

DIARY

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*100*  
*1*

Supreme Headquarters  
ALLIED EXPEDITIONARY FORCE  
Office of the Supreme Commander

12 November, 1944

Dear Mr. Secretary:

I truly appreciate all your trouble in getting a book made up of the various currencies and stamps used by the Allied Armies. Needless to say, I had no idea that it involved so much work.

I am most grateful for your kindness. I agree with you that it would be better if the Treasury kept the books till after the war.

Again my thanks. Warm regards.

Sincerely,

*Dwight D. Eisenhower*

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

# PROPAGANDA FRONT

By WILLIAM L. SHIRER

By Wireless to the Herald Tribune  
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AACHEN, Germany, Nov. 11.—Here in the city of Charlemagne, where your correspondent once heard Adolf Hitler boast that his Third Reich would last a thousand years, if not longer, one can see Nazism dead amongst the ruins.

Bent and broken Germans of all ages, but mostly old, dig in the debris which is all there is left of this once proud city of 160,000 inhabitants. American artillery thunders from behind the town and shells explode in the German lines not far away. Occasionally a German shell comes over adding its might to the utter destruction of this German town. Civilians, a little shell-shocked still from the bombardment and bombings and shocked, too, that the war which Hitler waged so long in distant lands should return to lay waste to their German homes, pause in their digging to curse "the brown pest," meaning the Nazis. They dig and curse and as night falls they crawl down to their cellar holes, dark and cold and damp, to prepare a sparse evening meal.

## They Used to Cheer

Pitiful specimens of humanity you think. And yet I saw them in this same historic town exactly four years ago. They were not bent or broken or shell-shocked then. They did not curse the "brown pest" then. They cheered it. For it had, they thought—and some of them admitted it to me today—won them a great war. Swastika flags flew from their windows then and the citizens greeted each other with a resounding "Heil Hitler."

Today when Hitler is mentioned it is with a curse. And for a very simple reason. He has brought ruin to Germany—ruin they never dreamed was possible four years ago.

When did they have a change of heart about Hitler and Nazism and the war? I returned to Germany today after an absence of four years to try to find out. We have occupied but a tiny fraction of the Reich. The rest of Germany still is fighting desperately against the Allies, who are closing in from three sides. The picture

you get here is still incomplete. And the few thousands who remained in the shambles of Aachen were those who defied the Nazi evacuation order, the Gestapo who tried to drive them from their cellars into interior Germany, and the terrible bombing and shelling in order to remain.

Such folk obviously are not fanatical Nazis, except the spies who remained behind for an obvious purpose. But they insisted to me today that there are millions more like them between here and the Rhine, and millions more behind the Rhine, all the way to East Prussia. These Germans, they stoutly maintain, want to halt the war, preferring anything that the Allies may have in store for them rather than to go down in Goetterdaemmerung ruin with the Nazi leaders.

## In Himmler's Grip

Why don't they quit then, you ask. The answer invariably is the same. They can't. Himmler's grip on the population and on the army is too iron. To falter now means instant execution whether you are a worker, housewife, farmer, business man or general. Eleven years of Nazism and five years of war—all Germans I talked to agreed—have knocked out of the German people all the principles and morals and, above all, any urge to revolt. All they think of now is how to survive. But they all know that the war is lost and secretly hope that the Allies finish the war before winter, which promises to be the grimest in modern German history.

I was curious to know—since Germany has been pretty much of a closed book to us for four years—when the German people themselves realized the jig was up and the Nazis had merely led them to another lost war as had the Kaiser's regime a quarter-century before. I questioned several Germans of all types and classes among the ruins today. A few, chiefly intellectuals, said that they felt the war was lost on July 22, 1941, when Germany attacked Russia. Why? Because, they said, every German knew Germany could never win a two-front war.

Others said they realized that the war was lost when the Wehr-

December, 1941, and the United States entered the war. The last agreed the people knew that the war was lost after Stalingrad.

Many hoped then that the Army would take over and get a negotiated peace. But all I talked with today were unanimous that there is little hope of a revolt in the Army command today. Hitler and Himmler have seen to that. The moment a general does not toe the line he is a candidate for a firing squad.

I found little evidence that, as Governor Thomas Dewey and many others in America and Britain, believe that our insistence on unconditional surrender or even the publicity given the so-called Morgenthau and Vansittart plans for harsh peace are spurring the Germans on to fight to the death. The general attitude seems to be that any kind of peace is preferable to a continuance of the war. All acknowledge that Goebbels's propagandizing was highly effective in spurring the masses in the first three years of the war, but has lost its effect now.

When I brought up the subject of Goebbels today most of the Germans either cursed or laughed. But they have an unholy fear of Himmler and his S. S. gummis. And in Aachen they hope the German Army won't retake the city, since they feel it would mean their doom for having stayed behind. The American military government, so far as I can see, is taking a firm but fair attitude. Most of the German civilians I talked to were shocked that we were treating them so decently. Most of them said they expected the worst.

I watched the American military police bringing in men and women apprehended for the lack of identity papers or military permits. The police were highly polite and usually drive the civilians, especially the elderly ones, to the Civil Affairs Headquarters, where matters are straightened out for the German population. They also were impressed by the recent acquittal by an American military court of two German civilians for harboring German soldiers who had shed their uniforms for civilian clothing. As the Oberbürgermeister, whose name cannot be mentioned for fear of Nazi reprisals against his family, remarked to me: "We hardly expected you to be so fair."

SECRET

OPTEL No. 367

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

1. MILITARY

WESTERN FRONT. Third U.S. Army attack still making good progress and has gained three to five miles more on 25-mile front. Later unconfirmed reports state that thrusts on either flank have advanced a further ten miles and Metz-Saarbrücken Railway cut nine miles S.E. of Metz. U.S. troops are three miles south of the town. Bridgehead over Moselle north of Metz further enlarged against strong opposition, but mud and swollen river have combined to slow progress.

ITALY. To noon 11th. 8th Army troops have made some progress N.W. of Forlì against stiff German resistance; they have also advanced in the area about five miles S.W. of Forlì.

EASTERN FRONT. Russians have occupied localities 15 miles S.E. Eger and N. and N.E. Szolnok. Bulgarians have occupied Stip and Veles.

BURMA. Our troops are now only about three miles north of Kalemyo. Patrolling continues south of the Kindat area almost to Mawlaik and hill features west of that town are being cleared. Chinese patrols have advanced 27 miles on broad front S.E. of Shwegu without contact. On Salween front, fighting continues Lungling area with Chinese making further minor gains.

2. AIR OPERATIONS

WESTERN FRONT. 11th. Following oil plants attacked:

Lancasters	Castrop-Rauxel	593 tons
Fortresses	Gelsenkirchen	212 tons
Liberators	Bettrop	307 tons
Fortresses also attacked railway centres		
Oberlahnstein - 354 tons, Rheine - 50, and		
Coblenz - 61.		

Complete cloud over all objectives. 4 U.S. heavy bombers and 1 fighter missing.

309 medium bombers (1 missing) attacked railway bridges, strongpoints west of Ruhr and in Cologne-Trier area.

1499 fighters (11 missing) attacked railway tracks and supported ground forces. 2 German aircraft destroyed.

11th/12th. 681 Bomber Command aircraft despatched:-

Oil plants Harburg	245 (7 missing)
Dortmund	228
Kamen	41
Bomber support	86
Sea mining	50
Other tasks	31

MEDITERRANEAN. 10th. 206 medium bombers (2 missing) successfully attacked bridges Po Valley. 578 fighters and fighter bombers (2 missing) attacked communications and strongpoints in bottle area and in Yugoslavia. 5 enemy aircraft destroyed.

November 13, 1944  
9:44 a.m.

HMJr: Are you going to take care of this thing --  
rewriting the talk -- the first part of Mager's?  
Do I send it to you or do I send it to Gaston?

Ted R.  
Gamble: You can send it to me.

HMJr: Send it to you?

G: Yes.

HMJr: Well, then I'll send it right over.

G: Fine.

HMJr: Right. Thank you.

G: I want to tell you while I have you on the  
phone....

HMJr: Yes.

G: .... One, I didn't get your note yesterday until --  
that is, I didn't open it until after I left the  
house.

HMJr: Yes.

G: That's why I hadn't mentioned that.

HMJr: Oh.

G: But I had already made plans to do that, Mr.  
Secretary, last week. And I sent a man to  
check all available programs so we thought  
that we might pick several proper spots.

HMJr: Yes.

G: And I will do that in the next couple of days.

HMJr: Well, you'll have to consult with her because  
we're planning to be away, you know, leaving  
about the 22nd.

G: Yes.

HMJr: So it will either have to be at the beginning  
or ....

G: Have to be right away -- either at the beginning  
or the end of it.

HMJr: Yeah.

G: Well, we'll get right on it.

HMJr: Yeah.

G: The other thing ....

HMJr: Go ahead, please.

G: The other thing I wanted to tell you.

HMJr: Yes.

G: Bob Coyne was out in Indianapolis on Friday where he spoke -- or Saturday -- ....

HMJr: Yeah.

G: .... where he spoke and Pulliam told him how pleased he was with the mail that he'd gotten on this editorial.

HMJr: Oh, really?

G: . Yes. He was quite proud of himself on -- as the result of the mail that he had received and he's collecting it and going to send it to us.

HMJr: Well, it gives him a -- an anchor to the windward.

G: Well, he was quite surprised. As a matter of fact, he was pleasantly surprised. He said he -- he'd been pleased with the opportunity to express a few thoughts that he had himself anyway.

HMJr: Well ....

G: But that he had, much to his surprise, he got this very favorable mail, and apparently considerable mail; so he's sending it to us.

HMJr: Wonderful.

G: I thought you'd be interested in hearing that.

HMJr: Thank you.

G: All right, sir.

HMJr: Bye.

G: Bye.

7  
November 13, 1944  
10:34 a.m.

General  
Watson:

He said he wants you -- he'll have lunch with  
you Wednesday.

HMJr:

He wants to have lunch with me on Wednesday?

W:

Yeah.

HMJr:

I see.

W:

Hold your horses 'till then, he said.

HMJr:

Hold my horses until Wednesday.

W:

Yeah.

HMJr:

Does that mean I have lunch with him alone?

W:

Well, I think so.

HMJr:

What?

W:

Anna will probably be sitting there but --  
that's who will be there.

HMJr:

I see. Well, I'll look forward to having lunch  
with him on Wednesday.

W:

All right. Good.

HMJr:

Thank you.

W:

You'd rather have that than a half hour over  
here that you wouldn't get.

HMJr:

Yes.

W:

That's what I mean.

HMJr:

He doesn't have people alone these days?

W:

No.

HMJr:

He doesn't?

W:

No.

HMJr:

I see.

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W: But you can get a time -- you can talk -- she doesn't pay any attention to you.

HMJr: (Laughs) Well, anyway, that's what he wants, does he?

W: Yeah.

HMJr: I see. Thank you.

W: All right.

9  
November 13, 1944  
11:45 a.m.

BRITISH LEND-LEASE PUBLICITY

Present: Mr. White  
Mr. Gaston

H.M.JR: You know they cut these articles some. Could you find out, whoever handles this Shirer article, if this is all he sent, or if he sent more on this subject for me?

MR. GASTON: Yes, I can find out. What is it, AP?

H.M.JR: It doesn't say. It is the Post. You could find out. (Refers to article entitled "Aachen People Want Peace at Any Price," by ~~Wm. Shirer~~ Shirer in the Washington Post of November 12, 1944)

MR. GASTON: Yes, we will find out.

H.M.JR: If you could get the full text--

MR. WHITE: Most of what was in that report was in there before.

H.M.JR: Now, have you seen this? (Hands Mr. White memo of November 11 from Mr. Gaston to the Secretary.)

Book 193, p. 228

MR. GASTON: Do you mean Oscar?

H.M.JR: Yes.

MR. GASTON: The rascal! When he was in here the other day he had those three releases that he talked over with the British that they were ready to put out, and he didn't tell us that at all.

H.M.JR: Do you know what I thought I was going to do? Just call up Oscar and tell him that the thing left a very bad taste in my mouth.

MR. WHITE: Herbert, he said he had these drafts when he was here.

H.M.JR: But he didn't say he would take them up with the British. Read the thing.

MR. WHITE: Excuse me.

H.M.JR: While he is reading that, should I, or should I not have a press conference today? I haven't anything to say to them.

MR. GASTON: You haven't?

H.M.JR: The only thing that is safe - they would ask me about the Kilgore Committee; I would say, "That is fine." Then they would say, "How is it the same as the Morgenthau plan?"

I think I am doing all right without it.

MR. GASTON: Yes, but sooner or later we will have to go back to the press conferences, I should think. Otherwise it has a bad--

H.M.JR: I would just as ~~leave~~<sup>lie</sup> go back today. I am in a good humor.

MR. GASTON: We ought to go back to them when you have something to say, not when you haven't anything to say.

MR. WHITE: Some of this is not quite clear.

H.M.JR: Excuse me. Herbert, I have nothing. I might Thursday have some war bond stuff.

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MR. GASTON: I think it would be better if you wait until then.

MR. WHITE: There is more to this, Mr. Secretary - before you call up.

MR. GASTON: I wouldn't call Oscar.

MR. WHITE: We had a meeting in there.

H.M.JR: I don't want to discuss the Morgenthau plan today.

MR. GASTON: No, you can't give them anything on that.

MR. WHITE: I don't get the full significance of what he says. Why do they expect you to talk about the Morgenthau plan?

H.M.JR: Didn't you see what Twitty said?

MR. WHITE: ~~No.~~ No.

H.M.JR: Well, here is Twitty in today's Post, right here: "The Morgenthau plan to de-industrialize Germany almost totally was advocated, in substance, yesterday by the Kilgore Senate Committee."

MR. GASTON: The Secretary hasn't had any press conferences since this stuff began coming out about the Morgenthau plan, so they are bound to ask him some questions.

H.M.JR: I think we are doing all right.

MR. WHITE: I don't see that the situation will change next week, either.

MR. GASTON: The point about this is simply that Frank Coe came in to tell me about the British calling

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him. And he had discovered - and about Keynes mentioning the thing in the conference in there - which was the first knowledge that Cox had consulted the British about a series of releases.

Now, when Cox was in here, I wasn't quite clear what he came for, but he talked about a release - did he talk about more than one release?

H.M.JR: He said he had three releases.

MR. GASTON: Yes, he talked about three releases, and then we talked about them in there and we came to the conclusion that there was no purpose in issuing any release at this time. But then the new thing that Frank came in to tell me was that apparently he had agreed with the British on a program and they were surprised when they found we weren't going to issue one.

MR. WHITE: That is something I didn't know. The only thing I know in addition to what took place in your office was that Keynes came with the information that he had received word from his Government that the subject was coming up for discussion in Parliament.

H.M.JR: That has got nothing to do with this.

MR. WHITE: Well, I think it has with the release, and that he had cabled back that they very strongly urged that no statement be made with respect to the export policy, and that it not be discussed. He said, however, they were very much afraid that they couldn't hold the fort and it would be discussed, and he had prepared a release which we discussed.

H.M.JR: This is something quite different. These three releases which Oscar Cox tried to sell me, prior to my coming in, he had cleared them with the British.

MR. GASTON: Apparently he had. Coe called up to say that Lee had called him and he understood that we were getting out a release and they were ready with their matching release, and wasn't ours going to come out.

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MR. WHITE: That certainly was not the discussion which took place in the office and Lee was right there with Keynes. They never made any such mention. I think I had better check on that. If it is true, it is certain that Cox did not mention it, and if he had cleared those three releases with the British--

H.M. JR: Before I get angry about it - it isn't up to Cox to do this sort of thing. Cox has no business clearing releases with the British in advance of giving them to me. It puts me on the spot.

MR. GASTON: Frank Coe says Cox handles public relations for FEA - Oscar handles the public relations for Foreign Economic Administration. But this is something that Frank Coe told me just confidentially; he wanted to get himself out from in between. He didn't want us to think he was holding out anything, but what he heard from Lee indicated to him that Oscar had arranged this thing with the British, and that is what he wanted me to know.

MR. WHITE: I would like to get the story a little straighter. Give me a couple of days, because if he had cleared it before he was in here - and I don't remember his even mentioning that that was the case - I didn't at all get the impression that he had cleared it with the British - if he had cleared it and kept mum about it, then I think you ought to know about it. What you want to do is another thing. But if he hadn't done it - I think you ought to know about it.

H.M. JR: If he came in here with these three releases and showed them to the British and cleared it in advance of showing them to me, I think it is outrageous.

MR. WHITE: Certainly without telling you so.

Herbert, if that were so, I don't understand why either Lee or Keynes didn't mention it in the afternoon when we were discussing the undesirability of having any release. We took the position there should be no release.

MR. GASTON: I don't know, and I don't think Frank Coe knew whether Oscar had actually shown them the releases or had reached an agreement with them to get out the releases; but that must have occurred before Oscar came in here, because he and Frank were here until almost twelve o'clock. He wouldn't have gone out from here after we had turned the idea down, and then arranged it with the British, that is certain. Would he?

MR. WHITE: I shouldn't think so, because the British met with us at two-thirty and were with us until about five. I might be able to get the story and check on it one way or another. I don't like to jump to conclusions. I am not denying it. It might be so.

H.M.JR: That is all I have for the moment. I think we are doing all right on this. But that thing, Herbert - if you could get that for me today--

MR. GASTON: I will run it down.

# Strip Germany of Industry

## Senate Group Urges

### Plan Much Like Morgenthau's; End of Cartels Is Advocated

By Tom Twitty

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The "Morgenthau plan" to de-industrialize Germany almost totally was advocated in substance yesterday by the Kilgore Senate Subcommittee on War Mobilization, which called for the immediate adoption of the International Economic and Social Council, proposed at Dumbarton Oaks, to deal with urgent economic problems including the outlawing of cartels.

Although the subcommittee report to the Military Affairs Committee did not mention by name the controversial plan—attributed to Henry Morgenthau, jr., Secretary of Treasury—its recommendations were almost exactly parallel to reported versions of the Treasury proposals which split the President's Cabinet in October.

#### All Closely Integrated

"A real disarmament program requires not only the dismantling of all direct munitions industries but also the dismantling and removal to the devastated areas of Europe of the primary indirect munitions industries including the metallurgical and chemical industries," the report said.

"The subcommittee believes that those who have urged that all industry, other than direct armament manufacture, be left intact have overlooked the fact that for more than 30 years all of German industry has been closely integrated as a munitions economy.

"Punishment of 10,000 of the leading industrial-entitled German industrialists will be more effective than punishment of one million Nazi undertakings who carried out the orders of the conspirators."

#### At Variance With Hull Views

The committee views and those of Secretary Morgenthau, which would throw Germany's economic dependence on agriculture, are at variance with those of Cordell Hull, Secretary of State, who is reported to favor the removal from Germany of small but key segments of her industry, without which she would be incapable of using the balance of her industry to wage war.

It was learned that a White House policy decision on the Cabinet split is still awaited. Although the Foreign Economic Administration was advised by President Roosevelt to prepare plans for the control of German industry, under the direction of the State Department, no solution has yet been reached because of the lack of direction by top policy.

The official American plan, when formulated, will be one of the major topics of discussion at the next conference between President Roosevelt, Prime Minister Churchill and Premier Stalin.

#### Represents Majority

Members of the Senate group which made public its recommendations yesterday on a wide variety of international economic matters are: Harley M. Kilgore (D., W. Va.), chairman; Elbert D. Thomas (D., Utah), Edwin C. Johnson (D., Ohio), Mon C. Wallgren, (D., Wash.), James E. Murray (D., Mont.), Rufus C. Holman (R., Oreg.), Chapman Revercomb, (R., W. Va.), and George A. Wilson (R., Iowa).

In his letter of transmittal to Senator Robert R. Reynolds (D., N. C.), chairman of the Military Affairs Committee, Senator Kilgore said a "majority" of the subcommittee members have "joined in the report." None of its members could be reached in Washington.

Other recommendations of the Kilgore group called for:

Outlawing of the international cartel system "as the necessary first step to clear the way for a new expansionist era in foreign economic relations."

The immediate creation of machinery outlined at the recent

Dumbarton Oaks conference to "be used on an international level to promote political harmony and economic development by fostering amicable trade relations.

Expansion of the principle of the reciprocal trade agreements, under the auspices of the Dumbarton Oaks economic body, "into multilateral national agreements providing the freest possible movement of goods."

#### Excess of Exports

America to reconcile herself to the fact that she will have to export more than she imports for perhaps 10 years after the war, a situation which calls for the extension of credit.

Creation of a joint legislative-executive commission immediately to study the problems of international economics and arrive at American policy.

Changes in the patent laws "so as to require that any discovery originating abroad be licensed to any American producer who wishes to use it on a nonexclusive basis for payment of a reasonable royalty. "A Federal agency was proposed to determine what the reasonable royalty should be." Present enemy-originated patents "should remain the property of the Federal Government and should be made available to all American industry through a system of general licensing."

#### Aided Hitler to Power

And finally, that the domestic enforcement powers of the Department of Justice be strengthened to deal with international cartels.

The Senators charged that German imperialistic industrialists aided Hitler to power, "blackmailed" business of other countries into their cartels, created a war of trade suppression and weakened the ability of this and other nations to wage war.

American business, under these conditions, had no recourse but to negotiate private international treaties, since no international governmental machinery was available, the group said, asserted, however, that the Government should negotiate trade agreements in the future.

November 13, 1944

After Admiral King left the luncheon today, Forrestal said he wanted to ask my advice - the report on Pearl Harbor was finished, and he led me to believe that he was not going to release it, and he wanted to have my advice. So I said, "I have got to ask you a question. Does it in any way involve the President?" and he said, "No." So I said, "Well, I would definitely release it, and just as long as it is kept a secret the people will think that where there is smoke there is fire." He than said, "That is what I want to find out from you, and I guess you are right."

November 13, 1944  
2:25 p.m. 16

HMJr: Morgenthau speaking.

General  
Giles: This is General Giles, Mr. Secretary.

HMJr: Yes.

G: I want to put a proposition up to you and get your views on it and then if you think it's all right, we'll give you the full details a little later.

HMJr: Please.

G: The Army and Navy are playing a football game scheduled on the 2nd of December up at Annapolis.

HMJr: Yeah.

G: And they both have very strong football teams and it occurred to me after witnessing and checking their games, if they could play this game at New York or Philadelphia and work it as a bond drive ....

HMJr: Yes.

G: .... and have everybody that buys a ticket to that game to certify that they will buy a bond over and above what they were planning on buying.

HMJr: Yes.

G: I believe it would be a good scheme.

HMJr: I agree with you. Mayor LaGuardia has been after us very hard to get it in New York. He said they can sell eighty thousand bonds up there.

G: I'm sure that they can do it.

HMJr: Yes.

G: And I thought -- I knew that you were carrying an awful load on that bond sale and it's a question of speaking to the President and asking him to okay it. They have these big games played. Everyone seems to be playing them except the Army and Navy.

HMJr: Yeah.

G: They play outside the stadium except when they play themselves.

HMJr: Yeah.

G: And I think it would be a good spirit of friendship and cooperation and let the people at large know that the Army and Navy are getting along all right and they are -- do have a football game and are playing each other.

HMJr: Oh, I think it would be fine. I think that -- I don't think that there would be any trouble. We could -- that over and above the regular admission to make a person buy a \$100 bond.

G: Yes, sir. I'm sure that ....

HMJr: That would be \$8 Million.

G: Yes, sir. Ninety percent of the people that go there would buy a \$100 bond.

HMJr: Yeah. I think that that would be -- that would be face value of \$8 Million.

G: Yes, sir.

HMJr: That's a helluva lot of money.

G: A lot of money, and it will help you a lot on your bond drive. And another thing when people start buying a bond, if they buy one, they quite often buy two.

HMJr: That's right.

G: And they go along with it.

HMJr: Well, I -- I'm all for it.

G: Well, you do not object then if we send you up a plan just about how you approach the subject to the President?

HMJr: No.

G: Or someone to put it up to him?

HMJr: If you send it over to me, I should think that it would have to have Mr. Stimson's approval.

G: Yes, sir.

HMJr: Wouldn't it?

G: Well, it probably -- the President -- Pa Watson or someone will probably call Mr. Stimson and I'm sure he would approve it if the President would okay it.

HMJr: Well, if there's anyway I can give it a push, I would consider it a privilege.

G: Yes, sir. And probably by you calling Mr. Stimson, he would clear it right away.

HMJr: Well, don't make it too hard for me.

G: (Laughs) All right, sir. Thank you very much. I'll send you over just on one sheet of paper about what the proposition is.

HMJr: Fine.

G: All right, sir. Thank you.

19  
November 13, 1944  
2:45 p.m.

HMJr: Hello.

Operator: Admiral Leahy.

HMJr: Hello.

Admiral Leahy: Hello, Mr. Secretary, this is Admiral Leahy.

HMJr: How are you?

L: Fine.

HMJr: Look, Admiral, a week or ten days ago I told you that Lord Keynes had approached me -- he's been invited to address the Combined Chiefs of Staff. Since talking to you, we have completed our negotiations both on Army and Navy Lend-Lease vis-a-vis the English.

L: Uh huh.

HMJr: Now, he says they have again asked him and he would like to do it next Friday. Hello?

L: Hello.

HMJr: And I -- as long as it's no longer -- he doesn't come there pleading a cause, you see -- they've got what they're going to get.

L: What the devil do we want to listen to him for?

HMJr: I don't know.

L: Keynes it is? Isn't it?

HMJr: Lord Keynes.

L: How does he spell it?

HMJr: K-e-y-n-e-s.

L: Oh, K-e-y- ....

HMJr: K-e-y-n-e-s.

L: And he wants to talk to the Staff on Friday?

HMJr: He's been invited, I suppose, by the English side, yeah.

L: I suppose they will take it up with us, won't they?

HMJr: I suppose so.

L: Well, of course, if this person wants to talk to us, I suppose we'll have to waste the afternoon listening to him, but that's about all there is to it, isn't it?

HMJr: That's about all, but I just would like to sort of be taken off the spot and say, "As far as I'm concerned, I've got no objection."

L: Well, I don't see any objection to his talking to us.

HMJr: I mean, I -- all I can -- I can't say whether you people are going to invite him but he says he's been invited and he asked me if I, as Secretary of the Treasury, have any objection to his going before the Combined Chiefs.

L: And you say that the Lend-Lease -- the Military Lend-Lease is all cleared, is it?

HMJr: That's right.

L: I didn't know that.

HMJr: Yeah.

L: Well, that's all right. It hadn't been cleared by the Staff then, it's been cleared somewhere else -- is that right?

HMJr: It's been cleared by the Secretary of War and Secretary of Navy.

L: Uh huh. Uh huh. Well ....

HMJr: And believe me, I know Admiral Horn has passed on everything.

L: Uh huh.

HMJr: Admiral Horn....

L: Yes. Well ....

HMJr: .... has passed on every item.

L: Well, anyway, I won't bother to ask any details because I'll get it over there. Mr. Secretary, you can tell him as far as you are concerned it's all right if that's the way you feel about it.

HMJr: Yeah. Well, I don't see how I can object as far as ....

L: No, no, I don't either and if his -- his Staff Commission over here asked us to listen to him, we'll have to listen to him. There's no question about that. It won't do any good; I presume it's all settled.

HMJr: It's all settled.

L: But if he wants to talk to the Staff and, of course, we'll listen to him.

HMJr: Well, then I'll just tell him as far as I'm concerned, I have no objection.

L: Oh, I think that's all right.

HMJr: And I -- for your own peace of mind, I know that Admiral Horn has passed on every single item.

L: Have you -- is he giving them only those things that are going to be used in the war ....

HMJr: Yeah.

L: .... as we see it now?

HMJr: That's right.

L: We're not rebuilding the British Fleet for the next war or anything?

HMJr: No, that -- that, while Forrestal told me they were fishing around for us to repair their whole fleet, that has never come up.

L: Uh huh.

HMJr: And so I haven't asked.

L: Uh huh.

HMJr: I thought I'd leave well enough alone.

L: Well, I think that's the only way to do. Under the law so long as we can demonstrate that what we're doing for them in a military way is necessary for the successful prosecution of this war, we're all right.

HMJr: Well, it -- it's wholly within the realms of the two wars.

L: Uh huh.

HMJr: See?

L: Yeah. Well, as soon as we do any more than that though, we're all wrong as I see it.

HMJr: Well, of course, that's the position that I took on the reconstruction of France.

L: Yeah, I know that.

HMJr: You remember.

L: You were dead right, too.

HMJr: And that still is dead turkey. How long it will stay dead I don't know.

L: I think Mr. Churchill opened it up yesterday when he said they wanted an Army of four hundred thousand men, which we would provide for them -- we, meaning of course, us -- not him.

HMJr: Well, I wish if that came up you'd give me a chance.

L: I will do that certainly.

HMJr: And I -- while you told me about the request from Russia and Harriman spoke to me about it, nobody has mentioned it to me officially.

L: Well, I don't think we've got it officially, have we?

HMJr: I don't know.

L: I don't think so. I'll look it up and if we do I'll see that you get a shot at it.

HMJr: I gathered from Harriman that it had gone pretty far.

L: I don't know. It hasn't gone very far yet except that we're investigating. All I know now is we're investigating the Pacific War situation.

HMJr: Yeah. But I gathered it had gone pretty far in military circles but certainly I haven't had a look at it.

