcasting time was and indicated that the Committee was pretty well strapped.

I was also told the other day by a fellow working with Leon Henderson and his group that the main thing they are trying to do is collect enough money to pay for broadcasting time for the Government speeches that Henry Wallace has scheduled; that the National Committee either hasn't any funds or isn't able to allot any particular amount of money to the Vice President for his speeches.

I also had an invitation this morning to go to a luncheon under the auspices of the Democratic National Committee on Saturday. There was no indication of the purpose of the meeting, but I assume that they are anxious to get additional funds to help carry on the campaign.

MR. BLOUGH: Yesterday we had a meeting with some representatives of small business men - one more of these tax meetings. We are not learning a great deal any more, although we pick up a few facts each time. But I think it is very helpful to have them in. They all seem to feel both flattered and interested in learning what the problems are.

We are having a group of professors of Public Finance in on Saturday to see what their points of view and feelings are about the matter.

I am scheduled to leave for St. Louis tonight to give a talk on paper on corporate tax simplification at the American Institute of Accountants on Thursday, and will be back here Saturday morning. Perhaps next week we might have some discussions of taxation.

H.M.JR: Yes.

Harry?

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DR. WHITE: The Indians, you remember, have asked for sixty-five million ounces of silver, and you agreed to give them twenty. Now we are having a little difficulty.

We have been selling gold to India and getting rupees at a lower price, and they have stopped doing it on the grounds that the market isn't favorable even though the market is fifty-three dollars an ounce.

We also asked whether we couldn't have a man in India for a while who could watch the gold market and maybe help us, because they were cutting down on the sales and they have eliminated them in Egypt. The British Government said, well, they'd have to consider it and he'd be wasting his time. I said that we were paying his salary; why should they worry about his wasting his time.

Well, they want to talk it over. I'm mentioning it because I think we can do one of two things: We can either hold up the silver until they are more cooperative, or you can just mention it. I don't know which you want to do.

H.M.JR: I'll hold it up. I won't stand for any nonsense from that front!

DR. WHITE: All right.

The American Bankers Association talked to Dan about a month or two ago. Their committee is going to be here next week, and they are going to spend three days studying Bretton Woods proposals, and they are going to confer with us and with other people in town.

H.M.JR: Everything else all right?

Mr. Bell?

MR. D. W. BELL: Here is a letter of introduction addressed to you by Mrs. Roosevelt, introducing a

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Mr. Lord, who is supposed to be a warrant officer.

By the way, he has sent a number of these to you, Jack McCloy, Patterson, and various other people in town.

What he is trying to do is to get the Army and the Navy to permit this company's representatives to go into the various theaters and take a film of the boy who stands before a camera and writes his name and address of the people to whom this goes. This is all free to him.

Then they send it back in the film form just like they send V-mail, and develop it here and will send it out to the country. And it carries a bond advertisement on the other side.

The expense of this is paid by a sponsor like Lucky Strike, or something. It is nothing but a commercial project all the way through. They came to see me in your absence.

H.M.JR: If it is a commercial, how do they make money out of it?

MR. D. W. BELL: The sponsor pays for the advertising, do you see? Lucky Strike will give them so much money for this privilege.

H.M.JR: You mean on the back - instead of "Buy a Bond"--

MR. D. W. BELL: No, no, we'll get that. But it will be right there (demonstrating), "Sponsor for Lucky Strike" - or Camels, or whatever it is. Just that little place right there will be the sponsor's name.

MR. BLOUGH: Eighty-five and a half percent excess profits tax!

MR. D. W. BELL: But I told him that if he got permission of the military, then we'd give it consideration. It is not our problem until the military makes

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the decision.

He went out and apparently called up Jack McCloy and said that the Treasury had this under consideration and he'd like very much to see him. I told Jack that the Treasury did not have it under consideration; that I'd seen this gentleman, and he had a letter addressed to him by Mrs. Roosevelt; that I thought he would see him on the strength of the letter and not on the strength of my having seen him. The decision was up to the War Department and the Navy.

H.M.JR: What is the man's name?

MR. D. W. BELL: M. R. Lord. He wears the uniform of the Merchant Marine, and he has sixty-five days leave coming to him. He is taking leave to try to put across this project. He was in the Army or the Navy, one or the other, and discharged for disability. Then he went in the Merchant Marine. He is now a warrant officer. I don't know whether you want to keep these or not. (Hands samples to the Secretary)

H.M.JR: I'll take them.

I am going to send word to Mrs. Roosevelt to kill this stuff. I think it is a mistake.

MR. D. W. BELL: This concerns a gift of six thousand dollars to the Library of Congress, which they'd..... like to have you initial. (Refers to letter of October 11 from Mr. MacLeish to the Secretary)

(Secretary initials letter)

We have been working some time with the Bureau of the Budget and the General Accounting Office to get a delayed payday program in operation throughout the Government service. The law requires the people charged with pay rolls to certify that the people have earned their money, and heretofore they have certified those pay rolls four days before payday and then the checks are delivered the morning of payday. .Of course, that

certification is not strictly legal. And, furthermore, it costs a great deal to make the changes on the pay roll of resignations, leave without pay, and so forth. And they have been trying throughout the Government service to get paydays from five days to ten. A great many of the organizations have already adopted it. The War and Navy are the two old-line Departments that have adopted it.

We have drawn up a scheme whereby we would start ours on the 22nd of November and we would like to announce it now so that the employees can get their arrangements ready.

But there is an election next month. I don't know whether we'd want to go ahead with it or not.

MR. GASTON: What is it? Is it ten days, Dan?

MR. D. W. BELL: Ten days, yes.

MR. GASTON: That means one-third of a month less money between now and Christmas?

MR. D. W. BELL: No, it is staggered so that we don't get up to the ten days until March 10.

H.M.JR: I don't know. You raise the election. Will it make the people favorable or less favorable?

DR. WHITE: Hold pay for ten days!

MR. GASTON: They'd be very angry.

DR. WHITE: They don't catch up with themselves until they die or quit, do they, Dan?

H.M.JR: Known as the anti-Ruml plan!

MR. D. W. BELL: So far the Departments who have adopted it have had no unfavorable publicity, and the employees have not kicked. A lot of the independent agencies have adopted it.

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H.M.JR: Dan, I am in favor of doing it simultaneously with the Army and Navy.

MR. D. W. BELL: They have done it already.

H.M.JR: Then it is too late!

MR. D. W. BELL: Is that what you meant?

MR. C. S. BELL: It might be better to hold it off until January. I think that was the original idea.

MR. D. W. BELL: No, the idea was to get back on a monthly payday before the end of the year, because your new tax rates go into effect--

H.M.JR: I'd start it on a calendar-year basis.

MR. D. W. BELL: That is what we are trying to do, and that is the reason for starting now. Now, we can start on December 8.

H.M.JR: I think your reasons for starting December 8 are wholly convincing.

MR. D. W. BELL: We are trying to work it so the employee will get a full payday before Christmas, and if we start on the 8th, I'm afraid we can't work that.

H.M.JR: No announcement this month.

MR. D. W. BELL: We could announce it around the 10th and start, probably, December 8. We ought to give them about three weeks.

DR. WHITE: Something I forgot to mention. There was a meeting in McCloy's office last week at which the Directive which presumably was satisfactory here and was going to the British for consideration was examined by the British. The British representatives refused to consider the matter here. They said that they had received instructions or were informed that that matter

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would be taken up in London. They indicated, however, that they were not favorable to the Directive at all.

They also submitted a handbook of their own for the period. There were two copies; Army got one copy and State the other. We did not receive a copy of the handbook.

H.M.JR: Which handbook?

DR. WHITE: The British draft. So there are two matters: One, it looks as though the Directive which State, War, and Treasury had agreed on here for the interim period will be greatly modified unless you follow--

H.M.JR: Remind me this afternoon and I'll mention it to Cherwell.

DR. WHITE: Yes. And we also would like to see a copy of that handbook.

H.M.JR: I'll get Cherwell to get it for me. I feel he is wholly in our corner on this thing. I mean, that will be a good way to do.

MR. D. W. BELL: That is all.

MR. C. S. BELL: I have nothing but some Procurement matters which I can take up after ten-thirty.

H.M.JR: All right. We'll go right into Procurement.

Harry, if you want to arrange a meeting with me on this talk for tomorrow, I could start at nine-fifteen tomorrow morning.

DR. WHITE: All right.

October 17, 1944  
10:30 a.m.

### SURPLUS PROPERTY DISPOSAL

Present: Mr. D. W. Bell ✓  
Mr. O'Connell ✓  
Mr. Olrich ✓  
Mr. Lynch ✓  
Mr. C. S. Bell ✓  
Mrs. Klotz

H.M.JR: The floor is yours, so to speak. Nobody has prepared me other than I was to see Mr. Olrich.

MR. OLRICH: I wanted to talk out with you, Mr. Secretary, what we started to talk on yesterday morning, or the other morning when you had to leave early.

I want to recite that I have again reviewed the matter with every man in my organization and his status with the company. I am referring now to the conversation we have had recently with Mr. Lynch, and that is that the Department of Justice has given no relief in the matter of men that are carrying on the burden of Treasury Procurement, Surplus Property activity.

I spent the last half hour reviewing with the key men in that organization their status and their future, and the situation is so serious that if that act goes through as it is, the day that the men are confirmed as the heads of the new Surplus Property--two directors--we'll be without a competent organization to carry on in Treasury Procurement.

And that goes for the top merchandising men; it goes for such men as Schlesinger in our Washington regional office and Bonnett, Sales Manager in San Francisco, and probably Rader, Sales Manager in our New York office, and Smith, the Sales Manager in Boston, and the two Sales Managers in Chicago.

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In other words, it would denude us of people to carry on.

My own situation is such that the OPA has forced the issue, and they have gone into courts and made us answer and then given us interrogatories that we had to answer in which the court, in reviewing their interrogatories, indicated that it would give us a six months period in which to answer the questions that they had asked us from our books.

When the OPA learned that, they changed their interrogatory so that we were given ninety days to just get the information from our books to file an answer, and then given thirty days to prepare our case. The case must go to trial early in December. So that means on December first I must be in Minneapolis to handle the final matters on this case, because I will be with one of my associates.

It is estimated the case will last many weeks because there is much matter to go before it. The interrogatories they asked of us formerly were the informal interrogatories that they sent me, in which I told them from my knowledge of the business it would take six months to answer, and they had the inclination that I was stalling and didn't want to answer them; so they forced us into court. And when the Federal judge reviewed their questions, he said it was without question necessary to take six months to answer, and the attorney for the OPA admitted that his examination of our record and our system indicated that the information could not be answered for a full six months.

Now, with the new set-up--I am going to the next step--of the Surplus Property Act under the three administrators, all initiative in disposal of property is removed from the Director. You follow certain procedures and regulations that they must carry out. There are certain orders of preferences and priorities, and we are already beginning to feel the effect of those preferences and priorities.

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As an illustration, when we have had tires declared to us we have sold those tires back to the original manufacturers, so that they could distribute them through their dealers. The City of New York has served notice on us that under the Act they have a priority for future tires, as they know tires will be declared in New York. They have indicated they will do everything they can to stop us from selling them to manufacturers. They demand those tires.

The only way we can circumvent such an action is to make those tires available. I mean, it simply indicates the first step in the breakdown of the organization that we have set up.

Now, step by step, that is already evidenced. The Small War Plants Corporation indicated that they were dissatisfied with the way we had distributed trucks in Kentucky, and they demanded the right to buy trucks from us and distribute them in Kentucky against our distribution.

H.M.JR: Is that a Government corporation?

MR. OLRICH: Yes, under Maury Maverick. And under the law they have that right. We faced them down in that particular issue, and we showed them that every bit of information they had was misinformation and deliberately false statements, and of course there are no trucks to sell in Kentucky.

So they have raised the next step. They have gone to Alben Barkley, and he is raising Cain now because we haven't enough trucks to supply to the State of Kentucky and he has demanded that we give them three hundred trucks. Well, the nearest trucks are in Louisiana. By the time you transport trucks that distance--

But I mean that is the indication, that under this law these situations are taking place.

Now it seems to me that somewhere along the line someone should be appointed to succeed me. I will continue as adviser to you, if you wish, in this work.

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That man should have a knowledge of surplus property disposal, which means merchandising. In my opinion he should have the same title as I have, Assistant to the Secretary. He should have complete charge of that department. He should have three assistants, a Director of Procurement, a Director of Surplus Property, and a newly-created post under this Act which is extremely important--a Director of the Stockpile of Critical Materials; because under this Act it is mandatory that you supervise a stockpile of critical materials of over two billion dollars, which you will have to rotate, store, be responsible for, move it about and take charge of all of the scrap. That is mandatory.

You may refuse to take Surplus Property, but under the Act you are the custodian of surplus critical materials. Those men ought to be men of importance, and they should report directly to this Assistant to the Secretary, who has no other responsibility but Treasury Procurement.

Now, that man should be sought as soon as possible. We have been looking for him, but ever since the Act was on the Hill and Congress was indicating the interference it was going to put in the Act, we have been unable to recruit a single man from business into our organization in any way. We were unable to get a drug man. We had an indication that the head of the Leroy-Huffman Company, a man who earns a quarter of a million dollars a year, was willing to come down as a drug man, but the minute this Act become known--that he couldn't work here and go into the chemical business and deal in surplus, if he wished to--why, all negotiations stopped.

Step by step we have had that all along the line. We have lost men in Boston and we have lost men in New York. Now, that is the situation. It is critical.

H.M.JR: Now, let me just get some of these dates straight. You say you have to resign when?

MR. OLRICH: December first.

MR. D. W. BELL: Is that date definite except for the start of the trial?

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MR. OLRICH: We have less than thirty days in that time to perfect our case. In other words, I will have to review this information that they have demanded be presented and analyzed for submission to the court.

H.M.JR: And that, in your mind, is final?

MR. OLRICH: Yes, sir.

H.M.JR: Now, what is the status? I sent somebody over to see Jimmy Byrnes, and he was going after the Attorney General.

MR. LYNCH: Yes, sir. In the meantime we have had discussions with representatives of the Attorney General. The matter is not satisfactorily worked out yet with the Attorney General. We are still in the course of discussions.

H.M.JR: Who in the Attorney General's office is looking after it?

MR. LYNCH: Hugh Cox, who is Assistant Solicitor General, ordinarily handles such matters for the Attorney General.

One reason for the delay in getting a final conclusion, we have been discussing it with an assistant of his--first with him, and then he referred it to his assistant. Now, we hope in the matter of a day or two to have it up with Hugh Cox, himself.

H.M.JR: It is important enough--why don't we get Biddle?

MR. LYNCH: He ordinarily refers those. I should think we'd want to save that for the last shot, Mr. Secretary.

H.M.JR: But you have been going on now for weeks.

MR. LYNCH: Here is what we have done in the meantime--

H.M.JR: My guess must be at least three weeks since

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I sent you over to see Byrnes.

MR. D. W. BELL: Tom, hasn't Biddle said that you can look upon the Act going into effect so far as all these restrictions are concerned, when the Board is appointed?

MR. LYNCH: That is right. At the outset he gave us that assurance.

MR. OLRICH: Which has retarded our men from having stepped out before this. In other words, they said they would continue to the time the Board was appointed.

H.M.JR: I don't get the point of that.

MR. D. W. BELL: That delays these resignations that Mr. Olrich has on his desk. Otherwise, these fellows would have gone the day the bill was signed by the President.

H.M.JR: When does the Board go into effect?

MR. O'CONNELL: When the President appoints the Board.

H.M.JR: That is just stalling.

MR. O'CONNELL: That is right, but at least it gives us that much time. He wouldn't want to appoint a Board until the Congress is here to confirm it, and until the Board has been confirmed the people Mr. Olrich is speaking of will be under no immediate pressure to resign.