L: You want a shot at it, don't you?

HMJr: Well, I think it would be helpful to the President if I could watch all of these big expenditures for him. That's the position I'm taking.

L: I know you're right about it, too.

HMJr: And I think that somebody ought to -- when it gets into a couple of billion dollars, that some one person, he ought to hold them responsible.

L: Well, I'll make a note of that now and I'm going to talk to our staff tomorrow and I'll see that they have in mind that those things ought to be sent over for your perusal and comment.

HMJr: Because we get into these things -- they run into several billion dollars and how the hell can the President hold any one person responsible unless one person has the -- the way it affects dollars.

L: I think that's right.

HMJr: What?

L: I think you're quite right about that. I'll see if I can't fix it so it will go through that way, Mr. Secretary.

HMJr: I think it will be helpful.

L: It ought to be done. There's no doubt about that.

HMJr: I thank you.

L: Thank you, sir. Good bye.

HMJr: Bye.

November 13, 1944  
2:52 p.m.

HMJr: Hello.

Miss Macey,  
Lord Keynes'  
Office: Yes, Mr. Morgenthau.

HMJr: Hello, Miss Macey.

M: Yes.

HMJr: Will you tell -- this is Mr. Morgenthau.

M: Yes.

HMJr: Will you tell Lord Keynes that as far as I'm  
concerned it is quite agreeable for me -- that  
he address the Combined Chiefs of Staff on  
Friday.

M: All right. I'll let him know that.

HMJr: You know what I'm talking about?

M: Yes. I will let him know that right away, Mr.  
Morgenthau.

HMJr: I thank you.

M: Good bye.

November 13, 1944  
3:13 p.m.

Ted  
Gamble: I have read it. I ....

HMJr: And so what?

G: That's on the football game.

HMJr: Yeah.

G: Well, I'm -- I'm inclined to believe there's going to be so much pressure to do this that we'd be wise to do something about it. I talked to Steve Early this morning and told him that we'd had several calls during the day yesterday and this morning about it. I told him about the call that you'd had from LaGuardia and I asked him if he knew whether or not the President had originally issued orders that these teams were not to travel and he said that he had -- that the President had -- and that he overheard the President the other day in a conversation say that he wasn't going to rescind those orders until the war was over. And he said he thought that we might get some opposition from the Office of Defense Transportation, and that while he, Steve Early, didn't want to get into it, that he didn't wholly agree with the President about it. He thought maybe it might be all right to move the game. And he suggested ....

HMJr: Look, let me tell you something.

G: Yes.

HMJr: I -- the only reason I sent it to you was: I want you to handle it without referring it back to me.

G: Fine.

HMJr: Because I can't expect -- refuse to talk to these people; General Giles, Deputy to General Arnold, calls me up.

G: Well, I told Mr. Early that, too. I told him how we happened to be in it.

HMJr: I don't know how the -- why General Giles is interested.

G: Yes.

HMJr: But he's First Deputy to General Arnold. He calls me up, "I want to talk to you."

G: That's right.

HMJr: I can't say, "I don't want to talk to you."

G: Fine. I understand, and that's exactly the way I'll handle it.

HMJr: Now, I've got Gaston here and I've got an idea and he seemed to like it; he may change his mind. We have now three or four very good things on this so-called Morgenthau Plan. See?

G: Yes.

HMJr: But the latest, the most wonderful thing is this article by Shirer in the Tribune.

G: Yes.

HMJr: I don't know whether you saw that one -- where he interviewed the people in Aachen. You see?

G: Yes.

HMJr: He said that they were not influenced one bit by this thing. Government Dewey was wrong. Now, there's this article today on the front page of the Washington Post on -- by Twitty, you see?

G: Yes, I read it.

HMJr: And there's a whole group, I've given four or five things, and I was suggesting there are three ways it might -- this could be done. Either I might write a letter myself sending this material to all the editors favorable or unfavorable who have written things.

G: Yes.

HMJr: Gaston's objection to that is: it looks as though I have been advocating for a plan that I have not yet publicly declared myself on.

G: Yes.

- 3 -

HMJr: The other thing was I suggested that a tear-sheet be prepared by Frank Trips and that he circulate it, for two reasons: one, as a penance for the boss that he works for -- hello?

G: Yes.

HMJr: And the other reason being you get better acceptance for the Secretary of the Treasury as he goes into this War Loan. You see?

G: Yes.

HMJr: And the third suggestion I had was that possibly our very good friend Pulliam might take it on.

G: Yes.

HMJr: You see?

G: Yes.

HMJr: As a War Bond thing so that -- you put all these things together plus an extract -- a very good extract that was in Jimmy Byrnes' speech, you see?

G: Yes.

HMJr: Altogether they add up that there isn't -- no more reason to blame me for this thing than there is for the cop on the corner.

G: Yes.

HMJr: What do you think?

G: Well, I certainly agree, Mr. Secretary, we ought to do something with the good material that we have to do it with. I don't know that any one of those three plans is the best way to do it. I think, maybe, the thought that Mr. Gaston had about an obvious move to sell a plan that you haven't yet made public might be true with any three of those -- any one of the three suggestions. Maybe some forum on the air might do it.

HMJr: Well, supposing you and Herbert talk it over.

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G: Fine. I think it's better that we digest it  
and see if we can't come up with a better plan.

HMJr: Okay.

G: All right, sir.

HMJr: Thank you.

G: Bye.

U.S. Subcommittee on Mutual Lend-Lease Aid  
Between the U.S. and the U.K.

Minutes of Meeting held in Mr. White's Office,  
U.S. Treasury, on November 13, 1944,  
at 4:30 p.m.

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Present

Mr. White, Chairman  
Mr. Casaday  
  
Mr. Angell  
Mr. Appel  
Mr. Currie  
Mr. Davidson  
Mr. Havlik, Acting Secretary

In response to Mr. White's inquiry, MR. CURRIE reported that FEA was completing its review of the non-munitions program and that he hoped to be able to make a final report at an early date on all matters except Chapter 3 items.

With respect to export policy, MR. DAVIDSON reported that the FEA was doubtful that it could accept Lord Keynes' proposals (contained in CSLL44-1) for (1) giving the British the same freedom on exports of identical manufactured articles as we are willing to grant with respect to cotton; and (2) allowing the British to sell non-lend-lease munitions for cash to third countries. He reported further that the FEA had practically completed its revision of the details of the British proposal in Lord Keynes' note of October 27 on the terminal date arrangements for handling non-munitions items of types which involve U.K. export problems.

MR. CURRIE called attention to the difficulties which might be caused by British restrictions on dollar exchange which might restrict the freedom of exports by U.S. exporters in sterling areas while we are still supplying lend-lease to the U.K. in Phase II. He said that it would be helpful if the U.S. obtained some assurance from the British that the sterling dollar pool would not be used as a means of limiting American competition. Mr. White stated that the British would probably have to relax their restrictions in view of the pressure of the sterling territories for dollar imports, but he agreed that such an assurance would help insure acceptance of the Phase II program.

CHAPTER 3 ITEMS

1. Tobacco. It was agreed that, having taken tobacco off lend-lease earlier in the year, it would be difficult for the U.S. to restore it, especially in view of the current and prospective shortages of cigarettes in this country.

2. Repair and Replacement of Bomb-Damaged Homes. It was agreed that, while this was a worthy lend-lease purpose, it would be necessary to keep lend-lease out of the field of rehabilitation and reconstruction of housing for long-time purposes.

3. Civilian Relief for British Far Eastern Territories. It was generally agreed that it was not desirable to use lend-lease for such purposes in view of the probable public reaction in this country.

4. Pre-Reciprocal Aid Rubber. It was agreed that this was a legitimate item for payment. It was suggested that if it were found difficult to arrange payment to the British they might be instructed to deduct the amount from any payments being made to Secretary Jones.

5. Aircraft. MR. WHITE reviewed the past history of this item and concluded that it would be difficult for the Treasury to approve it. He stated that he would inquire into it further. It was suggested that if we did not find it possible to pay the British it might be appropriate to deduct the amount from the lend-lease accounts or to include it in reciprocal aid.

6. "Take-Outs" - Capital Facilities and Production Contracts. MR. WHITE agreed that it might be possible to grant these claims and stated that the Treasury would review the details.

After a discussion of the relationship of the Chapter 3 items to the British financial position, it was generally agreed that the financial outlook of the British was not so disturbing as to warrant the use of lend-lease funds for items which might involve serious adverse public reaction in the United States.

November 13, 1944  
4:39 p.m.

HMJr: Hello.

Sam  
Rosenman: Hello.

HMJr: Yes.

R: Henry.

HMJr: In person.

R: In person, Herb Swope called me.

HMJr: Yes.

R: And gave me what I thought was a good idea  
and I said I would pass it on to you -- you're  
the boss in those things. He thinks it would  
be swell if you had the Army-Navy game ....

HMJr: (Laughs)

R: Have you heard that before?

HMJr: Yeah.

R: Okay.

HMJr: We're working on it.

R: You've heard it before.

HMJr: What?

R: I just wanted -- if you've heard it before ....

HMJr: Well, I think the least you should do is to get  
a ticket out of it.

R: No, I don't want any ticket.

HMJr: Well, we're all working on it.

R: Because I can't buy that much of a bond, but he  
thought New York City or Philadelphia with ....

HMJr: We're trying to bring it to New York.

R: ..... \$5,000 or so for a ticket or something like that.

HMJr: We're trying to take it to New York.

R: Okay. All right, you've been working on it, huh?

HMJr: Yep. So has Fiorello.

R: Oh, I see. Okay.

HMJr: Thank you.

R: All righty.

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~~AA~~

# TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Nov. 13, 1944

TO Secretary Morgenthau

FROM Charles Bell 

Attached is a copy of bulletin entitled "War Finance Policies," which contains excerpts from your addresses delivered at Atlantic City, New Orleans, and Los Angeles. I find on checking with the War Finance Division that approximately 30,000 copies of this publication were mailed out of Chicago on Saturday, November 11. The mailing list, which was cleared with Mr. Gaston, included the following large groups: Editorial writers, financial publications, educators and college presidents, libraries, banks, insurance companies, and savings and loan companies. Upon return of addressed envelopes a few thousand additional copies will be sent out to one or two selected groups such as the National Economic Association.

# WAR FINANCE POLICIES



*EXCERPTS FROM THREE  
ADDRESSES BY*

Henry Morgenthau, Jr.  
Secretary of the Treasury

## WAR FINANCE POLICIES



*The most costly war in history has been financed by the United States Treasury Department in a manner to hold the cost down to a minimum and at the same time to strengthen rather than weaken the national economy. Secretary Morgenthau, in a series of addresses to the regional leaders of the War Finance effort preparatory to the Sixth War Loan, outlined the "philosophy" behind the Treasury's program. Excerpts from these talks follow:*

ATLANTIC CITY, October 7, 1944.

**T**HE Series E War Bonds were conceived a decade ago as Baby Bonds 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 finance. 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 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. 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 have been purchased by 85,000,000 individual Americans. Think of it! Out of every thirteen men, women, children and babies in the United States, more than eight have bought 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. It was designed 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 a decline in market value. In short, they are more likely to be retained as investments.

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. Throughout, it 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 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. This we have had.

NEW ORLEANS, October 12, 1944.

**I**N MODERN WAR, economic stability at home is one of the requisites to victory. Without such 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. Our problem has been much more difficult than the mere raising of vast sums of money. We have had to secure the necessary funds 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, nonwar 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.

Of this tremendous sum \$87,000,000,000, or 39 per cent, 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 per cent. 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.

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 the Government took in during the past year, was an eight-fold increase—a larger increase than has taken place in the revenue collection of any other major belligerent of this war. This is important 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.

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.

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.

After World War I, Liberty Bonds dropped in value down into the 80's, and many persons who had bought them during the war became frightened and sold them. They discovered later that their loss had been the gain of the speculators and the wealthy who then owned their bonds and gleaned from them truly handsome returns 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.

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, and allocations.

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, had 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 relatively 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.

There have been other benefits of economic stabilization. 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 made much less likely a post-war depression.

The record so far is one of which we can all be proud. It has been good in its accomplishments, perhaps even better in the fine cooperation which made these accomplishments possible. If this same tireless, unselfish cooperation is applied to the problems of the post-war world, we need have no fear of the future.

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

The Sixth War Loan campaign, immediately ahead of us, is one essential step in the performance of this job.

LOS ANGELES—October 14, 1944

THE great expansion in the Federal debt has been achieved with virtually stable interest rates. 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 1½ per cent on the wartime increase in the public debt. This contrasts with 4½ per cent 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.

Moreover, 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.

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 per cent. 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.

Furthermore, 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 post-war 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 post-war period, I do not see any need for a wholesale post-war 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 designed the debt structure bearing in mind 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 post-war period. We hope that many millions of people will continue to hold a financial stake in their Government.

Industrial corporations have principally purchased certificates of indebtedness and Series C Notes. These constitute a substantial part of their reserves for reconversion and post-war 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. 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 anticipate with reconversion and the new business demands for funds that should accompany the development of a healthy, expanding economy.

In short, 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.

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NOV 13 1944

Dear Admiral King:

I wish to acknowledge your very thoughtful invitation to join you in inspecting the Navy's exhibit being staged in connection with the Sixth War Loan drive in Chicago. I shall be very happy to join you in the events planned for the day.

I have been informed by Rear Admiral Woodward's office that we should plan to arrive in Chicago about 3:00 in the afternoon and to make a tour of the exhibit about 4:00 P. M. which is to take place prior to the broadcast. I am looking forward with a great deal of pleasure to being with you on this occasion.

You were kind enough to mention Treasury Department cooperation in connection with your show in Chicago. I wish to tell you that this show not only has been well planned by Rear Admiral Woodward and his people but has taken on a special importance. I am sure that it is not only going to inspire all who see and hear about it in the Middle West to support the Sixth War Loan drive, but that it will also serve as a springboard for doing a good job throughout the country. It has been our privilege however to build much of our Sixth War Loan campaign around the historic accomplishments of our Navy at war, and I am sure you will be well pleased with a report that I will see reaches your hands upon the conclusion of the drive.

With all good wishes, I am,

Sincerely,

(Signed) H. Morgenthau, Jr.

Admiral E. J. King  
United States Fleet  
Headquarters of the Commander in Chief  
Navy Department  
Washington, 25, D. C.  
TRO:shh

UNITED STATES FLEET  
HEADQUARTERS OF THE COMMANDER IN CHIEF  
NAVY DEPARTMENT  
WASHINGTON 25, D. C.



7 November 1944

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

My dear Mr. Secretary:

The cooperation of the Treasury Department has been of valuable aid in the preparation of the Navy Exhibit being staged in connection with the Sixth War Loan Drive in Chicago - and is appreciated.

I have indicated to Rear Admiral Woodward of the Industrial Incentive Division, who is in charge of the Exhibition, that I would participate in the opening exercises on the 18th of November by making a few brief remarks. However, as you will understand, the commitment would have to be cancelled in case of an emergency in connection with the war effort. In the event that I am able to go to Chicago on that date, I hope you will join me in inspecting the Exhibit and participating in a schedule of events planned for that day.

I will inform you definitely as to whether or not I can go to the ceremonies, as soon as possible.

Sincerely yours,

  
Admiral, U.S. Navy

Nov. 13, 1944

TO:

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Miss Chauncey:

Pursuant to the  
Secretary's request  
photostats of the attached  
were made and copies given  
to the following:

D. W. Bell  
Mr. Gaston  
Mr. Gamble  
Mr. Haas

(Mr. Gamble was asked to  
talk to the Secretary  
about it)

P.B. Mannen

*Gamble talked to her & having 10000  
copies made of it*

From: Mr. FitzGerald

THE NAVY'S WAR ACCOUNT

A brief statement of  
the money which the  
people of the Nation,  
through the Congress,  
have made available  
to the Navy -- and  
how it has been spent.

## THE NAVY'S WAR ACCOUNT

November, 1944

### What the Navy Has Cost

1. Congress since July 1, 1940, has authorized the Navy to spend for defense and war . . . . . \$118 billion
2. Of this total, the Navy still has unused and available for future needs . . . . . \$ 24 billion
3. Subtracting the unused balance (item 2) from the authorized total (item 1) shows that the Navy has placed orders and entered into other commitments which amount to . . . . . \$ 94 billion
4. Of these orders and other commitments, some have not yet been fulfilled and, therefore, are not yet payable; they amount to . . . \$ 25 billion
5. Subtracting the amounts not yet payable (item 4) from the amount committed (item 3) shows that the Navy in 4½ years has actually spent . . . . . \$ 69 billion

### What the Navy Has Achieved

1. The Navy since July 1, 1940, has:
    - Inducted, fed, clothed, housed, and trained . . . . . 3,600,000 officers and men
    - Built, armed, supplied, fueled, and sent to sea . . . . . 10,300,000 tons of ships
    - Built, armed, fueled, and launched . . . . . 62,000 planes
    - Built and equipped . . . . . 300 advance bases

With the Navy in existence on July 1, 1940, these new men and weapons add up to . . . . **WORLD'S LARGEST FLEET**
  2. This Fleet in three years of war has:
    - Convoyed in the Atlantic and Pacific troops and supplies in . . . 61,000 ships
    - Landed on invasion beaches . . . . 1,000,000 assault troops
    - Sunk 1,300 enemy ships totaling . . 5,100,000 tons
    - Shot down or destroyed . . . . . 10,000 planes
    - Cleared the Japs from a Pacific area of . . . . . 6,909,100 sq. mi.
- The cost of all this to date is . . . . \$69 billion

This pamphlet attempts only to summarize the cost of the war in material terms. It cannot measure the cost in human terms.

The Navy, however, wishes here to express its gratitude to the families of the 3,800,000 men and women who wear its uniform. We hope their sacrifice will be made easier by pride in the achievements of their Navy.

Thus far in this war twenty-nine thousand Navy men have given their lives. More than nine thousand are missing; four thousand five hundred are prisoners of war. Thirty thousand five hundred have been wounded. To these men and to their families the Navy and the Nation acknowledge a debt surpassing all measure.

James Forrestal  
Secretary of the Navy

November 19, 1944



WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON 25, D. C.

November 13, 1944.

MEMORANDUM FOR MR. FITZGERALD:

This material was prepared in the War Department while General Marshall was in his quarters with a cold. There is one point which should be clearly made but which the paper does not point out very forcefully. Now that the armies are finally deployed and almost every division engaged, for the first time the daily expenditure of munitions will be tremendous and will be increasingly so up to the last moment.

The statement is not exactly what General Marshall intended, but it contains much data that the Secretary may be able to use.

General Marshall will be in the office tomorrow, and he will endeavor to provide the Secretary with a short summary of the situation - also a statement of our present critical shortages, such as artillery ammunition.

*J. M. C.*  
McCarthy

SUGGESTED STATEMENT

The nature of the war against the enemy has fundamentally changed since 1942. Then we were attacking the enemy on the periphery of his farthest-most advance. Each time we had single, limited objectives. Today we are closing in on the enemy's homeland. The nearer we drive toward the enemy's own heart, the costlier the war becomes.

The final push which we now have started requires guns and tanks, trucks and bridges and pipelines and railroads in quantities which only a few months ago would have seemed fantastic. The last barrage, that fearful tornado of high explosive which will knock Germany and then Japan out of the war, will make all our previous expenditure of ammunition seem trivial.

Remember that the final drive in Tunisia only took from 26 April to 13 May -- 18 days. Tarawa was captured in 10 days, Makin in 3, Kwajalein in 8, Saipan in 24 days, Guam in 21 days, the island of Sicily in 38 days. General MacArthur has advanced up the coast of New Guinea from point to point in short, knockout steps -- Finschhafen on 2 October 1943, Cape Gloucester on 26 December, Saidor on 2 January, the

Admiralties in February, 1944. Hollandia and Aitape on 22 April, Biak Island on 27 May, Noemfoor Island on 2 July, Morotai on 15 September.

The war now is a sustained, continuous drive against the enemy.

We have been fighting in Italy since the landing at Salerno on 9 September 1943 -- nearly 15 months ago. Our troops have been fighting in France since D-day on 6 June 1944 -- nearly 5 months ago. The invasion of the Philippines on 20 October begins a continued drive to remove the Japanese from those islands.

Sustained, continuous attack is costly in supplies. It means more of everything to drive the attack home. We are approaching victory only if our soldiers still have everything it takes for the final blows. This job won't be done with half of what the troops used to have!

Let us look at the record, set down in black and white by General Eisenhower, comparing the three campaigns in which he has led our troops ... Tunisia, Sicily and the Battle for Germany. Let us compare the cost, weapon by weapon, vehicle by vehicle, shell by shell.

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First, take the number of mortars worn out or knocked out in each campaign.

The Tunisian battle lasted 96 days, cost 88 mortars.

It required 38 days to overrun Sicily where we lost 47 mortars.

But in a single month on the German front we expended 700 mortars. ?

That amounts to approximately one mortar a day in Africa and Sicily, more than 50 a day in the Battle for Germany. ?

We lost or wore out 100 big guns on the German frontier in four weeks, as against 67 guns of the same size in 19 weeks in Tunisia and Sicily. In other words, our rate of expenditure of heavy artillery is seven times as great today as it was in those earlier phases of the war. ?

A single month of combat on the German border destroyed 2,400 trucks and jeeps, two and one-half times the rate of loss in the other two campaigns.

As the war speeds up, we naturally shoot more heavy ammunition.

Last June our 105mm. howitzers hurled a quarter million high explosive shells at the Germans. In September, just three months later, they fired a million and a half rounds... six times as much. Our huge ?

155mm. cannon in September flung more than 130,000 big shells at the German lines, a greater total than the previous three months combined.

In the Aachen sector alone in two weeks last month our artillerymen fired 300,000 shells from their 105mm. howitzers. This is at the rate of 900 big, high explosive shells an hour ... one every four seconds, day and night, for two weeks. That's what I call pouring it on! And to maintain this rate, our industry will have to step up production and all of us will have to pour more and ever more dollars into our investment for victory.

Our doughboys in France in June fired nine and a half million cartridges from their carbines at the enemy. In September they fired more than twenty million cartridges.

Our Army overseas is now approaching five million. In June, 1943, it was only a million and a half. An Army overseas and in combat consumes supplies more rapidly than an army in training. On an average a division in training in the United States requires only 7,500 tons of supplies a month. But overseas it must have ~~40,000~~

*considerably* more than twice this amount.

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Ammunition requirements for a division overseas is 21 times the ammunition requirements for a division in training. In training, a pair of shoes is expected to last a soldier six months. In combat overseas, a pair of shoes lasts a soldier  $2\frac{1}{2}$  months. In training, a pair of trousers lasts a soldier 8 months. In combat, a pair of trousers lasts a soldier about 3 months. In training in the United States, consumption of gasoline is less than one gallon per man per day. Overseas, with long supply lines and rapid movement of troops, the consumption of gasoline is  $2\frac{1}{2}$  gallons per man per day. When soldiers are in training their food is very similar to that of the civilian population. Fresh vegetables, fresh milk, fresh meat, and other items are available. In combat the soldiers must depend upon combat rations, mainly canned goods. In the month of July in Normandy, American troops consumed some 10 million combat rations. In January, 1945 they will consume nearly 24 million combat rations. In 1945 the Army overseas will consume 10 per cent more evaporated milk than was purchased in 1944.

Troops in training do not wear out equipment very rapidly. Troops in combat wear out equipment with great speed. →

An armored division in training gets a whole new tank to replace a worn out one every two years. But in combat the replacement rate for medium tanks is 11 in a single year. For troops in training a 105mm. howitzer ~~ix~~ requires no replacement -- overseas the Army must be prepared to provide 5 replacements in a year for each howitzer in action. There must be 15 Browning Automatic Rifles to replace a single rifle in combat use each year. In training the army replaces one every two years.

It makes a lot of difference in supply because ours is now a combat army -- and not a training army.

The Army out of its share of your War Bond dollar this year is spending 25¢ on replacement of equipment and next year will spend 33¢ for that purpose. Ammunition alone in 1944 eats up eight cents out of each Army dollar; next year the ammunition bill will run 15¢ to the dollar. Twelve cents goes for food this year and the same amount in 1945. Gasoline and oil account for two cents of each dollar now and next year will take three cents. Seventeen cents today goes to equipping our allies, but next year this will be reduced to 12¢.

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For several months cargo shipped to France has been limited by the inability of the Port of Cherbourg and the Normandy beaches to handle more than a limited quantity of supplies. This limitation has prevented the American Army from using its full strength against the enemy. When the Port of Antwerp comes into operation the tonnage shipped to American forces in France is expected to double; it is expected to be twice as great as in October 1944. Shipments of supplies into the Mediterranean are scheduled from November, 1944 through March, 1945, at levels 50 per cent greater than the supplies shipped in June, 1944 and one-third higher than the supplies shipped in October, 1944.

General MacArthur's supply shipments must be 50 per cent greater than those he received in January 1944. Army supplies shipped across the Central Pacific are reaching new heights.

Our penetration of enemy soil at Aachen has proved to all of us what fierce resistance we must overcome wherever we cross the borders of Germany or land on the shores of the home fortress of Japan. We know already from bitter experience how costly in guns and ammunition, in trucks and tanks, yes, even in blood plasma and

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medical supplies, the action at Aachen proved. ~~to be a matter~~

~~During the campaign from January to May, 1945, our 105mm. howitzers~~  
~~fired 350,000 rounds of ammunition. In two weeks at Aachen these~~  
~~105mm. howitzers fired 300,000 rounds.~~

A hundred other Aachens lie spread along the front from the North Sea to Switzerland. We must overpower them. Ahead of us, the road to Berlin runs through countless Aachens. Each will be bitterly and fanatically defended. Every ditch and street, every ruined house and shattered wall will require all that our men have of valor and determination, of strength and of faith in us. They will require, besides, all that we here at home can furnish in material supplies to lighten their load and reduce their sacrifices. To send them less than everything they need would be unthinkable.

DATA ON SUPPLY EXPENDITURE

I. Campaign Dates

1. Tunisia  
 North Africa invaded -- 8 November 1942  
 French opposition ceased -- 11 November 1942  
 Line stabilized in Tunisia -- 12 January 1943  
 Allied offensive began -- 26 April 1943  
 End of campaign -- 13 May 1943
2. Tarawa  
 Invaded -- 20 November 1943  
 Official close of invasion -- 30 November 1943
3. Kwajalein  
 Invaded -- 1 February 1944  
 Official close of invasion -- 8 February 1944
4. Saipan  
 Invaded -- 15 June 1944  
 Official close of invasion -- 9 July 1944
5. Sicily  
 Invaded -- 10 July 1943  
 Campaign ended -- 17 August 1943
6. The main attacks  
 Landing at Salerno -- 9 September 1943  
 Invasion of Normandy -- 6 June 1944  
 Invasion of Leyte, Philippines -- 20 October 1944

II. Strength of Army Overseas

30 June 1943	1,586,000
31 October 1944	4,480,000
31 December 1944	4,850,000 (est.)

III. Differences in Supply Consumption, Army in Training, and Army in Combat Overseas.

	<u>In Training in U.S.</u>	<u>In Combat Overseas</u>
Total Division Supplies	7,500 tons per month	40,000 tons per month
Ammunition (ratio)	1	21
Shoes (per man)	1 per six months	1 per 2½ months
Trousers (per man)	1 per eight months	1 per 3 months
Gasoline (per man)	1 gallon per day	2½ gallons per day

IV. Replacement Factors for Equipment Issued in U.S. and Equipment Overseas  
(rate of replacement of complete equipment per year)

<u>Item</u>	<u>During Training</u>	<u>During Combat</u>
81mm. mortar	0	12
30 cal. automatic rifle (BAR)	0.5	15
light tank	0.5	8
medium tank	0.5	11
105mm. howitzer	0	5
heavy trucks (6 & 7½ ton)	0	3
wire (for field communication)	4	100

V. Army Supply Program (procurement by ASF) by Major Purpose

<u>Purpose</u>	<u>1944</u>	<u>1945</u>
Initial Equipment of Troops	3%	0
Replacement of Equipment	25%	33%
Ammunition	8%	15%
Food	12%	12%
Petroleum and fuel	2%	3%
Supplies for Air Forces operations	14%	9%
Equipment for Allies	17%	12%
Navy equipment	3%	2%
Misc. Operating supplies	14%	14%
Reserve	3%	0

VI. Losses of Equipment in Battle

<u>Item</u>	<u>Tunisian Campaign</u>	<u>Sicilian Campaign</u>	<u>One Month on German Front</u>
Mortars	88	47	700
Field artillery pieces (105 to 155mm.)	48	19	100
Jeeps	416	177	1,500
2½-ton trucks	287	139	900
Light tanks	37	22	125
Medium tanks	293	25	375

VII. Increase in Ammunition Expenditure, Northern France Only

<u>1944</u>	<u>H.E. Shell for 105mm how.</u>	<u>H.E. Shell for 155mm gun</u>	<u>Cartridge for 30 cal. carbine</u>
June	257	8	9,534
July	778	64	14,133
August	601	58	11,960
September	1,574	131	20,441
October			

VIII. Increase in Dollar Value Annual Required Production, A.S.F.  
(Procurement goals while war against Germany continues)

	<u>1944 Program</u>	<u>1945 Program</u>
February, 1944	\$23.8 billion	\$19.9 billion
October, 1944	23.0 billion	23.0 billion

IX. Increases in Procurement Goals for Selected Items of Equipment Because of Increased Consumption Overseas

	<u>1944</u>	<u>1945</u>
Runway, surfacing, bituminous, 36" x 300' Roll		
February	150,000	0
August	264,590	0
September	300,387	195,000
Carbine, cal. .30, M1		
May	1,954,532	1,273,652
October	2,021,109	2,703,249
Rifle, automatic, cal. .30 BRG M1918 A2		
May	58,000	17,037
October	62,500	2,340
Mortar, 60mm, M2, w/mount M2		
May	9,024	10,710
October	9,024	30,000
Mortar, 81mm, M1, w/mount M1 (gd)		
May	4,826	6,320
October	5,756	12,749

X. Increase in Shipments Scheduled for European Theater of Operations

<u>End of Month</u>	<u>Index Quantities</u> <u>June, 1944 = 100</u>
June, 1944	100
July	105.1
August	129.2
September	96.2
October	66.3
November	124.0
December	155.3
January, 1945	151.9

WAR DEPARTMENT  
Bureau of Public Relations  
PRESS BRANCH  
Brs. 3425 and 4660  
Tel. - RE 6700

November 13, 1944

IMMEDIATE

RELEASE

STATEMENT BY  
ROBERT P. PATTERSON, UNDER SECRETARY OF WAR  
AT NEWS CONFERENCE, THE PENTAGON, NOVEMBER 13, 1944.