H.M.JR: But I thought we would get an interpretation from the Attorney General which would make it unnecessary for them to resign.

MR. LYNCH: We have a draft of the interpretation. We don't like it. It isn't what we expected and it isn't satisfactory. Now, we are trying to get it changed.

H.M.JR: Do you want me to get into it at this time?

MR. LYNCH: No, we discussed it, and we'd rather take the next step first, because we haven't concluded it with Hugh Cox first. But we hope if that isn't satisfactory that we may come to you on it.

MR. D. W. BELL: I think Biddle is keeping in touch with it and he is familiar with it, because I wanted to discuss this Surplus Property Bill at the last Cabinet meeting. I wanted to ask the President if anybody was studying it with a view to getting it changed just as soon as Congress returns. Biddle said, "No, don't bring it up. Let's let the Departments get together and see what they want in the way of changes, and then let's recommend it jointly." I said, "That is all right with me, if you have it in mind." He said he definitely had.

MR. OLRICH: But when the employees are gone, they are gone. Today is the 17th, and the earliest date that anything could happen is the 14th. But it could happen on that date or shortly afterwards, which leaves us 25 days to do all the things we want for a department that has a hundred million dollars worth of goods on hand, and they are selling goods at the rate of fifteen million a month.

H.M.JR: But Lynch doesn't want me to get into it yet.

MR. O'CONNELL: One of the reasons this has taken time is that not only the Treasury, but RFC, the Army, Navy, Maritime Commission, War Foods have, to a certain extent, the same problem we have, and we have been dealing with them.

H.M.JR: How about asking Jimmy Byrnes to call the agencies together?

MR. O'CONNELL: The agencies are coming together, and we have been working with them at the level just below Cox to come to agreement. If we weren't able to solve it there, then it seems to me we will try to get you and Byrnes to work on the Attorney General.

H.M.JR: Has anybody any recommendations for me of somebody to take Mr. Olrich's place - and these assistants?

MR. C. S. BELL: We have a Mr. Seidemann. We would like to put him in there to study it for two weeks and then go on a half-day basis until he has acquainted himself with it. He has had quite a career in the Government, starting first with the Director of the Budget. That is his background. (Hands the Secretary personnel record of Mr. Seidemann)

H.M.JR: There is absolutely nothing in his career which would fit him for this job.

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MR. C. S. BELL: Except, Mr. Secretary, that he managed the whole Three-A program. The whole job changes, Mr. Secretary, with this new bill.

H.M.JR: But there is absolutely nothing in here that fits him for this job.

MR. C. S. BELL: No, sir. As we see the job--and I think Mr. Olrich will bear me out--after January 1 it will be very difficult to get merchandising men to come into the job.

H.M.JR: Well, the way the thing is now, I am going to ask the President to take it off my hands and move it out of the Treasury. I don't want it in the Treasury. I am going to ask him to take it lock, stock, and barrel out of the Treasury.

MR. C. S. BELL: And consolidate it with other units?

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

MR. OLRICH: It should be set up as a unit. RFC and Surplus Property should be set up as one unit, because at the present time you are governed by the same set of regulations. The States and everybody has priority. There is no discretion in the matter. They have access to all of these things, and so to me it seems that there should be a surplus property unit of its own set up to handle these various things so that one agency would be dealing with the other agency. It can be set up, but whoever heads it up should have a merchandising background. He must be an administrator, but he should know something about merchandising.

H.M.JR: Look, Mr. Olrich seems sympathetic to the idea, at least to get it out of the Treasury and get it in one place. How about somebody drafting a letter for me, you (Olrich), with these people's assistance, saying why we want to get it out of the Treasury, and, two, here is the setup for the President, putting it in one place, instead of having three or four different agencies.

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MR. OLRICH: That would be the sensible thing, because the Treasury loses all discretion in the disposal of stuff. All the Treasury is is an operating agency handling surplus under somebody else's discretion.

MR. C. S. BELL: Isn't this true, that all of these men you speak of, who will be going out unless Section 27 is changed, will go out anyway under the new bill?

MR. OLRICH: Within a year or so. And they pick successors to come in. Each man has assured me he will be able when his reasonable time is up to find someone whom he has trained to carry on.

MR. C. S. BELL: But he wouldn't be able to operate as he is now operating. He will become a Civil Service employee. Isn't that true?

MR. OLRICH: A hundred percent.

MR. C. S. BELL: So they wouldn't stay.

H.M.JR: Now, if this is consolidated into one agency, where would that agency fall?

MR. LYNCH: First, where it could fall, the Board itself has authority to appoint any agency, disposal agency. There is no mention in the Act of the Procurement Division or RFC, so the new Board is not committed to any agency. It could pick RFC for the whole job. It could give it to Federal Works Administration, Public Housing Administration, or anybody else who is looking for work and who might be able to take over the warehouses as well as the administrative staff. In other words, it is an open book as far as the Act is concerned.

MR. OLRICH: It could set up its own agency.

MR. LYNCH: It says, "Select one or more agency."

H.M.JR: Joe, do you think it would be a good idea to have all procurement in one place?

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MR. O'CONNELL: All disposition, all disposal? I take it you can't get rid of your stockpiling, because Procurement has that job, but, of course, they have done it in a small way--

H.M.JR: But supposing the President picks it up bodily?

MR. O'CONNELL: He can do that under his War Powers Act.

H.M.JR: I don't want it now, the way it is. I don't want anything to do with it. I want to get rid of it. I said that if I could have this fellow I would run it. I am not going to look around, have a certified public accountant. He may be a wonderful fellow down somewhere for you.

MR. D. W. BELL: Not for me. I know him. I am sorry.

H.M.JR: I know him; his name rings a bell; he is from the Red Cross. We had something to do with him in the Red Cross.

MRS. KLOTZ: Well, the Director of the Budget has always wanted your Procurement Division; after all, they don't have merchandising people in there, and they feel they are equipped to handle it.

MR. LYNCH: I think they would like to sit in a rarified atmosphere and dictate policy and leave to somebody else the whole problem of working it out.

H.M.JR: Look, gentlemen, I don't bluff. If Mr. Olrich could have stayed with me, fine and dandy. He can't! All right. Now, I am telling you people, I want you to fix up some letters for me. Do you see? In them we will say that in view of this business, and in view of the situation, we feel that all of this disposal of surplus property should be in one agency, that the Board can decide what agency it will be. We are not making a recommendation as to where it should go. That is up to this

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new Board. But let's get it out of the Treasury. And in the interest of good management and good business, there should not be three different agencies having disposal of property.

MR. C. S. BELL: There is a danger that they might put it all in the Treasury.

H.M.JR: All right, we will cross that bridge. They won't. I tell you I won't have it. After election there are certain things I want to get rid of, and certain things which will come back to me. There is certainly going to be a New Deal unscrambled both ways as far as I am concerned. Mr. Roosevelt wants me to stay here. I am not going to be doing all these unofficial things and having all these agencies down on me. This is something I want to get rid of; it doesn't belong here. It has nothing to do with the stuff I have been talking about, interest rates, re-funding of public debt, and all the rest; it is just as far removed as black from white. It doesn't belong here and this is a good time to fix up some letters.

MR. OLRICH: The reason I say you are right, Mr. Secretary, is because unless this bill is admitted, it is going to be the worst headache in Government because there is no control of it. You do what another agency tells you to do. You exercise no discretion or judgment.

H.M.JR: Please take time enough with these people here. Mr. Dan Bell should give it as much time as he can, because he is very good on this stuff on account of his experience in the Bureau of the Budget. But so there will be no misunderstanding, I will hold you responsible, Charles, that I get the letter, telling the President of the United States to go on the assumption, "Look, even if we get a ruling, these fellows aren't going to stay with me."

MR. C. S. BELL: No, sir.

H.M.JR: And even if they can, you can't get any new blood, can you?

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MR. OLRICH: No, sir, not very well. People want to go home.

H.M.JR: And let's put the thing so that it can go to one agency, that this new Board should have the decision as to where it should go. I don't think I should tell the President where this new Board should put it, but at least I can recommend three agencies to be consolidated into one.

Now, let's say that that is good government. I take it, it is. Now, what about the buying end of Procurement? Where can that go?

MR. C. S. BELL: That might remain just where it is. It is operating a little more smoothly.

MR. OLRICH: They have it running smoothly, but at the same time, I feel that if that organization continues, there should be even with its magnitude an assistant to the Secretary that is actively engaged in doing that. Your present problem of irregularities in management--and I don't mean financial irregularities--is due entirely to the lack of managerial ability and the fact that nobody traveled the field and put the house in order.

H.M.JR: May I just say something in the confines of this room? I don't want anything in the Treasury that isn't straight fiscal, domestic and foreign, after election. I want to get rid of these things. There are certain things that I very much want to have cleaned up, as between ourselves and the other agencies. I think I have already spoken to you about this.

MR. D. W. BELL: That is right. I am thinking about it. I haven't done much work yet.

H.M.JR: And this thing of barbed wire, whether it should have four prongs or three prongs, and the construction of an oil well refinery for Russia--those things are just foreign to what I should be doing. And after election, I want to lay those things on Mr. Roosevelt's lap and say, "These are the things that don't belong to the Treasury, and here are the things that do." Do you see? And a lot

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of things should come back here, in my opinion, including the Budget; it should be put back to its original position in connection with the Treasury.

MR. D. W. BELL: And in a little stronger position than it was before.

H.M.JR: And the Bureau of the Budget should be back in the Treasury. That is where it belongs.

MR. OLRICH: Yes, sir, that is sound organization.

H.M.JR: And this whole business--SEC should be in the Treasury.

MR. D. W. BELL: That is a headache though.

H.M.JR: All right, but we swap one for the other. I would like to put the things which should be in the Treasury in the Treasury, which are strictly financial. FDIC should be consolidated with the Comptroller. I am just throwing these things out which are logical, and I don't need any Brookings Institute to tell me what should be in the Treasury and what shouldn't be in the Treasury. All of these lending agencies should be supervised by the Treasury, the way we originally had them; Home Owners Loan and all of those things should be under one great big corporation of which I should be chairman of the board.

MR. D. W. BELL: I think you should be back on the Federal Reserve Board.

H.M.JR: Well, that is the kind of thing I would like to have. And please don't mention these things outside, but this kind of thing I want to get out of. There are a lot of things I want in. There are a lot of difficulties and headaches, but they should be in the Treasury, and I am not going to have an Assistant Secretary, because he won't have the time, and I haven't the time to worry about them. I meant what I said, if this thing is busted up, I am going to get rid of it. Frankly, I am not going to worry about getting any head for it.

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MR. D. W. BELL: I hate to turn over such a bad organization to somebody else.

MR. OLRICH: I am afraid you will have that perfected before you turn it over, because we are cleaning it up pretty fast. We have two more offices to clean up, and we are in it, and there was some pretty straight speaking yesterday in the Boston office. I only have to get a head for the New York office and I think we will have cleaned up your offices. That is why I want this man Fox, if I can get him, to put in as an auditor; then I will have a job done, and I think you will not be ashamed of the organization when you turn it over.

MR. C. S. BELL: It is possibly in better shape than any of the other units.

H.M.JR: Well, anyway, the two Mr. Bells, please get busy on what I have just been talking about; this Procurement thing is part of the picture. It is the responsibility of the two Mr. Bells to give me something in writing. I would like it to look just as though I said to you people, "Here you are, two experts in the Government, give me a report that I can send to the President, that if you start it new"--I mean, if this were '33--"what should belong in the Treasury." And I want that. I know pretty much myself. After all, the President took seven different lending agencies and made the Farm Credit out of it. I pulled the things all in. But Farm Credit, RFC, and all of these lending agencies should be supervised by the people who have to raise the money.

The time will come when I have to face an audience who will say, "Wait a minute, Mr. Morgenthau, you say that ninety-five cents out of every dollar goes into the war, but how much indirect money is there"--if Dewey were smart--"of the taxpayers' that goes for this, this, and this?"

Do you know what John Fahey is doing these days?

MR. D. W. BELL: A little bit; he isn't doing much.

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H.M.JR: No, he is sitting up in Boston.

MR. D. W. BELL: But they are doing a very good job of liquidating the Home Owners Loan.

H.M.JR: But does anybody supervise them?

MR. D. W. BELL: No, they have a board down there to supervise them. I certainly confer with them on their financing. We have a pretty good liaison, Mr. Secretary.

H.M.JR: But I am again saying how I feel, and I want the thing for the day after election.

MR. D. W. BELL: Of course, it isn't wrong for the Treasury to have control over expendable property. Most textbooks on the subject have considered that as cash and it belongs in the Treasury. That is the way your British system is set up.

H.M.JR: What are you referring to?

MR. D. W. BELL: I am referring to supplies for the various departments. That is the British system. They have control over money that is spent for all the supplies of the British Government.

H.M.JR: But whenever it got tough, we always would sign a piece of paper and say to the Department of Agriculture, "All right, you have kicked so much, you go ahead and buy your own stuff." Somebody else kicks and you say, "All right;" you don't want a row, so you let him buy his own stuff. That is what has happened. About all we do is buy pencils and paper and a few odds and ends. We don't do the buying for Ickes.

MR. D. W. BELL: Yes, we do.

MR. C. S. BELL: We could still maintain financial control over Procurement.

MR. D. W. BELL: Oh, yes.

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MR. O'CONNELL: We have no control over disposition, anyway, in this legislation.

MR. OLRICH: All you are under this Surplus Property Act is an operating agency receiving supplies and distributing those supplies in the manner in which they indicate to you. You have the right, up to a certain point, to sell it to the public at certain prices, but it is removed from you in so many different ways that it is a headache, and we have begun to feel the force of those already. We have requests for property to be donated, concessions and preferential treatment.

H.M.JR: I am going to ask you to excuse yourself, and I am going to ask these other people to stay behind. I have your viewpoint.

MR. OLRICH: All right, sir.

(Mr. Olrich leaves the conference.)

H.M.JR: Look, what I want to say is this--and it will shock you people a little bit, see? I am not going to appoint a lot of people and have an organization. I am perfectly willing to let this thing, the transitional period, just be to the point that I have nobody. In that way, they have to take the thing off my hands.

If, on the other hand, I have what he says here in the beginning--because he wants to fix the thing up so I won't hold it--but I wasn't born yesterday. I will have no successors, and I will have no heads of the thing, and I am perfectly willing to let the thing disintegrate. It gets to the point where I can't get anybody. Now, I have seen it. But I am being very honest. I haven't the time in the next thirty days to spend on this thing. I just haven't the time. I didn't have the time this morning, but everybody is high-pressuring me to see this man. All right, I have seen him.

MR. D. W. BELL: That is the picture we wanted you to get.

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H.M.JR: What I am saying isn't so shocking, because you haven't anybody.

MR. C. S. BELL: No, sir, you couldn't get anyone.

H.M.JR: So I am going to be a little bit over-honest, and I can say, "Wonderful, go on and look for people." Well, you give me Seidemann. I won't buy Seidemann.

MR. D. W. BELL: No, I would have to disagree with Charlie.

H.M.JR: All right, I wouldn't buy Seidemann, either. I am telling you fellows that we will carry on and let this thing go and simply say, "Here is the situation; somebody has to do these things. I have many more things which are more important." We can argue about keeping the buying end of Procurement in the Treasury. I mean, my mind is open on that, but on this Procurement business, let it go into one place, and let the new Board set this thing up. After all, we recommended a veto, didn't we?

MR. D. W. BELL: Yes.

H.M.JR: I have been thinking on this thing, even though I haven't seen Olrich. I have my veto. I am all right. He can't get the people.

Take it the other way. Charlie, go out and get me a man. You will get me Seidemann.

MRS. KLOTZ: He says himself he can't get anybody.

MR. C. S. BELL: Not a merchandising man.

H.M.JR: Then I will do it the other way around and say, "Now, you get me somebody." But I am always honest with you people.