It is my job and the job of every American here at home to supply our field commanders and their troops with the munitions they require to defeat the enemy in the shortest possible time and with the least possible loss of life. Our production requirements are set by our field commanders - we work only to serve them. They know what they want, what they need. Our job is to fill their needs.

I want to tell you today of certain important combat requirements in which our production is not up to what is needed. Most of the information I will give you I have received from General Eisenhower.

General Eisenhower has an imperative need for much more artillery ammunition than we are now producing. Although our production of artillery ammunition has tripled since the beginning of this year, the needs of our armed forces have gone even faster.

The troops under General Eisenhower's command are firing thirty-five days' supply of heavy artillery ammunition in ten days. The amount of ammunition which has been used in the campaigns of Western Europe, especially in the major offensives, has been staggering. General Eisenhower has cabled that the present needs for one month for the troops in Northwestern Europe alone approximate 6,000,000 rounds of artillery and 2,000,000 rounds of mortar ammunition. The First Army alone used more than 300,000 rounds of 105mm howitzer ammunition in a two-week siege of Aachen.

Expenditure of ammunition in the course of the European campaign has thus far exceeded 375,000 tons. If General Eisenhower's operations are to receive adequate support, it is necessary to fire four to five thousand pounds of ammunition every minute, 24 hours a day. This means 3,600 tons of ammunition per day.

At the same time we are confronted with an increased demand for artillery ammunition from every other active theater. General MacArthur's troops in the Philippines are shooting a greater quantity of artillery ammunition this month than they have in all of the past sixteen months combined. General Clark is calling for increased shipments of ammunition to the men of the Fifth Army.

Our losses in trucks and tanks have been very high in all theaters and our requirements are going up more rapidly than our production. In the European Theater alone we are losing 500 tanks and 900 trucks a month. We are also short of cotton duck for tents, airborne radar equipment, tanks, heavy trucks and other important items. To keep abreast of our schedules, production during each month of this quarter must show the following percentage of increase over the output for September:

Heavy artillery ammunition	35%
Mortar ammunition	17%
Tanks	3%
Heavy trucks	12%
Cotton duck	40%

Even these schedules do not reflect the full extent of our need for they have been cut down by a realistic appraisal of what we hope to accomplish while our requirements have gone up sharply.

I have just returned from trips to a dozen important plants in the heavy artillery program in Chicago, Detroit, Toledo, Harrisburg, Buffalo and Pittsburgh. At each plant I conferred with management and labor to see to it that everything possible was being done to step up production. With General Sommervell and his staff, I have been working in close cooperation with the Navy, the War Production Board, the War Manpower Commission, the Office of War Mobilization and all other civilian agencies to insure the necessary concentration of effort on the programs of greatest urgency.

The problem is not confined to final assembly lines. It extends all the way down the line to the foundries and forges and machine shops. Everyone who contributes in any way to the manufacture of these instruments of war bears a heavy responsibility in the attainment of our goals.

Our war production job is still enormous. Since the first of the year the Army alone has been letting new contracts at an average weekly rate of 550 million dollars. That is a yearly rate of over 28 billion dollars. Army Service Forces production scheduled for this month is greater than the total for any month since Pearl Harbor. In fact, we must have 10% more production than we got in November 1943, the peak month thus far.

I want to make it clear that these problems do not arise because anyone is falling down on the job. Despite the enormous demands from the field, we have kept abreast of our requirements on most parts of our supply program. Even on those items that are now in short supply, production has been coming up. But it is not coming up fast enough. Our troops are using up this equipment at such a rate that superhuman effort is necessary to meet their current needs, and these are the items that are most essential if we are to intensify the force of our offensives.

We must not fail our men at the front. Extra effort now means lives saved and a quicker victory.

END

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DISTRIBUTION: Da, N.  
4:00 P.M.

November 18, 1944.

Dear George:

Thank you for your letter and good wishes.

I am glad indeed to know that you found a spot in which you could be effective in the campaign.

One of the circumstances of which I think the President should be proudest is the way in which volunteers (or should we call them guerrillas?) jumped in with such spirit to help him out. I think he can also take pride in the character of the volunteers.

Good luck to you.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. George S. Albee  
Whitestone House  
Accord, New York

HEG/mah

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WHITESTONE HOUSE  
ACCORD, NEW YORK

8 November

Dear Mr. Secretary:

Joseph Foreman tells me that, when we met you with the President the other day, you were kind enough to send me your good wishes. It was in keeping with your usual thoughtfulness, and I thank you. I often think of you, I can assure you, and of Mrs. Morgenthau and your boys.

Some months ago, when Mr. Dewey began to open his mouth, he frightened me badly. It was easy to see that he was a ruthless man who would stop at nothing. I immediately offered my services to Bob Hannegan, suggesting a series of radio programs to be written by leading writers in New York and Hollywood, but Paul Porter felt they were not feasible.

So - and this is confidential - I went to work sub rosa for the P.A.C. I see no reason at all to believe that it is necessary to 'behave like gentlemen' when fighting dishonest and ruthless men, and I wrote half a dozen special programs that were just as dirty as I could possibly make them. By dirty, I mean that they hit hard and called names. And, this morning, I can sit back on my chair and tell myself proudly that I played a good part in re-electing our Commander-in-Chief and, what is more, in beating Nye and Fish. We couldn't get Taft. He is too strong and too clever. But, in the particular field in which I was working, we did manage to get nearly everybody else for whom we were gunning.

Now I need some money and I will have to give more of my time to Du Pont. I saw Fred Smith the other day, and we were both homesick for you and for the Flying Laundry.

Do please extend my kindest wishes to everyone in the official family. I am sure the Sixth Loan will succeed. Anyone will buy Bonds For A Better World.

Sincerely



WALTER F. GEORGE, SA., CHAIRMAN

DAVID I. WALSH, MASS.	BENNETT M. LAPHELLETTE, JR., WIS.
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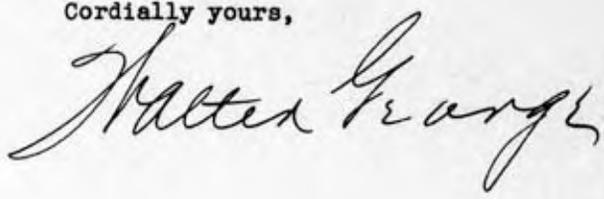
November 13, 1944

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

Dear Henry:

I thank you for your congratulatory letter.  
 The next six years will present many problems but I  
 believe that we can meet them.

Cordially yours,



United States Senate  
WASHINGTON, D.C.

copy to  
Mrs. Morgenthau  
11/14/44

November 13, 1944

Dear Henry:

I want to thank you and Mrs. Morgenthau very much for your kind message of congratulations.

The good wishes reaching me from so many of my friends are a source of pleasure and gratification to me.

With kindest regards.

Sincerely yours,

*Bob*

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

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Dated November 13, 1944

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Washington

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FOR HONORABLE HENRY MORGENTHAU

I appreciate immensely your good wishes and  
send you my cordial greetings.

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DEPARTMENT OF STATE  
DIVISION OF

KIRK

RB

October 31, 1944

My dear Mr. Ambassador:

I was delighted to read in the New York Times of October 26th that you have been appointed as our new Ambassador to Italy. I am confident that you will do an excellent job there, and I want to let you know how happy I am that the President selected you for this very difficult position.

Wishing you all kinds of success in your new responsibility, I remain

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Ambassador Alexander C. Kirk,  
c/o American Embassy,  
Rome, Italy.

OCT 26 1944

# U. S. and Britain Recognize Italy; Action Is First With an Ex-Enemy

By BERTRAM D. HULEN

Special to The New York Times.

WASHINGTON, Oct. 25—Diplomatic relations with Italy were resumed by the Allies tonight.

Recognition is being accorded by the United States, the other American republics in the United Nations and Britain. The Soviet Union had previously extended recognition to the Bonomi Government.

Our action was announced by Edward R. Stettinius Jr., acting Secretary of State, who said that Alexander O. Kirk, who has been serving as our diplomatic representative in Rome with the personal rank of Ambassador, would now be accredited to the Italian Government with the rank of Ambassador.

It is expected that Italy will send an Ambassador here. The appointment of Count Carlos Sforza, long a friend of the United States, to the post, has been forecast since it became evident that recognition would not long be delayed.

Announcement of the recognition has been made at London and is expected at the Latin-American capitals, except for Buenos Aires. Argentina never severed relations with Italy, although she did with Germany and Japan.

The announcement by Mr. Stettinius follows:

"After consultation with the other American republics, as provided in the Resolutions of Rio de Janeiro of January, 1942, it has been agreed that diplomatic relations with the Government of Italy should be resumed. The Governments of Great Britain and the Soviet Union likewise have been consulted.

"Consequently the President will submit to the Senate, after it convenes on Nov. 14, 1944, the nomination of the Hon. Alexander C. Kirk as United States Ambassador to Italy. Mr. Kirk is presently United States representative in the Advisory Council for Italy in Rome."

The Rio de Janeiro conference of American Foreign Ministers adopted resolutions recommending that the several Governments break relations with the Axis and pledge themselves not to re-establish those relations except after consultation.

The granting of recognition to the Bonomi Government follows closely the recognition of General Charles de Gaulle's Provisional Government in France, and, as in that instance, is expected to contribute to political stability in Europe.

**Mark of Allied Confidence**

The fact that recognition was accorded in both cases before combat zones had passed from the two countries signifies that the Allies are confident of the immediate as well as the longer future progress of the European war.

The principal effect of tonight's action is expected to be reflected in the increased prestige it will give the Italian Government in dealing with internal as well as external affairs.

Previously Mr. Kirk had conducted his relations with the Italian authorities through the Allies Advisory Council, which, in view of the action now taken, is expected to become somewhat of a dead letter.

A veteran career diplomatic officer, who has had many years of experience in Italy, Mr. Kirk was sent to Rome with the personal rank of Ambassador after the Soviet Union had accorded Italy recognition last summer.

Britain continued to be represented in Rome by a High Commissioner, whose relations were conducted through the same channel as was used by Mr. Kirk.

While action will probably be

taken here to unblock frozen Italian funds in this country, the official funds of Italy in the United States are of a negligible amount.

Britain Names Ambassador  
By Wireless to The New York Times.

LONDON, Oct. 25—The British Foreign Office announced tonight that direct Anglo-Italian diplomatic relations had been re-established in accordance with the policy announced by President Roosevelt and Prime Minister Winston Churchill on Sept. 27 and that ambassadors would be exchanged.

To this end ambassadorial rank has been conferred on Sir Noel Charles, British High Commissioner at Rome. Count Carandini will be received as Italian representative in London.

Count Carandini has been acting as Minister without portfolio in the Bonomi Government. He is a Liberal party leader and related by marriage to the Albertini family, who formerly owned the newspaper Corriere della Sera.

Alexander C. Kirk



Alexander C. Kirk

1940

[CONFIDENTIAL—For Release Monday A. M., November 13]

78TH CONGRESS }  
2d Session }

SENATE

{SUBCOMMITTEE  
{REPORT No. 4

## CARTELS AND NATIONAL SECURITY

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### REPORT

FROM THE

SUBCOMMITTEE ON WAR MOBILIZATION

TO THE

COMMITTEE ON MILITARY AFFAIRS

UNITED STATES SENATE

PURSUANT TO

S. Res. 107

A RESOLUTION AUTHORIZING A STUDY OF THE  
POSSIBILITIES OF BETTER MOBILIZING  
THE NATIONAL RESOURCES OF  
THE UNITED STATES

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NOVEMBER 13, 1944

### PART I. FINDINGS AND RECOMMENDATIONS

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Printed for the use of the Committee on Military Affairs



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1944

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LETTER OF TRANSMITTAL

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HON. ROBERT R. REYNOLDS,  
*Chairman, Senate Military Affairs Committee,*  
*Washington, D. C.*

MY DEAR CHAIRMAN: I have the honor to submit on behalf of the subcommittee appointed by you pursuant to Senate Resolution 107, a report on cartels and national security.

Since the fall of 1943, your subcommittee has been studying the effects of cartel and monopoly practices on war mobilization. In this connection, we have secured extensive evidence on the relationship of international cartels to the problem of national defense and the establishment of world peace. Recent military successes and developments in the creation of a world security organization make it desirable to present the material at this time. A majority of the members of your subcommittee have joined in the report.

The report submitted herewith consists of two parts: Part I, findings and recommendations; and, Part II, a supplement summarizing pertinent evidence.

HARLEY M. KILGORE,  
*Chairman, Subcommittee.*

NOVEMBER 13, 1944.

## CARTELS AND NATIONAL SECURITY

### Part I. Findings and Recommendations

#### INTRODUCTION

With military victory in sight, with the supreme and conclusive military action in Europe already begun, the United Nations are working out the measures that will guarantee a durable peace. Great and sure strides have been taken at Cairo, Moscow, Teheran, Bretton Woods, and Dumbarton Oaks. Leaders of the United Nations have agreed on the need for a permanent world security organization that will complete the destruction of the forces which caused this war; forestall by military action any future aggression; and wage peace through economic and social cooperation.

A quarter century ago the opportunity to build an enduring peace after military victory was argued away and lost. In the 25 years since the peace treaty of 1920, the world has suffered 25,000,000 military casualties, and the end is not yet. To these must be added millions upon millions of civilian casualties. The experience of these past 25 years will be vividly recalled by the American people as their representatives proceed, in concert with those of our allies, to establish the machinery of enduring peace.

The problem of international cartels—long the subject of extensive investigation and heated debate—must now be reexamined in the light of our country's compelling interest in the building of international economic and political cooperation in order to establish an enduring peace. Such an examination has been made by the committee.

Briefly defined, international cartels are economic arrangements among private interests of several countries for the purpose of regulating industry and trade.<sup>1</sup>

<sup>1</sup> This definition follows common usage and also takes into account practical developments. The word "cartel" originally meant a written agreement between conflicting interests. In economics, it was first widely used abroad, particularly in Germany, to describe an agreement or arrangement between independent firms. Applied to domestic economy, the expression is used loosely to cover arrangements as diverse under American terminology as trade associations, pools, combinations, trusts, holding companies, and monopoly agreements. International cartels have developed in a variety of situations, in a few of which national governments have directly or indirectly participated. As discussions of international cooperation for peace have intensified, there has been a tendency on the part of some people to broaden the definition of a cartel to include economic agreements or treaties between nations. In this report the term "international cartel" will be limited to arrangements which are primarily between private businesses in different countries, even though in their negotiation national governments may have participated or given their sanction. Testimony before this and other Senate committees elucidated or arranged cartels made between American and German firms, German firms frequently cleared commitments with their Government, particularly after Adolf Hitler came to power. In contrast, arrangements by American companies were usually kept secret, not only from the public but from the American Government. Definitely excluded from the definition are economic agreements between nations such as the "wheat agreement." In short, international cartels are economic treaties or international trade agreements made by private business concerns. The word may also be used to denote the participating group.

A study of the evidence which has been accumulated<sup>4</sup> discloses how the cartel system of international economic relations operated in the period between the two world wars and shows by what means our Axis enemies engaged in systematic economic warfare against the United States as a prelude to their military aggressions. These economic aspects of war and peace have received far less public notice than the political and military aspects. An understanding of them, however, is necessary to insure that the mistakes made after the last war will not be repeated, and that an effective program for world security will be realized.

The German aggressors have begun to pursue a strategy which they found successful a quarter century ago; they are already deploying their economic reserves throughout the world in preparation for a third attempt at world domination. They plan to resume the old commercial pattern which served them so well. We must insure that in the defeat of Germany the economic forces of aggression will be forever eliminated along with the military forces.

Economic aggression by the Axis Powers went hand in hand with their military preparations for the present war. Our plans for peace will succeed only if international economic collaboration by the sovereign governments goes hand in hand with political and military collaboration.

The United States must take leadership in promoting economic harmony among the nations. No plan can be effective without our active participation. Our own great industrial production cannot be isolated within our national boundaries, nor can it be sent abroad on the basis of rivalry among nations without thoroughly jeopardizing the peace.

The nations of the world, by adopting and developing the program drafted at Dumbarton Oaks, will turn their backs on the economic anarchy of the post-Versailles period. They will turn their faces toward a friendly post-war world, a post-war world of amicable international settlements and cooperation for mutual prosperity.

Through economic cooperation some nations will secure for the first time the economic benefits of industrialization. Others will make rapid recovery from the devastation of war. At the same time that we take the initiative in promoting world peace, the United States will be making provision for full use of the greatest industrial machine in the history of mankind.

If we are to have full employment after the war, it is conservatively estimated that we must produce at least one and a half times the highest pre-war industrial output. The rapidly rising productivity of our economy enables us continuously to raise our own standard of living while cooperating in the industrialization of the world. Our own internal market, already the greatest in the world, must be still further developed in order to absorb the greater part of this increase; we must raise the average standard of living by at least 50 percent.

<sup>4</sup>In addition to its own body of evidence, your subcommittee has examined the extensive evidence on cartel practices gathered by other Senate investigating committees during the past 5 years, notably by the Senate Committee on Patents under the chairmanship of Mr. Homer T. Bone, of Washington, the Special Senate Committee to Investigate the National Defense Program under the chairmanship of Mr. Harry S. Truman, of Missouri, and the Temporary National Economic Committee under the chairmanship of Mr. Joseph C. O'Mahoney, of Wyoming. See section III for a more detailed description of this evidence.

In addition to this 50-percent increase in our standard of living, we should set as a goal an export volume several times the pre-war figure in order to achieve an economy of full production and full employment.

In terms of traditional thinking, this would seem difficult to attain. But our traditional thinking is based on cartel economics, which is scarcity economics. The nations of the world are hungry for American products. There is almost unlimited demand. Meeting part of this demand may make the difference between profitable mass production and depression in key American industries. The sale abroad of American turbines, refrigerators, airplanes, automobiles, machine tools, may mean the difference between jobs and unemployment for American workers. Eventually, we must be prepared to buy from the world approximately as much as we sell, allowing for some lag during the immediate post-war years.

These great new business opportunities will be realized only if governmental machinery for international cooperation establishes a sound basis for developing world markets. Such machinery is essential to provide the safeguards enabling American business to make sales and investments abroad several times greater than in the past.

The subcommittee's studies particularly affirm the immediate need for adopting and furthering the International Economic and Social Council proposed by the Dumbarton Oaks Conference as part of a world security organization. This does not mean that the world security organization should intervene in the management of the domestic economy of its member nations. Its machinery, however, can be used on an international level to promote political harmony and economic development by fostering amicable commercial relations. The world organization should formulate programs for the expansion of international trade for the mutual advantage of all participating nations. Some positive steps to increase world trade are already under discussion—for example, the international monetary and credit proposals initiated at the Bretton Woods conference.

The real cooperation of sovereign nations in the field of commerce and trade necessarily spells the end of the cartel system, which has in the past proved an insuperable barrier to international harmony. Your subcommittee believes that the outlawing of the international cartel system is a necessary first step to clear the way for a new expansionist era in foreign economic relations. On this subject President Roosevelt has written Secretary of State Hull as follows:

The history of the use of the I. G. Farben trust by the Nazis reads like a detective story. Defeat of the Nazi armies will have to be followed by the eradication of these weapons of economic warfare. But more than elimination of the political activities of German cartels will be required. Cartel practices which restrict the free flow of goods in foreign commerce will have to be curbed. With international trade involved, this end can be achieved only through collaborative action by the United Nations.

In defining this policy which presumably will be followed by the Executive in its international economic negotiations, the President of the United States is planning for the future security and prosperity of this country, in the free-enterprise tradition of the Sherman-Clayton antitrust laws.

The elimination of restrictions on production, high prices, and exclusive market policies from the international field will not only help to preserve the peace but will assist in refocusing domestic production

on maximum output, lowest price, and highest quality. It will thus provide a sound basis for the flourishing of competitive private enterprise, not only in harmonious international trade but also in expanded domestic and foreign markets.

Since the outbreak of the war, the very concerns mentioned in this report as having participated in international cartels which Germany used for aggression have made magnificent contributions to an Allied victory. Their cartel relations forcibly disrupted, they have expanded their capacity and increased production to a point where they have overwhelmed our enemies. The war emergency has demonstrated to the Nation at large and to our industrialists in particular the extent of America's economic potential, the ingenuity of American technologists. In the post-war period, this potential can not be realized under a cartel system. New methods of conducting international trade must be devised to utilize the economic energies of our liberated American industry and to stimulate its continued growth and development.

#### INTERNATIONAL CARTELS VERSUS JOBS AND PEACE

As we review recent world history we observe that the international cartel system flourished in the years between the two world wars. This was a time when the countries of the world were increasingly dependent upon one another for raw materials, equipment, and markets for finished goods. But there was no machinery for harmonizing and bringing order into the day-to-day economic relationships of nations because there was generally no effective machinery for international cooperation. After the carnage of World War I, the peoples of the world earnestly desired such cooperation but efforts to set up effective machinery failed. Our own country, which came out of World War I as the most powerful nation, stood aloof from attempts to establish international security.

Inaction by national governments left a vacuum in foreign economic relationships. Individual businesses which consumed the raw materials and sold the finished goods moved into the vacuum. A few big concerns in the important branches of industry reached out across national boundaries and made international economic treaties of their own.

The failure to formulate a national and international policy deprived our businessmen of any broad frame of reference for the conduct of international commercial relations. They had no guides to action or criteria of success other than immediate self-interest and profits narrowly pursued. The arrangements they made with foreign industrialists therefore were designed to meet a limited and short-sighted objective—to safeguard profits and investments by eliminating competition. For two decades, cartel agreements appeared to satisfy this requirement. They protected the monopoly position of the cartel members at home. They eliminated international competition and assured a "stable," if restricted, market for the cartel participants by allocating territories, fixing prices and conditions of sale, defining export quotas, regulating the introduction of new materials, processes, and products, limiting plant expansion, and controlling the kinds of business activity in which members might engage.

The decade of the twenties, which saw the rise of the international cartel system, appeared to be a period free of foreign entanglements. The evidence shows, however, that the cartel system itself was a network of the most compromising ties among the big businesses of the world. The United States economy was involved in unofficial but nonetheless intricate and dangerous foreign entanglements.

Many of the ties formed by American companies under the international cartel system jeopardized our national security. This was in no sense the aim or intention of American businessmen, whose compelling motives were monopolistic protection and restriction.

In contrast to the American firms, whose principal motivation was protective and restrictive, the impelling motivation of the German firms was aggressive. The First World War changed the political form of the German Government, but it did not alter the control and structure of German industry. The Treaty of Versailles was designed to prevent Germany from renewing aggression. But in the absence of effective international machinery, the terms of the treaty could not be enforced.

At the end of the First World War Germany was outwardly a defeated nation. It was assumed that the sources of her military strength had been dried up when she was disarmed. But this was not the case. The war had greatly expanded the industries on which Germany had depended to supply the armaments, munitions, and raw materials for the German war machine. Defeat did not permanently reduce the productive capacity of these industries, nor did it alter their high degree of concentration or impair their position of dominance in the German economy.

Thus a defeated Germany emerged from the war with her imperialist-minded industrial hierarchy intact. While the people of Germany bore the burden of unemployment and depression, Germany's industrial management secured loans from abroad which enabled them to consolidate into gigantic domestic and international monopolies. They also persuaded their own government to assist them with subsidies and indemnities at the expense of the rest of the population.

The concentration of German industry was further accelerated by the period of inflation, which eliminated domestic competitors. The number of cartelized industries increased. Existing cartels extended their areas of international control, and at the same time they intensified and strengthened their grip on the German economy. They were bent upon recapturing their world position in dyestuffs, pharmaceuticals, military optical goods, and other commodities. Thus, in the period following the war, German industries were reorganized into closely knit, highly integrated combines whose productive and technological capacity constituted a menace to large producers in other countries.

German industrialists, backed by the government which they had forced to do their bidding, threatened to invade foreign markets, threatened to sell goods at low prices, threatened to unleash new technologies, threatened to disrupt the controlled markets of other countries. They blackmailed their way into world markets. They launched a second conspiracy for world dominion. Using commercial relations, in particular the cartel system, as a weapon, they rearmed their own country and disarmed their prospective victims.

The trend toward monopoly domination of industry in the United States, Great Britain, France, and other countries created a favorable atmosphere in which German cartel groups could conduct negotiations for the division of world markets. In the period after World War I many American firms possessed new technologies, particularly in electrical, chemical, automotive, and petroleum fields. The industrial expansion necessary to give expression to these new technologies held the prospect of expanded domestic and foreign markets, bolstered by pent-up demands for peacetime goods. Leading American firms feared, however, that competitive imports and new techniques from abroad would disturb their control. They persuaded their government to erect high tariff walls. They entered into a truce with foreign cartelists. They gave up foreign markets in exchange for protection. They sought and often attained an assured monopoly at home. In short, they compromised themselves with German cartelists.

Germany's cartel groups had the tacit consent of non-German industrialists in evading the disarmament provisions of the Treaty of Versailles. Testimony before the subcommittee leaves no doubt that violations of the treaty began almost as soon as the treaty was signed. For instance the firm of Carl Zeiss, by creating a manufacturing subsidiary in Holland, was able to evade the prohibition on the manufacture of military optical instruments, such as rangefinders and periscopes. The firm of Friedrich Krupp nullified a restriction on the manufacture of armaments by gaining control of Bofors, a Swedish armament firm. I. G. Farbenindustrie continued to produce military explosives as one of its numerous enterprises, although expressly forbidden to do so. (For detailed discussion of these treaty violations, see sec. IV.)

The greatest activity in the establishment of cartel relationships by German interests occurred from 1920 through 1930. American businessmen were induced to enter into cartel agreements by the promise of freedom from German competition. In exchange for a guaranteed domestic market, American participants accepted restrictions on their own production and sales. Such restrictions limited American productive capacity and assured German dominance in foreign markets from which American and other firms were excluded. The cartel agreements often included provisions for exclusive cross-licensing of patents and exchange of technical and sales information. The Germans thus acquired access to vital American technology and know-how instrumental in building up Germany's military strength. In return, the United States firms received a minimum of detail on German technology and know-how, and then only after German Government approval on release. These exclusive licensing terms had the effect of limiting American production capacity and the manufacture of new products. At the same time, they secured for Germany economic intelligence as to the industrial and military strength of the United States.

The rapid growth of cartels during the late 1920's and early 1930's coincided with the onset of a world-wide depression. The impact of economic crisis in Germany was severe; it led to the adoption of Nazi totalitarianism. The role which the cartels played in abetting Hitler's seizure of power has been recounted at length in testimony before Congress. Krupp, Thyssen, and other powerful figures on the German industrial scene provided the Nazis with indispensable financial and political support.

Almost immediately, as a consequence of this unholy alliance between Hitler and the cartelists, Germany's plans for economic warfare, aimed at ultimate world domination, were expanded. The German Government became a silent partner in the multitude of cartel agreements among German, American, British, French, and other concerns with which German industry had established cartel relations.

Under cover of cartel agreements, Germany penetrated the economy of other nations, including the United States. Using their cartel affiliates or subsidiaries, German industrialists built up a network which impaired the production of other nations, obtained sources of foreign exchange for Germany, gathered economic intelligence and spread Nazi propaganda.

Nazi Germany placed great emphasis upon political and economic warfare. By sapping the industrial strength and undermining the political unity of the countries chosen for aggression, Germany sought to eliminate any possibility of resistance on the part of her intended victims. Numerous examples have been presented to the committee which portray clearly how German cartel interests were able to restrict output, maintain exorbitant price levels, suppress new developments, and hinder Allied preparation for defense.

The Düsseldorf conference of March 15 and 16, 1939, represents a high point in the use of the international cartel system as an instrument of economic warfare. In the joint communiqué issued at the close of a general discussion of German-British economic relations the Reichsgruppe Industrie and the Federation of British Industries stated:

The two organizations realize that in certain cases the advantages of agreements between the industries of two countries or of a group of countries may be nullified by competition from the industry in some other country that refuses to become a party to the agreement. In such circumstances it may be necessary for the organizations to obtain the help of their governments and the two organizations agree to collaborate in seeking that help.