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MR. C. S. BELL: I think everyone is in agreement that this becomes a Civil Service organization with the new bill. Isn't that true, Joe?

MR. O'CONNELL: Certainly the control is in the Board, and it probably would have to be at the level at which the agencies are operating and with the restrictions that we have.

H.M.JR: All right. I don't want to be bothered with it. I am willing, when Mr. Roosevelt is re-elected--after his re-election, if he wants me to stay--he has indicated to me that he does twice now--I want to stay on the basis that I can spend my time on fiscal matters and I can do a job, and I know that I cannot do this job for Mr. Roosevelt and my country, unless I have far more control of the fiscal end of the Government than I have now. I have to have it. And I cannot raise sixty billion dollars for twelve months after V-E day, unless I have far greater control. This isn't a grab of power, but I have to raise sixty billion dollars twelve months after V-E day. That is five billion dollars a month that I have to borrow. In other words, to do that, I have got to be able to control this situation, which I am not able to do now, and whoever is here has to be able to control it. And I have to do it openly. I can't constantly be in fights with all the other departments who have to do with lending the money. My God, they make a commitment to lend two billion dollars for reconstruction in France. Mr. Hull signs it; Mr. Crowley signs it; and Mr. Harry Hopkins signs it. The President sends it over to me, and I say, "Hold it up." He holds it. Supposing he didn't. There are two billion dollars. Everybody is sore. They feed the press. They undermine me publicly. But I am doing what my boss wants, and I will continue to do it as long as I am here. But I can't do it indefinitely because they undermine me, or try to. They haven't yet.

Now, if I am going to hold up a two billion dollar appropriation, I want to say so publicly. I am not going to do it on this informal basis, and I am trying to drive it home to you fellows. It is a damn sight more important than this thing. This is important to him (Olrich), but it is not important to me.

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But what I am talking about is you people here with me; we can't sweat and fight all the time behind the scenes. And to do this borrowing program for the eighteen months--twenty-four months--of the Japanese war is going to take--the man who sits in this chair has to have complete financial control of this Government. And I cannot do the job unless I have it.

And I am telling you fellows for God's sake, get to work and give me a program that I can lay on Mr. President's desk and say, "On the basis of this, the Secretary of the Treasury has to borrow so much money." That is the opening sentence. "And in order to do that and face the public as your representative, he has to have this authority." Don't let's kid ourselves. You can't do it. And nobody has the time and the energy to always do this fighting behind the scenes. And believe me, if I couldn't tell it to him--any professor at a university, or a student of finance knows it. I have kept my mouth shut. Now, I want to put it down. I don't need B. Ruml to tell me what to do, or somebody else in the National City Bank. I know what I want. You fellows know what I want. Now, give it to me. This is just a symptom of the disease (refers to Olrich). I know I am repeating myself.

Whoever is Secretary of the Treasury for Mr. Roosevelt and has to face this borrowing and this period of the next four years will have to have certain definite clean-cut financial controls in order to do the job. Now, I want you to put it down on the basis of the borrowing program. You (Mr. D. W. Bell) and you (Mr. C. S. Bell) and everybody get in on this thing.

(The Secretary holds a telephone conversation with Secretary Stimson, as follows:)

October 17, 1944  
11:15 a.m.

HMJr: Hello.

Henry L.  
Stimson: Hello.

HMJr: Henry talking.

S: Yes.

HMJr: How are you?

S: How are you? I'm -- I'm ....

HMJr: I'm fine.

S: I'm very well. I -- I am a member of an organization which I was put in by the President ....

HMJr: Yes.

S: .... handling a very secret matter and I have \$12 Million in checks that I, for security, would like to put in the Federal Reserve Bank in New York.

HMJr: Yes.

S: That can't be done without your consent and your authorization.

HMJr: Yes.

S: Are you willing to give them to me without asking questions? (Laughs)

HMJr: Well, now, let me just think a minute. We've had other things similar to this. Hello?

S: Yes.

HMJr: And they've always -- your Department has always told Mr. Bell and me what it is.

S: Well, this is one that is so much more secret than anything else that I've ever had that I don't feel able to do that.

HMJr: Uh huh.

S: I -- I've had to take the same attitude towards the head of both Houses of Congress. They've taken it -- taken my word that it was that.

HMJr: Well, can I -- it's such an unusual request -- could I turn it over in my mind?

S: Yes.

HMJr: I don't understand the process anyway.

S: No, it's ....

HMJr: I mean, won't the Federal Reserve know what it is?

S: No.

HMJr: What?

S: They'll know the name of the depositor that's all.

HMJr: But I mean they won't know where the money goes?

S: No.

HMJr: Well, after all, I'm just thinking out loud -- uh -- I won't -- I mean, if the Secretary of the Treasury can't be trusted, he oughtn't to be Secretary of the Treasury.

S: Well, I don't -- uh -- Henry ....

HMJr: I don't care how secret it is.

S: Well -- well, then I won't do it that way. I can't do it then.

HMJr: What?

S: I'm obliged to follow a rather narrow path.

HMJr: Well, it -- if it's -- I don't care how secret it is, if the Secretary of the Treasury can't be told, then he'd better get another Secretary of the Treasury.

S: Well, Henry ....

HMJr: What?

S: Suppose the Speaker had said that to me.

HMJr: Yeah, but he ....

S: Suppose that several other ....

HMJr: Yeah, but I'm the chief ....

S: .... high official members ....

HMJr: Yeah, but I'm the chief fiscal officer of the Government.

S: Well, this is -- this is not Treasury money.

HMJr: But you need my permission ....

S: Under the rules for that particular process only to put it in a certain bank over there.

HMJr: Yeah.

S: I may have to put it in some other depository if you won't consent to that. I'd prefer to do it with the Federal Trust.

HMJr: Well -- but that -- I -- I mean you've put up something ....

S: I'm awfully sorry to shock you but it's ....

HMJr: I mean, he -- that's the way I feel, Harry.

S: Yes.

HMJr: And as I say, I don't care -- I'm perfectly willing -- you could tell it just that way to the President.

S: I won't go to him. I won't bother him.

HMJr: Yeah. I mean, I don't care how secret it is if I can't be trusted then he ought to get a new Secretary of the Treasury.

- 4 -

S: I -- my answer to that is I don't think you ought to feel that you ought -- that you ought not to be trusted in a matter like this.

HMJr: I don't think you know how much your own people tell us.

S: Yes, I do. Oh, well.

HMJr: Yes.

S: I can't do it.

HMJr: Well ....

S: I -- I ....

HMJr: Hello. Well, I'll give you an example.

S: Yes.

HMJr: When Mark Clark went down in the submarine there to get the gold ....

S: Oh, yes, I know.

HMJr: .... and ....

S: That was nothing to this.

HMJr: All right. Well, anyway, you've asked me a question ....

S: All right.

HMJr: .... and I've given you my answer.

S: All right. Good bye.

HMJr: Bye.

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H.M.JR: It is so secret he can't tell me what it is.

MR. D. W. BELL: Well, they don't tell us, of course, the final details, but they tell us what they want with this money, whether it should be foreign coins or U.S. coins or British coins, and what kind of money they want, and we get it for them. We deliver it to wherever they want it. We do it every day.

MRS. KLOTZ: But your case is right. If the Secretary of the Treasury can't be trusted, they should get another Secretary of the Treasury.

H.M.JR: Somebody wants a deposit in the Federal Reserve Bank. He says he will do it some other way.

MR. D. W. BELL: The Federal Reserve Bank, I hope, won't take a deposit without the approval of the Secretary of the Treasury.

H.M.JR: No, he says he has to get my approval, so he says he will do it through a private bank.

MRS. KLOTZ: But it still needs your approval.

H.M.JR: No, he says he doesn't. He said, "Supposing the Speaker of the House took that attitude?"

I said, "Well, the Speaker of the House isn't a fiscal agent of the Government."

MR. D. W. BELL: He can't even deposit the money in the bank without the approval of the Secretary of the Treasury.

H.M.JR: Henry Stimson! And he won't trust me. To hell with him. I am sick and tired of it, anyway.

MRS. KLOTZ: Supposing it was the other way around.

H.M.JR: It is in regard to some military thing.

MRS. KLOTZ: Would you get approval?

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H.M.JR: Well, he has the answer. I will make you a bet now we find out what it is.

MR. D. W. BELL: We will know before it is over.

MRS. KLOTZ: You have got to know. I don't understand how he can work if you don't.

MR. D. W. BELL: We have had dozens of them in the last two weeks.

Let me say that I agree in general with what you say about what we should do, and certainly we ought to get rid of Procurement eventually, but I doubt if we are doing the President a real service in just saying to him, "We don't want this."

Now, I think we ought to get together with the other departments and show the President wherein the bill is unworkable, and he is going to get into his point for accepting this bill, so an attempt ought to be made immediately to amend it so it is workable. Then I think that Olrich's crew that has come in would probably stay for a year or two even though we had to administer it under the new Bill. We could get along, and under the new program you have, you could transfer the whole thing to whatever the President wants.

MR. O'CONNELL: Even under a better bill a good argument could be made at some time for having surplus property disposal all handled by one agency.

MR. D. W. BELL: I am talking about both disposition and acquisition.

MR. O'CONNELL: I think you have to cut them in two. The argument for having surplus property disposal in one agency stems from the legislation. You could do that without necessarily transferring your procurement function. You can do the one by merely having the Board decide what agency will dispose of surplus property.

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The other one, the Procurement Division--getting rid of this stockpiling function requires a different technique. In the first place, it would require action by the President in the War Powers Act, which can't be definitive except as approved by legislation. Thw two things can be kept separate.

H.M.JR: I am fully in accord with Dan, but that doesn't say yet that these three procurement agencies shouldn't be in one place.

MR. D. W. BELL: No, I am saying, just write a letter to the President and say that we don't want it. That is one thing. But we ought to be helpful.

H.M.JR: You could write him a letter right now, showing him how the thing could be amended.

MR. D. W. BELL: But I think this meeting ought to take place right soon. Out of that meeting should come a joint recommendation.

H.M.JR: Are you in on this?

MR. D. W. BELL: No, but I brought this up with Biddle and Forrestal, I think it was.

H.M.JR: How are you going to get a meeting?

MR. D. W. BELL: I think Byrnes ought to call it.

H.M.JR: How are you going to do it?

MR. O'CONNELL: We will be ready in a day or two.

MR. D. W. BELL: Biddle wants to get together with the other departments and see what can be done.

H.M.JR: I don't want to get the President on a hot spot, but I showed him how I felt when we sent him the veto.

MR. D. W. BELL: But, apparently, he was under pressure.

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H.M.JR: He never saw it.

MR. LYNCH: Oh, yes, he did. A couple of phrases were taken from it in the statement. That is the one consolation we had, Mr. Secretary.

H.M.JR: All right.

October 17, 1944  
11:30 a.m.

Operator: Go ahead.

HMJr: Hello. Yes.

Lord  
Halifax: Hello.

HMJr: Morgenthau.

H: Good morning. Halifax here.

HMJr: How are you?

H: How are you?

HMJr: Fine.

H: And all your family, are you all right?

HMJr: I'm quite all right.

H: Good. Have a good time?

HMJr: No, but ....

H: Useful.

HMJr: .... useful.

H: Good. Well done. Look here, I called you up first of all, I'm awfully pleased and I hope you are that our two friends are coming to see you and ....

HMJr: Right.

H: .... that's much better, isn't it?

HMJr: I think so for the first time.

H: I think so. I have been advising them to do that and I'm very glad they've decided so.

HMJr: Yes.

H: And you've decided so.

HMJr: I'll have nobody here but Harry White.

H: Good. Now, the other thing I wanted to ask you was: I thought that I would like, if it was all right by you ....

HMJr: Yes.

H: .... to try and get a few of the people on all sides who are mixed up with this to come and just dine quietly one night. -- I might split them up into two parties possibly -- in a week or ten days' time. And I was planning a little dinner on the 26th of October.....

HMJr: Yes.

H: .... which is -- which is Thursday.

HMJr: Yes.

H: And I wonder whether you could come to that.

HMJr: Yes, I'd be very glad to.

H: And I thought I'd have a rather -- a mixed group. It will be rather -- might be a lavish party but people go away when they like.

HMJr: Yes.

H: I thought I'd get -- try and get some of your people and some of ours and mix them in a bit together.

HMJr: That would be very nice I think.

H: It wouldn't do any harm would it?

HMJr: Oh, I think it would be helpful.

H: Good. Well, then if you are free, will you note that?

HMJr: I -- I have.

H: I'll send you a formal thing to confirm it.

HMJr: It's not necessary.

H: The 26th of October.

HMJr: Just if you'd give me the time.

H: Eight.

HMJr: Eight.

H: And dress or not, as you like.

HMJr: What will the others do?

H: Well, I think some will dress and -- but I shall tell them all to -- to do as they like.

HMJr: Right.

H: Whichever you like. I ....

HMJr: Well ....

H: If I've had a beastly day, I sometimes like having a bath.

HMJr: I sometimes take two baths a day.

H: Well ....

HMJr: I'm very extravagant.

H: You please yourself about that.

HMJr: Right.

H: And anyhow, I'll look forward to seeing you.

HMJr: Thank you.

H: Only men.

HMJr: Right. Now, may I ask you, this Mr. Sinclair who was here, is he the Mr. Sinclair who is in charge of production?

H: Yes. He -- he is Sir Robert.

HMJr: Sir Robert.

H: Sir Robert Sinclair.

HMJr: Yes. But they're not bringing him this afternoon?

H: He was here. He won't be with you this afternoon.

HMJr: He will be?

H: He will not.

HMJr: He will not be?

H: No. You're only having Keynes and Cherwell.

HMJr: I see.

H: Sinclair was over here for sometime doing the job that Henry Self is doing now.

HMJr: Yes.

H: And he, now, has gone back -- Sinclair has -- and is number two to Oliver Littleton.

HMJr: Oh, he's number two to Oliver Littleton.

H: He is the head of his office.

HMJr: Right.

H: And when he's not doing that, in peacetime he manages Willsey's Tobacco -- cigarette making at Bristol.

HMJr: I see.

H: He's a very nice fellow.

HMJr: Now, you have another Sinclair. Now, he is what?

H: We had another General Sinclair.

HMJr: But isn't there a Sinclair in aircraft?

H: What?

HMJr: Isn't there another Sinclair that has a very high position in your Government?

H: Archie Sinclair.

HMJr: Yes, well, that's ....

H: Sir Archibald.

HMJr: That's -- that's what I thought.

H: He's M.P., Secretary of State for Air.

HMJr: That's right.

H: Leader of the Liberal Party.

HMJr: I know.

H: And owns most of Caithness in Scotland.

HMJr: Well, these are two quite different people.

H: Yes, quite different -- quite different.

HMJr: Right.

H: Yes, you must never mix them up or you won't please either.

HMJr: Well, I know Sir Archie but I didn't -- I haven't met this other gentleman.

H: But you've met -- you've met Robert Sinclair.

HMJr: Have I?

H: Oh, you must have met him when he was here before. You won't have met him this -- he came to see Harry White.

HMJr: I see.

H: Keynes brought him to see Harry White while you were away.

HMJr: Right.

H: But I think you will have met him. Anyhow, you won't be meeting him this afternoon.

HMJr: Right.

H: But no doubt you will be meeting him and I would very much like you to have a talk with him sometime if you could make it.

HMJr: I can.

H: Right.

HMJr: Thank you so much.

H: Well, good bye then. We shall -- I'll mark you down for the 26th.

HMJr: If you please.

H: Good. Good bye.

October 17, 1944  
11:57 a.m.

225

HMJr: Hello.

General  
Watson: Hello there.

HMJr: How are you?

W: Fine.

HMJr: Well, while you try to take care of me on my trip out there, you evidently don't have very much influence over at the War Department.

W: Why?

HMJr: Well, I talked to this General or Colonel or whatever his name is after you did and he said that he could get me reservations the following morning out of Dallas. You see?

W: Yes.

HMJr: And he put it on such a basis that it made me feel as though I was asking for something that I shouldn't so -- and he also told me he'd have an officer meet me at Dallas. Well, nobody met me at Dallas. When I saw that he didn't show very much interest, I just made my own arrangements and went through that night, changing to three different lines. I went from Eastern to Braniff to American Air Lines.

W: Well, didn't he have -- didn't he have the reservation for you?

HMJr: Oh, he had the reservations the next morning.

W: Yes.

HMJr: But I didn't use them. I got my own and went through the same night. Then I asked him about how could I get back and could he get me back and he said he'd have an officer meet me in Los Angeles. Well, nobody ever met me in Los Angeles and I made my own arrangements about getting back. And ....

- 2 -

W: Well, I'll tell you the whole trouble was, I guess, that they didn't ....

HMJr: Yes.

W: We didn't just order it out. That's what I did and then you let them soft-talk you.

HMJr: That's right.

W: That's what the whole thing was.

HMJr: Well, I should have -- yeah, but ....

W: Well, I'll call them up now and give them hell about it.

HMJr: Well, it was -- I mean it -- I -- you put it right -- I let them soft-talk me.

W: Yeah.

HMJr: Because when people tell me -- you know -- and all this -- they never send a plane out of Washington and describe how difficult it is ....

W: Yeah.

HMJr: Well, that's that, but -- but at least he could have had an officer show -- make a call in Los Angeles, which he never did. My God, they've got plenty of them around there.

W: Certainly. Well, I'll dig that up. I'm glad you told me.

HMJr: Because I only asked, I think, what I -- well, it was a reasonable request and certainly you were very kind.

W: Certainly, you're entitled to it.

HMJr: And -- that's what you said -- but ....

W: You are.

HMJr: But you didn't get an execution from the War Department.

- 3 -

W: Well, the point is I would have if I'd have stuck to my order.

HMJr: That's right.

W: But they -- they kind of soft-talk -- soft-soaped you there.

HMJr: Well, no, they ....

W: I'll jump on them for that.

HMJr: You might be interested in -- I went out there on War Bonds ....

W: Yeah.

HMJr: .... and this insurance man -- what's his name -- used to be Commissioner here ....

W: Yeah.

HMJr: The fellow that bets all the time, you know.

W: Uh -- uh ....

HMJr: A great betting fellow.

W: You mean Allen?

HMJr: Allen.

W: George Allen.

HMJr: Well, he heard my talk and came to my Press Conference in Los Angeles. Hello? Allen.

W: Yeah.

HMJr: And he said that he thought that my talk and my press was the best he'd heard for Roosevelt since the election started.

W: Good.

HMJr: I thought you might like to know that.

W: Yes, I am.

HMJr: And it ....

W: How did you find everything?

HMJr: Very good.

W: Yeah? You don't feel discouraged at all, do you?

HMJr: Not at all. The President has the whole West Coast in his pocket.

W: Good. That's fine.

HMJr: And these fellows know -- and you know Allen's pretty shrewd.

W: Yes, he is.

HMJr: And he's very confident.

W: Yeah. All right, sir.

HMJr: But I did want to -- because I -- this was official. It wasn't anything else and ....

W: Yes.

HMJr: .... you described it. He just talked me out of it.

W: I know, I'll -- I'll give them hell.

HMJr: But I wanted you to know what happened.

W: Well, I'm glad you did. I'll -- I'll take care of that.

HMJr: Thank you.

W: I'm sorry it went that way too.

HMJr: Well, it worked out -- it so happened that they did fix the plane -- hello?

W: Yeah.

HMJr: And they flew it out that night and it got there and they were able to bring me back.

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W: Yes.

HMJr: So it worked out all right.

W: All right.

HMJr: The Coast Guard came through.

W: Yeah.

HMJr: God bless Coast Guard.

W: Yeah.

HMJr: But if I'd have been up against it, I'd still be in Los Angeles ....

W: I see.

HMJr: .... as far as the Army was concerned.

W: I see. Well, I'm sorry but I -- I'll try to do what I can.

HMJr: Well, this -- whoever this fellow is, he's no Colonel McCarthy, he's no Colonel or Major Bedell Smith either.

W: I know. Well, you can't find those fellows often.

HMJr: Yes.

W: But I'll -- I'll take care of that.

HMJr: Okay.

W: All right.

HMJr: Thank you.

230  
October 17, 1944  
12:52 p.m.

Operator: Go ahead.

HMJr: Hello.

James  
Barnes: Mr. Secretary.

HMJr: Speaking.

B: Jim Barnes.

HMJr: Go ahead, please.

B: What I called you about is the -- the Business  
and Professional Club for Mr. Roosevelt is --  
the President -- is giving -- sponsoring that  
broadcast on the 27th in Philadelphia....

HMJr: Yes.

B: .... where he is going to speak.

HMJr: I don't hear you terribly well.

B: He's going to speak, as you know, in Philadelphia  
on the 27th.

HMJr: Yes.

B: Now, in addition to that they're going to have  
a lot of dinners in various spots over the  
country and they're either going to precede the  
President or follow the President with a state-  
wide hook-up....

HMJr: Yes.

B: .... of various individuals.

HMJr: Yeah.

B: Now, the Committee would like very much to have  
you, if you would, speak in New York or Brooklyn,  
one or the other of those spots, on the night  
of the 27th.

HMJr: I see.

B: Now, they don't know yet -- the plans are not definite enough yet whether you'll speak before the President or after the President.

HMJr: Yes.

B: The chances are it will be before the President. That will be on a New York hook-up.

HMJr: Yeah.

B: The President will be on Nationwide and they're trying to get -- like some are going to speak in New Jersey and some in Ohio and some in Illinois and various other spots at these State dinners.

HMJr: Yes.

B: The various ones speaking that night in addition to the President.

HMJr: And what do you -- is it -- do I have my choice as between New York or Brooklyn?

B: Well, no, it hasn't been definitely decided. They're going to have two dinners in New York, one in New York and one in Brooklyn. In which would you rather speak?

HMJr: I see.

B: I mean they're going to have two dinners up there.

HMJr: They're going to have two?

B: Yes, sir.

HMJr: Well, if I do it, I'd like to do it where I would do the most good.

B: Well, I think that would be true, sir. Where do you think you'd do the most good?

HMJr: Well, I'll tell you, I'd like to talk it over with -- well, people like the Commissioner of Internal Revenue ....

B: Yeah.

- 3 -

HMJr: Who comes from Brooklyn.

B: Well, those boys up in New York, at the National Committee -- they're all working together -- are working that out. The only thing they asked me to do this morning was to see if you could be free that day and could hold yourself open for that.

HMJr: Yes, I'll be glad to do it. I'll tell you now I'll do it.

B: Fine. I think that's grand.

HMJr: I ....

B: I think you'll do a lot of good.

HMJr: I'll be glad to do it and I -- I don't know -- I'd like to talk to Nunan about it.

B: All right. You do that, sir.

HMJr: I'll talk to Nunan and ask him which he thinks.

B: Fine. And I'll tell New York about it, sir.

HMJr: Right.

B: Thank you very much.

HMJr: Thank you.

B: Bye.

October 17, 1944

Dear Mr. Ramspeck:

I have received your telegram of October 16th.

You will realize that I cannot give you a blank check on my time because I do not know from one day to the next what calls will be made on me here in Washington. Mr. James Barnes has just asked me whether I would be willing to speak on the 27th, and I have cheerfully given my consent. If, after the 27th, there is some place you would like me to speak, I should be glad to hear from you, and we can settle the question at that time.

Sincerely yours,

(Signed) H. Morgenthau

Henry Morgenthau, Jr.

Mr. Robert Ramspeck,  
Chairman, Speakers Bureau,  
Democratic National Committee,  
Hotel Biltmore,  
New York, New York.

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A. N. WILLIAMS  
PRESIDENT

234 1298

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5326

HON HENRY MORGANTHAU JR

SECY OF TREASURY WASHDC

THE VITAL PART OF THIS CAMPAIGN WILL BEGIN OCTOBER TWENTY THIRD AND CONTINUE THROUGH NOVEMBER SIXTH. OUR DEMAND FOR SPEAKERS WILL BE HEAVY. PLEASE WIRE ME STATING WHETHER OR NOT YOU WILL HOLD YOURSELF READY TO ACCEPT ASSIGNMENTS DURING THAT PERIOD IF WE CALL ON YOU. YOUR COOPERATION WILL BE APPRECIATED.

ROBERT RAMSPECK, CHAIRMAN SPEAKERS BUREAU  
DEMOCRATIC NATL COMM.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

October 17, 1944  
3:08 p.m.

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HMJr: .... British requirements for the first year of Stage Two.

Robert P.  
Patterson: Yes.

HMJr: I'll have that over to you within the hour.

P: Fine.

HMJr: It's three volumes.

P: Oh! All right.

HMJr: And -- ah -- would Thursday morning be rushing you too much to have the first meeting?

P: Thursday?

HMJr: Yes.

P: Meeting with whom, Henry?

HMJr: Well, with -- with the English, on this.

P: Ah -- meeting with your group?

HMJr: Of the committee. Yes, you see this is the committee which the President set up, you see?

P: And you're meeting with the British?

HMJr: Yes.

P: And you mean for us to get our comments in by Thursday?

HMJr: Yes. Well, no, for you to be here, yourself, and be prepared to discuss it.

P: Yes. I think we could.

HMJr: You think you could.

P: Does this cover the air as well as the ....

HMJr: It covers everything as far as I know.

P: Yep. Yep. Does it cover food and all?

HMJr: Everything.

- 2 -

P: Okay.

HMJr: I'll have -- I'll have a ....

P: Let me take a look at it and I'll call you back.

HMJr: I'll send you over, because you'll most likely need -- what two or three sets?

P: Two sets will do.

HMJr: Two sets?

P: Yep.

HMJr: Now, I'm counting on you to represent the Army.

P: All right. I'll do it.

HMJr: I take it that you'll straighten that out with Stimson and McCloy.

P: Yes, sir, that's right.

HMJr: And put it on your calendar tentatively for nine-fifteen, Thursday.

P: Yes, sir, I will, Henry.

HMJr: And, then if -- after this gets over there, you might give me a ring.

P: Yes, sir.

HMJr: I thank you.

P: Thank you, Henry.

HMJr: Good-bye.

P: Bye.

October 17, 1944

**SECRET**

Dear Bob:

I am enclosing herewith two copies of the British requirements for the first year of Stage II. Please consider this of utmost secrecy.

Sincerely yours,

(Signed) Henry

The Honorable Robert P. Patterson,  
Under Secretary of War,  
War Department,  
Washington, D.C.

October 17, 1944  
3:11 p.m.

HMJr: How are you?

Edward R.  
Stettinius: Did you have a nice trip?

HMJr: A very interesting trip.

S: Well, I - I -- it must have a thrilling trip, from what the boys told me.

HMJr: Well, I don't know whether we're talking about the same trip.

S: Well ....

HMJr: You mean the one to Los Angeles?

S: Yeah.

HMJr: What was thrilling about that?

S: Well, Danny Bell told me the other day everything you were doing out there.

HMJr: Oh! Oh, I just call these trips out -- off the Continent thrilling.

S: Oh, yeah. Yeah.

HMJr: Well, anyway, our British friends have given me now a very complete volume of their requirements for the first year of Stage Two.

S: Right.

HMJr: I will have over to you within the hour two sets, if you would like them ....

S: Fine.

HMJr: .... and if I'm -- I would like to have a meeting in my office at nine-fifteen, Thursday morning. I know that rushes a little bit ....

S: That's all right.

HMJr: .... but if -- if you could do that .....

- 2 -

S: Nine-fifteen, Thursday, is fine, Henry.

HMJr: Fine. And would two sets be enough?

S: Sure. That will be perfect.

HMJr: Well, if it isn't, I can get you more.

S: No - no. That'll be enough.

HMJr: I'll -- I'll get you more.

S: Good.

HMJr: And, so far, I have not read in Drew Pearson's column what's happened and I -- let's hope that we won't. (Laughs)

S: Well, you won't -- you won't get that leak from here, Henry. I can promise that.

HMJr: Right. But, this -- I'm -- the reason I'm -- well, you've seen the stuff in the papers recently. Hello?

S: Yeah.

HMJr: Well, anyway, there will be, within the hour, two sets coming over, and the English tell me if I want more, I can get more.

S: Good.

HMJr: And I'll look forward to seeing you ....

S: Now, are you having -- you'll have the British there on ....

HMJr: The British will be here.

S: Yes.

HMJr: Plus Bob Patterson ....

S: Yes.

HMJr: .... and plus Crowley.

S: Right.

HMJr: I think that's the complete picture.

S: Now, may I bring Dean with me?

- 3 -

HMJr: Oh, that would be fine.

S: I think that would be helpful.

HMJr: That would be very helpful.

S: All right, Henry, I'll be there, and Dean and I -- Dean and I will have the -- will each study the papers before we come.

HMJr: And if you need more than two sets, you let me know.

S: All right, old boy. Thank you.

**SECRET**

October 17, 1944

Dear Ed:

I am enclosing herewith two copies of the British requirements for the first year of Stage II. Please consider this of utmost secrecy.

Sincerely yours,

(Signed) Henry

The Honorable Edward R. Stettinius,  
Under Secretary of State,  
State Department,  
Washington, D.C.

October 17, 1944  
3:14 p.m.

HMJr: Leo.

Leo T.  
Crowley: Yes.

HMJr: Good afternoon.

C: How are you?

HMJr: Fine. I now have in my hand the British requirements for the first year of Stage Two.

C: Yeah.

HMJr: I will send you over two copies within the hour.

C: Fine.

HMJr: Would it be rushing you too much if we would meet Thursday morning with the British at nine-fifteen and have our first discussion?

C: I don't think so. I think that's all right. That will give our fellows all this afternoon and tomorrow on it.

HMJr: Fine. If you want additional copies, I can -- I think I can get more if you want more than two.

C: Fine. I think that's enough to have around right now, anyhow.

HMJr: You think that's enough?

C: If we need any more, I'll call you.

HMJr: Will you do that?

C: You bet.

HMJr: Now, look ....

C: Nine-fifteen, Thursday morning?

HMJr: Nine-fifteen, Thursday morning.

C: Fine, Henry.

HMJr: Thank you so much.

October 17, 1944

**SECRET**

Dear Leo:

I am enclosing herewith a copy of the British requirements for the first year of Stage II. Please consider this of utmost secrecy.

Sincerely yours,

(Signed) Henry

The Honorable Leo Crowley,  
Administrator,  
Foreign Economic Administration,  
Washington, D.C.

OCT 17 1944

Dear Mr. Crowley:

I am enclosing herewith for your information a copy of a letter dated October 5, 1944 which I have received from the Under Secretary of War. It seems to me that this letter eliminates any misunderstanding that may have arisen as to the role of the War Department in connection with the work of the Lend-Lease Committee established at Quebec. Naturally the Committee will wish to maintain a close and continuous relationship with the military and naval authorities in carrying out the task assigned to it.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Leo T. Crowley, Administrator,  
Foreign Economic Administration,  
National Press Building,  
Room 414,  
14th & F Streets, N.W.,  
Washington, D.C.

Enclosure

FDW  
10/16/44  
FILE COPY

5 October 1944

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

Dear Henry:

Following the receipt of your letter of October 3, enclosing a copy of Cable No. 7899 dated September 22 from the American Embassy in London to the Secretary of State, in reference to a cable WAFX 28496 from the International Division to Army authorities in London, I have looked into the matter.

(B-24 118  
 P. 1-2)

The International Division cable was sent in the course of the busi-  
 ness of coordinated planning of U. S. Production with U. K. and other  
 British Empire production to meet the military requirements of the two  
 countries to best advantage following the defeat of Germany.