The two organizations have agreed to use their best endeavors to promote and foster negotiations between individual industries in their respective countries. They are encouraged in this task owing to the fact that a considerable number of agreements between individual German and British industrial groups are already in existence.

Six months after the appeasement of Munich, and in the very days when the Nazis were moving into Czechoslovakia, the Germans were relying upon their cartel connections to destroy resistance in Great Britain. History records that this agreement was never implemented because of the British decision to call a halt to German military aggression in Europe.

The quantity and character of the evidence leave no room for surmise as to the intentions and efficacy of Germany's cartel program in the United States. Shortages and scarcities in strategic sectors of industry, visible even before our entry into the war, became ominous following Pearl Harbor. The evidence shows that many of these must be attributed to the operation of international cartels. (See sec. IV.)

Some idea of the number, scope, and character of international cartels whose operation has been exposed may be obtained from the evidence summarized in part 2. The full number, extent, and character of international cartel agreements in the period between the two world wars may never be uncovered. Those international cartel agree-

areas of which the details are known today were until recently shrouded in secrecy. The Antitrust Division of the Department of Justice, in making its pioneering disclosures of the real character and scope of the international cartel system, has rendered high service to the Nation.

#### ELIMINATION OF GERMAN AGGRESSIVE FORCES

To eliminate the risk of another war the United Nations must not stop at removal of Nazi political and military leaders. They must destroy Germany's industrial leadership as well.

The industrial monopolists of Germany have worked long and ardently for pan-Germanism. They have willingly joined in partnership with Hitler and his lieutenants to achieve their ends. For all practical purposes, the social and political philosophies of the partners are indistinguishable. As Allied pressure increases, Hitler and the Nazi politicians will undoubtedly want to fight to the end; military defeat will entail the loss of all their power. Big monopolists, however, may want to negotiate a surrender in which they can retain their lives and their power. But a negotiated peace or surrender that would leave this group of perennial conspirators in power would fall short of victory. It would lead once more to war.

The democratic nations must not again be misled into believing that German industry is politically "neutral," or that German aggression is the preoccupation solely of political fanatics. To crush German imperialism permanently and thus permit a peaceful and democratic Germany to arise, the structure and control of German industry must be so altered that it cannot serve again the purposes of war. This is as fundamental as military occupation and political change. The monopolies and cartels which are the artery of supply in the Nazi system must be broken up within Germany. Punishment of 10,000 of the leading imperialist-minded German industrialists will be more effective than punishment of 1,000,000 Nazi underlings who carried out the orders of the conspirators.

Immediately after military victory an international authority should take over the economic controls formerly held by Nazi cartelists. Such an authority should destroy the cartel system in Germany and make it possible for private enterprise to function in a free and competitive manner.

Germany's industry must be reorganized so as to eliminate its aggressive power. It is generally agreed that the German armament industry must be liquidated, but there has been much confusion in public discussion as to the extent German industry as a whole should be liquidated. The subcommittee believes that those who have urged that all industry, other than direct armament manufacture, be left intact have overlooked the fact that for more than 30 years all of German industry has been closely integrated as a munitions economy. There has been an overexpansion of heavy and chemical manufacture and other enterprises necessary to military production. A real disarmament program requires not only the dismantling of all direct munitions industries but also the dismantling and removal to the devastated areas of Europe of the primary indirect munitions industries, including the metallurgical and chemical industries.

Final agreement cannot be reached immediately on the disposition of the remaining industries which are suitable to a balanced peace-

time economy but are also convertible to war purposes. Discussion may bring out various general alternatives, but definitive action by the international organization will depend on factors which are still imponderable. These factors include: (1) The extent of German industry still intact after final military victory; (2) the internal political balance after punishment of war criminals; and (3) the number and influence of Germans who can be relied upon to operate German industry solely for peace production.

The elimination of German aggressive forces requires also the liquidation throughout the world of the economic outposts of nazi-ism. This undertaking demands cooperative action by the United Nations. The pooling of information will be necessary in order to get a complete picture of the German network of economic penetration. Acting in concert, the United Nations should devise and carry out the most effective measures for destroying Nazi elements in their own countries, as well as in neutral and liberated territories. No country can be safe while the seeds of nazi-ism remained implanted anywhere. One of the first tasks of the Allied Military Commission in Germany should be to analyze thoroughly German interests abroad, in order to obtain a complete inventory of German property, particularly holdings whose true ownership has been masked through the instrumentality of Swiss, or Dutch, or South American companies. All German property in the United Nations, including the liberated nations, should be confiscated, and Nazi cloaks and collaborators divested of their holdings and their management powers. With reference to so-called neutral companies, the Allied Military Commission, having determined the extent of German ownership, should by decree assume ownership of stocks; it should require neutral nations to turn over the management of these companies to the United Nations or otherwise give assurance that they have been completely purged of Nazi interest and control.

Whatever general policy is adopted for reparations in goods, services or money, it must not encourage the maintenance or reconstruction of German heavy industry or the cartel system.

#### OUTLAWING THE INTERNATIONAL CARTEL SYSTEM

The German industrial group has been the mainstay of the international cartel system. In their agreements with American and British companies, the German cartelists specifically provided that in the event of war cartel arrangements would be resumed when hostilities were terminated. Any efforts to retain the international cartel system will therefore help to keep in power the German militarist-industrialist clique who have already planned and launched two world wars.

We will take space here to examine a few of the most common arguments advanced in support of the cartel system. It is argued that we would be excluded from foreign markets if we did not join cartels. The opposite is true. American industry in the past has voluntarily excluded itself from foreign markets by virtue of its membership in cartels. It is argued that the good features of cartels should be saved. This argument assumes that there would be some good practices left when the restrictive aspects of cartels are removed. In truth, nothing would be left, since restriction is of the very essence of cartels. It is argued that cartel agreements would assume the character of coopera-

rive action among nations if they were publicly registered or subjected to government scrutiny. They would not. Mere registration would not endow them with a national character. Only agreements among national governments provide the framework for genuine international cooperation.

Current proposals for the maintenance of the cartel system often seek to forestall objection by disavowing the old dangerous features of cartels and by endowing them verbally with the attributes of genuine international cooperation. Some of these proposals spell out in great detail the real advantages of international cooperation. But a careful examination shows that they envision the continuance of the old controls and relationships, so that, in effect, private monopolies would be dictating what superficially appeared to be national policy and international agreement.<sup>2</sup>

Any proposal which would vest in private monopolies the power to make international economic agreements must be considered the antithesis of genuine democracy and international collaboration. Such action would be an abdication of sovereignty on the part of national governments. It would permit the economy of nations to be subverted by groups who are responsible to no public control. It would advance us far along the road to economic restriction and war.

A cartel system dominated by American or British interests would eventually produce the same undesirable results as the one exploited by the Germans. It would jeopardize peace and jobs in the post-war world and soon bring us face to face with the possibility of a third even more destructive world war.

Standing athwart the achievement of international goals of world prosperity and enduring peace is the international cartel system as it existed before the war and, indeed, as it still exists—underground and only partially suspended—during the war. The extensive testimony before this committee and the great mass of testimony adduced by other congressional committees, have established beyond question that the international cartel system has been subversive of political security, full production and employment, and the expansion of world trade. These effects have not been incidental to the operation of the cartel system but have arisen out of their essential character. Private restrictive economic agreements designed to maximize profits inevitably minimize political security, jobs, and world trade.

#### MEASURES IMPLEMENTING INTERNATIONAL ECONOMIC COLLABORATION

The early post-war years will be the most critical for world peace, for then the nations must learn new ways of living together. While it may take a number of years to establish in detail a new pattern of international behavior, the initial machinery must be available before hostilities cease. Many of the present measures for wartime financing and control of trade will expire 6 months after the war. New machinery must be set into operation as war controls are relaxed and war financing methods abandoned.

In order to win this war we substituted for cartel methods of foreign trade close collaboration among the United Nations. Thus, the

<sup>2</sup> A widely circulated proposal of this character is that of Sir Edgar R. Jones, who would place world trade under private monopolies and merely allow for scrutiny of private agreements by an international organization of governments.

nations have already evolved some procedures for international economic cooperation. If no machinery is immediately available for continuing this cooperation on a peacetime basis, there is always a danger that the world will revert to the old ways leading to economic restriction and the break-down of peace.

Positive measures promoting world trade should be paralleled by common action to eliminate trade barriers. To this end, the principle of the reciprocal trade agreements should be expanded, under the auspices of the proposed world economic organization, into multilateral national agreements providing for the freest possible movement of goods.

Through the medium of their joint economic organization, the nations should inventory their industrial, human, and natural resources to see how they can most effectively exchange their special products so as to secure for each full production, full employment and a rising standard of living. In determining desirable goals of world exports and imports, one of the chief considerations should be the reconstruction of war-devastated areas. This, like the development of the less industrialized countries of the earth, will undoubtedly be undertaken by the individual countries involved. But they will require the cooperation of other nations in formulating and carrying out a systematic plan. Where products of foreign trade become technologically obsolete, cooperative action should assist in the conversion of affected industries and areas.

Because of our advanced industrial position, American cooperation in world reconstruction and industrial development is critical. We should recognize as desirable the possibility of an even more rapid increase in United States exports than imports in the initial post-war years. This would serve to develop markets for the high-powered United States industrial machine, and would also establish firmly the bonds of friendship and cooperation with other nations. After the first major period of reconstruction and development (approximately 10 years) is over, we should establish a balance of imports with exports by stabilizing the domestic market at a high level so that it can absorb the products of other nations who will be capable of fully returning in raw materials or finished goods the equivalent of United States exports to them. It is not suggested that any reduction in the volume of exports will then have to take place, but rather that an expansion in the volume of imports will be possible.

Once plans for the expansion of world trade are formulated, a program of implementing measures must be devised. Machinery for monetary stabilization and international credit has been recognized as an essential part of such a program, and substantial progress has already been made in this direction. International action will undoubtedly be required in other fields. The development of a full program is the joint responsibility of nations and can, of course, be worked out only through international conference.

The actions of the world organization will not impinge on the sovereignty of the participating nations. They will not interfere with domestic efforts of each nation to achieve its own prosperity, but rather they will supplement and encourage such internal economic development. In fact, an effective world security organization will

guarantee the autonomy of the domestic economies of the several nations, and will prevent the exploitation and penetration of one country by another intent upon industrial and political conquest. In this way, each nation, so long as its activities do not endanger world security, will be able to determine the course and form of its own internal economy. Your subcommittee feels that our own foreign trade, both export and import, should be conducted through private competitive business. Trade associations and Government corporations should be permitted to operate only where private competitive alternatives have been exhausted.

As a first step to facilitate United States participation in international organization, your subcommittee believes a joint legislative-executive commission should be created. In accordance with the fundamental law and traditions of the United States, negotiations with respect to an international economic organization must be conducted by the executive branch of the Government. The legislative branch, however, must eventually sanction any international agreements arrived at by authorizing domestic enabling machinery and by appropriating funds necessary for American participation. A special liaison group composed of representatives of both the legislative and the executive would compile the relevant facts and formulate policies, thus assuring effective intragovernmental cooperation. Representatives of industry, labor, and agriculture should be invited to participate in the deliberations of the joint commission, so that the best developed and most fully supported proposals can be given immediate and thorough consideration.<sup>1</sup>

In connection with the development of specific measures, the studies of this subcommittee point to the need for new methods of interchange of scientific and technical information. It is obvious that wherever we export producers' equipment we will send with it the necessary technical know-how. But international cooperation should establish a more complete pattern for exchange of information. We believe that in this respect all the nations of the world will be eager to cooperate with our own country, which is one of the most technologically advanced in the world. Within the framework of the international economic organization, there should be set up a special section where representatives of the nations would meet and work out agreements assuring the most rapid and useful scientific exchange. This country should have a scientific agency to represent us in such an international body. This agency would make available to the United States Government and industry as rapidly and as fully as possible the scientific advances being made abroad.

In this connection it is suggested that there be a revision of the present patent procedure with respect to inventions originating abroad. The primary intention of United States patent law is to promote the progress of the domestic sciences and arts by granting patents to inventors. The application of these laws to foreign-originated discoveries cannot be viewed as serving this purpose. In fact, your subcommittee has found that the application of the domestic patent law to foreign-initiated discoveries has been one of the main-

<sup>1</sup> A proposal for such a joint commission is embodied in S. J. Res. 129, now before the Senate Foreign Relations Committee.

stays of the international cartel system. There is abundant proof that it served the Germans very handily in impeding technical and production developments in this country. There are, for example, situations in which American companies wished to proceed in the production of materials and devices which would have been useful to our national defense, but found that the discoveries had been turned over by the Germans to some other American concern which was not equally interested in the development of these same materials and devices.

In order to prevent any possible repetition of these restrictions on domestic production and interferences with national defense, the present patent laws could be revised so as to require that any discovery originated abroad be licensed to any American producer who wishes to use it on a nonexclusive basis for payment of a reasonable royalty. For this purpose foreign-originated patents could be registered with a designated Federal agency which would determine the amount of reasonable royalty after representations by the foreign inventor and the prospective domestic licensee. By international agreement the United States could arrange that this same agency represent American inventors abroad in securing foreign patents and collecting for them reasonable royalties.

The disposition of seized enemy property represents another area in which the studies of this subcommittee suggest a specific course of action. Your subcommittee has earlier recommended the confiscation of German property abroad by the United Nations. With respect to the United States, it urges further that seized enemy property, excluding patents, be disposed of and the proceeds of sale revert to the General Treasury to meet part of our war cost. Enemy-originated patents should remain the property of the Federal Government and should be made available to all American industry through a system of general licensing. Such a procedure should be applied not only to isolated patents but also to the entire patent structures of vested and supervised enemy alien property. Such patents are not simply physical assets of these corporations; they were frequently constructed in such fashion as to bottleneck American production.

As was pointed out earlier in this report, it will be necessary for the United Nations to continue to ferret out and destroy all centers of German economic power and resistance throughout the world. Your subcommittee believes that the valuable work of the several Government departments concerned with the disclosure of German economic warfare—the armed services, Department of Justice, Treasury Department, and Foreign Economic Administration—should be continued as part of any general international effort along these lines.

Finally, in connection with the outlawing of international cartels, it will be necessary to implement international agreements by domestic enforcement measures. When international agreement along these lines has been achieved, the authority of the Department of Justice to prevent participation by domestic concerns in any kind of international cartel should be examined. If necessary, additional authority should be conferred by Congress.

Part II. Analytical and Technical Supplement, containing the following material, is printed as a separate document and a limited quantity is available from the Subcommittee on War Mobilization, Room 103, Senate Office Building:

**Section I. Examples of Cartel Operation:**

The titanium cartel—United States participants not German owned.  
The hormone cartel—United States participants include German subsidiaries.  
I. G. Farbenindustrie and its ramifications.  
List of American companies reported in 1937 as having cartel agreements with I. G. Farbenindustrie.  
Summary of cartel agreements of I. G. Farben as reported in 1937.

**Section II. Antitrust Proceedings Against Cartels:**

List of domestic and foreign business concerns involved in antitrust proceedings against international cartels by the Department of Justice.  
List of products involved in antitrust proceedings against international cartels by the Department of Justice.

**Section III. Citations of Cartel Practices:**

Reported cartel and related practices by name of company or person cited, type of commodity, or field of activity.

**Section IV. Analytical Summary of Evidence on German Economic Aggression:**

Cartels and the evasion of the Versailles Treaty.  
The military optical goods cartel.  
The international steel cartel.  
Chemical and dyestuff cartels.  
The alliance of German cartelists and Nazis.  
German-controlled firms in the United States.  
Economic penetration of Latin America by German steel interests.  
German penetration of the American aircraft industry.  
German influence in the American fuel-injection industry.  
Effects of cartels on war mobilization of American industry.

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OFFICE OF CONTRACT SETTLEMENT  
Federal Reserve Building  
Washington 25, D.C.

62

Director

November 13, 1944

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

My dear Mr. Secretary:

I inclose herewith for your files a copy of my letter addressed jointly to you and the secretaries of War, Navy and Commerce and the Chairman of the Maritime Commission, which accompanied your letter to the President requesting the issuance of a proclamation extending renegotiation to June 30, 1945.

Sincerely yours,

/s/ Robert H. Hinckley

Robert H. Hinckley,  
Director.

Inclosure.

November 10, 1944

Hon. Henry L. Stimson  
Secretary of War

Hon. Henry Morgenthau, Jr.  
Secretary of the Treasury

Hon. James V. Forrestal  
Secretary of the Navy

Hon. Jesse Jones  
Secretary of Commerce

Vice Admiral Emory S. Land  
Chairman, U. S. Maritime Commission

Dear Sirs:

You have advised me that you have under discussion a proposal to request the President to issue a proclamation, as permitted by the Renegotiation Act, extending renegotiation to June 30, 1945; and you have requested an expression of the position of this office concerning such an extension.

It is the opinion of this office that such continuance of renegotiation will expedite and facilitate the settlement of contract terminations. The procedures under which settlements are now taking place are materially assisted by the existence of renegotiation and would continue to be so assisted during the mass terminations anticipated at the conclusion of the European war. Since it cannot now be predicted that these terminations will take place before January 1, 1945, this office favors the extension of renegotiation to June 30, 1945.

Sincerely yours,

Director.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 13, 1944

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending November 11, 1944.

Summary

Stock market: Stock prices strengthened moderately near the end of last week and at the close on Friday the Dow-Jones average of 65 stocks was fractionally above pre-election levels. Industrial stock prices in London have moved gradually higher recently, after fluctuating in a very narrow range during most of October.

Industrial earnings: Net income of 300 industrial corporations in the first 9 months of 1944 was 6 percent above year-earlier levels, according to a recent study by the National City Bank of New York. An important factor was a gain of 27 percent in the net income of 13 petroleum companies. On the other hand, net income of 26 steel companies showed a 9 percent decline.

Payrolls: Factory payrolls declined less than factory employment in September, and as a result estimated average weekly earnings of factory workers rose 0.7 percent above the August level. The rise during September carried average weekly earnings to within a small fraction of last June's war-time peak, which was 94 percent above the 1939 average.

Commodity prices: In contrast to weakening tendencies around the first of the month, basic commodity prices moved gradually higher last week. Implied reassurance of Government price support policies as a result of the election outcome appears to have been the principal strengthening factor.

Crop forecast: Probability that this year's output of farm crops will exceed the exceptional output of 2 years ago is indicated by the November crop report of the Department of Agriculture. The corn crop forecast exceeds the previous record by 4 percent. The commercial apple crop is expected to be 39 percent higher than last year.

### Stock prices strengthen slightly

With the election over, stock prices showed rising tendencies during the latter part of last week, with trading activity on Friday expanding to the highest level since September 7. Although utility stocks declined slightly, industrial and railroad stock prices showed moderate net gains for the week, and at the close on Friday the Dow-Jones average of 65 stocks was fractionally above pre-election levels. (See Chart 1.)

Prime Minister Churchill's recent statement that the war against Germany may last until next spring or summer, together with stiff enemy resistance, have led to some revival of interest in "war stocks." Shares of aircraft producers have strengthened noticeably, while the Dow-Jones average of railroad stock prices has moved up to within a small fraction of the year's high. Second-grade railroad bonds have also advanced and now stand near the peak levels of the year.

Meanwhile, industrial stock prices in London have shown gradually rising tendencies, after moving in a very narrow range during most of October. (See Chart 2.) A contributory factor is reported to have been the strengthening of bond prices following the recent announcement of a short-dated 1-3/4 percent Government bond issue to replace existing 2-1/2 percent National War Bonds. Moreover, concern over post-war reconversion problems, which was much in evidence in the latter part of the summer, appears to have abated recently, probably as a result of less optimistic prospects as to the end of the war.

As a measure of reduced optimism over the war prospect, the London price of German 5 percent bonds of 1924 is now noticeably below the levels attained in the latter part of July and August, when hopes of an early peace in Europe were rising. (See Chart 3.) Fluctuations of this issue in the London market in the past few years have reflected the shifts in opinion over the course of war developments.

### Industrial earnings moderately higher in 1944

Net income of industrial corporations in the first 9 months of 1944 showed a moderate gain over year-earlier levels, on the basis of a study of reports for 300 companies recently made by the National City Bank of New York. Although 160 of the 300 companies reported declines in earnings, an aggregate gain of 6 percent was shown, due in part to an increase of 27 percent in earnings of 13 companies in the petroleum industry.

Sales of the 300 companies in 1944 rose more rapidly than earnings, and were 11 percent above the first 9 months of 1943. Net income in the third quarter of 1944 was about 4 percent above year-earlier levels.

In contrast to the aggregate increase in earnings of industrial corporations, 26 iron and steel companies in the first 9 months of 1944 showed a decrease in net income of 9 percent from the corresponding period in 1943.

#### Wage controversy awaits decision

The decline in steel company earnings is of particular interest in view of the fact that a decision will soon have to be made in the long-pending demands of the CIO United Steel Workers Union for a wage increase. Since the workers are asking for an increase of 17 cents per hour in the basic wage rate, in addition to other demands, this would admittedly involve the scrapping of the "Little Steel" wage stabilization formula--an objective which is also desired by the American Federation of Labor.

The War Labor Board, after extensive hearings, voted last month not to make a recommendation as to whether the "Little Steel" wage formula should be broken, on the grounds that it was unable to say what effect a change would have on the nation's price structure. In lieu of a specific recommendation, the Board decided to send to the President a report setting forth pertinent data on the relationship of wages to the cost of living. A copy of this report has already been submitted to industry and labor members of the WLB for consideration, and a final draft is expected to be ready at the beginning of this week.

#### Average earnings of factory workers rose in September

Figures just released by the Bureau of Labor Statistics reveal that factory payrolls declined moderately in September, but the decrease was noticeably less than the 1.3 percent drop in factory employment. As a consequence, estimated average weekly earnings of factory workers rose 0.7 percent above the August level. (See Chart 4.) The rise carried weekly earnings to within a small fraction of the war-time peak attained last June. It will be noted that the September figure was approximately 94 percent above the 1939 average.

Payrolls and employment in the steel industry declined moderately in September, according to data released by the American Iron and Steel Institute. In that month the industry employed an average of 565,000 wage earners as compared with 620,000 a year earlier--a decline of 9 percent. Wage-earning employees received an average of \$1.21 per hour in September 1944 as compared with \$1.16 per hour a year earlier.

An important factor in the rise in average hourly earnings, despite the stabilized basic wage rate under the "Little Steel" formula, has been the increased premium pay arising from longer working hours. Data on average hours worked in September are not available, but in August wage earners in the steel industry, according to Iron and Steel Institute figures, worked an average of 47.5 hours per week as against 43.1 hours in August 1943.

#### Progress of reconversion program

The WPB is reported to be studying plans to expand the "spot authorization" program to produce civilian goods when permitted by available manpower and materials. Among the steps expected to be taken by the WPB is the addition of 21 new products to the "spot authorization" list, including such important items as refrigerators, motorcycles, passenger automobiles and non-military airplanes. While no actual production of such an item as automobiles can be expected in the near future, the contemplated broadening of the "spot authorization" program is viewed as an indication that the program will become an increasingly important alternative to a broad loosening of controls when the war situation permits.

A wide diversity of opinion continues over the probable severity of reconversion problems. Two statements on the optimistic side appeared in the press last week. Brig. Gen. Browning, assistant director of materiel of the Army Service Forces, was quoted as asserting that reconversion problems had been greatly exaggerated. In connection with the textile industry, for example, he stated that the War Department is working out a program with textile plants so that they can take over all materials in process and convert them to civilian textiles. He mentioned that the locomotive and farm equipment industries already have been largely reconverted to peace-time operations, while numerous other industries such as food, paper, glass, leather, steel, copper, petroleum and tires can go into civilian goods production immediately.

In connection with the reconversion problems of the automobile industry, the Managing Director of the Automotive Council for War last week stated that only 2 to 3 months will be required to build up to full employment in the automobile industry if all pre-conversion work is done before the end of the war in Europe. He further asserted that all such pre-conversion work could be carried out by 17,000 men in the automobile, machine tool and die industries in from 5 to 6 months.

#### Critical munitions programs lagging

The reconversion outlook continues to be complicated by the sustained heavy demand for munitions arising from the stiff fighting in Europe and the campaign in the Far East. According to press statements of the WPB, production in each of the "critical" munitions programs increased in October but was still far short of requirements. Among the critical items are heavy artillery and ammunition, heavy trucks, heavy tires, and assault ships.

The automobile industry, faced with the necessity of stepping up the lagging heavy truck program, is reported to have recently received important orders for tanks, jet engines and other war materials, which may slow up reconversion activities. Deliveries of war materials by the General Motors Corporation in the third quarter of this year were virtually unchanged from year-earlier levels. While cut-backs have occurred in some items, these have been largely offset by new war material orders.

Inadequate production in foundries and forging shops continue to be the major bottlenecks in lagging production of trucks, tanks and other vital war materials. The dearth of castings and forgings, despite the combined efforts of WPB, WMC and OPA to eliminate the problem, is ascribed largely to a lack of manpower. This in turn is attributed by some observers to the fact that existing pay rates are insufficient to attract the necessary workers.

#### Commodity prices firm

The trend of commodity prices during election week has been gradually upward, in contrast to weakening tendencies around the first of the month due chiefly to declining prices for hogs and grains. This firmness is reflected in both the

Dow-Jones futures index and Moody's spot index. (See Chart 5.) Reassurance provided by the election returns that the Government's price support policies will be continued appears to have been the principal strengthening factor in the markets.

In the week ended November 4 the BLS all-commodity index showed a further slight gain of 0.1 point, placing the index 1.1 percent higher than in the same week last year. Price increases were in the farm product and food groups.

The BLS price index of 28 basic commodities held practically unchanged last week. (See Chart 6.) Somewhat higher prices for hogs and steers, and for cotton and wheat, were offset by a 5 percent decline in corn prices as the movement of the record corn crop got under way.

Despite the large crop, the War Food Administration has not yet decided whether it will permit corn to be used for whiskey production during the second "liquor holiday," which has just been announced for January. Because of the shortage of feedstuffs, we have imported 11,589,000 bushels of corn from Argentina during the past season.

Liquor production during the first "holiday," in August, amounted to 53 million gallons, which may be compared with 133 million gallons of tax-paid withdrawals of distilled spirits in the 1944 fiscal year. In the August holiday, distillers concentrated on production of neutral spirits, used for blending. During the January holiday, according to press reports, they intend to produce straight whiskies, if sufficient corn and other grains are made available.

#### Record crop outturn forecast

The November crop report of the Department of Agriculture indicated that unusually favorable weather in October had raised prospective yields of many important crops, making it probable that this year's outturn of farm crops will exceed even the exceptional output of two years ago.

The estimate of corn production was raised 61 million bushels to a total of 3,258 millions, exceeding the previous record by 4 percent. Total grain production is estimated at 157.5 million tons, as compared with the previous record of

155 million tons in 1942. The cotton crop is estimated at 12,320,000 bales, nearly a million bales higher than last year, and representing a substantial improvement over the previous month's estimate. The commercial apple crop in 35 states is estimated at 124 million bushels, or 39 percent higher than the 1943 crop.

Cotton outlook less favorable

The large cotton crop this year, combined with difficulties in maintaining mill consumption of cotton, will probably result in a substantial increase in carryover at the end of this season. The consumption has continually declined since the peak was established at an annual rate of nearly 12 million bales in April 1942. Consumption this season is expected to be somewhat less than the 10 million bales consumed in the 1943-44 season. In contrast, the supply of cotton has been augmented by a crop of 12 million bales.

When the war is ended, American cotton will face severe competition in the export markets from the present accumulation of foreign cotton in exporting countries, which will be seeking outlets as soon as conditions permit. The world carryover of foreign cotton on August 1 this year totalled nearly 14½ million bales, as compared with a pre-war figure of 7½ millions in 1939.

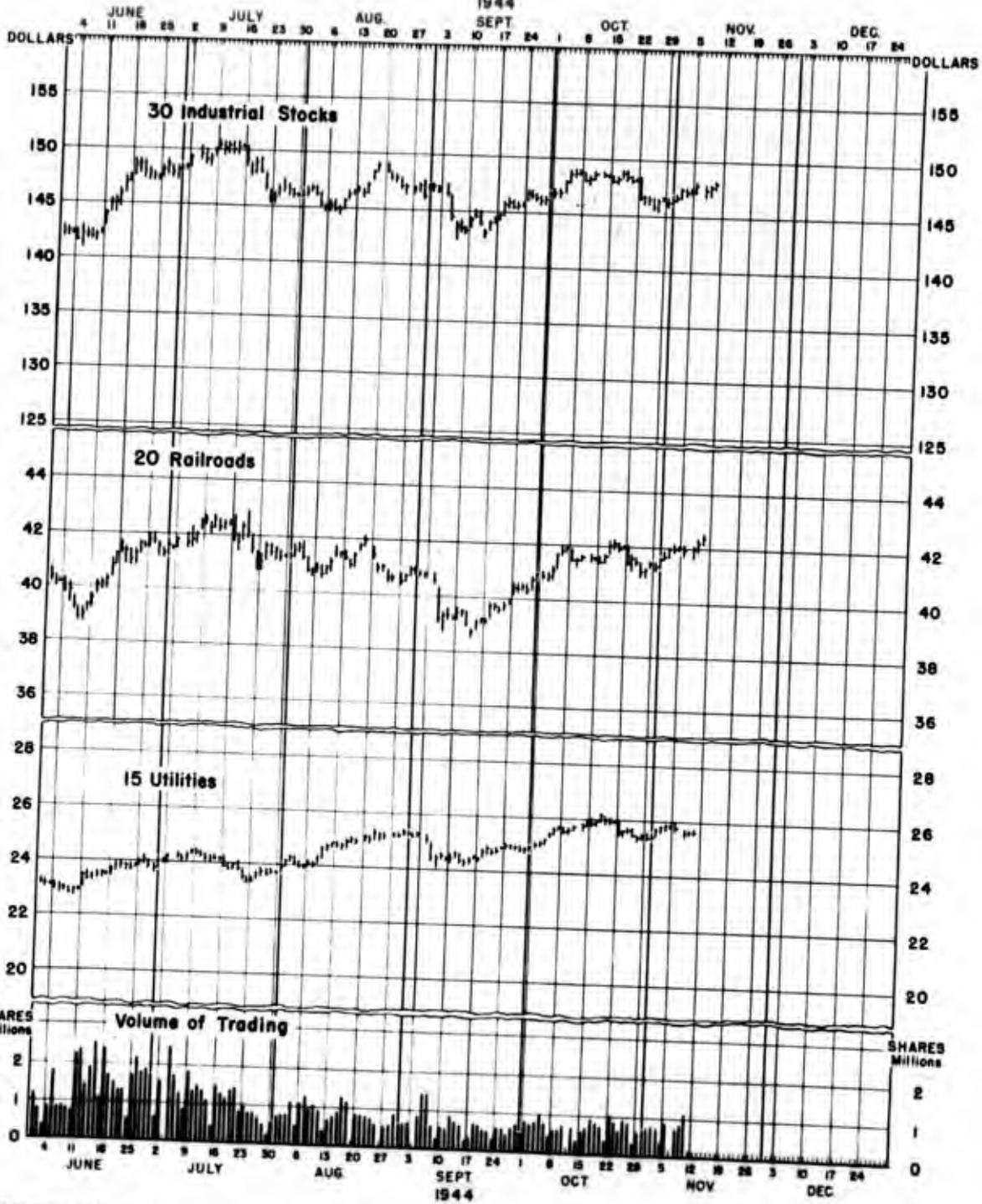
The competitive position of American cotton will be improved, of course, by the recently-enacted Surplus Property Disposal Bill, under which cotton can be sold for export at world prices under a subsidy. However, the Department of Agriculture reports that foreign buying interests have already acquired title to a considerable amount of cotton in exporting countries. (American cotton is now priced at 4 or 5 cents a pound above competitive cotton in foreign markets.) The procedure for handling the export sales of cotton and wheat was announced by the WFA over the week-end, and the amount of the initial export subsidies will be announced in a few days.

Unfavorable factors in the longer term outlook for cotton exports are the rapid increase in production of rayon and other artificial fibers, and the huge accumulation of wool in exporting countries. Foreign production of rayon in 1942, according to the Department of Agriculture, was equivalent to about 6-3/4 million bales of cotton as compared with only 1 million bales in 1932. The world carryover of wool when the war ends may be three times as large as the pre-war average. About four-fifths of the carryover outside of the United States is owned by the British Government.

# STOCK PRICES, DOW-JONES AVERAGES

Daily

1944



Office of the Secretary of the Treasury  
Bureau of Research and Statistics

# INDUSTRIAL STOCK PRICES IN U.S. AND U.K.

August 1936 = 100

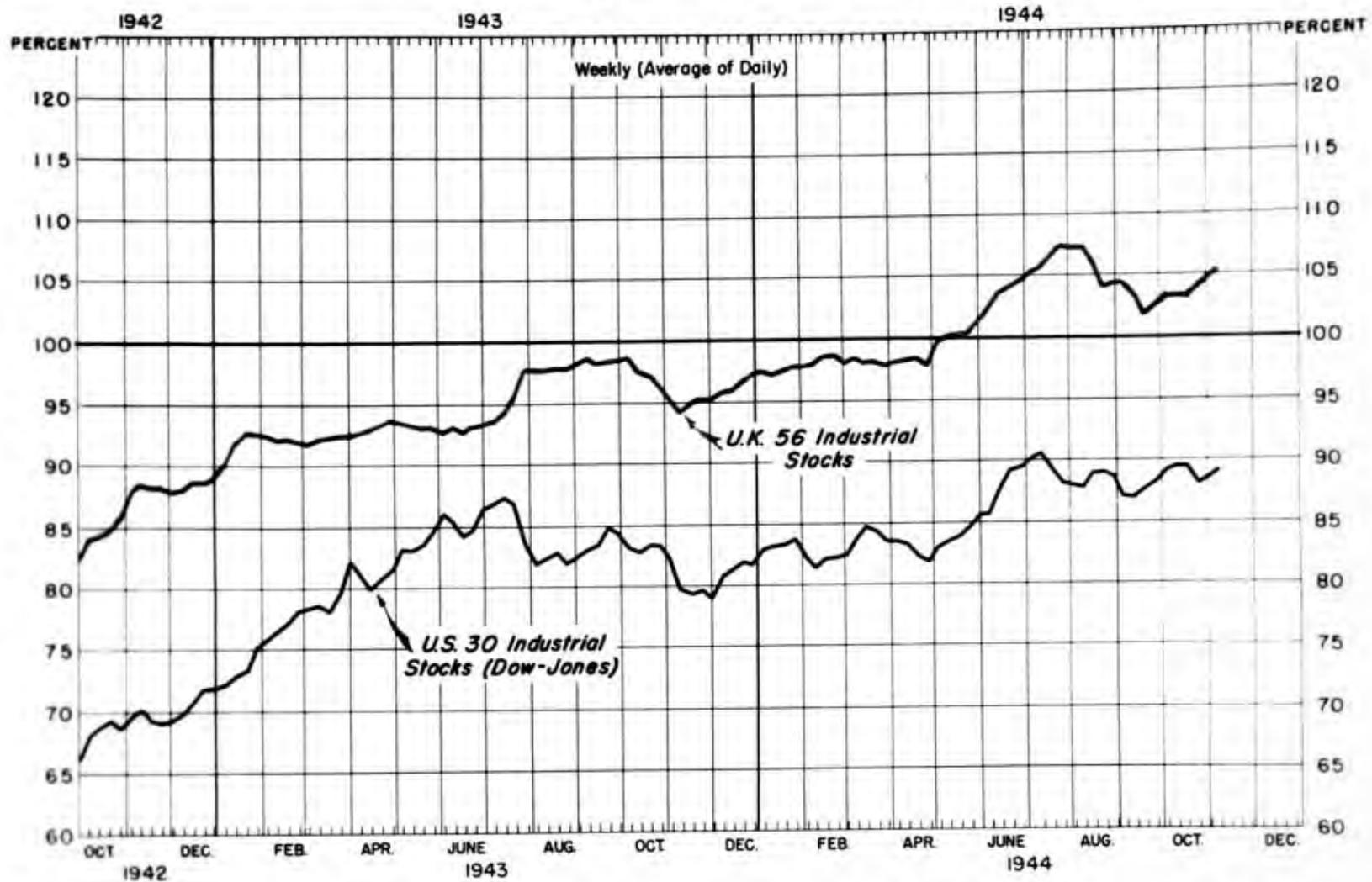


Chart 2

# PRICE OF GERMAN 5s 1924 AT LONDON

Thursday Quotations, January 1943 to Date



# FACTORY EMPLOYMENT, PAYROLLS AND WAGES

1939=100, Unadjusted

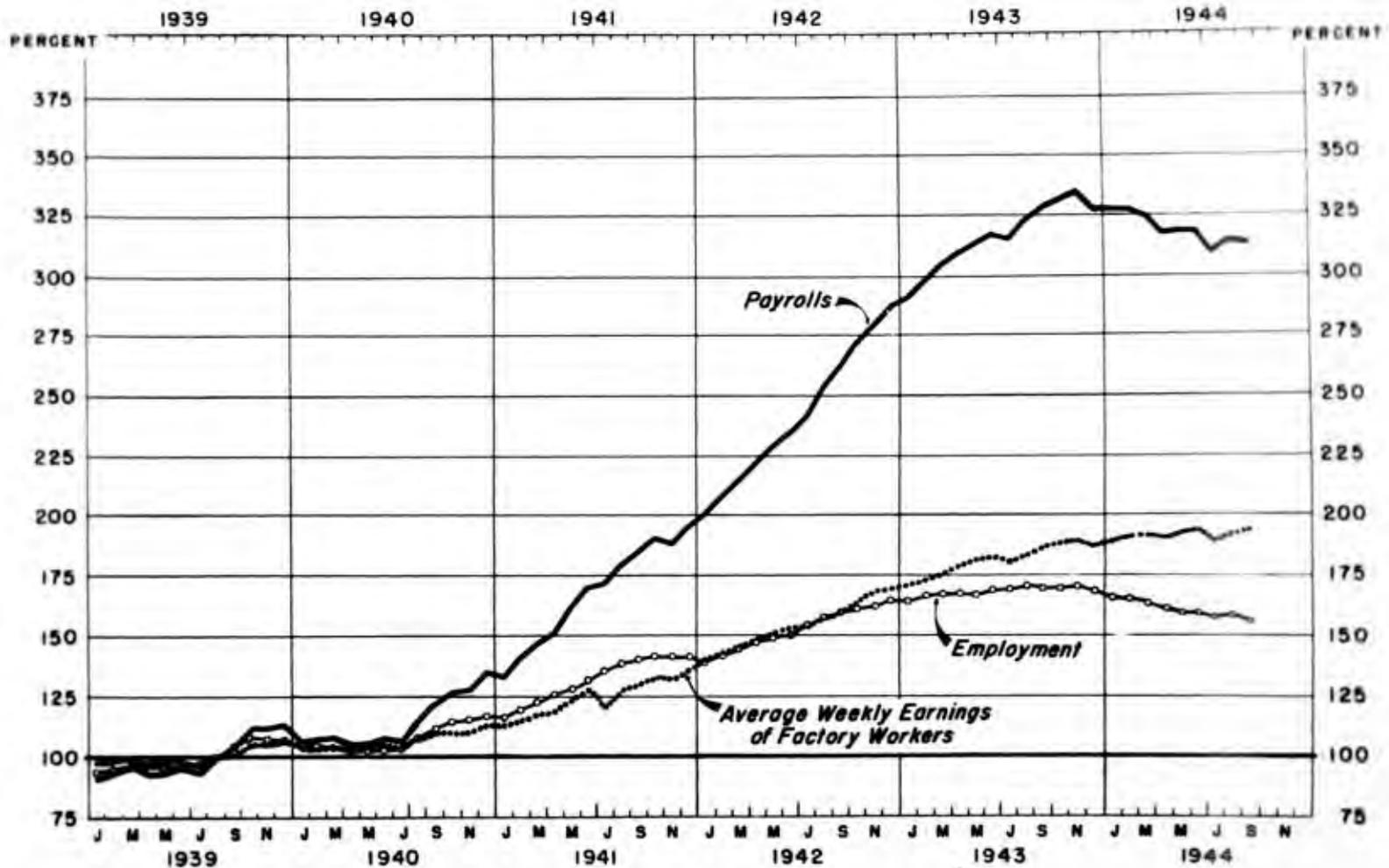


Chart 4

# COMMODITY PRICE INDEXES IN U.S.

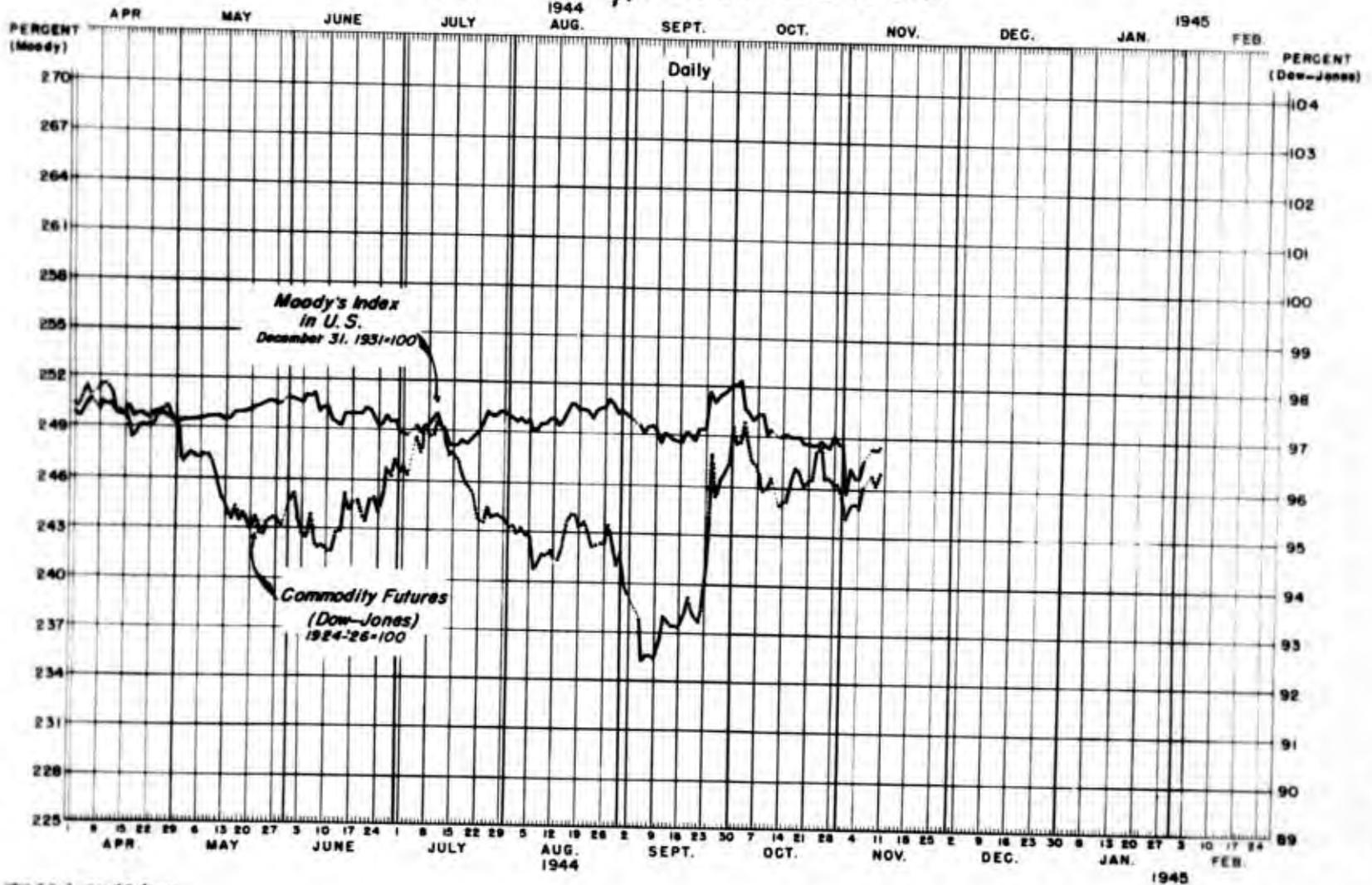


Chart 5



November 13, 1944

MEMORANDUM

To: Secretary Morgenthau

From: Frank Coe F.C.

Progress Report on Lend-Lease

Here are a draft letter to the President and a brief progress report. If the report is too long, or if either document is unsuitable, I shall be glad to make any changes you wish.

Attachments 2

D R A F T

Dear Mr. President:

The Combined Committee on Lend-Lease and Mutual Aid which you and the Prime Minister set up at Quebec has been meeting since October 19th, and has covered most of the ground. I have set a deadline of November 23rd for our reports to you and Mr. Churchill. The attached report will show you where we are.

The Committee and its subcommittees have been guided by the decisions of Quebec. The groups have worked well together, and I am hoping we will agree on all points.

This is our membership:

Chairman: Secretary Morgenthau

U.S. Members

Mr. Morgenthau  
Mr. Crowley  
Mr. Stettinius  
Mr. Patterson  
Mr. Gates

U.K. Members

Lord Halifax  
Rt.Hon. Ben Smith  
Lord Keynes  
Hon. R. H. Brand  
Sir Robert Sinclair

Mr. Coe) Joint Secretaries  
Mr. Lee)

The detailed programs have been worked out by subcommittees, consisting of representatives of the War, Navy and FEA on the U.S. side and of similar British representatives.

Sincerely yours,

November 13, 1944

TOP SECRET

Report to the President Concerning Combined Committee  
on Lend-Lease and Mutual Aid Between the U.S. and the British Empire

Requirements. At the outset, the British submitted a program of 1945 requirements under Lend-Lease as follows:

(in \$ millions)

Munitions		Non-Munitions	
Army Ground*	\$ 820	Shipping	\$ 880
Air*	2,110	Food	1,060
Navy*	600	Oil	350
Dominions	260	Materials & Articles	350
		Dominions	190
	\$ 3,790		\$ 2,830
(* including contingent items)			
Grand Total	\$ 6,620		

Also, a number of special proposals have been made, totalling several hundred million dollars.

This proposed 1945 program is about 60% of the 1944 transfers.

Status of Negotiations. The action so far taken is this:

<u>Army Ground.</u>	Total program agreed. Value \$ 650 millions.
<u>Air</u>	" " " " 1,720 "
<u>Navy</u>	" " " " 390 "
<u>Shipping</u>	Program agreed, except as to coastal vessels.
<u>Other Non-Munitions.</u>	Near agreement. Unresolved problems include that of how far British stocks shall be drawn down.
<u>Dominions.</u>	Detailed discussions beginning.
<u>Special items.</u>	No decision.
(It appears that the	agreed programs will total about \$5,500 millions)
<u>Reciprocal Aid.</u>	Certain financial problems need to be worked out.

Reconversion. From British plans, it is clear that the proportion of their economy devoted to war will not be smaller than ours.

Exports. Principles tentatively agreed. The elimination of most raw materials and industrial articles from Lend-Lease will greatly reduce the area where complaints arise.

Financial Position. The U.K. in 1945 will continue to accumulate sterling debts to Empire countries. In addition, the British estimate a \$300 million decline in gold and dollars.

White  
7/19/44

SUMMARY OF STATUS OF NEGOTIATIONS  
ON BRITISH LEND-LEASE REQUIREMENTS  
FOR STATE II AS OF NOVEMBER 9, 1944

	<u>Millions</u>
<u>I. Munitions</u>	
1. <u>Ground Army</u>	
British requested.....	\$846
This included \$107 million which should be taken up under P.S.A. ....	<u>107</u>
British request adjusted total.....	\$739
Approved by War Department.....	<u>654</u>
Remainder not committed	\$ 85
This included a delivery charge of \$30 million which will be lend-leased if such expense is received. ....	<u>30</u>
Cuts and disapproved requests total.....	\$ 55
2. <u>Air</u>	
British requested.....	\$1,832
U.S. and British agreed to approve.....	<u>1,643</u>
Remainder.....	\$ 189
Later added as approved.....	<u>75</u>
	\$ 114
Possible addition for fleet training maximum	<u>15</u>
Cut backs and disapproved	\$ 99
3. <u>Navy</u>	
British requested.....	\$ 416
This included \$84 million that had already been delivered and should not have been requested.....	<u>84</u>
	\$ 332
(This total of \$332 includes \$75 million of ships already produced which may or may not go to British.)	
Approved	<u>316</u>
Disapproved	\$ 16

<u>11. Non-Dunitions</u>	<u>Millions</u>
<u>1. Shipping</u>	
British requested	\$993
This was later reduced to	877
(This is now being discussed and F.E.A. promised recommendation on Thursday morning. It is expected that practically all except coastwise ship item will be approved.)	
<u>2. Oil</u>	
British requested	\$475
This was later reduced to	353
(Now being discussed. Report promised for Thursday morning.)	
<u>3. Raw Materials</u>	
British requested	\$222
(F.E.A. promised report for Thursday morning.)	
<u>4. Food</u>	
British requested	\$1064
(F.E.A. promised report for Thursday morning.)	
<u>5. Civilian Items with Military Interest</u>	
British requested	\$ 61
Military tires (30), paper and paper board (20), Tire fabric (5), nylon (0)	
Approved	<u>61</u>
Cut back or disapproved	None
<u>6. Military Items on F.E.A. List</u>	
British requested	\$ 77
(Being considered by F.E.A.)	

<u>III. Dominions and India</u>	<u>Millions</u>
1. <u>Australia</u> requested non-munitions	\$102
Later added	22
Total requested	\$124
Being discussed.	
2. <u>New Zealand</u> requested	15
Being discussed.	
3. <u>India</u> requested	
Non-munitions	49
Later increased	35
Later added	42
Total request	\$126
Being discussed.	

IV. Export White Paper

Several matters of policy undecided by F.B.A.:

1. Shall Britain be permitted to export goods
  - (a) containing lend-lease ingredients, e.g., cotton textiles if raw cotton is sent on lend-lease;
  - (b) identical in form with items received on lend-lease as component parts of military equipment, e.g., spark plugs if spares were received with tanks;
  - (c) Shall goods in flow but not wanted by British after cut-off date be paid for by British or U.S.?
  - (d) Shall U.K. be permitted to sell lend-lease munitions to third countries?

F.B.A. has not yet decided its position on the above four points.

2. The form of announcement in the two countries is still a matter on which agreement has not yet been reached.

V. Chapter III requests

U. S. states that during the first 12 months after V-E Day it expects to lose about \$350 million in gold. This would bring her gold and dollar balances down to about \$1.8 billion "gross" or \$1.2 "net".

U.S. goods and disapproved items will probably cost British less than \$50 million less than as most of the items are unprocureable or would not be purchased by U. S.

- 4 -

Possible items that could be sent on lend-lease:	<u>Millions</u>
1. Tobacco for civilian use	990
(F.E.A. feels this is not feasible.)	
2. Sugar for off-shore use	64
(This is a possible item but F.E.A. very reluctant to use it.)	

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE  
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission  
who enclose Statements Nos. 161 and 162 --  
Aircraft Despatched -- for the weeks ended  
October 27th and November 3rd respectively.

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

November 13, 1944.

STATEMENT NO. 161

Aircraft Despatched from the United States  
Week Ended October 27, 1944

BRITISH/U. S. SECRET

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>LOCKHEED</u>					
Fortress III	U.K.	U.K.		2	
<u>CONSOLIDATED</u>					
Liberator B VI	India	India		18	
Liberator GR VI	India	India		5	
Liberator GR VIII	U.K.	U.K.		7	
<u>NORTH AMERICAN</u>					
Mitchell II	Canada	Canada			2
Mitchell III	U.K.	U.K.		7	
Mitchell III	Bahamas	Nassau		1	
Mustang	U.K.	U.K.	37		
Mustang	N.W. Africa	Casablanca	13		
<u>DOUGLAS</u>					
Boston IV	U.K.	U.K.		1	
Boston V	M.E.	M.E.		5	
Dakota IV	U.K.	U.K.		17	
Dakota IV	India	India		2	
<u>STINSON</u>					
Reliant	Trinidad	Trinidad		1	
<u>REPUBLIC</u>					
Thunderbolt	M.E.	Alexandria	5		
Thunderbolt	India	Karachi	10		
<u>BEECH</u>					
Beechcraft UC 45	India	Karachi	4		
<u>NOORDUYN</u>					
Harvard	U.K.	U.K.	7		
<u>VOUGHT-SIKORSKY</u>					
Corsair	U.K.	U.K.	1		
<u>GRUMMAN</u>					
Wildcat	U.K.	U.K.	2		
<u>FAIRCHILD</u>					
Argus	Algiers	Algiers	98		
			Total:	117	66
					2

Movements Freight I  
 R.A.F. Delegation  
 November 1, 1944.

msh  
 File V-17

## STATEMENT NO. 162

Aircraft Despatched from the United States  
 Week Ended November 3, 1944.

BRITISH/U. S. SECRET

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Liberator B VI	India	India		15	
Liberator GR VI	India	India		10	
Liberator GR VIII	U.K.	U.K.		8	
Liberator GR VIII	Bahamas	Nassau		1	
<u>DOUGLAS</u>					
Boston V	U.K.	U.K.		3	
Dakota IV	U.K.	U.K.		6	
Dakota IV	M.E.	M.E.		3	
Dakota IV	S. Africa	S. Africa		2	
Dakota IV	Canada	Canada			1
<u>NORTH AMERICAN</u>					
Mitchell III	U.K.	U.K.		19	
Mustang	U.K.	U.K.	6		
<u>CURTISS</u>					
Kittyhawk	Australia	Sydney	40		
<u>BEECH</u>					
UC 45 Beechcraft	India	Karachi	3		
<u>GRUMMAN</u>					
Avenger	India	Cochin	2		
Hellcat	India	Cochin	1		
<u>NOorduyn</u>					
Harvard	U.K.	U.K.	2		
<u>REPUBLIC</u>					
Thunderbolt	India	Karachi	13		
<u>WACO</u>					
Glider	India	Calcutta	4		
Glider	India	Cochin	1		
<u>STINSON</u>					
Reliant	India	Cochin	9		
<u>VULTURE</u>					
Vengeance	U.K.	U.K.	1		
<u>VOUGHT-SIKORSKY</u>					
R-4B Helicopter	U.K.	U.K.	3		
<u>Total:</u>			<u>85</u>	<u>68</u>	<u>1</u>

Movements Freight I  
 British Air Commission

November 11, 1944

November 18, 1944.

Dear Mr. Pulliam:

I have received your letter of November 7 and I have read your editorial "In Defense of Morgenthau."

I can't begin to thank you adequately.

Counting on your friendship and good will I asked Ted Gamble to suggest to you that you reprint the editorial in the New York Times. I knew that was asking a great deal; but you gave me much more - so much that I shall always be grateful.

Of your closing words I can only say that they encourage me to make an effort toward deserving them.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Eugene C. Pulliam  
Editor and Publisher  
The Indianapolis Star  
Indianapolis, Indiana

  
HEG/mah

**THE INDIANAPOLIS STAR**Established as The Indianapolis Journal in 1831.  
The Indianapolis Sunday Sentinel Absorbed in 1904.Published Every Day in the Year by  
**STAR PUBLISHING COMPANY,**  
Pennsylvania and New York Streets  
Eugene C. Pulliam, Editor and Publisher.**SUBSCRIPTION RATES:**Daily, by Carrier, Per Week ..... 18 Cents  
Sunday by Motor Carrier Outside Marion Co., Per Copy ..... 15 Cents**MAIL SUBSCRIPTION RATES:**

	1 Yr.	6 Mos.	3 Mos.	1 Wk.
Daily and Sunday.....	\$15.00	\$7.50	\$3.95	\$ .30
Daily Only.....	8.35	4.70	2.35	.18
Sunday Only.....	6.25	3.15	1.60	.12

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Daily Only, One Year.....	\$6.00
Six Months.....	3.50
One Week.....	.18

No mail subscriptions accepted in towns where carrier delivery service is maintained.

*"Let the people know the facts and the country will be saved."—Abraham Lincoln.***In Defense of Morgenthau**

Probably no man in American public life works more diligently or with greater earnestness to get a hard job done well than does Henry Morgenthau Jr., secretary of the Treasury. From personal experience we know that Mr. Morgenthau is thoroughly devoted to his job.

The eagerness with which he tackles his work comes out of a genuinely patriotic heart. Of course, he is loyal to President Roosevelt. We wouldn't have much respect for him if he were not loyal to his chief. We have not always agreed with the policies and many of the tax proposals which Secretary Morgenthau has submitted to the Congress. Always he has been a spokesman for the administration on fiscal affairs. Always he has carried the ball, and when he has been thrown for a loss he never once in all these years has complained or cried on anybody's shoulder.

Take this most recent discussion of Secretary Morgenthau and the Quebec conference. The truth is that Secretary Hull did not go to Quebec because of illness. The truth also is that Secretary Morgenthau at no time proposed the so-called "Morgenthau Plan for Germany." He took that on the chin as has been his custom, without passing the buck where it belonged. We like him for being that kind of a man, but we don't like the abuse which has been heaped on him so unjustly.

We think it was quite unfortunate that Governor Dewey accused Secretary Morgenthau of prolonging the war needlessly at the cost of American lives. This rather far-fetched attack on Secretary Morgenthau compelled the New York Times to take Governor Dewey severely to task for his charges. In closing its comments the Times said:

"The Germans are now doing what every other nation has done or would do in the same circumstances. They are fighting hard in defense of an actual invasion of their homeland. When Mr. Dewey attributes this hard defense to some proposal of Mr. Roosevelt's secretary of the Treasury he makes a charge which for the sake of both our unity at home and the morale of our troops in the field had better never have been made."

We have supported Governor Dewey for the presidency, but we cannot endorse his attack on Mr. Morgenthau. The truth is that when the impartial story of this war is finally written, the name of Henry Morgenthau Jr. will shine forth as one of the great civilian patriots of this era.

99  
11

# THE INDIANAPOLIS STAR

EUGENE C. PULLIAM  
EDITOR AND PUBLISHER

November 7, 1944

Personal

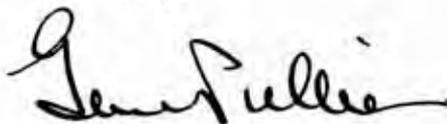
Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary,

Here is an editorial which I wrote for today's Indianapolis Star. I thought you might be interested in reading it and to know that out here in the Middle West you still have a true friend.