Supply plans have to be made well in advance of the time the supplies  
 will be needed, and the War Department would be dilatory if it failed to  
 anticipate and prepare for prospective developments before they occur. The  
 cable of the International Division is not a policy making document and of  
 course it does not, as apprehended by the Embassy in London, contemplate  
 that the British be urged to produce munitions which can be produced to  
 better advantage in the United States. It is desired to make sure that  
 U. S. requirements which can best be met from British sources are not  
 neglected in the revision of British production schedules.

The cable was sent before the Committee, was set up at Quebec and be-  
 fore anything was known of it in the War Department, which had been discuss-  
 ing informally with the British current and stage two requirements and  
 supply plans for several months.

I believe this clears up the matter of the cable.

I understand that the Committee will develop guiding policies in  
 respect to Lend-Lease and reciprocal Lend-Lease and will consider the  
 British requirements to be filled from U. S. sources during the first year  
 of the war against Japan alone. Consideration will no doubt be given also  
 to the U. S. requirements which should be met from British sources. In  
 both of these subjects the War Department will desire to be consulted in  
 respect to the supply of those munitions for which it has primary responsi-  
 bility for production or for supply. Any other assistance that we can give  
 to the Committee will also be rendered on call.

Sincerely yours,

(Signed) ROBERT P. PATTERSON,  
 Robert P. Patterson,  
 Under Secretary of War.

October 17, 1944 .

Memorandum

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Mr. Shaeffer's office has gone through the New York Times index and has been unable to find any record of an interview with Mr. Roosevelt on the subject of his health during 1928 when he was a candidate for Governor for the first time. They did find, however, reference to two speeches and extracts from these two speeches are attached. The first of the two was delivered before an audience estimated at "almost five thousand" at Convention Hall in Rochester on October 22. The second was delivered at Phillipsburg Hall in Yonkers on November 1 and you will note that the story estimates the audience as two thousand.

Ernest Lindley told me that he had no recollection of any interviews given by Mr. Roosevelt on this subject. On October 2, on his way back from the Convention to Albany, Governor Smith told reporters that except for the full use of his legs Mr. Roosevelt was in first class physical condition. In Ernest's personal file there were also notes of an interview with F.D.R. on October 5 in which he said that he was amazed at reports that he was being "sacrificed" by being made a candidate for Governor and said "I was not dragooned into becoming a candidate." He did not make any direct reference to his health, however. This seemed to be in reply to an editorial in the Herald Tribune which said it was unfair to Mr. Roosevelt and unfair to the people of the State that in his physical condition he had been forced into becoming a candidate for Governor. Governor Smith in the interview referred to above characterized as nonsense the story that Mr. Roosevelt was not actually going to serve as Governor.

*ms*

New York Times, October 23, 1928.

At Convention Hall, Rochester, New York, October 22, 1928.

"I may be pardoned if I refer to my own intense interest in the care of crippled children" he (Mr. Roosevelt) said.

"More than 100,000 adults and children in this State are crippled from infantile paralysis and other diseases most of them so seriously that they are unable to live normal or useful lives. From a practical standpoint it is obvious that if a large proportion of them can be restored to usefulness they will in time repay the State for its expenditure.

"Persons readily recognize that I myself furnish a practically good example of what can be done by the right kind of care.

"I dislike to use this personal example, but do so because it fits. Seven years ago I was completely put out of any sort of useful activity by an attack of infantile paralysis.

"By personal good fortune I was able to obtain the best medical care. Today I am on my feet and entirely capable, at least from the physical point of view, of running any business, private or that of the State of New York."

New York Times, November 2, 1928.

At Phillipsburg Hall, Yonkers, November 1, 1928.

Mr. Roosevelt took occasion to spike the rumor current in some circles that he would resign on account of his health if elected.

"As the campaign progresses," Mr. Roosevelt told his 2,000 hearers, "I am getting many letters from Westchester and Long Island voters asking me seriously about my health, and particularly asking me to confirm whether or not it is expected that I would not live after January 1. If I could keep on campaigning 12 months longer, I'd throw away my canes."

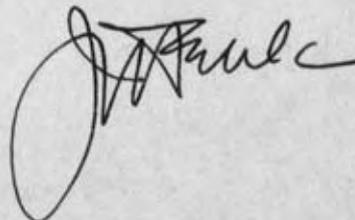
EXECUTIVE OFFICE OF THE PRESIDENT  
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE  
October 17, 1944TO Secretary Morgenthau  
FROM J. W. PehleFor your information:

You may not have noticed that Governor Dewey, in his speech last night, included the "WRB" in his listing of agencies of the Administration "now operating wholly or partly all over the world." This afternoon Jonathan Daniels called me from the White House and asked me how many representatives we had abroad. The score is five professional people and three secretaries.

Daniels told me that he was getting material for a reply to Dewey, who had singled out several agencies which had little or no personnel abroad.



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October 17, 1944.

Dear Mr. Thompson:

Mr. Robert Vanderpoel told me that you were so good as to postpone your vacation two separate times in order that Mr. Vanderpoel could be free to help me.

I appreciated this very much and want to thank you for "standing by" in this way. May I also say that I hope you will eventually get the vacation, and that it will be an enjoyable one.

With thanks again for your courtesy,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Hal Thompson,  
Assistant Financial Editor,  
The Chicago Herald-American,  
326 West Madison Street,  
Chicago, Illinois.

TO:

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Mr. Paul Wooten called Mr. Shaeffer's  
office back and said to tell you  
that Mr. Fritchie is their  
"hated competitor". His full name  
is:

Clayton Fritchie  
Executive Editor  
The Item  
New Orleans, Louisiana

(He was not listed in Who's Who)

FROM: MR. GASTON

October 17, 1944.

Dear Clayton:

I enjoyed greatly having the chance to see you again during my visit to New Orleans last week. I am sorry indeed that the uncertainty about my means of transportation to Los Angeles caused me to dash away so unceremoniously and to miss seeing you again as I had expected.

With cordial regards,

Sincerely,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

Mr. Clayton Fritchie  
Executive Editor, The Item  
New Orleans, Louisiana

HEG/mah

*MB*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Oct. 17, 1944

TO Secretary Morgenthau  
FROM Harold Mager *Hm.*

You will find attached "Special Memorandum to State Chairmen" dealing with the mailing of your speeches, and the quantities they may expect; and "Special Memorandum to State and County War Finance Chairmen" to be attached to each set of speeches.

To save paper, the speeches have been mimeographed by "backing". Because the rollers had to be re-inked today, the samples attached are not too good. I have Mr. Shaeffer's assurance, however, that the 4,500 sets mailed to Chicago last night are a fine workmanlike job.

Attachments



TREASURY DEPARTMENT  
WASHINGTON



WAR FINANCE DIVISION

October 17, 1944

SPECIAL MEMORANDUM TO STATE CHAIRMEN:

Mimeographed copies of Secretary Morgenthau's addresses to the Regional Conferences in Atlantic City, New Orleans and Los Angeles are being prepared in sufficient quantity for distribution to both State and County War Finance Committees.

A copy of each of these addresses, with covering note, will be mailed to county chairmen in those states for which we have authorized mailing lists of county chairmen.

Bulk shipments of the addresses for remailing to local chairmen will be sent to state headquarters, on the basis of one set per county, in those states that have not furnished authorized lists of county chairmen.

We are ordering for shipment to your state within the next three or four days:

\_\_\_\_\_ copies of the addresses and covering memorandum to your state office in bulk.

1 copy of each address, with covering memorandum, to each of the \_\_\_\_\_ names on county chairman mailing list #314.

The addresses and covering memorandum are also being mailed to the addressograph lists (149-2 and 149-3) which usually receive Field Memoranda.

It is desired that these important addresses on War Financing be given the widest possible distribution. State and local chairmen should bring them to the attention of local financial editors.

Additional copies may be requisitioned from the Field Director's office in the usual manner.

R. W. COYNE  
Field Director  
War Finance Division



TREASURY DEPARTMENT  
WASHINGTON



WAR FINANCE DIVISION

October 1944

SPECIAL MEMORANDUM TO STATE AND COUNTY WAR FINANCE CHAIRMEN:

Attached are copies of three addresses recently delivered by Secretary Morgenthau on the subject of War Finance. I think you will find them helpful to your own work with the Treasury program.

The Atlantic City talk deals with the democratic manner in which the financing of the war has been handled.

The New Orleans talk emphasizes the part which War Finance has played in economic stabilization.

The Los Angeles talk examines the problem of interest rates and the post war public debt.

The information contained in these talks is important, and should be given the widest possible distribution. May I suggest that you call the addresses to the attention of financial editors in your locality.

Additional copies of the addresses may be secured from this office if desired.

R. W. COYNE  
Field Director  
War Finance Division

Attachments (3)

TREASURY DEPARTMENT  
Washington

FOR RELEASE AT 1:30 P.M., E.W.T. Press Service  
Saturday, October 7, 1944. No. 43-64

(The following address by Secretary Morgenthau at a War Bond Rally at the Hotel Claridge, Atlantic City, is scheduled for delivery at 1:30 P.M., EWT, Saturday, October 7, 1944, and is for release at that time.)

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, 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. 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 85,000,000 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 \$23,000,000,000 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 nonnegotiable 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%, is the highest obtainable on 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. Nonnegotiable 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.

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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 backlog 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 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.

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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.

oOo

TREASURY DEPARTMENT  
Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,  
Thursday, October 12, 1944.

Press Service  
No. 43-65

(FOR RADIO RELEASE 1:45 P.M., CWT)

(The following address by Secretary Morgenthau at a War Bond Rally at the Hotel Roosevelt, New Orleans, is scheduled for delivery at 1:45 P.M., CWT, Thursday, October 12, 1944.)

Wars, now as always, are won on battlefields. 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. The nub of the problem has been to raise these sums in such a way 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 \$208,000,000,000. During this same period, non-war expenditures have been kept down to \$16,000,000,000, making a total government outlay for the course of the war to date of \$224,000,000,000.

Where has this tremendous sum come from? Well, \$87,000,000,000, or 39 percent of the total bill, has come from revenue.

During the fiscal year just ended, expenditures were slightly more than \$95,000,000,000, and net receipts climbed to a little over \$44,000,000,000, 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 \$5,500,000,000. The \$44,000,000,000 total which, as I have just told you the Government took in during the past year, was an eightfold 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 remarkably 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 \$137,000,000,000, 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 part of the increased debt be borrowed outside of the banking system -- that is from the general public.

In selecting the Series 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. The Treasury Department has considered itself a trustee for the men and women who purchased Government Securities primarily to help their country in time of stress. Such investors place their faith in their Government. We wanted, therefore, to protect them, through a nonnegotiable 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

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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, 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 inflationary pressures, has already amounted, by June 30 of this year, to \$70,000,000,000.

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 postwar 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 postwar world, we need have no fear of the future.

But the kind of postwar 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.

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.

- 5 -

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. Your job is to overcome any disposition among the American people 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.

-oCo-

TREASURY DEPARTMENT  
Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,  
Saturday, October 14, 1944.

Press Service  
No. 43-75

(FOR RADIO RELEASE 1:45 P.M., PWT)

(The following address by Secretary Morgenthau at a War Bond Rally at the Hotel Biltmore, Los Angeles, is scheduled for delivery at 1:45 P.M., PWT, Saturday, October 14, 1944.)

For the last week I have been addressing a number of meetings such as this in various parts of the country. During the course of these talks, I have endeavored to outline briefly some of the philosophy behind American war finance as we at the Treasury Department view it.

The democratic manner in which the financing of the war has been handled, I described last Saturday at Atlantic City. About 85,000,000 individual Americans have bought bonds of their government. They have bought them not as a result of compulsion but for purely patriotic reasons and because they are the best investment in the world.

Thursday, addressing a gathering similar to this at New Orleans, I emphasized the part which war finance has played in economic stabilization. The heavy tax burdens which the American people, generally speaking, have accepted with extraordinarily good grace and the large proportion of the increase in the public debt which has been absorbed by the men and women of this country, have played a very important part in holding inflation in check. The OPA has estimated that if prices during this war had risen as sharply as in World War I, there would have been approximately a \$70,000,000,000 increase in government costs -- a \$70,000,000,000 additional burden fastened onto the country.

Today I would like to conclude this resume with a quick examination of interest rates and a glance at the postwar public debt problem as I see it.

The great expansion in the Federal debt has been achieved with virtually stable interest rates--thanks largely to your efforts. Such change as has occurred has been to slightly lower levels. This contrasts with World War I when almost each new

series of bonds carried a higher interest rate, so that the cost trend was almost constantly upward. As a result, the average interest cost has been only 1-3/4 percent on the wartime increase in the public debt. This contrasts with 4-1/4 percent for World War I.

The resulting interest saving approximates \$4,000,000,000 a year -- quite a tidy sum to have saved for the taxpayers of this nation. Realization of your part in this saving, I believe, should give you, as it has us at the Treasury, a feeling of real accomplishment.

Moreover, and this is a point deserving of particular emphasis, the interest on all securities sold during the war has been fully taxable while the issues marketed during World War I were all either wholly or partially tax-exempt. This has resulted in a further net saving to the Treasury amounting to several hundred million dollars a year. Further through removal of tax exemption, all purchasers of Government securities are taxed their share of the war cost in proportion to their ability to pay. This is a point which may not have occurred to you but which should be of help in the sale of E Bonds.

Incidentally, the Government in eliminating tax exemption relinquished any "unfair" advantage it might have had over private borrowers in securing credit. It thereby served to strengthen the private enterprise system.

President Roosevelt, in his 1945 Budget Message summarized the situation as follows--

"The primary achievement of our debt policy has been the maintenance of low and stable rates of interest. Average interest rates payable on the public debt now are less than 2 percent. Interest received from all new issues is fully taxable. As a result, the net cost per dollar borrowed since Pearl Harbor has been about a third the cost of borrowing in the first World War."

Personally, I do not anticipate a rise in interest rates in the foreseeable future. Savings are abundant and promise to be adequate to meet all likely demands. We believe, therefore, that we shall be able to refund our obligations, as they come due, at rates comparable to those now prevailing. Thus, the saving to the Treasury will continue over a long period of years. At the same time the people to whom you have sold the war bonds will continue to be satisfied rather than disgruntled customers.

- 3 -

Moreover, quite apart from its value to the Treasury -- and, hence to the taxpayers -- the continuance of low interest rates, will provide a stimulus to the national economy in the postwar period. High interest rates limit enterprise and discourage employment. Low interest rates stimulate business and make for expanding employment.

Just as I see no reason for substantially higher interest rates in the postwar period, I do not see any need for a wholesale postwar funding of the public debt into long-term bonds.

In the first place, it would cost the taxpayers more in interest. Next, it would shift whatever risk there is inherent in fluctuating interest rates from the Government, which is able to bear it, to individuals, institutions and corporations. Certainly the day is past when the United States Government need ask its citizens or its business enterprises to insure it against changes in the rate of interest.

Finally, we have endeavored to tailor the debt structure to the needs of those who lend us the money and of the national economy.

The small investor who purchases the Series E Savings Bonds places his faith in his Government. Could we do less than see to it that the securities offered him were suited to his needs?

The Savings Bonds, while not a war development, having been first offered ten years ago, have proved an admirable war finance medium which we expect to carry over into the postwar period. We hope that many millions of people will continue to hold a financial stake in their Government.

Industrial corporations, as you know, have principally purchased certificates of indebtedness and Series C Notes. These constitute a substantial part of their reserves for reconversion and postwar development. It is clearly advantageous not only to the corporations but to the whole economy that these reserves be liquid. The corporations thus know that the money will be available and without loss whenever they need it. When the proper time comes they can proceed full speed not only with their conversion but with any expansion plans they may have.

Finally, there are the Government securities which now constitute a large proportion of the assets of the commercial banks. Many of you are bankers. You know it has been our policy to encourage the banks to purchase issues of short maturity. As a

consequence, about half the securities acquired by the commercial banking system since the beginning of the war have been bills and certificates maturing within one year and practically all have had a maturity of ten years or under.

The result is that the banking system of the country is in a position of unparalleled liquidity. This, we believe, affords assurance against a recurrence of such unsettling deflation as came in the aftermath of World War I. Further, it places the banking system in a strong position to meet the shifts in deposits that many of you anticipate with reconversion and the new business demands for funds that should accompany the development of a healthy, expanding economy.

In a word, the banks' part in war finance, great as it has been, instead of hamstringing them, has left them in a position to service enthusiastically a virile private enterprise system.

I might point out that the banks have not only been able to maintain a strongly liquid position as a result of the manner in which the nation's war finance has been handled, but also they have found an opportunity for public service. This has enhanced the esteem with which they are held in their respective communities. Moreover, while they have been making this contribution to the war effort they have enjoyed an increase in earnings. Net profits of all member banks of the Federal Reserve system last year were back at almost exactly the all-time high level of 1929.\*

I want to thank you who have been the leaders in the war finance work in these great western states -- thank you upon the part of the Treasury, whose job it has been to direct the program, and, more important, thank you on behalf of the United States of America, which, of course, is the real beneficiary.

I am no prophet as to the duration of the war, but today we are hopeful that unconditional surrender by Germany may not be far away. At such time all eyes will turn to the West. The eleven states represented at this meeting will take on new importance in the war. The Pacific coast will become the springboard for the all-out offensive against Japan.

This should prompt you who have the job of raising the necessary money to redouble your efforts.

Our immediate task is to put over the Sixth War Loan, to do so just as decisively as our fighting men are establishing their positions in Europe and in the islands of the Pacific.

- 5 -

I know you understand the importance of this absolutely essential link in the war effort. But you must do more than understand it, you must make the people understand it, the men and the women in stores and offices, in factories, on the farms and in their homes.

These people must understand, as you do, that the time has not yet come to relax or celebrate, that we must speed weapons and supplies far across the Pacific to our armed forces who know full well that a hard fight still lies ahead before they can bring us victory over the Japanese -- and these weapons and supplies must be paid for. That is our task -- I know America can count upon you!

oOo

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 17, 1944

TO Secretary Morgenthau

FROM Mr. White

Subject: Status of Stabilization and Gold Agreements on September 30, 1944.

1. Stabilization Agreements in Operation

Country	Dated	Expires	Amount		Collateral
			Commitment	Outstanding	
Brazil 1/	7/15/37	7/15/47	\$100,000,000	None	None Gold

2. Stabilization Agreement Concluded but not yet Effective

Mexico	11/1/41	6/30/45	\$ 40,000,000	None	None required
Ecuador 2/	3/1/42	6/30/45	5,000,000	None	None required

3. Gold Sale Agreement

Country	Dated	Expires	Commitment	Outstanding	Payment due within
Cuba	7/6/42	6/30/45	\$ 5,000,000	None	120 days from each sale

4. British Coin Purchase Agreement

Country	Dated	Expired	Commitment	Purchases
Liberia 3/	9/26/42	6/30/44	\$ 2,000,000	\$679,313.90

1/ The agreement as amended also provides for sale to Brazil of up to \$300,000,000 in gold, of which \$220,986,143 had been sold.

2/ On October 9, 1944 an agreement, as of June 30, 1944, was signed by the Secretary of the Treasury and the Ambassador of Ecuador extending the agreement of March 1, 1942 to June 30, 1945. The agreement is to come into effect when Ecuador files appropriate supporting document with the State Department.

3/ Payment to the amount of \$645,308.93 had been received from the United Kingdom for silver coins shipped from Liberia.

OCT 17 1944

My dear Mr. President:

In accordance with your request of October 4, 1944, I am enclosing a proposed reply for your signature to the letter of Mr. Engelhard dated September 7, 1944.

Mr. Engelhard's letter is returned herewith.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,  
The White House.

Enclosures

SDS:maw

10/11/44

Dear Mr. Engelhard:

This is to acknowledge your letter of September 7, 1944 extending your congratulations for the successful fight being waged against Hitlerism and expressing your confidence in the reestablishment of democratic principles in the world.

I am glad to learn that you have consented once more to serve as a Presidential Elector and I am grateful for your good wishes.

Your interest in the steps which are being taken to build a sound and enduring peace is appreciated. As you realize such a peace must be based upon a healthy domestic economy and a high level of international trade. The Bretton Woods and Dumbarton Oaks conferences and others which are to be held may be expected to contribute much to this goal.

Your suggestions in regard to the desirability of further changes in the use of gold and silver will be given thoughtful consideration.

Very truly yours,

Mr. Charles Engelhard,  
30 Church Street,  
New York, 7, New York.

SDS:msw  
10/11/44

THE WHITE HOUSE  
WASHINGTON

268  
*g. l. s.*

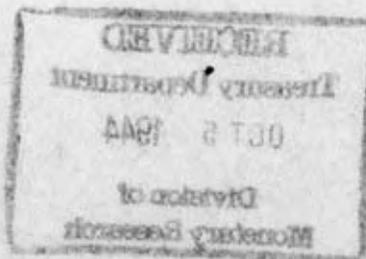
October 4, 1944.

MEMORANDUM FOR

HON. HENRY MORGENTHAU, JR.

FOR PREPARATION OF REPLY  
FOR MY SIGNATURE.

F.D.R.



CHARLES ENGELHARD  
30 CHURCH STREET  
NEW YORK 7,

THE WHITE HOUSE  
SEP 9 8 32 AM '44  
RECEIVED  
September 7, 1944.

My dear Mr. President:

As I had the incomparable privilege to write to you on many occasions during the last twelve years in commendation of your manifold political acts, I ask your permission to write to you to-day as an American citizen of German birth and descent, to congratulate you on the accomplishment of your victory over Hitlerism and all that it stood for.

You are reaching the climax of everything you so valiantly attempted, and your great energy, foresight and endurance are succeeding to re-establish democratic principles for all the world, on the basis of Christian principles which Hitler dared to deny.

I believe I speak not only for myself in this respect, but express the thoughts of many millions of loyal American citizens with German blood within their veins.

May God grant you strength to inaugurate a peace which will be enduring, and the thanks of the world, including our present enemies will be forever due you.

My co-citizens in New Jersey have insisted that I become for the third time, one of your Presidential Electors, and in spite of my years, I feel profoundly honored and enthusiastic to serve.

I know now that you will be re-elected, because there is nobody who could replace you, and I thoroughly believe in the absolute fairness of the great masses of the American people.

As far as peace and the economic future of the world are concerned, under your great leadership, we will find the solution.

One of your first acts as President of the United States, was to change the price of gold, and from that moment on, our economic status improved.

It may be necessary again to attempt such a step, in conjunction with our Allies, in particular the British Empire, and it may prove, as heretofore in history, the ONLY solution to recreate normal conditions for the coming peace.

The war has shown that mere paper promises mean

CHARLES ENGELHARD  
30 CHURCH STREET  
NEW YORK

-2-

September 7, 1944.

slavery for the weaker partner, and nothing else.

Everybody agrees that gold and silver are the only safe basis for international business as a whole.

The Bretton Woods Conference has proven our good intentions to help, and other conferences will follow under your great leadership.

Before World War I, it was considered safe if any currency was covered by gold to the extent of 40% of its total value.

To-day the international debts are so exorbitant that it may be considered safe if any currency is covered at least 10% by gold, with which international balances can be paid at regular intervals on demand.

Such a rule would, to my mind, insure the economic sovereignty of big and small nations alike. At the same time it would open the way so that silver would find its rightful and logical place next to gold, on the basis of the present Silver Purchase Acts which you initiated, Mr. President, to the greatest benefit of the United States and the rest of the world.

A sound and safe recognition of silver, next to gold, with essential controls as per our Silver Purchase Acts, may be necessary to give additional support to the economic wellbeing of the world, as a basis for credit.

A justified recognition of silver would help China and India and the rest of the world, and without question or doubt would EXPEDITE world recovery.

May God grant you strength, Mr. President, to complete your great work in the coming years, and believe me as ever,

Yours most faithfully,

*Charles Engelhard*

Hon. Franklin D. Roosevelt,  
President of the United States,  
The White House,  
Washington, D.C.

Treasury Department 271 ✓  
Division of Monetary Research

Date.....Oct. 17, 1944

To: Mrs. McHugh

The Secretary may be interested  
in seeing this.

H.D.W.

MR. WHITE  
Branch 2058 - Room 214-1/2

STORM OVER GERMAN PROBLEM. . . . .BY HERBERT J. SELIGMANN

WASHINGTON.(ONA)--IT CAN BE SAID ON INFORMED WASHINGTON AUTHORITY THAT GERMANY NOW IS THE CENTER OF A BITTER STRUGGLE OVER THE KIND OF WORLD THAT SHALL PREVAIL WHEN THE WAR IS OVER. IN THE COURSE OF THAT STRUGGLE A DISTORTED VERSION OF ONE OF THE PLANS FOR CONTROLLING GERMANY WAS PRESENTED TO THE PUBLIC AND LINKED WITH THE NAME OF SECRETARY OF THE TREASURY HENRY MORGENTHAU.

THIS DISTORTED VERSION WAS CONTAINED IN A "LEAK" TO THE PRESS FOR THE EXPRESS PURPOSE OF DISCREDITING A PROGRAM WHICH IT WAS FEARED MIGHT OTHERWISE GAIN ADHERENTS.

I AM IN THE POSITION OF BEING ABLE TO GIVE A MORE ACCURATE NOTION OF WHAT THE ALTERNATIVES REALLY ARE WITH REGARD TO POSTWAR GERMANY. THEY ARE SOMEWHAT AS FOLLOWS:

FIRST, THERE ARE THOSE WHO INSIST THAT GERMANY MUST PAY REPARATIONS FOR WAR DAMAGE, AND THAT IN ORDER TO ENABLE THAT PAYMENT, GERMANY MUST BE GIVEN HELP IN REBUILDING HER INDUSTRIES. PROPONENTS OF THIS PLAN RELY ON CONTROL FROM THE OUTSIDE TO PREVENT GERMANY FROM REARMING AS A MILITARY POWER. ALLIED MISSIONS, THEY SAY, SUPERVISING GERMAN INDUSTRIAL PRODUCTION, WOULD CONSTITUTE THE GUARANTEE AGAINST FUTURE GERMAN PREPARATION FOR MILITARY AGGRESSION.

PROPONENTS OF THIS VIEW WOULD REMOVE GERMANY'S AIRPLANE AND SYNTHETIC OIL PLANTS AND CONTROL IMPORTS AND EXPORTS. ONE GROUP IN THIS CAMP WOULD LIMIT GERMAN REPARATIONS TO A PERIOD OF FIVE YEARS AND HAVE THE PAYMENTS MADE IN GOODS.

THE SECOND GROUP INSISTS THAT THE PLAN OUTLINED ABOVE WOULD LEAVE GERMANY ECONOMICALLY AS POWERFUL AS EVER AFTER THE REPARATIONS HAD BEEN PAID, AND BEHIND THIS POWER WOULD BE GERMANY'S RAGE AT THE HUMILIATION OF MILITARY DEFEAT. THEY MAINTAIN THAT THE DANGER FROM GERMANY WOULD BE GREAT NOT AFTER FIVE OR TEN YEARS BUT AFTER 25 YEARS WHEN GERMANY WOULD HAVE SUBTLY WHITTLED AWAY ALL CONTROLS AND WOULD HAVE WORMED HER WAY BACK, UNDER COVER OF BEING "PEACE-LOVING," INTO A POSITION OF DANGEROUS AGGRESSIVE POWER.

MOREOVER, THEY SAY, GERMANY WOULD BE, AS SHE IS NOW, RECEIVING HELP FROM THE OUTSIDE. THAT HELP WOULD COME PRIMARILY FROM THOSE WHO WOULD BUID UP A STRONG GERMANY, IN THE CLIVEDEN SET TRADITION, AS A BULWARK AND PERHAPS A WEAPON AGAINST SOVIET RUSSIA. HELP WOULD COME ALSO FROM THE BIG CORPORATIONS WHO FORMED PART OF THE GERMAN CARTEL-OCTOPUS AND

WHO HAD AND STILL HAVE IMPORTANT INTERESTS IN THE REICH. SUCH HELP COMES ALSO FROM GERMAN EXILES WHO REMAIN GERMANS WHATEVER THEIR PLACE OF REFUGE AND WHATEVER THEIR NEW CITIZENSHIP.

GERMANY, THE PROponents OF THE "REDUCE GERMAN PRODUCTION" PROGRAM MAINTAIN, WOULD NOT BE SO STUPID AS TO PRODUCE ARMAMENTS AT ONCE. THAT WOULD COME ONLY AFTER AN INTERVAL OF TEN OR FIFTEEN YEARS. BY THAT TIME FOREIGN CONTROLS WOULD BE RELAXED AND GERMANY COULD PURSUE WHATEVER POLICY IT WANTED. THIS, SAY THE CRITICS OF THE "REBUILD GERMANY" PROGRAM, WOULD BE MERELY A REPETITION OF WHAT HAPPENED AFTER THE LAST WAR, ONLY THIS TIME GERMANY'S MEANS WOULD BE MUCH MORE SUBTLE. GERMANY WOULD CONSTITUTE ITSELF A CROWBAR TO WIDEN THE CRACKS BETWEEN THE BRITISH, THE AMERICANS AND THE RUSSIANS.

SAID A SPOKESMAN FOR THIS POINT OF VIEW:

"THE PEOPLE WHO THINK THAT THEY CAN MAINTAIN INTERNAL CONTROLS OVER GERMANY ARE SIMPLETONS. IT SHOULD BE RECOGNIZED THAT THERE ARE NO ENTIRELY GOOD ALTERNATIVES FOR DEALING WITH GERMANY. IT IS A MATTER OF CHOOSING THE LEAST DANGEROUS AND HARMFUL.

"GERMANY CAN BE KEPT AN INDUSTRIAL COUNTRY BY ENABLING THE MANUFACTURE OF TEXTILES, TOYS, OPTICAL GOODS AND THE LIKE, WHILE DEPRIVING THE GERMANS OF ALL HEAVY INDUSTRY."

IN SUPPORT OF THIS VIEW THE FOLLOWING PROGRAM IS ADVANCED:

- 1--INTERNATIONALIZE THE HEAVY INDUSTRY SECTION OF THE RUHR.
- 2--GIVE THE SAAR REGION WITH ITS COAL TO FRANCE.
- 3--DIVIDE NORTH GERMANY FROM THE SOUTH AND ABOLISH CUSTOMS BARRIERS BETWEEN THE SOUTHERN HALF AND AUSTRIA, THEREBY SOLVING THE PROBLEM OF AUSTRIA'S UNWORKABLE ECONOMY.
- 4--DISMANTLE GERMANY'S HEAVY INDUSTRIES AND DISTRIBUTE THEM TO THE NEIGHBORING COUNTRIES WHICH HAVE BEEN STRIPPED BY THE GERMANS; RUSSIA, CZECHOSLOVAKIA, POLAND, FRANCE AND THE LOW COUNTRIES.

THE SPOKESMAN FOR THIS PLAN CONTINUED:

"THE FACT THAT THE MIDDLE WEST OF THE UNITED STATES IS AGRICULTURAL DOES NOT MEAN THAT IT HAS NO INDUSTRIES. IN THE CASE OF GERMANY, THAT COUNTRY WAS ALMOST SELF-SUFFICIENT IN THE PRODUCTION OF FOOD BEFORE THE WAR. IT PRODUCED BETWEEN 95 AND 100 PER CENT OF MANY OF ITS VITAL GRAINS AND OTHER FOOD RESOURCES. IT PRODUCED BETWEEN 90 AND 95 PER CENT OF ITS VEGETABLES, BETWEEN 80 AND 90 PER CENT OF ITS EGGS AND FRUIT, AND 80 PER CENT OF ITS POULTRY.