With warmest personal regards,

Sincerely,



EC Pulliam  
mf  
Enclosure

November 13, 1944.

My dear Mr. Smith:

I thank you for calling to my attention the editorial in the Indianapolis Star, which Mr. Pulliam wrote.

He has done a grand job in War Finance which reflects the greatest credit on your judgment and this editorial increases my already high regard for him.

Sincerely,

[Signed] H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Will H. Smith  
Collector of Internal Revenue  
Indianapolis 8, Indiana

HEG/mah

WILL H. SMITH  
U. S. COLLECTOR OF INTERNAL REVENUE  
INDIANAPOLIS 6, IND.

November 7, 1944

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

My dear Mr. Morgenthau;

The enclosed editorial appearing in the Indianapolis Star this date afforded the writer a genuine pleasure.

You will recall that as State Administrator of the Defense Savings Staff I suggested Eugene C. Pulliam's name as Executive Chairman. He is a very fine gentleman and, of course, his record as head of the Indiana War Finance Committee is outstanding.

My warm personal regards to you, Mr. Morgenthau, and to all your associates.

Sincerely,



Will H. Smith, Collector

WHS:wh  
Enclosure

November 13, 1944

Dear Mr. Worley:

It was good of you to send me a copy of the editorial which appeared last week in the Indianapolis Star. Naturally, I appreciated what the editor said and your own personal interest in the matter.

Thanks again for your thought of me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Frank E. Worley  
108 East Washington Street  
Indianapolis, Indiana

GMP:mn

FRANK E. WORLEY  
108 EAST WASHINGTON STREET  
INDIANAPOLIS

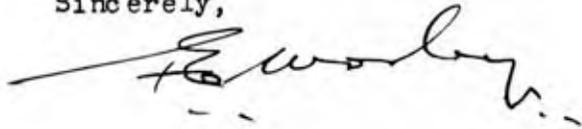
*Handwritten:*  
H...  
2/8 74

Nov. 7, 1944

Dear Mr. Morgenthau:

I thought you might be interested in the attached editorial from today's issue of the Indianapolis Star.

Sincerely,



11/13/44 95

This was written by Joan  
Morgenthau. The Secretary  
would like you to read it.

L.S.

## The Problem of Germany

I have been told that to tackle any situation from a negative approach is to admit defeat from the very start. Be that as it may -- I feel compelled to preface this talk with a short statement concerning those aspects of the German problem which I do not think relevant to tonight's discussion.

In the first place it would be both foolish and impossible at this time to make a detailed or final blueprint of the terms we would like to see offered to Germany at the completion of the war. Military eventualities are too unpredictable. Russia has as yet made no definite commitments as to her plan of action: We have only a sketchy idea of what conditions we shall find in Germany when Hitler's fortress finally crumbles. And last, but by no means least, any detailed planning would presuppose expert and specialized knowledge of the problem in question as well as ready access to a vast amount of confidential data and these are qualifications and conditions which I do not pretend to fulfill.

However, even the most revolutionary of changes do not evolve from a social, political, economic or cultural vacuum. So unless we are talking in terms of myths, which unfortunately is quite frequently done with this very problem, it is fairly reasonable to suppose that the post-war German state will not spring full grown out of the head of the Peace Conference. Only by approaching the future by way of the past, then, do we arrive at opinions which are something more than pure conjecture, wishful-thinking, or extra-sensory perception. With this in

mind, therefore, I will attempt to examine some of the more prevalent myths, or perhaps I should say, questionable interpretations, of the German problem in relation to the coming peace.

Many present day writers sincerely eager to prove their fundamental liberalism solemnly pronounce that "the course of world history would have been different had the Allies followed a different course." Marshal Foch's reactionary policies, they say, "led to the defeat and violent death of Liebknecht and tens of thousands of his followers thus giving Germany's defeated imperialists their chance to prepare for a second World War." In other words they believe that the Allies forced the Weimar Republic into a conservative mold, and that barring outside interference after this war, a democratic revolution is in the offing.

This particular quotation is an excellent example, I think, of a type of statement made without due regard for the facts. In the first place, as I have mentioned before, it is based on an unknown factor, the strength of organized Nazi opposition still alive in Germany today. Still more important, it is a distorted interpretation of actual historical events in reference to the period immediately following the first World War.

The Social-Democratic coalition which came to power with the birth of the Weimar Republic was bitterly opposed to the extreme leftist group led by Wilhelm Liebknecht and Rosa

Luxembourg and known as the Spartacists. This coalition government furthermore entered into close cooperation with the General Staff in ruthlessly stamping out all revolutionary movements. The Republican minister of Defense, made continual use of the Free Corps to enforce his edicts. For example, according to a decree of March, 1919, any rioter found in possession of arms was to be shot on sight with no questions asked afterwards. And incidentally, it might be worth while noting that the Free Corps intrusted with putting into effect these repressive measures were made up of demobilized units of the German army, later to become the building blocks of the Hitler SS and storm-trooper organizations.

Perhaps the best indication that the German people were not looking towards a social and political revolution, may be found in the election returns for the Reichstag, held under the auspices of the Weimar Republic in January, 1919. Approximately 90% of the electorate cast their votes, but the combined parties of the left, which in this case includes the Social-Democrats and the Independent Socialists did not receive a majority either in popular votes nor in assembly seats. It must be emphasized that this was a free election and not a Hitler plebiscite. Therefore the question of foreign or domestic interference plays no part in its evaluation. In view of past history, then, it would seem to me that those people who look towards a self-initiated, thoroughgoing democratic revolution

in post-war Germany, may be relying somewhat too heavily on wishful thinking. The armistice of World War II is obviously not going to be signed while German armies are still on Foreign soil. Therefore, the question of occupation will be much more of a problem than it was in the 1920's when only about 7% of German soil was ever actually occupied. Again, as I cannot stress too strongly, it would be useless to make detailed plans for occupational forces before we know what conditions will confront them. While I believe that public opinion has moved a long way towards advocating a much more effective occupation of enemy territory than we saw last time, I do not think that many people subscribe to a plan which would force a particular type of government on the German people. For one thing it is unlikely that the United Nations would agree among themselves what kind of government they would advocate. This does not mean, however, that a certain degree of law and order must not be maintained for reasons of military expediency.

Another issue around which centers a good deal of controversy is that of the Treaty of Versailles. This Treaty has been used since the moment it was signed as a rallying cry to all patriotic citizens of the German Fatherland. It offered a suitable scape-goat upon which to load all the chaos and ruin caused by the war, and was useful in justifying future aggression in the eyes of the nation. This line of thought is entirely in keeping with German tradition which has always accepted war as

"the instrument of the nation's policy and therefore justified its costs and sacrifices as a normal process of European political evolution."

A practical illustration of this type of thinking appeared during the great inflation of 1923 in shop windows adorned with signs reading as follows: "The high price of goods in this window is due to the Diktat of Versailles". In view of this sort of propaganda, it is little wonder that the entire nation denounced the Peace Treaty as the predominant if not sole cause of its economic distress. But if we look at plain statistical data, we see that the direct financial costs of the war to Germany were equivalent to almost two years of national income taking 1913 as a base year. This figure, of course, does not include the enormous losses sustained by private industry, agriculture, and human resources. But even in the face of military defeat and tremendous economic debt, Germany repudiated the peace, not the war, as the prime cause of all her woes.

Unfortunately, it was not only the Germans who tended to rant indiscriminately against the inhumanities of Versailles. The revisionist tendencies, which enjoyed great popularity in England and the United States almost from the moment the Treaty was signed, did much to prevent the Allies from taking a firm and united stand against renewed German aggression.

There are certain lessons which I think we can learn from the experience of Versailles. The most important of these,

perhaps, is the necessity of presenting a united front to Germany. There will undoubtedly be differences of opinion among the United Nations as to methods of procedure and even as to desirable ends, but all these differences must be made subsidiary to the main objective and ultimate goal of world peace. On the optimistic side of the ledger, I think, it is safe to say that public opinion in all of the United Nations is definitely more crystallized and coalesced in this respect than it was in 1918.

I have no intention of attempting a categorical defense of the Treaty of Versailles, but I am tempted to urge its would be apologists to take a look at the terms of the Treaty of Brest-Litovsk before making too free use of the "hard"--"soft" peace terminology.

As an indirect result of the Treaty of Versailles post-war Germany has often been described as a "have-not" nation, driven into economic ruin by the outrageous reparations forced upon her by the victorious Allies. As proof of her economic ruin, currency figures of astronomical dimensions are glibly quoted. That very serious inflation did occur in post-war Germany is past history. But why it occurred and what its effect was, these are two entirely different questions.

Germany deliberately encouraged inflation to stave off default of the tremendous debt she had accumulated during the war. This is not to say that inflation could have been entirely

avoided, but merely that it could have been restricted in its dimensions, if, for example, the German government had cared to take the same stringent measures carried out by the courageous Czechoslovakian republic. Germany's real inflationary plunge occurred in 1923 when France occupied the Ruhr to force payments which were badly in arrears. The workers in this district who were employing the "passive resistance" strike technique, actually had their wages paid by the government, in paper money printed especially for the occasion. I am not attempting to argue the pros and cons of the French occupation of the Ruhr, but merely citing the event as a clear case of a deliberate inflationary measure sponsored by the German government.

It may seem paradoxical, but the four-year period immediately following the war was one of intense business activity in Germany. German industries were able to secure short term loans at low rates of interest from the state bank. They then invested these bank credits in "physical values" by extending their plants to the limit of available materiel and labor. Then when the time came to repay the credits they had borrowed, they had so depreciated in value due to the inflation, that the industrialist got his new plants and equipment for practically nothing. A very neat and effective way you must admit of building up war-torn industries, while at the same time blaming the Allied reparations for the economic chaos which must ultimately follow this type of false prosperity.

As a matter of fact, Germany emerged on the credit side of the reparations deal. Foreign capital began to pour into Germany as soon as the mark was stabilized in 1923. From this date on and throughout the twenties there was not a single year in which Germany did not borrow in foreign countries more than she paid out in reparations. In other words the Allies paid their own reparations. It is little wonder then, that individual incomes show a 15% rise in Germany during the period from 1924 to 1930 as compared to 1913, or that the level of real wages of the German working-man was surpassed only in Scandinavian countries during this era of world prosperity. True Germany was hard hit by the depression, but so was the rest of the world, and in 1931 the Reparations Commission declared a moratorium on German payments, which was another way of writing off the German debt as a total loss.

The question of currency reparations does not seem likely to pose a problem at the next peace conference. Heavy reparations, it is realized would keep German industries running at full capacity, and we have learned from past experience that if a nation's industrial potential is left intact, conversion to a war-time basis can be accomplished with amazing speed and efficiency. Therefore, it would seem to me that a mere limitation of armaments is a useless procedure and one which has the additional drawback of being extremely difficult to administer effectively. I would favor instead a type of plan which proposed to break up the huge German cartels, many of them with international affilia-

tions, into their component parts, thus rendering them more amenable to supervision and control. In addition to such a plan the products of certain heavy industries might be completely prohibited or production on the part of German industries halted at an intermediate stage of processing.

There will be those who object to the deindustrialization of German heavy industry on the grounds that this is a type of economic retrogression which will result in chronic unemployment in Germany, and complete disorganization of the all important factor of international trade. In this connection it might be argued that conversion from a war to a peace time economy invariably involves a considerable degree of adjustment, especially in the case of an economy such as has existed for over a decade in Nazi Germany. Then too as a result of German aggression, which has left its mark on every nation of the European continent, tremendous economic change and reorganization is bound to occur, no matter what kind of peace evolves.

I am not attempting to minimize the difficulties of economic readjustment and reorientation in the Post-war world, but as President Conant of Harvard University has so ably phrased the issue: I quote "If we begin our approach to the problem of the disarmament of Germany . . . by saying what must not be done because of economic repercussions, we have already decided against the proposition -- under consideration -- the proposition that the effective disarmament of our enemies is an absolute first condition for world peace."

Treasury Department 105 ✓  
Division of Monetary Research

Date Nov. 13, 1944 19

To: Miss Chauncey

In reply to the Secretary's inquiry as to whether or not they were permitted to take the \$1000: The answer is that Customs officials were instructed to treat them as other individuals leaving the country are being treated - namely, they were to be permitted to take \$50 each. The balance was to be taken up by Customs and arrangements made to pay the Italian prisoners in lire in Italy; the dollars were to accrue to the Italian Government.

H.D.W.

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

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Nov. 10,

TO Secretary Morgenthau  
FROM Mr. White

I think you will be interested in seeing this item.

Treasury Department  
Division of Monetary Research

Date Nov. 10, 1944

To: Mr. White  
From: Mr. Glasser

We have just learned that 100 Italian prisoners of war are being repatriated to Italy. Customs asked that they report the amount of U. S. currency they held in their possession and to the amazement of everyone they have an average of \$1,000 each. Their wage in this country was \$28 a month.

The only explanation for the large amount of dollar currency is that on visiting their relatives and friends in this country they were given money to take back to Italy.

November 13, 1944

My dear Mr. Smith:

I beg to acknowledge receipt of your letter of November 7 and I take pleasure in sending you herewith a message for you to use at Madison Square Garden on November 16.

I want to thank you very much for extending me an invitation to speak in Boston on December 3, but the plans that I have at present will not permit me to do so.

With kind regards,

Yours sincerely,

H

(Signed) Henry Morgenthau, Jr.

Mr. Edwin S. Smith,  
Executive Director,  
National Council of American-Soviet Friendship, Inc.,  
232 Madison Avenue,  
New York 16, New York.

Statement by Henry Morgenthau, Jr.

When the war is won the greatest project we shall have before us will be to build a peace that will last. Such a peace can not be built by any device short of earnest cooperation between nations. That cooperation must be based on understanding and good will or it can not continue.

The United States and Soviet Russia have been loyal allies in war. They can be faithful friends in peace. Together they can be the most powerful of influences in preserving a just and prosperous peace.

To build understanding with Soviet Russia is to build peace and safety in the world.

*ms*

# NATIONAL COUNCIL OF AMERICAN-SOVIET FRIENDSHIP, INC.

232 madison avenue • new york 16, n.y. • murray hill 3-2082

November 7, 1944

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

Dear Secretary Morgenthau:

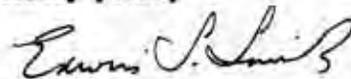
This letter has two purposes. One, to ask you most earnestly to send a message for use at our Madison Square Garden meeting on November 16th, and the second to see if you can be the speaker at our meeting in Boston on December third at Symphony Hall. I enclose a folder generally descriptive of the purposes of our meetings this year.

Our Madison Square Garden on November 16th will be addressed by Acting Secretary of State Edward R. Stettinius, the Earl of Halifax, Ambassador Andrei A. Gromyko, Joseph E. Davies and Henry J. Kaiser among others. It will be most important for us to have a message from you.

The meeting at Boston will be under the auspices of the Massachusetts Council of American-Soviet Friendship which is one of our most broadly representative and successfully functioning local councils. Last September, for instance, they gave a Businessmen's Dinner on the subject of "American-Soviet Foreign Trade" which was very broadly representative both in sponsorship and attendance by representatives of Boston banks and by New England manufacturers.

I sincerely hope that you can accept this invitation for Boston. May I hope to hear from you as promptly as possible on the matter of the message and the Boston meeting?

Sincerely yours,



Edwin S. Smith  
Executive Director

ESS:bc  
uopwa 19  
enc.

November 13, 1944

My dear Mr. Ambassador:

I thought you might be interested in receiving a copy of a statement which I have sent to Mr. Edwin S. Smith of the National Council of American-Soviet Friendship for him to use at Madison Square Garden on November 16.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency  
The Ambassador of the  
Union of Soviet Socialist Republics  
1125 Sixteenth Street,  
Washington, D. C.

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

Please deliver the following message to Dr. Joseph Schwartz from  
M. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE WITH REFERENCE SOMMERSTEIN'S CABLE WE ASSUME THAT YOU  
AGREE GOING SWITZERLAND FIRST. SUGGEST YOU DISCUSS WITH GOVERNOR  
LEHMAN QUESTION OF TIMING VISIT TO MOSCOW FOR WHICH VISA PROBABLY  
OBTAINABLE LONDON. PLEASE DISCUSS WITH JEWISH COLONIZATION  
ASSOCIATION LOAN OF PASSMAN TO US FOR NEXT SIX MONTHS ALSO ADVISE  
US SOONEST RESULTS YOUR DISCUSSIONS JEWISH COLONIZATION ASSOCIATION  
AND BRITISH CENTRAL FUND REGARDING MIGRATION AGENCY. ALLOTMENT  
COMMITTEE DISTRIBUTING TEN MILLION DOLLARS 52.3 TO US AND 47.7 TO  
UNITED PALESTINE APPEAL. ADDITIONAL FUNDS RECEIVABLE SUBJECT  
FURTHER ALLOTMENT DECISION IN JANUARY. UNQUOTE

THIS IS WRS LONDON CABLE NO. 24.

3:10 p.m.  
November 13, 1944

Primary 11/13/44

DCG-896

Paris

Dated November 13, 1944

Rec'd 8:28 a.m. 14th

Secretary of State,

Washington.

503, November 13, 6 p.m.

Referring to the Department's 251, October 24.

For Sheba Strunski of International Rescue and  
Relief Committee from Guigui:

"Your telegram received. I have found a suitable  
representative but I await his acceptance. I cannot  
get in touch with Rene yet. I am going again to  
London and shall probably go soon to Washington. During  
my absence Bert will follow matters. I shall keep you  
informed."

CAFFEY

WFS

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

CABLE TO AMBASSADOR NORWEB, LISBON, FROM WAR REFUGEE BOARD.

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

QUOTE ADVISE SALY MAYER WE AUTHORIZE PAYMENT FOR  
SALADHIN PASSENGERS UNQUOTE

THIS IS WRB LISBON CABLE NO. 113.

3:10 p.m.  
November 13, 1944.

EDrury 11/13/44

Dated November 13, 1944

Rec'd 6:21 p.m.

Secretary of State

Washington

3934, November 13, 6 p.m.

WRB 254

FOR CHARLES JOY FROM ELIZABETH DEXTER UNITARIAN 370

Following telegram has been received from Field via Legation at Bern November 11:

"200 November 10, 5 p.m.

FROM MCCLELLAND OF WRB FOLLOWING IS FOR DEXTER FROM FIELD

"referring first section your 78. Delighted your plans but believe should be supplemented by medico social emergency teams since all reports indicate this aid most urgent. Polish refugees here awaiting repatriation constitute reservoir capable personnel for all types relief reconstruction work. New training course opening here mid-November includes half dozen men women from selected lists qualified Poles and willing return home for specialized relief work. My Jewish colleagues competing their services but many prefer Unitarian because wish aid Jew Gentile alike. Projects submitted by group of Polish doctors envisage network of 'hygiene posts' composed each of doctor, nurse, lab-assistant, social worker and secretary with bacteriological and X-ray equipment for serial examinations. Therapy only in emergency cases. Teams to be set up here and prepared in special courses. Am making no promises but hope you bear in mind possible future realization. Entirely agree sending delegate now premature but trust no objections asking informal reports and suggestions from reliable persons returning Poland under other auspices. Please send cables relating occupied countries via Legation."

HMB

NORWEB

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

FHM#687

Lisbon

115

Dated November 13, 1944

Rec'd 5:52 p.m.

Secretary of State,  
Washington.

3935, November 13, 8 p.m.

THIS IS WRB 255.

FROM ELISABETH DEXTER TO CHARLES JOY UNITARIAN  
BOSTON 369.

REURTEL 232, October 31.

Difficulty is with non-receipt authorization for Mexican visas not with United States transits. Mexican Legation here still lacks authorization for 500 visas for Spanish Republicans promised last June. Six separate visas so far granted for total 12 persons but only to people with influential friends in Mexico. Meanwhile pressure here increasing many arrests and some deported and reported shot.

NOHWB

WMB

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

FMH-731

Ankara

Dated November 13, 1944

Rec'd 8:35 p.m.

Secretary of State,

Washington.

2166, November 13, 11 a.m.

FROM KATZKI TO PEHLE

The English-French War Refugee Board Ankara's

No. 183172 emigrants from Bulgaria and Rumania including group of 43 Polish refugees from Rumania (See Ankara's 179 of November 7). Group of 115 Bulgarians (See Ankara's 182 of November 9). departed November 10 proceeding to Palestine.

STEINHARDT

WMB

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

JMS-903

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

Ankara

Dated November 13, 1944

Rec'd 8:54 a.m., 14th

Secretary of State

Washington

2171, November 13, 2 p.m.

FROM KATZKI TO PEHLE WAR REFUGEE BOARD

Ankara's No. 184.

The office of War Information Istanbul reports interception of a radio broadcast from Budapest on November 8 as follows:

"Competent circles now warn the public, military and civil authorities and the services of the Arrow Cross Party that persons who are provided with passes, visas and immigration certificates delivered by foreign legations and International Red Cross cannot be called for military or civil work; also legation buildings and surrounding areas have extraterritorial rights".

We have made efforts to verify the accuracy of this report and have been assured that it actually was heard from a regular Budapest radio station.

For your further information, the free Hungarian movement has been broadcasting Hungary from Sofia, urging more humane treatment for the Jews in Hungary. If you have contacts this movement, you may wish to consider the advisability of providing (?) with material for future broadcasts.

STEINHARDT

WSB

Ankara

Dated November 13, 1944

Rec'd. 2:04 a.m., 15th

Secretary of State

Washington

2178, November 13, 8 p.m.

FROM KATZKI TO PEHLE WAR REFUGEE BOARD. ANKARAS 185

For your confidential information instructions from Jerusalem and from the Istanbul British Passport Control Office have been received by the Jewish Agency representatives in Istanbul that immigration to Palestine for the 6,000,000, period starting retroactively from October 1, is to be limited to 10,300 persons divided as follows: 5,000 Bulgaria and Rumania 2,000 France for children; 1,000 Switzerland for children; 200 Belgium mainly for children; 900 Italy; 1,000 Yemen; 200 Turkey mainly for children.

I am informed that the 1,000 persons who passed through Istanbul since official statement from Bulgaria and Rumania proceeding to Palestine will be charged against the allotment mentioned above. The instruction further stated specifically that immigration to Palestine must be kept down to (?) these new instructions radically alter the procedure under which immigration has been taking place from the Balkans during recent months and which has been reported to you. Furthermore they may interfere with rescue from occupied countries which heretofore has been based upon the possession of confirmation of immigration certificates issued by the Jewish Agency Eltse.

It is to be noted that the foregoing schedule makes no mention of Jews in Hungary, Slovakia or other areas still under Nazi occupation or control. The Jewish Agency in Istanbul has requested clarification from Jerusalem as to whether the quota limitations apply only to liberated areas thus permitting unlimited rescue immigration from occupied countries to Palestine. Should the response be negative the entire mechanism for protecting Jews still held in occupied areas by means of Palestine certificates or confirmations will fail as soon as the foregoing facts become known to the

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

-3- #2178, November 13, 8 p.m. from Ankara

Nazis. Specific groups involved would be the 1200 Hungarian Jews in Bergenbelsen and the group of 2,000 in Hungary who have been awaiting exit permits.

You may wish independently to procure further details and clarification from London regarding the new schedules and immigration from occupied areas for if Palestine becomes unavailable as a country of immigration it will become urgent to find other possibilities. We shall advise you as soon as we (\*) more information.

STEINHARDT

MEM

(\*) apparent omission

DEPARTMENT  
OF  
STATE

INCOMING  
TELEGRAM

120  
DIVISION OF  
COMMUNICATIONS  
AND RECORDS

CONNECTION

November 13, 1944

DSH

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

Re 1795 from Chungking dated November 8, 1 p.m.  
On page one line four delete "and" and insert after  
"mixed" on line three "; general trend upward.  
Farmers Bank preliminary index of" making lines read  
"One. During October price trend in Chungking mixed;  
general trend upward. Farmers Bank preliminary index  
of retail prices for October is 39,740 as compared"  
et cetera.

DIVISION OF COMMUNICATIONS AND RECORDS

HJE

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

SECRET

OPTEL No. 368

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

1. NAVAL

Last night two of H.M. Cruisers with four Destroyers attacked a convoy off S.W. Norway and sank several ships.

Between 25th and 31st October one of H.M. Submarines north of Java sank a 700 ton tanker and a coaster and torpedoed a 5,000 ton cargo ship.

2. MILITARY

WESTERN FRONT. Continued good progress by U.S. Third Army with advances up to 6 miles. Unconfirmed reports state railway Saarebourg-Metz reached by U.S. Armour north of Dieuze. Germans reported withdrawing along whole front of attack fighting rearguard actions. In the main, resistance poorly organised. Little progress elsewhere except west of St. Die where U.S. troops of the Southern group of armies have occupied four or five villages abandoned by enemy.

ITALY. British troops following up German withdrawal have advanced slightly N.W. of Forli. S.W. of the town U.K. troops have crossed the Montone in 2 places.

BURMA. Our troops continue to advance and have occupied No. 2 and No. 3 stockades between Fort White and Kalemyo. They have also occupied Mawlaik on Chindwin without opposition.

3. AIR OPERATIONS

WESTERN FRONT. 11th/12th. Dortmund - 1160 tons. Complete cloud, accuracy of marking doubtful. Harburg - 913. Weather clear, marking accurate.

12th. 32 Lancasters sent to attack TIRPITZ four miles west Tromso. 29 attacked between 9.41 and 9.49 a.m., each dropping one 12,000 pound H.E. bomb. Weather clear, visibility excellent, crews could see the ship. At least 3 direct hits and several near misses. Preliminary interpretation of photographs taken 11.50 a.m. shows ship capsized with keel above water. One Lancaster missing, but believed landed Sweden.

12th/13th. Bomber Command operations cancelled owing to weather.

MEDITERRANEAN. 11th. 609 escorted heavy bombers sent to S.W. Germany, Austria and Northern Italy. Owing to bad weather only 220 attacked, dropping 482 tons on railway centres and bridges, an airfield etc., main target being Salzburg Railway Centre - 288 tons. 21 bombers, 7 fighters missing. 276 medium bombers (2 missing) and 701 light and fighter bombers and fighters (3 missing) attacked communications Northern Italy and gave close support over battle area.

4. HOME SECURITY

To 7 a.m. 13th. Seven rockets reported during period.

November 14, 1944  
10:20 a.m.

SECRETARY'S WAR BOND ADDRESS

Present: Mr. Gaston  
Mr. Gamble  
Mr. Vanderpoel  
Mr. Mager  
Mrs. Klotz

H.M.JR: What I have here is an amazing document which I gather was written by Colonel McCarthy. Some of this has not yet been cleared, so you people will have to be on your word of honor not to disclose it to anybody, because Army Security has not yet cleared all of this.

I just heard first-hand that they sent this stuff over to Jimmy Byrnes in order to pep him up, and to their amazement he took it all, and then Security got worried because they never thought he would take that hot shell stuff. Then he said he liked it and used it, and they were on the spot and had to say, "To hell with Security," which I think is a wonderful story. Also, that can't be repeated. I will read this thing.

What they have done is given me data on supply expenditures, and I think what Colonel McCarthy did with it - and he said that Marshall hasn't seen this yet - is that he wants to go over it himself. He says he can sharpen this thing up. There are some things here - I think they must mean millions - I mean, they have left off a couple of zeros.

But I will read this out loud. Have you seen this thing from General Marshall on which this is to be written? (Refers to memo of Nov. 11 to General Somervell)

Book 193, p. 182

(The Secretary reads proposed confidential draft of speech submitted by Colonel McCarthy)

- 2 -

H.M.JR: I think that has too many dates. Anyway, he can say that General Marshall has advanced up the coast in short knock-out steps. Period.

MR. GAMBLE: You can get three or four dates.

H.M.JR: I think that is awfully good.

MR. GASTON: The only trouble is that a mortar seems so inconsequential.

H.M.JR: You can put a price on it.

Well, this is only the beginning. There are a lot of other figures.

MR. GASTON: The comparison with training doesn't amount to so much except as you are bringing in the fact that there are four million of these troops that were in training only a short time ago, except as you emphasize the fact that they are now in active service.

H.M.JR: The point which General Marshall wanted to make, which isn't quite clear - and the man said he only got this at four o'clock yesterday and delivered it to me at seven-thirty last night - the point is that with the troops now completely deployed, and with the supply line just beginning to be open, the consumption of ammunition will be so much greater than it was when they were in this country.

There are two steps: First they were in this country; then they were in France, and now they have been sitting waiting for the Port of Antwerp to open, and when the Port of Antwerp opens you can pour this stuff through; then the consumption will really begin. You see, there are three stages, and that is not clear enough. He says it isn't clear enough.

By word of mouth he told me he wasn't at all satisfied, and neither was General Marshall. But I think there are

three stages; first at home to prepare them - took them three years - then we got them overseas, and had to slow down because we didn't have the Port. Now, if and when we do get the Port, then the stuff will begin to flow through. Those are the three stages.

Now, mind you, this is the first draft, and the man only had from four to seven, but I think it is awfully good.

MR. GAMBLE: I think it is very good. I think it could be vastly improved.

H.M.JR: Oh, yes.

MR. GASTON: What is it you are considering this material for?

H.M.JR: This is for Monday night.

MR. GASTON: Well, you have the data on which a good speech can be written.

H.M.JR: Let me give you some of the data which he hasn't used. He gives the strength of the Army from June 23 to December '44, and that has been released.

MR. GAMBLE: But not released to the public yet?

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

MR. GAMBLE: I have never seen above four million men overseas.

MR. VANDERPOEL: Six million men overseas.

MR. GAMBLE: Army and Navy.

H.M.JR: This is Army. But I mean the succession; I think the point Marshall has in mind is, it has taken three years to reach the point where our Army is overseas, and then the expense really begins, once they really can get supplies to them. It isn't much more expensive to

- 4 -

feed them in England than it is at home, but it is once they are really fighting.

Then they give what the total supplies are in training - seventy-five hundred tons a month; in combat, forty thousand tons a month. Ammunition ratio is one to twenty-one.

Then the thing which has not been released, what it takes in the way of ammunition for one month at the German front; mortars, field artillery, jeeps, two and a half ton trucks, light tanks, medium tanks; and what the losses are for one month, compared to the civilian campaign.

MR. GAMBLE: That is a good story.

H.M.JR: Compared to the Tunisian campaign, we lost four hundred and sixteen jeeps in the Tunisian campaign; one month at the German front it takes fifteen hundred.

Then they haven't released the increased dollar value required.

What is ASF?

MR. GAMBLE: Army Service Forces.

H.M.JR: The figures aren't very convincing, anyway.

The thing at the end here which I think is good - increase in shipment schedule for the European theater of operations, using June '44 as index of one hundred, they go to this December with index of one hundred and fifty-five. That is released to me. That is a figure I have never seen.

MR. GAMBLE: That could be woven into a very good statement, that when we have reached the peak of our three years of preparation and gotten ready for the invasion - D-Day, June of '44 - we have to have a fifty-five percent increase over that.

- 5 -

H.M.JR: It tells the whole story. But you build up the hundred first.

H.M.JR: Yes, build up the one hundred and then go to one hundred and fifty-five point three for December. You do that, and then you can break that down and explain why. But that is the guts of the whole thing; fifty-five percent more supplies needed in December than in June. I think they have been very generous.

MR. GASTON: Yes, yes. And that is the heart of your War Loan campaign.

H.M.JR: But this December we need fifty-five percent more supplies than we needed in June, which was D-Day. That is the whole speech, isn't it?

MR. GAMBLE: I think what we have to do, too, in this speech, Mr. Secretary - this doesn't say too much about the needs in the Pacific theater, and I think a very good conclusion has to be written to the speech, and then we have Japan, which interposes many problems.

MR. GASTON: I suppose the Secretary's speech in Chicago will deal pretty largely with that, being a Navy speech - Navy event.

H.M.JR: What is going to happen tomorrow - at nine-fifteen Eugene Duffield is coming in. I won't bother you two fellows unless you want to be here.

MR. GAMBLE: No, tomorrow I won't be here, Mr. Secretary.

H.M.JR: Well, I think Gaston and Mr. Vanderpoel - we will keep Mager posted as to what we are doing, do you see? But he is coming in with a speech, I take it; and the thing will be directed mostly at the Pacific.

MR. GAMBLE: He may well turn out just what you want there. If not, he will probably have the basis for it.

- 5 -

H.M.JR: Do you think there is too little on the Pacific?

MR. GAMBLE: Well, I don't think you ought to make a speech anywhere where you talk about one war front, from now on. I think you should make a reference to it even if the Army doesn't in the material. You should say, "Of course, we know what is happening in the Pacific and the problems we will have to meet there."

H.M.JR: Let me read what Marshall wrote to General Somervell. (The Secretary reads memo to General Somervell from General Marshall, dated November 11)

What do you think, Herbert?

MR. GASTON: I think you have an awfully good foundation there in which to write a speech.

MR. VANDERPOEL: I think so, too. There were just too many figures.

MR. GASTON: Yes, all you have is figures embroidered in a few words, but there is a good foundation there to write a speech.

H.M.JR: Let me get over to you what I would like to have after talking with General Marshall. I ought to point out to the American public - in the first place, I want to start off saying, "I am starting off this campaign and following the custom which I always have. In advance of this, I have sat down and had a good long talk with General Marshall" - pay him a compliment - and then say, "The following information which I am going to give you has been furnished me entirely due to the courtesy of General Marshall," do you see? I want to start off by saying that.

Then I want to go right on and point out that there are three phases of this war; there has been a long one that has taken us three years to get ready for - training, and so forth; then getting the men overseas; and the final training that they have gone through in England and in France before they go to the front; and now there is a

- 7 -

third phase which we are in the process of - getting the supplies to them when they are actually at the front. And we have been held up on that due to lack of port facilities, and we are now in the process of getting the Seille River cleared of mines, and we still don't know how long it is going to take.

I would like to say that, because these people who say it is going to be done next week, they don't know. But once that is open, then the flow of supplies will go through. We will have figures as to how much greater, and we will have the figure which he used - "a flaming war on all fronts." I mean, that was General Marshall's own statement.

There are plenty of people saying the thing has been retarded, now. For example, "What this monster will consume - this is what it consumed in two weeks at Aachen" - he said there will be a hundred other Aachens, and to give you some idea - when we have these things - what it costs - "from June to December, the Army figures that it will take fifty-five percent more, and then of that fifty-five percent, we will give you an idea of what some of the items are which go into that fifty-five percent."

I think that is the speech. Then these people could pick the thing up and can rehash the thing over and over again.

Is that right?

MR. GAMBLE: Yes. In one of your speeches, I think in connection with the Second or Third War Loan Drive, you talked about the fact that we had been preparing for war, that we were getting ready, in effect, for the big push. You may recall making the speech where you talked about the fact that - you made it without knowing the actual dates at that time - you were talking about the fact that everything we had done was get ready for the invasion and the big fight that lay ahead.

- 8 -

It seems to me here that this could take a little bit the character of a talk about the grave days that lie ahead, and the amount of energy and amount of equipment and amount of effort that has to go into this war, as though it had not yet reached its climax, and as it reaches its climax, we really are going to be pouring out this money, and pouring out the supplies, ammunition, and so forth.

Instead of dealing with it in terms of comparisons, Herbert, just sort of looking back on it, or analyzing it, that you talk in terms of--

MR. VANDERPOEL: I think you can do all of that. You can get it built up, you can get these campaigns which we thought were pretty good, and you can get this cross-examination which many looked upon as the climax, and then find that you are not even taking Japan, yet. You still have the climax here in Europe--

MR. GASTON: That is entirely right. There has been an awful lot of loose talk in the last few months about the war being nearly over and we thought we had just about done it, and people were just waiting for a few weeks, or a few months. You have got to show people that that was all wrong. The big thing is ahead, and time isn't going to do it; it is this tremendous effort that is going to do it.

MR. GAMBLE: It isn't a date on the calendar.

MR. GASTON: But show them the dimensions of this effort.

MR. GAMBLE: If the people who heard this speech got that one idea from it, that would be worth it.

H.M.JR: I am getting these things. If you know these hold up your hand. But the Army is trying to get Eisenhower to make a statement on production for Sunday afternoon on the "Army Hour." Did you know that?

- 9 -

MR. GAMBLE: Yes, and they are dedicating the "Army Hour" to the Sixth War Loan.

H.M.JR: Greenbaum didn't know that, and I told him to contact Colonel McCarthy and tell him about this Eisenhower statement that isn't written yet. So whatever Eisenhower says on Sunday, he will know about it, so whatever I say twenty-four hours later will be dovetailed. But his statement is wholly on production.

MR. GAMBLE: That is right. The "Army Hour" on Sunday, there is a portion of it being dedicated to the Sixth War Loan.

H.M.JR: I don't see why something can't be woven into Eisenhower's statement, on war bonds.

MR. VANDERPOEL: On the other hand, you don't want to tell the people you are bringing them some new information that has not been put out, that they have heard Eisenhower give on the "Army Hour" the night before.

MR. GAMBLE: The Army would never permit that.

H.M.JR: That is why the people working on the Army's statement were to contact General McCarthy, Secretary of the General Staff, who did this for me, so we would be all right on it.

And if he doesn't - make a note, Mrs. Klotz - you might call up General Greenbaum to get the stenographic report of what Mr. Patterson said at his press conference yesterday. He used some of these figures yesterday, and General Greenbaum said we could have them. We want to use fresh figures. He used a very few figures at his press conference yesterday. That is the report as it affects production and munitions.

MR. VANDERPOEL: It wouldn't be necessary to have all fresh figures, but if you had some fresh figures and knew which they were, it would make the speech more effective.

- 10 -

MR. GASTON: Is the President still scheduled to make the speech on Sunday night?

MR. GAMBLE: I talked to Early yesterday on it. He is back. I told him we had prepared something. He said, "Do you know yet whether or not the President is going to do this?"

H.M.JR: Who said that?

MR. GAMBLE: Early. "Do you know whether the President is going to do this on a record, or be here to do it?"

H.M.JR: I am having lunch with the President tomorrow and I will try to get a yes or no. Do you see, Mrs. Klotz?

MR. GASTON: Unless he wants to go afield and talk in general terms--

MR. GAMBLE: Did you read the speech that Harold drafted for the President, Herbert?

MR. GASTON: No.

MR. GAMBLE: It is good. It is very good and sticks to war bonds, and that is the way we would like to have it.

H.M.JR: I thought it was good.

MR. GAMBLE: We have made that change, too, Mr. Secretary, if you would like to hear it.

H.M.JR: Yes, I would like to hear it.

MR. GAMBLE: Instead of putting it in the beginning, where we thought it would not sound as well as it did at the end--

MR. MAGER: Well, this part I tacked on toward the end because I thought there would be a little too much apple polishing if I put it at the front.

- 11 -

Then in the last paragraph (reading from draft of the President's speech): "The Sixth War Loan, I am confident, will be another example of democracy in action in a world at war. From the early days of the Defense Savings program in 1941, right down to the gigantic War Finance Program now in operation, Democrats and Republicans alike, and together, have worked under the able direction of Secretary of the Treasury Morgenthau with the single purpose of doing a vitally important war financing job and doing it well.

"In the Sixth War Loan Drive starting tomorrow we have every reason to believe that Secretary Morgenthau and his co-workers throughout the country will again turn in an outstanding home-front victory."

Then I go into the last sentence.

H.M.JR: It is good, but he will never say it at the end.

MR. GAMBLE: I think maybe he might if it is woven in. If you read the whole speech, it fits very naturally. Instead of putting it at the front where it sounds as though he wanted to say something, it has been incorporated into the text.

MR. MAGER: It just doesn't fit at the beginning. It has been woven in here the way it should be. You see, I have been talking about the war - that is, about the Election - and I cite the War Finance organization as that organization in which you have achieved the greatest measure of cooperation between Democrats and Republicans working alike, together. Now it is in keeping with the spirit of what went before.

H.M.JR: I am not going to argue, but he will never put it in there, because I know he likes what he calls the "snapper" at the end.

MR. GAMBLE: It goes on from there, Mr. Secretary.

- 12 -

MR. MAGER: (Reading): "In buying all the war bonds we can afford, Americans will be serving notice on the enemy that we are in this war to the finish and planning now for the better world we aim to build."

MR. GASTON: It is too close to the end. You have to work up to a climax. As the Secretary says, you can't just take a one-sentence snapper and put it on that.

H.M.JR: No, he will never use it that way.

MR. GAMBLE: You mean the second reference?

H.M.JR: He won't use any of it.

MR. GASTON: There has to be a little more of a peroration. There it is really the last substantial thing that is said.

H.M.JR: He will never end on that note. Am I right, Herbert?

MR. GASTON: Yes, you are right.

H.M.JR: I wouldn't, either. To turn and say, "My friend and neighbor, Henry Morgenthau" - bring it right in after I have given him this very beautiful introduction, and then say something then, and then go on into his speech.

MR. GAMBLE: We will work it up that way and see if you like it better.

H.M.JR: I mean, I make this introduction, and he turns to me in an informal way and says, "Well, that is Henry," or whatever way he wants to do it - "I appreciate what you and your Treasury people have done, and I am counting on you," and then go on.

MR. GAMBLE: Our fear was that he wouldn't do that.

H.M.JR: What do you think, Herbert? Isn't it the easiest thing in the world for him to say, thank you, and then go on into his speech?

- 13 -

MR. GASTON: I think it might work out that way.

H.M.JR: Have another try at it, will you?

MR. GAMBLE: All right, sir.

H.M.JR: He spends so much time on the end of his speeches, I know. Look, do you want some of these, Herbert?

MR. GASTON: Yes.

H.M.JR: We will let Mr. Vanderpoel have them.

Now, look, are you mentally in the frame of mind that you can go to work now?

MR. VANDERPOEL: Yes, sir.

H.M.JR: Good. Now, it is very important that you have an extra confidential stenographer. Now, whom will he use? How do you work? There are plenty of stenographers.

MR. VANDERPOEL: Well, I think on the first draft I will write it out longhand.

H.M.JR: Herbert, can he look to you or Charlie Bell?

MR. GASTON: Oh, yes, we will take care of it.

H.M.JR: This thing here, don't please leave it around loose. If it is not in your own hand, give it to Mrs. Klotz and she will leave it in the safe until this thing is cleared.

MR. VANDERPOEL: All right.

MR. GASTON: I have a safe in my office that he could slip it into.

H.M.JR: We won't compete on safes!

- 14 -

MR. VANDERPOEL: How long is this supposed to be?

MR. GAMBLE: This is the principal speech that we are working on now. It ought to be about twelve minutes.

H.M.JR: Is that all you are going to give me?

MR. GASTON: Fifteen minutes radio time, and you have to have a little time for introduction.

MR. GAMBLE: I would rather have you thirty seconds short than thirty seconds long. We can have the time if we want to go after it and get it. Personally, I think it makes a good speech.

H.M.JR: Twelve minutes is only twelve hundred words.

MR. GAMBLE: Thirteen hundred words for you, the way you read. You have never made a radio talk any longer than that, has he, Herbert?

MR. GASTON: I don't know whether you have ever made a fifteen minute talk or not. Yes, well, this last one at the Waldorf Astoria was twenty minutes.

H.M.JR: Well, let's see. We will try to keep it down to thirteen minutes.

MR. GAMBLE: That is all right, and I think you will like it better. I think it will be better to fit it into a period so we don't have a station break.

H.M.JR: O.K. Then during the day if you want to see me, let me know.

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON

November 14, 1944

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

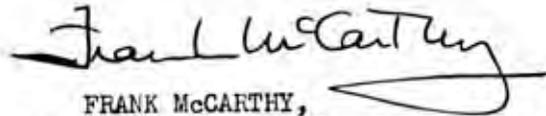
Dear Mr. Secretary:

The paragraphs embodied in the attached memorandum from General Marshall to me illustrate the point which General Marshall felt you would wish to stress in connection with the next drive.

As regards the figures which I handed you last night, General Marshall suggests that you go ahead and use whatever you like, but that you might let us have a look at the finished product. In other words, the War Department would like to make a slight reservation in connection with the figures marked in the memorandum. Final advice as to release of these figures would depend upon the manner in which they are used in your draft.

I hope this will be a satisfactory arrangement, and I am looking forward to doing anything further that I can.

Sincerely yours,



FRANK McCARTHY,  
Colonel, General Staff Corps,  
Secretary, General Staff.



WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON 25, D. C.

14 November 1944

MEMORANDUM FOR COLONEL McCARTHY:

Following are proposed paragraphs for Mr. Morgenthau's use:

The war in Europe and in the Southwest Pacific has now reached the stage where the consumption of munitions will far exceed any previous totals, and production must therefore be maintained accordingly.

Until the latter part of last summer the Allied fronts were comparatively short and in many localities the action was intermittent. The deployment of our forces has now reached the point where the majority of Allied divisions are continuously engaged in a day by day battle. In Europe the Allied front exceeds a thousand miles and not only is the battle continuous throughout that distance but the number of divisions on the front is being constantly increased. Therefore in the great assaults which we hope will bring the war to a final conclusion in that theater, the consumption of ammunition and wastage of materiel will be on a vast and constantly increasing scale up to the hour of the Armistice.

In the Southwest Pacific much the same situation is developing, where the American divisions are engaged in a continuous battle which will be prolonged until the principal strongholds of the Japanese in the Philippines have been abolished. Here again then we have a consumption of munitions and inevitable wastage of materiel far beyond that involved in the capture of isolated island strongholds.

*SEM*

Nov. 14, 1944

TO:

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Secretary Morgenthau:

MORE MATERIAL FROM COLONEL MCCARTHY

Colonel McCarthy says the classification will probably be lifted from this table by the time your draft reaches General Marshall.

He described the first percentage column as the increase of critical shortages we must have, and the second percentage column as the actual increase we are getting.

From: Mr. FitzGerald

## CONFIDENTIAL

129

**ASF PROCUREMENT**  
**Selected Critical Programs**

<u>Program</u>	<u>Unit</u>	<u>Scheduled Increase Average Month of Fourth Quarter over September 1944</u>	<u>Actual Increase October over September</u>
Heavy Artillery Ammunition (155mm Gun thru 240mm How)	Rounds	35 %	5.2 %
Heavy Artillery and Replacement Components	Dollars	10 %	2.9 %
Tanks	"	35 %	11.8 %
Heavy Trucks (Light-heavy & heavy-heavy)	"	31 %	15.0 %
60mm & 81mm Mortars	"	21 %	8.0 %
60mm & 81mm Mortar Amm.	"	17 %	6.0 %
Carborne Radar	"	33 %	10.6 %
Field & Assault Wire	"	23 %	10.0 %

Production Service Branch  
Production Div. Hq. ASF  
10 November 1944

CONFIDENTIAL

ADDRESS BY  
MAJOR GENERAL W. D. STYER,  
CHIEF OF STAFF,  
HEADQUARTERS, ARMY SERVICE FORCES.  
BEFORE STAFF OF THE  
WAR PRODUCTION BOARD  
SOCIAL SECURITY BUILDING AUDITORIUM  
Friday, 9:30 A.M.,  
27 October 1944.

Mr. Krug has asked that I talk to you about the current status of ASF procurement. I believe that we are now at a stage in our war production effort where it is particularly appropriate that we examine our progress to date, appraise our current situation, and take a realistic look at the job immediately ahead of us.

Throughout the first stage of our war effort - that of all-out expansion - we were able, with relatively few exceptions, to keep production ahead of our modest needs during that period. Fortunately, the arming of our Allies prior to Pearl Harbor put us in a position to expand rapidly after we were drawn into the war. With this start we were able to accelerate our production more rapidly than we could expand our Army, train it, and deploy trained troops overseas. During the period following Pearl Harbor, the American people and American industry responded wholeheartedly to the task of equipping our troops and those of our Allies. We doubled munitions production over a period of only six months. Within two years we were producing a flow of munitions nearly equivalent to that of all other countries of the world - both allied and enemy.

In achieving this we proved that the Axis nations were wrong in their fundamental assumptions. First, that the "Arsenal of Democracy" was an empty phrase, secondly, that we would be unable to assemble, train and equip our Armed Forces in time to be effective in this war.

All this we achieved within two years. The maximum German effort took at least seven years for fulfillment and the other Axis nations took much longer.

We are now well into the second, and much more difficult, phase of our production program. In the earlier stages the problem was largely one of all-out expansion in the production of all types of war materiel. We are now faced with the problem of maintaining the high rate of output and, in addition, tailoring that output to meet the specific and ever changing needs of our troops.

Our forces are now deployed in all corners of the world. They are engaged in active, intense combat in Western Europe, in Italy and in a wide spread area of the far Pacific. Their energy and drive is enabling an acceleration of the schedule to victory. Each success makes possible more effective operations, but only if the equipment and supplies and the shipping to transport them are available on or ahead of schedule. We must furnish the required materiel - in adequate quantities and of the proper types - if we are to maintain our present pace of operations. Only in this way can we shorten the war and reduce the cost in lives of our troops.

Now let us look at our production situation. In November 1943 ASF production totaled more than \$2.1 billion. This represented the climax of the "all-out production" stage of our program.

It was then that we began to reorient our program - to tailor it to the specific needs which were becoming evident as we prepared for our major offensives in Europe. Requirements for some items were increased, others were lowered. Over all there was a net reduction. To that end our schedules were reduced at the beginning of 1944. However, once programs were cutback, the decline in ASF output did not stop at the desired levels. The production line did not hold. Output declined steadily, until in July of this year the total was down below \$1.8 billion - about 16% below the previous peak. This downward trend was reversed in August and a further slight increase was achieved in September. Throughout all of 1944 our program has been characterized by successive failures to meet objectives. At the same time, in view of combat experience, requirements for several important categories of materiel were increased. As a result of the cumulative effect of the production lags plus the increases in requirements, we are now in a situation where production during the fourth quarter of this year must rise to unprecedented heights if we are to meet current schedules. The peak now scheduled for November of this year is 10% above the previous high achieved in November 1943.

It would be a mistake to assume that all programs are falling short of established schedules. The majority are nearly on schedule. In certain crucial areas, however, production schedules have had to be consistently reduced as previously established objectives have been found to be unattainable.

These rollbacks have all too often resulted in complacency in some plants when the lower schedules are achieved. We must be constantly on guard to prevent falling short of production goals in crucial items which are actually required in greater quantities than the rollback schedules might indicate.

I would like to discuss a few of the more important programs which are concerning us at the present time. Many of these are programs in which we have had schedule rollbacks. Others have become critical primarily because of increases in requirements which have made them difficult from the production standpoint.

Foremost among our problems today is the production of ammunition for heavy field artillery. The rapid advances of our forces in the European Theater have intensified the urgency of demands for heavy artillery ammunition. Our troops in Western Europe are now facing the strongly fortified Siegfried Line. The breaching of this Line will require sustained concentrated heavy artillery fire if substantial loss of life is to be avoided. In fact, the demands from our commanders in the field have been so great that there is danger of heavy artillery ammunition being in serious short supply for current operations. In contrast with the rapid advance through France following the breakthrough in Normandy, our

present situation calls for "slugging it out" with our heaviest weapons in order to achieve mile by mile advances against an enemy who is now desperately and tenaciously dug-in in heavily fortified positions. Consequently, it has been necessary to accelerate the schedule of deliveries of ammunition to the theaters, particularly for the 155MM Gun, the 8" Howitzer, the 8" Gun and the 240MM Howitzer. Operations in the period immediately ahead will require vastly increased quantities of heavy artillery ammunition if these operations are to be successful in contributing to a speedy and conclusive end of the war with Germany. Because of the urgency of operational requirements, production of heavy artillery ammunition has now entered its most critical stage. Output during the first nine months of the year amounted to but 58% of the total amount scheduled for the year. The remaining 42% must be produced in the last three months. This will require a step-up of more than 62% over third quarter production or an average monthly rate nearly 35% greater than that achieved in September. And even if we achieve this increase we will still fall short of meeting total demands. Still further increases and sustained high rates of production will be required in 1945 so long as the war in Europe continues. Difficult as these schedules appear, it is imperative that they be met, and exceeded, if possible, if our troops are to have adequate quantities of this critically important category of materiel.

Medium artillery ammunition - for the 4.5" Gun and the 155MM Howitzer - is likewise urgently in demand. Production during the first three quarters totalled slightly more than 3,000,000 rounds, or about 62 percent of the year's requirement. To produce the remaining 1,900,000 rounds during the fourth quarter will require a step-up of 43 percent over third quarter production.

The situation in ammunition for the 105MM Howitzer is also becoming increasingly tight. Difficulties in production have been encountered in recent months and it is now forecast that the output for the year will fall about 12 percent below schedule. Current supply and demand studies indicate that the total deficit at the end of the year will be even greater. On the basis of current data on probable expenditures, continuation of the two-front war throughout 1945 will require quantities of this ammunition far beyond any previous computations. Continued all-out effort in the production of this round is most essential.

In order to provide the troops at the front with the increased quantities of ammunition it is necessary to provide an improved transportation system: Trucks, materiel handling equipment, railroad equipment, port facilities, ships, lighters, engineering equipment necessary to maintain the railroads and highways; and all the host of ancillary equipment which contributes to their efficient operation.

General Eisenhower has cabled suggesting that the situation be brought forcefully to the attention of all manufacturers of our critically needed materiel. General Somervell has sent manufacturers of ammunition the following message:

"General Eisenhower has advised me that the increasing consumption of ammunition requires an immediate increase in the supplies being shipped to him. He states that the tactical plans for the immediate future depend on his troops being provided with an adequate and continuous flow of ammunition. A failure in this flow will seriously interfere with his operations. To maintain this flow of ammunition it is absolutely vital that all scheduled production be met and that all accelerating rates of production be increased to the maximum humanly possible in a minimum of time. You and your employees are, and I quote General Eisenhower, "urged to apply any and every expeditent to step up production".

Similar telegrams are being dispatched to the manufacturers of our other critical categories of materiel.

Production of medium tanks has become increasingly a problem. Earlier in the year we needed primarily a rapid acceleration in production of selected models. Recent battle experience indicating increased demands for replacements, coupled with difficulties encountered during the last two months, have placed medium tank production in the urgent category. In terms of total dollar value, production in the fourth quarter must exceed the third quarter by 35 percent.

We cannot discuss ASF production problems without bringing in heavy-heavy trucks. The demand for these vehicles is nearly insatiable. Their contribution to our success thus far in Western Europe is well known. As our supply lines lengthen, and as the intensity of our activity increases, the demands for these vehicles are pushed to higher and higher levels. Our total requirement for 1944 is 61,600 vehicles. As of 30 September it was forecast that only 55,000 would be produced - a shortfall of more than 10 percent. During the first nine months of the year but 61 percent of the presently scheduled production was produced. To meet even the present schedule, fourth quarter production must exceed the third quarter by nearly 59 percent. This represents a step-up in average monthly rate of production of 45 percent over the rate achieved in September.

60MM and 81MM mortars present another example of the necessity for the greatest degree of readiness and flexibility in our productive resources. Data from the theaters of operations attesting to the splendid effectiveness of these weapons have resulted in determination to equip additional units with them. The requirements for such additional equipment

plus a sharp increase in our estimates of requirements to replace losses, raise the total program for these weapons far above previous levels. We must maintain ourselves in a position to meet these and other emergency needs arising in the course of the war.

Similarly, ammunition for the 60MM and 81MM mortars has become a critical class of supply.

In addition to the difficulties in the production of purely military items, we are also having troubles in the field of civilian-type production. Tentage duck fabric has been in critical short supply for several months and is likely to continue to be in difficulty for several months more.

The programs I have discussed do not, of course, represent a complete list of our difficult production programs. Such a list would certainly include heavy artillery (in addition to heavy artillery ammunition), air-borne radar, light heavy trucks, aircraft bombs, tires, field wire, dry cell batteries and many others. In the face of current war news, to sustain the sense of urgency which is required to achieve our production objectives, is particularly difficult.

I have said that in many critical areas ASF production is not meeting demands, and this naturally raises the question as to how closely our stated demands are adjusted to the actual requirements on the battle field. Since early in 1944 we in the ASF have been developing and installing a supply control system designed to effect the maximum coordination between the calculation of requirements and the scheduling of production. This system is now in operation. It provides us with more complete data on our demands than has ever been available heretofore.

The principal feature of the supply control system is a provision for assembling on one sheet of paper all data affecting the supply and demand status of each item. The information necessary for complete control is drawn together from various sources. Upon consolidation a clear statement is available as to what has happened in the past, where we stand at the present, and what may reasonably be expected to happen in the future. The information is then used as a basis for deciding what should be done. The authorized stock level becomes a goal to be maintained with procurement to be increased or curtailed as necessary. All major items of issue are under continuous review in each technical service and in Headquarters, ASF. The separate sheet for each item is revised immediately upon any change in basic underlying factors affecting supply or demand. This close control covers items of strategic importance, items with a complex basis of issue, and items presenting production problems involving labor, materials, facilities, components, etc. Approximately 80 percent of our total program in terms of dollars spent, materials

consumed, and labor required is accounted for by these items. Particular attention is paid to the estimates of future demand to see that they are reasonable in view of current military plans and consistent with past experience. The millions of smaller items which are relatively easy to procure and not directly affected by military strategy are also carefully reviewed at periods varying from one to three months.

The supply control system is supported by a stock record system which is in effect in each supply depot, each post, camp, and station in the continental United States, and in each overseas theater.

We are running the biggest business in the world. The system we are using closely approximates commercial practice but there is one marked difference - lack of stock in business means loss of sales, whereas in the Army a shortage has immeasurably greater consequences. It may be measured in actual loss of life.

On the basis of our experience with the supply control system to date, we are confident that we have realistic data on our demands, that we know our stock position, and that we are therefore able to adjust procurement promptly to changes in demands and stock level requirements.

This question is sometimes asked, "Does not the Army have large excess stocks - enough to last it for several months?" The answer is that in some areas the Army does have excess stocks. Currently we have excess quantities of anti-aircraft materiel. And we are thankful that they are excess. We have excess quantities of the earlier models of tanks and again we are grateful that we are able to supply our troops with modern vehicles capable of besting those of our enemies. Obviously, however, excess quantities of obsolete or outmoded materiel cannot be used to satisfy demands for new types of weapons and new kinds of warfare. It will be recalled that a few months ago this question received considerable public attention. A careful investigation of our situation since that time has disclosed that, with the exception of items such as I have just discussed, the Army has very little in the way of excess stocks and is, in fact, in short supply in many critical programs. There is simply no margin of excess stocks the use of which would release productive resources for the programs which are not meeting demands.