"IN 1937 GERMANY PRODUCED SEVEN MILLION TONS OF RYE AND IMPORTED ONLY 100,000 TONS, AND IT PRODUCED 3½ MILLION TONS OF BARLEY. OF POTATOES, GERMANY PRODUCED 55 MILLION TONS, IMPORTING ONLY 100,000 TONS. IN BEET SUGAR, GERMANY WAS SELF-SUFFICIENT, AS IT WAS IN THE CASE OF TURNIPS, PEAS AND FLAX. IT DID HAVE TO IMPORT ONE-FIFTH OF ITS WHEAT, BUT GERMANY MIGHT WELL SUBSTITUTE OTHER GRAINS FOR THE WHEAT DEFICIENCY IN THE POST-WAR YEARS."

THE GERMANS, IN ANY CASE, WILL HAVE TO PULL IN THEIR BELTS AS THEY DID WHEN ONE-THIRD OF THEIR PRODUCING CAPACITY WAS DEVOTED TO ARMAMENTS. THE RUSSIANS, WHO WILL CONTROL GERMANY WELL TO THE WEST OF BERLIN, WILL IN ANY CASE DISMANTLE AND REMOVE WHATEVER IS MOVABLE. HAVING BEEN STRIPPED AND WRECKED BY THE GERMANS, THE RUSSIANS AND POLES WILL NOT ASK ANYONE'S PERMISSION BEFORE REIMBURSING THEMSELVES WITH WHATEVER GERMAN EQUIPMENT ESCAPES BOMBING AND OTHER MILITARY WRECKING.

SO, IN ANY CASE, GERMANY WILL BE IN DIFFICULTIES. AND NO MATTER HOW THEIR PROBLEM IS HANDLED THE GERMANS WILL "YELL BLUE MURDER." THOSE WHO MAINTAIN THAT THE PRIMARY PROBLEM IS TO STAVE OFF FUTURE AGGRESSION, INSIST THAT:

1--ALL GERMAN ARMAMENT PRODUCTION AND ALL MANUFACTURE TRIBUTARY TO IT MUST BE STOPPED, ONCE AND FOR ALL.

2--LIGHT INDUSTRIES AND FULL AGRICULTURAL PRODUCTION MUST BE ENCOURAGED AND THE GERMANS MADE TO LIVE ON WHAT THEY CAN PRODUCE, HELPING THEM IN THE BEGINNING WITH PROVISION OF NECESSARY FERTILIZERS.

UNDER SUCH A PROGRAM, IT IS MAINTAINED, THEIR STANDARD OF LIVING IN THREE TO FIVE YEARS CAN BE LIFTED ABOVE THE PREWAR LEVEL IN POLAND. IN THIS WAY GERMANY CAN BE PREVENTED FROM PREPARING FOR THE NEXT WAR. GERMANY CANNOT BE TRUSTED TO STEER FOR PEACE HERSELF. SO THE MONSTER'S FANGS MUST BE PULLED. THE GERMANS WILL YELL AND WHINE IN ANY CASE. SO DISREGARD THE OUTCRY AND GIVE THE CASE THE TREATMENT IT DESERVES FROM THE POINT OF VIEW OF THE WELFARE AND SAFETY OF THE CIVILIZED WORLD.

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TREASURY DEPARTMENT  
WASHINGTON 25

October 17, 1944

MEMORANDUM TO THE SECRETARY

I am enclosing a list of the  
special items valued in excess of \$50,000  
as of October 14, 1944.

*E. L. Olrich*

E. L. Olrich  
Assistant to the Secretary

*by Andrew*

PROPERTY FOR DISPOSAL

SPECIAL ITEMS, COST TO GOVERNMENT IN EXCESS OF \$50,000

AS OF OCTOBER 16, 1944

1. Automotive Products

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>AUTOMOTIVE SPARE PARTS, NEW</u>	21 000 000		\$ 14 000 000

Large quantities on recent declarations are bolts, nuts, spark plugs, fuses - called "parts common" that can be used on any motor vehicle. Lists totalling 11 million parts worth \$2,500,000 have been submitted to Ford and General Motors for them to analyze and determine parts acceptable.

<u>AUTOMOTIVE PARTS, OBSOLETE, USED</u>			2 000 000
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Majority are used, having been taken from used vehicles and put in stock. There are acres of used bodies, fenders, cowls, cabs, etc., at Blue Grass, Ky. and Fort Crook. Spot check inspection list has gone to Chrysler as a test action on disposal. Other lists are going to other manufacturers.

QUANTITY      UNIT COST      COST TO GOVT.

HYDRAULIC FLUID

378 459      \$ 1.74      \$      658 580  
gals.

Needs reprocessing. The manufacturer's telephone offer of \$.50 per gallon for entire lot has not yet been confirmed.

JACKS, HYDRAULIC

10 741      79.00      848 539

4 wheel, roller type, for garage use. There are several makes. Two manufacturers have been requested to submit an offer.

MOTOR ANALYZERS (testers)

1 500      100.00      150 000

Regional Office has been authorized to re-sell to manufacturer on a 3 months' delivery basis.

2. Textiles and Wearing Apparel

All textiles and clothing in the hands of disposal agencies have been temporarily frozen to enable the Army to make selections for use in program for occupied countries.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>BELT POCKET FOR CARTRIDGE CLIPS</u>	1 000 000	\$ .10	\$ 100 000

Web pocket with fastener. Radio advertiser is taking quantities under option as requests from program develop. Price received \$0.06.

<u>MAGAZINE BELTS</u>	55 369	2.35	130 325
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An apron of web fabric belt pockets to hold bullet clips. Samples have been sent to all regions to widen sales effort.

<u>LEGGINGS</u>	213 280 pr.		109 833
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World War I stock, good only for salvage. Now being authorized for sale by Regions.

<u>W.A.C. CAPS</u>	76 712	2.20	168 766
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Samples have been given to exporters and others. This is an item that is hard to dispose of.

<u>HATS, ARMY SERVICE</u>	45,928	3.00	137 784
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The old-style, broad brimmed campaign hat. Of original amount of 91,000, half have been sold. Negotiations in process for balance.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>HOODS, ANTI-GAS, NEW</u>	97 997	\$ 1.00	\$ 97.997

New declaration - sample awaited.

<u>COATS, FIREMEN'S SAFETY, NEW</u>	26 526	4.77	126 529
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New declaration - sample awaited.

<u>GLOVES, RUBBER, ANTI-GAS</u>	667 000	1.00	667 000
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Gauntlet type. An industry meeting was held to discuss disposal program. Represents 4 years' supply. Present inventories in mfrs. hands are high. Recommendation was to export or sell as crude rubber to manufacture critical items.

<u>APRONS, IMPERMIABLE</u>	79 449	5.00	174 800
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Rubber coated apron, with sleeves, designed like an operating gown. Has very little use, except to cut up to salvage the material. Manufacturers not interested in re-purchase. Negotiations are underway to sell in open market.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>BOOTS, RUBBER &amp; LEATHER, NEW</u>	73 266	\$ 1.18	\$ 86 659

New declaration - samples awaited.

<u>RUCKSACKS, NEW AND USED</u>	5 000	12.66	63 600
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Will attempt to sell on open market.  
Samples awaited.

<u>MOSQUITO BARS, WITH RODS</u>	110 000	5.90	649 000
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Army has withdrawn a substantial quantity.  
Sears Roebuck purchased another hundred thousand.

<u>TARGETS, ANTI-AIRCRAFT</u>	8 861	14.32	126 891
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New declaration - sample awaited.

<u>SLIDE FASTENERS</u>	2 009 694	.119	239 797
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Inventories will be taken to determine quantities by manufacturer. They will be disposed of in same manner as prior lot.

QUANTITY      UNIT COST      COST TO GOVT.

3. Machinery

CONSTRUCTION MACHINERY, HEAVY

6 500      \$1000.00      \$6 500 000  
(average)

General inventory of used machinery, most of it in very poor condition. Sales are being made regularly but inventory mounts.

GROUSERS

43 853      3.00      131 559

Non-standard mud cleats for crawler-type tractors. They are nothing but sheared pieces of structural angle iron, worth nothing except for scrap. Advertising folder will be issued.

ICE GROUSERS, NEW

76 726      2.70      207 160  
pieces

Ice gripping shoes to be attached to special rubber tired treads of high speed military tractors. Each weighs 6 lbs. A tractor needs 296 pieces. There is no known application on standard machines; no market, except for scrap. Publicity being released.

TRAILER HITCH, USED

767      80.00      61 360

New declaration -- no action as yet.

281

QUANTITY      UNIT COST      COST TO GOVT.

4. Furniture

STOOLS, WOOD, REVOLVING SEAT      14 964      \$ 6.30      \$ 94 415

Are being offered to the Army and all Government agencies

BEDS AND COTS, USED      88 789      3.50  
(average)      310 760

Includes 41,170 wood, double deck bunks, 12,900 steel, single beds, and 34,719 folding, wood and canvas cots.

BED PARTS      65 000

Springs, heads, feet, and side rails; unassembled. Negotiating with bed mfrs. regarding repurchase.

PILLOWS, NEW AND USED      899 600      .73      656 708

Some cotton, some feather pillows, - mixed in bales. Moderate sales of new pillows continue regularly. Used pillows are not wanted.

MATTRESSES, INNERSPRING, NEW      9 500      6.00      58 000

From O.C.D. stocks. New declaration - plans being formulated.

282

QUANTITY      UNIT COST      COST TO GOVT.

MATTRESSES, NEW AND USED

518 000      \$ 5.50      \$2 849 000

About 1/3 are new. Substantial sales of used mattresses, for conversion into paper, take place regularly.

5. Hardware

HELMETS, SAFETY, O.C.D.

330 000      .89      293 700

Packed 10 to a carton. Will be sold to toy depts. for the approaching holiday season, for \$.65 each.

MASKS, GAS, USED

47 967      6.28      301 399

O.C.D. stock is being transferred to Chemical Warfare.

BRUSHES, WINDOW

48 412      1.53  
(average)      74 069

Round head, with 8 ft. handle. All will be sold this week to hardware jobbers. Bids for entire lot at around \$.71 are in hand.

CARTS, FOOD

586      368.00      215 648

Hospital equipment - Inspection report still awaited. Will be transferred to Veterans' Admn.

203



<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
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STAPLES, GALVANIZED

18 000 kegs	\$ 4.52	\$ 81 360
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100 lbs. to a keg. Sales are being made in substantial quantities at price near cost to Government.

WOOD SCREWS, BRASS, NEW

250 000 gross	.25	62 000
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The regional offices have been instructed to offer these screws to manufacturers and large jobbers. Little interest shown.

SMOKE GENERATORS

55 000	3.50	192 500
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Obsolete smoke pots. Fruit growers have bought some and an effort is being made to dispose of this remaining balance at \$1.50.

SMOKE GENERATOR PARTS

277 000

Small metal parts (valves, fittings) for Army mobile smoke generator. The big chain stores and manufacturers are not interested. A N.Y. "distributor" is inspecting this material and has made an informal offer for selected items.

QUANTITY                      UNIT COST                      COST TO GOVT.

SNOWSHOES, EMERGENCY

18 800                      \$ 4.25                      \$ 79,900  
pr.

Paratroopers' special type of no value for sport purposes. Moderate sales at \$1.00 each are being made for childrens' use.

SNOWSHOES, NEW AND USED

41 762                      9.00                      375 858

Regular types. Represents about 6 years total sales in U.S. Sales are now being made in small quantity.

SHOTGUNS

1 800                      55.00                      101 332

Manufacturers are re-purchasing on contract.

EMPLACEMENTS, MACHINE GUN

32                      5300.00                      169 600

A mount for a machine gun. No utility value known.

MACHINE GUNS, ELECTRIC

707                      279.00                      197 253

Practice gun. Specifications have been submitted to amusement park owners.

265

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>SCABBARDS, BOLO</u>	228 000	\$ 1.60	\$ 364 800

Designed for bolo that is now obsolete. Few bolos available. This office has developed idea to work off this stock to toy manufacturers who will make toy wooden bolos to go with them.

<u>SPURS, NEW AND USED</u>	300 000 pr.	1.30	390 000
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Some small sales have been made at \$.50 a pair. Additional prospects for large quantities are being developed.

<u>LANTERNS, OIL BURNING</u>	34 460	3.00	107 316
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Navy will withdraw for transfer to Army.

<u>MARKERS, MINE FIELD</u>	10 000 sets	6.85	68 500
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Carrying case with 30 metal flags on pins. Several orders for small quantities have been received from state road commissions.

<u>PLATFORM TRUCKS, STEEL, NEW</u>	7 000	75.00	525 000
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Steel trucks on casters. The truck weighs 800 lbs., and it takes 2 men to push an empty truck. We have offer of \$16.00 for a limited quantity. About 1500 were sold at \$15.00 each.

QUANTITY                      UNIT COST                      COST TO GOVT.

RESPIRATORS, DUST, COMMERCIAL

61 127                      \$ 1.00                      \$ 59 293

Made for African combat use - some are suitable for industrial use. A manufacturer has made a repurchase offer of \$.70 for those of his make. Other manufacturers' offers awaited.

SIRENS, NEW

28 638                      6.00                      174 569

Hand warning device in carrying case. We have offer for entire lot at \$1.75 each.

INCINERATORS, NEW

34                      9,818.00                      333 812

Designed for human excretia but can be used for burning lower-water content material by remodeling at cost of \$1000 ea. Manufacturer decided against repurchase. Starting to offer for sale direct to municipalities.

IMPRINTING MACHINES, NEW

35 600                      21.95                      781 420

Original manufacturer has been given 10 days to present repurchase proposal - time will be up this week.

RAFTS, PNEUMATIC, 5-MAN

1 400                      200.00                      280 000

About half of original lot has been sold at established prices. Sales are slowing down as vacation season closes.

209

QUANTITY      UNIT COST      COST TO GOVT.

6. Medical and Hospital Supplies

DENTAL SUPPLIES      \$      \$ 100 000

World War I stocks located at Perry Point, Md. Instructions have been given regional office for disposition.

SURGICAL INSTRUMENTS      250 000

Stocks at Louisville, Ky. Current inventory unknown.

STERILIZERS, NEW AND USED      1 381      300.00      495 037  
(average)

Considered unsafe for medical department use by Army. Negotiations with manufacturer in process. Offer for part of lot received.

BOTTLES, WIDEMOUTH, 250 c.c.      201 307      .45      90 588

Purchase being considered by a large manufacturer.

FLASK, WITH CUP      200 000      .33      66 000

Made for soldier to carry liquid medicine in field - a small canteen. Probably of no commercial value.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>TEST TUBES, GLASS</u>	4 670 000	\$ .03	\$ 140 100
Some samples have arrived and disposal plans are being made.			
<u>PETRI DISHES, WITH COVER</u>	230 000	.27	62 100
Laboratory dish for making germ cultures. Sample awaited. Have been requested a second time.			
<u>DISK, METAL, ABRASIVE, 7/8"</u>	134 000 cards	.60	80 400
Dental supply item - packed 12 disks on a card. Manufacturer is not interested, reporting big supply on hand from contract termination.			
<u>FLOSS, SILK, DENTAL</u>	510 000 spools		173 400
Samples awaited. Have been requested a second time.			
<u>BANDAGES, MUSLIN</u>	134 584 doz.		128 034
Action is being taken to secure a desirable outlet. Offers will be considered this week.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>DRESSINGS, FIRST AID PACKAGES</u>	30 000 000	\$	\$3 582 000

Withdrawals have been made and it is presumed that this balance represents quantities that have been purchased from commercial houses, not Red Cross.

<u>GAUZE, PLAIN, 25 YD. ROLLS</u>	150 000	.75	112 500
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New. Region has been instructed to dispose of this item to Govt. agencies. Also offering to our own Purchase Group for local Government office use.

<u>SUTURES, SILK AND CATGUT</u>	13 500 000 tubes		2 397 000
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For sewing after surgical operations. Two of the numerous manufacturers might be interested in their own product if quantity could be determined. The inspection task is practically impossible as long as the stock remains in the custody of the Medical Department.

<u>STRETCHERS, CANVAS AND METAL, NEW</u>	8 400		54 000
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New items from O.C.D. stocks. Negotiating with a large distributor of this equipment.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>AZOCHLORAMID IN TRIACETIN</u> World War I stock. Awaiting action by board of medical officers.	360 000	\$ 4.55	\$1 638 000
<u>SODIUM ALURATE</u> 3½ and 1-3/4 gr. tablets pack in 500 unit boxes. Special Army package - manufacturer not interested.	13 500 boxes	7.50	101 250
<u>HAEMOTOXYLIN, LIGHT</u> 10 gram bottle. Awaiting action by board of medical officers.	99 000 bottles	1.50	148 500
<u>DICHLORAMINE T</u> 16-2/3% in Tri. World War I stock. Awaiting action by board of medical officers.	359 000 pints	1.66	595 940
<u>SULFANILAMIDE</u> 5 and 7.5 gr. tablets. 250,000 boxes of 12 tablets, 289,000 bottles of 1,000 tablets. Obsolete Army item. Awaiting action by board of medical officers.	539 000 packages		344 930

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
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BURROWES SOLUTION

2.27 gm. tablets - 500 to a bottle. This item is being offered to the manufacturer today.

18 000 bottles	\$	\$ 144 000
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PEPTONE, DRIED, U.S.P. BLAG.

Has been offered to Govt. agencies - not interested.

96 500 pounds	4.00	386 000
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PEPTONE PROTEOSE BACT.

Has been offered to Govt. agencies - not interested.

35 000 pounds	6.20	217 000
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PROCAINE HYDROCHLORIDE

10 units in a box, 150 and 200 MM ampules. Being offered to other Govt. agencies by our regional offices (after test).

163 000 pounds	2.75	448 250
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HYDROGEN PEROXIDE, 8% SOL.

Too strong for beauty parlor use. Stock all reported in leaky bottles. Bottles run from empty to two-thirds full. Probably worth only salvage value of the bottles.

402 000 pounds		250 000
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	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
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<u>GENERATING SETS, USED</u>	12	\$5,000.00	\$ 60 000
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25 K.W., gasoline driven. New declaration - no action as yet.

<u>HORSES</u>	2 200	165.00	333 000
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All horses will be sold according to established program of auctions.

8. Paper and Office Equipment

<u>BOXES, TABLET</u>	320 000 cartons	.40	128 000
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500 boxes in a carton. Believed to be World War I stock. Samples awaited. Have been requested a second time.

Total.....	\$ 53 796 632
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SURPLUS USED TRUCKS REPORT

For 7 Days and Period Ended, October 14, 1944  
(Period Began January 1, 1944)

	<u>7 Days to Oct. 14, 1944</u>	<u>Period to date</u>
Total Used Trucks Declared	<u>569</u>	<u>41584</u>
Less Declarations Withdrawn	<u>4</u>	<u>1435</u>
Less Loans to Other Federal Agencies	<u>5</u>	<u>150</u>
Less Transfers to Other Federal Agencies	<u>12</u>	<u>3021</u>
	<u>21</u>	<u>4606</u>
Net Used Trucks Declared for Sale	<u>548</u>	<u>36978</u>
Less Used Trucks Sold	<u>2116</u>	<u>27704</u>
Balance of Used Trucks on hand		<u>9274</u>

ANALYSIS OF INVENTORY

Inspected and ready for sale	<u>6221</u>
Not inspected	<u>3053</u>
	<u>9274</u>

SURPLUS USED PASSENGER CARS REPORT  
 For 7 Days and Period Ended, October 14, 1944  
 (Period Began January 1, 1944)

	<u>7 Days to October 14</u>	<u>Period to Date</u>
Total Used Passenger Cars Declared	<u>82</u>	<u>5964</u>
Less Declarations withdrawn	<u>0</u>	<u>112</u>
Less Loans to other Federal Agencies	<u>0</u>	<u>19</u>
Less Transfers to other Federal Agencies	<u>4</u>	<u>576</u>
		<u>707</u>
Net Used Passenger Cars Declared for Sale	<u>78</u>	<u>5257</u>
Less Used Passenger Cars Sold	<u>229</u>	<u>3898</u>
Balance of Used Passenger Cars on hand		<u><u>1359</u></u>

ANALYSIS OF INVENTORY

Inspected and ready for sale	<u>921</u>
Not inspected	<u>438</u>
	<u><u>1359</u></u>

SURPLUS MOTORCYCLES REPORT

For 7 Days and Period Ended, October 14, 1944  
(Period Began January 1, 1944)

	<u>7 Days to October 14</u>	<u>Period to date</u>
Total Motorcycles Declared	<u>24</u>	<u>14172</u>
Less Declarations Withdrawn	<u>2</u>	<u>35</u>
Less Loans to Other Federal Agencies	<u>0</u>	<u>0</u>
Less Transfers to Other Federal Agencies	<u>2</u>	<u>210</u>
		<u>245</u>
Net Motorcycles Declared for Sale	<u>22</u>	<u>13933</u>
Less Motorcycles Sold	<u>329</u>	<u>8255</u>
Balance of Motorcycles on hand		<u>5678</u>

ANALYSIS OF INVENTORY

Inspected and ready for sale

4181

Not Inspected

1497  
5678

Note: Minus 28 total declared -  
Region 8 - erroneously reported 28 declared in report August 26th.

CABLE TO AMBASSADOR MACVEAGH, CAIRO, EGYPT, FROM WAR REFUGEE BOARD

Please deliver the following message to Leon P. Denenberg from  
the International Rescue and Relief Committee:

QUOTE CONGRATULATIONS YOUR GOOD WORK STOP CABLE IMMEDIATELY  
WHETHER YOU REQUIRE ASSISTANCE FOR NECESSARY PERMISSIONS TO  
ENTER ITALY STOP EAGER TO HAVE YOU SURVEY REFUGEE SITUATION  
THERE AND ESTABLISH PERMANENT REPRESENTATIVE IF POSSIBLE UNQUOTE

1:00 p.m.  
October 17, 1944

## DRAFT OF A CABLE TO LONDON

Please advise Mr. Frantisek Nemecek and Mr. Jan Becko, c/o Czechoslovak Ministry of Foreign Affairs, trustees in London of the American Relief for Czechoslovakia, Inc., New York, New York, that the Treasury Department has amended Section 2 of license No. W-2153 described in the Department's telegrams Nos. 2158 of March 31, 1944 and 6969 of August 30, 1944, to read as follows:

"The total amount of funds paid out or set up in blocked accounts or otherwise obligated under the terms of this license shall not exceed the amount of dollars (or the foreign currency equivalent thereof) authorized by specific Treasury licenses to be used under this license."

This amendment is in connection with a specific Treasury license issued to the American Relief for Czechoslovakia, Inc., to remit to Mr. Frantisek Nemecek and Mr. Jan Becko the sum of \$200,000 in addition to the remittance previously licensed. It has the approval of the Department, the War Refugee Board and the Treasury.

3:00 p.m.  
October 17, 1944

ECM 205

Lisbon

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

Dated October 17, 1944

Rec'd 10:29 p.m.

Secretary of State

Washington

3169, October 17, 7 p.m.

FOR LEAVITT FROM FILPEL

Saly buying cheese, rice, ovaltine, vegetables  
and blankets in Switzerland for shipment wherever and  
whenever possible. Amount spent 500,000 Swiss francs. He  
urges additional purchases there but for that would  
need funds additional to your regular remittances.  
This is WRB 224 JDC 92 Mayer informed by Filderman  
that 5,000,000 Swiss francs if sent immediately or  
ten if at all delayed needed for 200,000 Jews liber-  
ated from labor camps, returned deportees and refugees  
from Hungary. Also urgent necessity of creation 4 re-  
training centers. To present 600,000 Swiss francs  
used by Filderman to secure 500,000,000 lei. Money  
now needed for October, November, and December for  
food, clothing and lodging. No confiscated property  
has been

- 2 - #3169, October 17, 7 p.m. from Lisbon

has been returned as yet. Saly has made total credit of 2,000,000 Swiss francs of which 1,400,000 still available. Telegraph your decision regarding financing work immediately. Report dated October 11 received from Budapest that 5,000 Jews already deported from Slovakia.

NORWEB

MEV:CSB

CC: Miss Chauncey (for the Sec'y) Abrahamson, Akzin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

CABLE TO MINISTER JOHNSON AND OLSEN, STOCKHOLM, SWEDEN

The War Refugee Board requests that you deliver the following message to Wilhelm Welbe, 11 Oiefsgotten Strasse, Stockholm, Sweden from Rabbi Kalmanowitz, Vaad Hahatzala Emergency Committee:

QUOTE We are informed that before leaving Kovno, Lithuania, Germans took with them five of the greatest rabbis, among whom were Elchanan Wasserman and Abraham Gredzinski. Please do everything possible to make contact to save them and try to obtain Swedish passports for them. Money no object. UNQUOTE

From WRB to Olsen.

Please lend your fullest cooperation in this matter.

3:30 p.m.  
October 17, 1944

TK-398

PLAIN

Stockholm via London

Dated October 17, 1944

Rec'd 3:29 p.m. 18th

Secretary of State

Washington

4219, Seventeenth.

Swedish politics today's NYDAG fontpagedly carries following article under heading "Baltic Fascists in Large Numbers to Sweden" and subheading "Swedish Authorities and American Legation as Organizers?" During present year in neutral Sweden an extensive pro-Fascist and anti-Soviet Baltic organization has been secretly developed. Its chief purpose is conspiracy against USSR by organizing political centers in collaboration with German and Swedish Nazis and some simple anti-Communist "democrats" to conduct hostile propaganda against USSR and organize emigration from Baltic States to Sweden. Thus far approximately 30,000 Balts been received Sweden as refugees. Some are harmless people who have taken opportunity escape war and eat full meal in Sweden. Such elements should enjoy available help and receive work and obviously they can be sent home when peaceful reconstruction era arrives. They unconstitute essential problem which is Fascist core of Baltic emigration consisting persons intending remain Swedish. They will become Baltic irredentists and center for anti-Soviet politics which will harm and irritate Swedish policy and interests in east. Everyone knows how badly Swedish authorities treated anti-Fascist refugees during early years and it is only recently they have received better treatment. Situation entirely different regarding Baltic refugees and Swedish authorities facilitated their journey every possible way. Reliable information indicates Swedish authorities positively assisted in organization Baltic emigration to Sweden. 6000 to 7000 Estonian Swedes shipped here with German approval. Estonians and Latvians selected by leaders of organization in Sweden been brought here according plan. Swedish General Staff ought explain why special "reception officer" sent Gothland and what his instructions are regarding Baltic refugees. Swedish Navy permits itself be photographed by press connection its strenuous services rendered Baltic refugee boats. Such boats have come here, unloaded and received fuel for return journey. It would be proper

for Government

-2- #4219, Seventeenth, from Stockholm

for Government state what is occurred and what's correct regarding all this. Socialistic Republics, Estonia, Lithuania following plebiscites been annexed to USSR over 4 years. Swedish Government acknowledged this status de facto and de jure. How can Swedish Government permit or perhaps allow Swedish authorities to collaborate with deportation organized in Sweden of populations from Soviet territories? Twon't do offer excuse that it's from German-occupied areas where from refugees been saved because most of them for over three years adjusted themselves to German occupation and only just as Germans were driven out felt they ought flee. Prominentest refugees were well regarded by Germans wherefore this isn't generally a flight from Germans. (Following under subheading "American Legation Involved" is direct quotation): When Estonia was liberated from Germans and Republic's lawful government returned to Tallinn a "national" phantom government suddenly arose in Estonia; that is to say Estonian people have never seen this "government" but Swedish press obligingly played it up as a political reality. Since then, however, nothing's been heard of Government in question but our investigations into matter led us to American Legation Stockholm (Three preceding words underscored) where an Estonian employer has same name as one of "Ministers" of phantom government. It's definitely stated to be a case of one and the same person. On this score a statement by American Minister Mr. Herschel Johnson is eminently desirable. It is indeed a question of relations vis-a-vis United States' great ally. American Minister ought at same time tell public whether it was with his knowledge that over 900,000 Swedish kroner (amount underscored) have been paid by an employee of his Legation for the organization of Baltic emigration to Sweden. We must presuppose that the Minister is unaware of matter and we hope our information will cause him to investigate what kind of business a number of his employees are conducting. (Following concluding paragraph is italicized) What has been said above will suffice for today. We await with interest what Swedish Government and American Minister have to say in matter. From Swedish viewpoint it's plain these machinations must be condemned. We don't have to concern ourselves with the view that emigration of 30,000 to 40,000 Balts-and Finns-is going to complicate the solution of postwar employment problems but we can keep exclusively to question of political consequences which must be involved when Sweden houses a counter-revolutionary reservoir if we with to have reason enough for condemning this entire traffic.

JOHNSON

LMS

Regraded Unclassified

CABLE TO MINISTER HARRISON FOR MCCLELLAND, BERN, SWITZERLAND

The War Refugee Board requests that you deliver the following message to Isaac Sternbuch, 3 Teufener Strasse, St. Gallen, Switzerland from Rabbi Kalmanowitz, Vaad Hahatzala Emergency Committee:

QUOTE We are informed that before leaving Kovno, Lithuania, Germans took with them five of the greatest rabbis, among whom were Elchanen Wasserman and Abraham Gredzinski. Please do everything possible to make contact to save them. Money no object. UNQUOTE

3:30 p.m.  
October 17, 1944

11

NOT TO BE RE-TRANSMITTED

COPY NO. 11

SECRET

OPTEL No. 338

Information received up to 10 a.m., 17th October, 1944.

1. NAVAL

A thick minefield off Aegina has delayed arrival of Naval forces at Piraeus. One H.M. Minesweeper and one British yacht minesweeper sunk in this minefield 15th. One of H.M. Canadian Frigates sank a U-boat N.W. of the Shetlands yesterday and took 44 prisoners.

2. MILITARY

WESTERN EUROPE. Further limited advances by French and U.S. in Epinal sector and east of Luneville against determined resistance. Aachen completely surrounded and street fighting taking place in the town. Repeated counter attacks by German infantry and tanks from outside have been driven back with heavy enemy losses. Canadians have advanced about a mile westwards on a six mile front west of the Savojaards Plaat and are now firmly linked with their bridgehead north of Leopold Canal in Watervliet area. The original bridgehead about eight miles further west along the Canal has also been slightly enlarged.

GREECE. Our troops are now established in Athens area and Kalamaki airfield south of Piraeus has been secured.

RUSSIA. Russians have captured Borsa in the Eastern Carpathian foothills and in Yugoslavia have taken Nis.

3. AIR OPERATIONS

WESTERN FRONT. 15th/16th. 2,200 tons, mostly H.E., on Wilhelmshaven. Most markers accurate and heavy thereon. Reconnaissance one hour later reported several fires in small concentration.

16th. Bad weather reduced operations. Fighters (1 missing) and fighter bombers flew 423 sorties mainly in support of our troops and transport aircraft flew 107 routine sorties.

16th/17th. 39 Mosquitoes sent to Cologne, all returned safely.

MEDITERRANEAN. 15th. 302 medium bombers hit 7 road and rail bridges north of the Po; 34 fighters (2 missing) and 506 fighter bombers attacked rear communications and troops Bologna area with excellent effect.

4. HOME SECURITY

16th. About 8:30 p.m. 12 flying bombs plotted.