All of us believe in our ultimate victory. We must continue undiminished our efforts at production so that final victory may be more speedily achieved. It is equally incumbent upon us now to plan for the transition from war production to peacetime production which must follow that victory. We must discharge this dual obligation but we must maintain the two objectives - war production and post war planning - in proper

perspective. It is clear that the former must be paramount. Yesterday's newspaper carried an account of Mr. Maverick's visit to Europe. In his remarks Mr. Maverick stated that planning is necessary but that it should be accompanied by a "recognition that the war is still on and will be on for some time".

I believe Mr. Maverick's statements epitomize the feelings of many of us. We in the War Department are giving considerable attention to postwar problems. We have carefully drawn plans for the conduct of the war following the defeat of Germany, and for the planning of our military establishment on a peacetime basis following the defeat of Japan. We have translated the plans into requirements for materiel and have drawn up plans for adjusting our production program to these new requirements. We are advising our facilities and their labor of the probable effect of these plans on them. But we are cognizant of the fact that all such measures must be subordinate to the job immediately at hand.

Our production job is still extremely difficult. We have not produced all that we should have produced. In the months ahead we must increase our munitions production. The war is yet to be won. We cannot prudently permit our resources to be diverted to any other purpose. Our Armed Forces are achieving gallant victories over trained, battle-seasoned, professional troops. We cannot accord them anything less than the full wholehearted support of America. If we here at home do our utmost, and keep on doing it, we shall not only make victory the more certain but we shall also cut short the time required to achieve it and reduce the cost in human lives.

END

TRANSMITTAL SLIP 115

Date 11/14/44

To: Sec. Morgenthau

This is what you wanted to see.

E. S. G.

---

E. S. Greenbaum  
Brigadier General  
Executive Officer, OUSW

Pentagon 3E 724

FOI SW-28  
(3-4)

Extensions  
2216 3967

WAR DEPARTMENT  
Bureau of Public Relations  
PRESS BRANCH  
Brs. 3425 and 4860  
Tel. - RE 6700

November 13, 1944

IMMEDIATE

RELEASE

STATEMENT BY  
ROBERT P. PATTERSON, UNDER SECRETARY OF WAR  
AT NEWS CONFERENCE, THE PENTAGON, NOVEMBER 13, 1944.

It is my job and the job of every American here at home to supply our field commanders and their troops with the munitions they require to defeat the enemy in the shortest possible time and with the least possible loss of life. Our production requirements are set by our field commanders - we work only to serve them. They know what they want, what they need. Our job is to fill their needs.

I want to tell you today of certain important combat requirements in which our production is not up to what is needed. Most of the information I will give you I have received from General Eisenhower.

General Eisenhower has an imperative need for much more artillery ammunition than we are now producing. Although our production of artillery ammunition has tripled since the beginning of this year, the needs of our armed forces have gone up even faster.

The troops under General Eisenhower's command are firing thirty-five days' supply of heavy artillery ammunition in ten days. The amount of ammunition which has been used in the campaigns of Western Europe, especially in the major offensives, has been staggering. General Eisenhower has cabled that the present needs for one month for the troops in Northwestern Europe alone approximate 6,000,000 rounds of artillery and 2,000,000 rounds of mortar ammunition. The First Army alone used more than 300,000 rounds of 105mm howitzer ammunition in a two-week siege of Aachen.

Expenditure of ammunition in the course of the European campaign has thus far exceeded 375,000 tons. If General Eisenhower's operations are to receive adequate support, it is necessary to fire four to five thousand pounds of ammunition every minute, 24 hours a day. This means 3,600 tons of ammunition per day.

At the same time we are confronted with an increased demand for artillery ammunition from every other active theater. General MacArthur's troops in the Philippines are shooting a greater quantity of artillery ammunition this month than they have in all of the past sixteen months combined. General Clark is calling for increased shipments of ammunition to the men of the Fifth Army.

Our losses in trucks and tanks have been very high in all theaters and our requirements are going up more rapidly than our production. In the European theater alone we are losing 500 tanks and 900 trucks a month. We are also short of cotton duck for tents, airborne radar equipment, tanks, heavy trucks and other important items. To keep abreast of our schedules, production during each month of this quarter must show the following percentage of increase over the output for September:

Heavy artillery ammunition	35%
Mortar ammunition	17%
Tanks	35%
Heavy trucks	31%
Cotton duck	40%

Even these schedules do not reflect the full extent of our need for they have been cut down by a realistic appraisal of what we hope to accomplish while our requirements have gone up sharply.

I have just returned from trips to a dozen important plants in the heavy artillery program in Chicago, Detroit, Toledo, Harrisburg, Buffalo and Pittsburgh. At each plant I conferred with management and labor to see to it that everything possible was being done to step up production. With General Somervell and his staff, I have been working in close cooperation with the Navy, the War Production Board, the War Manpower Commission, the Office of War Mobilization and all other civilian agencies to insure the necessary concentration of effort on the programs of greatest urgency.

The problem is not confined to final assembly lines. It extends all the way down the line to the foundries and forges and machine shops. Everyone who contributes in any way to the manufacture of these instruments of war bears a heavy responsibility in the attainment of our goals.

Our war production job is still enormous. Since the first of the year the Army alone has been letting new contracts at an average weekly rate of 550 million dollars. That is a yearly rate of over 28 billion dollars. Army Service Forces production scheduled for this month is greater than the total for any month since Pearl Harbor. In fact, we must have 10% more production than we got in November 1943, the peak month thus far.

I want to make it clear that these problems do not arise because anyone is falling down on the job. Despite the enormous demands from the field, we have kept abreast of our requirements on most parts of our supply program. Even on those items that are now in short supply, production has been coming up. But it is not coming up fast enough. Our troops are using up this equipment at such a rate that superhuman effort is necessary to meet their current needs, and these are the items that are most essential if we are to intensify the force of our offensives.

We must not fail our men at the front. Extra effort now means lives saved and a quicker victory.

END

- 2 -

DISTRIBUTION: Da, N.

4:00 P.M.

Prepared by the Undersecretary      Craft T.      118  
Secretary's Speech - New York, November 20, 1944      11-14-44

Before leaving Washington and coming here tonight I called upon General Marshall in the hope that I might bring you some last-minute news. In discussing the war and what still lies ahead the Chief of Staff said to me:

"The nearer we drive toward the hearts of our enemies, the costlier the war becomes."

That is a startling statement. Think of it a moment --

"The nearer we drive toward the hearts of our enemies, the costlier the war becomes."

That is exactly why we are here tonight. That is the reason for, the necessity for the Sixth War Loan.

But is it true? Is the cost of the war still rising?

It is. Let me explain why and give you some figures very courteously supplied to me by General Marshall, some of which have never before been made public.

To this date we have never brought our full force to bear upon the enemy. It is apparent that we cannot smash him until we do. The deployment of our forces is only now beginning to reach the point where the majority of Allied divisions are continuously engaged in a day-by-day battle. In Western Europe the Allied front exceeds a thousand miles and not only is the battle continuous throughout that distance but the number of

divisions on the front is constantly increasing.

Remember the Tunisian campaign, our first real offensive against the Germans? In eighteen days, from the twenty-sixth of April to the thirteenth of May we blasted the enemy from Africa. We drove the Nazis and Italians out of Sicily in thirty-eight days. In the Pacific, Tarawa was captured in ten days, Saipan in twenty-one, Guam in twenty-one. General McArthur advanced up the coast of New Guinea in short, knock-out steps.

*All this time we were preparing*

~~Then we prepared~~ for D-day. When we successfully invaded France and poured great quantities of supplies ashore, it seemed to many of us the great climax of our war. Tanks and artillery, trucks and ammunition, food and all those supplies a modern army needs for victory were shipped first to our bases in Britain and ferried across the Channel until we were all set to overwhelm the enemy. We broke through at St. Lo and overran France. Many thought victory was at hand. But General Eisenhower was never fooled. He knew the real fight still was ahead.

Today -- tonight, as I speak here -- we are just beginning what General Marshall described to me as "a flaming war on all fronts -- in the Philippines, across the waters of the Pacific, ever nearer, nearer to Japan itself, across Italy, and from the border of Switzerland across France, Germany and Holland to the Sea.  
~~English Channel.~~

The last barrage, that fearful tornado of high explosive which will knock Germany and then Japan out of the war, will make all our previous expenditures of ammunition seem trivial.

For several months cargo shipped to France has been limited by the inability of the Port of Cherbourg and the Normandy beaches to handle more than a limited quantity of supplies. This limitation has prevented the American Army from using its full strength against the enemy. When the port of Antwerp comes into operation the tonnage shipped to American Forces in the French

theater is expected to double -- in other words, be twice as great as in October of this year. Meanwhile, the enemy is to be given no breathing spell in Italy. Shipments of supplies into the Mediterranean, already above the level of last Summer, are scheduled to increase another 35 per cent.

I know some of the comparative figures supplied by Generals Marshall and Eisenhower will not bore you.

In the battles of Africa and Sicily approximately one mortar a day was expended. The battle for Germany, with its fury constantly rising, is costing us around 50 mortars a day. (?) We lost, or wore out, 100 big guns on the German frontier in four weeks as against 67 in 19 weeks in Tunisia and Sicily. In other words, the rate of expenditure of heavy artillery is seven times as great today as in these earlier phases of the war.

A single month of combat on the German border destroyed 2,400 trucks and jeeps.

Last June, as we scanned each edition of the papers for the latest news, or remained glued to our radios, our great howitzers hurled a quarter of a million high explosive shells at the Germans. Three months later, in September, the barrage was six times as great.

In two weeks at Aachen our artillery fired 300,000 shells from their 105 mm. howitzers -- one every four seconds, day and night. As we prepare to deal the final knockout blow there may be a hundred Aachens all at once. The boys promise to "pour it on."

~~But if this is to be possible, industry will have to step up production and we will have to pour more and more dollars into our investment for victory.~~

Last June, as our doughboys hit the beaches, as they pushed relentless through Normandy and up the Cherbourg Peninsula they fired nine and a half million bullets at the enemy from their rifles and (?) carbines. In September they expended more than twenty million cartridges and the tempo of battle ever increases.

Today our Army overseas is approaching five million. On an average a division in training in the United States requires about 7,500 tons of supplies a month. The same division overseas calls for sharply increased supplies, and when it enters combat its requirements immediately more than double. It is estimated that gasoline consumption alone of our five million men overseas averages two and one-half gallons per man per day.

In the month of July in Normandy, American troops consumed ten million combat rations. <sup>It is</sup> calculated that next January the

men in this theatre of action will consume 24 million combat rations.

So you can see that this is no time for us here at home to rest on our oars. <sup>We, too, must "pour it on".</sup> We can have no let-down in our factories. It has been our aim to supply the American boys with the finest equipment to be had and as much as they can use. We have not always been able to do this, but it has been our goal. The people of America, I am very sure, do not want us to strive for less. But flaming fronts overseas require flaming factories at home and a flow of funds to pay for the tremendous effort.

We can see victory in Europe ahead; just how far ahead, none of us, probably not even General Eisenhower, knows, but we do know that victory cannot be achieved without a price -- a price in blood, in equipment and in dollars.

Our penetration of enemy soil at Aachen has proved to all of us what fierce resistance we must overcome whenever we cross the borders of Germany. We shall encounter probably even greater suicidal opposition as we land on the shores of the home fortress of Japan.

We know from bitter experience the cost in guns and ammunition, in trucks and tanks, yes even in blood plasma and medical supplies of the victory at Aachen. A hundred other

Aachens lie spread along the front from the North Sea to Switzerland. Yes, the road to Berlin lies ahead of us, but it runs through countless Aachens. Each will be bitterly and fanatically defended.

Every ditch and street, every ruined house and shattered wall will require all that our men have of valor and determination, of strength and of faith in us.

They stand ready to pay their price. We must be prepared to pay ours. Industry, which has done such a magnificent job, must not falter now. Management must concentrate on its war job, labor must, like the men at the front, give everything it has.

Finally we must see to it that there is no lack of funds with which to pay for these sinews of war. That is your job and my job. How small it is compared with what we are asking of our fighting men! Yet it is no less important. They could not win without ammunition and food, without trucks and jeeps and telephone wire; without those thousand things that go to make up a modern fighting army.

We here at home must manufacture and transport those things. And -- we must pay for them.

The Sixth War Loan once more provides us with an opportunity to prove that we intend to keep faith, that we stand willing to lend our government whatever it needs to meet the financial cost of victory.

*Prepared by the Board of War Reliefs*  
Secretary's Speech, New York, November 20, 1944.

*Draft II*

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*11-14-44*

Before leaving Washington to come here tonight, I called upon General Marshall, that able soldier whose brilliant war strategy has won him world acclaim. Our Chief of Staff knows that it takes money as well as munitions and men to win a war. As a result he always shows a keen interest in our War Bond drives. The General said to me:

"Today we are closing in on the enemy home lands. But the nearer we drive toward the hearts of our enemies, the costlier the war becomes."

That is a startling statement. Think of it a moment --

"The nearer we drive toward the hearts of our enemies, the costlier the war becomes."

To date we have not brought our full strength to bear upon Germany or Japan. In Europe recently, we have been held up by problems of transport. But as the facilities of the great port of Antwerp become available it is the intention of our Services of Supply really to pour in the materials of war. Shipments scheduled for this month are double those of October. Next month they will reach a level 55 percent greater than in June when our beachheads were established.

You will be interested in some more figures given me by General Marshall, many of which have never before been made public.

The final push which we have now started, he declared, requires guns and tanks, trucks and bridges, pipelines and railroads in quantities which only a few months ago would have seemed fantastic. The last barrage, that fearful tornado of high explosive which will knock Germany and then Japan out of the war, will make all our previous expenditure of ammunition seem trivial.

We began our offensive war with short, sharp conflicts. The final drive in Tunisia took only 18 days. The island of Sicily became ours in 38 days. In the Pacific we captured Saipan in 24 days, Guam in 21 days, Tarawa in 10 days. General McArthur advanced up the coast of New Guinea in short, knock-out steps.

When we invaded France it seemed to many of us the great climax of our war against the Nazis. We gave prayers of thanks when our beachheads were successfully established. But then for a time our progress became slow. That was when we were ferrying great quantities of supplies across the channel from our bases in Britain. There came tanks and artillery, trucks and ammunition,

food and all those materials needed for offensive warfare.

We broke through at St. Lo and quickly overran France. Many thought victory was at hand. But General Eisenhower was never fooled. He knew the real fight still was ahead.

Today -- tonight, as I speak here -- we are just beginning what General Marshall described to me as "a flaming war on all fronts" -- in the Philippines, across the waters of the Pacific, ever nearer, nearer to Japan itself, across Italy, and from the border of Switzerland across France, Germany and Holland to the sea.

For several months cargo shipped to France has been curtailed by the inability of the port of Cherbourg and the Normandy beaches to handle more than a limited quantity of supplies and the difficulties in getting even these supplies to a front that had moved far away -- toward Berlin. With the facilities of Antwerp available, as I mentioned before, the whole situation will be changed.

The deployment of our forces, explained General Marshall, only now is beginning to reach the point where the majority of Allied divisions are engaged continuously in day-by-day battle. In Western Europe the Allied front exceeds a thousand miles and not only is the battle continuous throughout that distance, but

the number of divisions on the front is increasing constantly.

Shipments of supplies into the Mediterranean, already above the levels of last Summer, are scheduled to increase another 35 percent by the end of this year. The enemy, you can see, is to be given no breathing spell in Italy.

The same is true in the Pacific. Greatly increased supplies must be sent to General McArthur. The Navy's requirements, as more and more ships and planes take their positions in battle lines further and further from home, are staggering.

Sustained, continuous attack will bring us victory, but is costly in supplies. It means more of everything.

Let us look at the record, set down in black and white by General Eisenhower, comparing the three campaigns in which he has led our troops -- Tunisia, Sicily and the Battle for Germany. Let us compare the cost, weapon by weapon, vehicle by vehicle, shell by shell.

The Tunisian battle lasted 96 days and cost 88 mortars. It required 38 days to overrun Sicily, where we lost 47 mortars. In a single month on the German front we expended 700 mortars.

We lost or wore out 67 big guns in 19 weeks in Tunisia and Sicily; 100 of the same size on the German frontier in four weeks.

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Two thousand four hundred trucks and jeeps were destroyed on the German border in a single month, two and one half times the rate of loss in the other two campaigns.

Last June, as we hurled everything we had at the Germans, our 105 mm. howitzers consumed a quarter million high explosive shells. Just three months later, in September, they fired a million and a half rounds -- six times as much. Our huge 155 mm. cannon in September flung more than 130,000 big shells at the German lines, a greater total than the previous three months combined.

Last June, as our doughboys hit the beaches, as they pushed, relentless, through Normandy and up the Cherbourg Peninsula, they fired nine and a half million bullets at the enemy from their rifles (?) and carbines. In September they expended more than twenty million cartridges -- and the tempo of battle ever increases.

You can see that this is no time for us here at home to rest on our oars.

Today our Army overseas is approaching five million. It has been our aim to supply the American boys with the finest equipment to be had and as much as they can use. We have not always been able to do this, but it has been our goal. The people of America,

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I am very sure, do not want us to strive for less. But flaming fronts overseas require flaming factories at home and a flow of funds to pay for the tremendous effort.

We can see victory in Europe ahead; just how far ahead, none of us, probably not even General Eisenhower, knows. But we do know that victory cannot be achieved without a price -- a price in blood, in equipment and in dollars.

Our penetration of enemy soil at Aachen has proved to all of us what fierce resistance we must overcome whenever we cross the borders of Germany. We shall encounter probably even greater suicidal opposition as we land on the shores of the home fortress of Japan.

We know from bitter experience the cost in guns and ammunition, in trucks and tanks, yes even in blood plasma and medical supplies of the victory at Aachen. A hundred other Aachens lie spread along the front from the North Sea to Switzerland. Each will be bitterly and fanatically defended.

Every ditch and street, every ruined house and shattered wall will require all that our men have of valor and determination, of strength and of faith in us.

They stand ready to pay their price. We must be prepared to pay ours. Industry, which has done such a magnificent job,

must not falter now. Management must concentrate on its war job workers, like the men at the front must give everything they have.

Finally, we must see to it that there is no lack of funds with which to pay for these sinews of war. That is your job and my job. How small it is compared with what we are asking of our fighting men! Yet it is no less important. They could not win without ammunition and food, without trucks and jeeps and telephone wire; without those thousand things that go to make up a modern fighting Army. We want no one, be it G.I. Joe or General Eisenhower to worry even for a moment as to where the money is coming from to pay for his food or ammunition.

We here at home must manufacture and transport those things. And -- we must pay for them.

The Sixth War Loan once more provides us with an opportunity to prove that we intend to keep faith, that we stand willing to lend our government whatever it needs to meet the financial cost of victory. I am confident that the men and women of America, no matter what their position in life may be, will do their part to make this loan a success just as they have the five preceding loans.

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November 14, 1944  
11:38 a.m.

Spyros  
Skouras:

I would not dub that picture because it is so Russian.

HMJr:

So Russian?

S:

Yeah. And if you dub it, it would look ridiculous.

HMJr:

Yeah.

S:

And after I talked with Charlie and Charlie told me he could play it in none of his theatres, that he can't play that play as he thought ....

HMJr:

He can't?

S:

.... because they won't accept it at their theatres. He said there are lots of theatres that -- they cannot play that type of a picture.

HMJr:

Yeah.

S:

I was under the impression, or of the opinion at the time he was talking to me that we couldn't dub it, because the whole atmosphere and the theme and everything else.

HMJr:

Yeah.

S:

It would look ridiculous if we dub it.

HMJr:

Yeah. Well, now, what have you got in mind? In the first place, did you like it?

S:

I liked it tremendously. I liked it very, very much, particularly because it portrayed the German atrocities in a very graphic manner.

HMJr:

Yeah. Well, have you any ideas what can be done with it?

S:

Well, Mr. Morgenthau, I'm having a meeting with my boys ....

HMJr:

Yes.

S:

.... and one of the problems is this and I will see what I can do about it.

HMJr: All right.

S: But I can tell you right now ....

HMJr: Yeah.

S: .... it will be an awful hard picture to get theatres to run it.

HMJr: Yeah.

S: The people won't see it.

HMJr: Yeah.

S: Because people today, they are sick and tired of that type of a picture.

HMJr: Yeah.

S: But we can pick up here and there some special theatres and can give it some publicity and get notices in the newspapers.

HMJr: Yeah. Well, you think it over and you drop me a line, will you?

S: I will do that by the end of this week.

HMJr: Right.

S: Okay.

HMJr: Thank you.

S: All right, sir.

HMJr: Bye.

November 14, 1944.  
2:30 p.m.

TREASURY REORGANIZATION

Present: Mr. White  
Mr. C.S. Bell  
Mr. Gaston  
Mr. Luxford  
Mr. O'Connell  
Mr. DuBois  
Mrs. Klotz

H.M.JR: Anybody can talk who wants to.

MR. O'CONNELL: Were you looking at me?

H.M.JR: Yes.

MR. O'CONNELL: Pursuing a little further the discussion you and I had yesterday, I feel very strongly that the thing you outlined to me is, I hope, in the right direction, but it certainly is the sort of thing I would like to see done.

From my own personal point of view I couldn't be any better pleased with what has been suggested, though in the process I lose a couple of assistants. Two of the others are sick and I feel as though I were a little bit shorthanded, but that is a situation that can be very readily corrected, I am sure.

But as far as the Bureau and the legislation, nothing could please me more than to have an opportunity--

H.M.JR: Let's just go around the room.

Mr. Gaston?

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MR. GASTON: This is on this reorganization?

H.M.JR: Yes, sir.

MR. GASTON: As I told you yesterday--

H.M.JR: I mean, everybody knows what I have told everybody else. I have seen each of you alone, except that I saw those two (DuBois and Luxford) together.

MR. GASTON: As I told you yesterday, I don't think as a general thing it is good organization to have the General Counsel's Office have administrative responsibility. I think it is normally bad organization. However, I think that it would be a very decided improvement on the present situation.

So far as the representation on tax matters on the Hill is concerned, I think that is where it ought to be. I think the Tax Legislative Counsel ought to be under the General Counsel, and I think the General Counsel ought to be responsible for presenting legislation on the Hill.

H.M.JR: I might as well speak as we go along. I saw Roy Blough only for a split second. It wasn't my fault or his. I didn't know he and Dan Bell had an appointment on the Hill. Roy Blough, at first blush, didn't seem to like this at all. He said he thought that from an administrative standpoint it stank, and I agreed with him. He thinks that the taxpayer will not be satisfied to have the General Counsel in a dual capacity, over the Commissioner and also over the General Counsel of Internal Revenue.

So I said, "Well, if that was the only thing that was going to stop it, we could cut off fifty percent and put the General Counsel of the Commissioner under the Commissioner and let him report that way."

He said that was a long reform.

I said, "I know, but you have to have a reform, even though Dewey doesn't do it."

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MR. GASTON: Actually, this saves you the necessity of making any decision on that.

H.M.JR: Well, I am just passing on what he said. It seemed to hit Roy very badly. Of course, Bell doesn't like it from an organization standpoint. I agree with them all, from an organization standpoint. That doesn't change me one bit.

But Roy asked where it left him. I said it left him just where he was before. I said, "Supposing I say that Mr. O'Connell is both Assistant to the Secretary and General Counsel; in his capacity as Assistant to the Secretary, he represents me on the Hill."

MR. O'CONNELL: Was Roy more concerned about the Hill than he was about the general administration?

H.M.JR: I don't know. We only had a split second. I don't think, frankly, he liked the idea of your fixing tax policy, and he would be responsible to you. I don't think he likes that.

MR. O'CONNELL: Yet I don't think he wants to fix tax policy.

H.M.JR: No, it really has to be fixed, in the final analysis, by me. That is what I told him.

MR. O'CONNELL: But I never thought Roy wanted any change in his position.

H.M.JR: My record is very bad on the time factor the last couple of months with Roy. I have given him no time.

MR. GASTON: I think it is entirely logical that Roy should report directly to you on matters of policy. This is both representation on the Hill and administration of the Bureau. They are not necessarily tied in with tax policies. It is logical for you to have your own adviser, who is not under the man in charge of the Bureau, or under the man who presents the tax matters on the Hill.

H.M.JR: I personally think if Roy was more or less independent, off by himself, he would be much better off. But he will have his day in court. I told him on account of Dan Bell and Roy Blough not being here, we wouldn't settle anything, but we would just go around the room and get the various ideas.

That was all.

MR. O'CONNELL: Of course, it seems to me, if I may say so, that organizationally there would seem to be, on principle, more objection to having the General Counsel have general responsibility for the Bureau of Internal Revenue, than there is to be said against having the General Counsel represent you on the Hill in connection with tax legislation. I mean, I think--

H.M.JR: Where would there be more objection?

MR. O'CONNELL: I say less objection to the matter of representation on the Hill than to the theory of having the General Counsel in charge as an administrator, in a general way, of the Bureau of Internal Revenue. But I assume the reason we are thinking of that is that we have, at the moment, no very good alternative. We are just doing the best we can with the people we have available. But we have had General Counsels before who have represented the Department on the Hill, and except in the field of taxation it has always seemed to me that you looked to your General Counsel to give you pretty broad general advice in connection with all the fields of legislation that the Department is concerned with. We have the Legislative Unit in the General Counsel's Office.

The anomaly of having the Tax Legislative Counsel's Office, that grew up because, quite frankly, when you had a tax man as Under Secretary, Ros Magill, and Mr. Oliphant as a General Counsel, the situation developed in such a way that we finally gave to the Under Secretary a small group of lawyers who, up to that time, had been in the General Counsel's Office, and gave them a degree of autonomy under which they worked for the Under Secretary.

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That situation does not exist, and the reason for that separation seems to have gone out the window, partly because the personalities are different, and partly because you do not have a man in the position of Under Secretary that is a man like Magill that you wish to have handle taxes for you. Apart from that, there never was any reason why the Legislative Counsel's Office should not be part of the General Counsel's Office. As a matter of fact, it was until 1937, and the only written record other than a memorandum between Mr. Magill and Mr. Oliphant is an order from the Secretary back in 1934 saying that all the legal work in the Department would be under the General Counsel and that order still stands.

I can understand why Wales and Blough would resist a change which would - and I think Wales would resist any change - which would superficially reduce their sphere of influence, you might say. It was the same problem Mr. Oliphant had when he came to the Department. When he was first General Counsel it took him four years to get the Chief Counsel of the Comptroller's Office assimilated into the General Counsel's Office, because up to that time you had eight or ten independent principalities.

MR. GASTON: Everybody in the Treasury had a counsel except the Secretary of the Treasury; he didn't have any.

MR. LUXFORD: He had one, too, at one point.

MR. GASTON: Not when he came here. The Under Secretary had a counsel.

MR. LUXFORD: Historically, at one point he had a General Counsel, too.

H.M.JR: When was that.

MR. LUXFORD: Not you, Mr. Secretary, but in the past there has been a General Counsel to the Secretary.

MR. O'CONNELL: But most of the time, I believe, he was in the Department of Justice. He worked for the

Department of Justice but was a legal adviser to the Secretary of the Treasury.

MR. GASTON: Solicitor for the Treasury.

MR. O'CONNELL: But he wasn't even a Treasury employee.

H.M.JR: There was a time when there was a special Tax Counsel.

MR. O'CONNELL: Alvord.

H.M.JR: What was his capacity?

MR. GASTON: I think he was Tax Counsel.

MR. BELL: Yes, he was. He had to write the whole tax bill.

MR. O'CONNELL: The closest thing we had to that was Arthur Kent, who was an Assistant General Counsel; it was in a sense, Tax Counsel.

MR. LUXFORD: Mr. Secretary, I would like to make a comment. It seems to me that one of the classic faults of professional administrators has been the emphasis they have placed on charts - organization charts - rather than on men. I have found from what little experience I have had, that you can draw up all kinds of fancy charts--

H.M.JR: It works both ways; when you have the wrong man you can emphasize the chart, and when you have the right men, you can emphasize the--

MR. LUXFORD: That is right, but the important thing in my mind is not what the chart says, it is the factual situation of how you allocate your men. And the chart doesn't make any difference.

H.M.JR: In this case I am with you.

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MR. LUXFORD: And I think that is a problem you have got now - have you found the right man for the kind of work? If you have, forget what the charts say and what the professional administrators say.

H.M.JR: Well, the point is, what I am doing here, very obviously and openly, is reshuffling my cards. I am not getting a new deck.

MR. GASTON: I think the thing you have to consider most seriously is not this question of charts against men; I think it is a very practical question of whether, when Joe gets immersed in the business of the Bureau to the extent that he will have to, we won't need a new General Counsel at about that moment. I think that is the real question we will have to face.

H.M.JR: Without being too serious, Sullivan had plenty of time for other things.

MR. GASTON: I don't think the other conditions were fulfilled.

MR. BELL: For the most part, Joe has run practically everything John saw, anyway. This administrative work will continue. Certainly you are not going to take over Personnel and office space and that kind of administrative charge, and they will still flow up to my desk. Joe already participates in all of the large claims of Internal Revenue, and the principal work of Internal Revenue--

MR. O'CONNELL: I am not sure whether that covers the field or not, because unless I was inside John's office--

MR. BELL: I know, because I see all that you and John see, and Joe's initials are on practically everything that goes through John's office, except those strictly administrative charts that end up in my place.

MR. O'CONNELL: I think there is something in Herbert's point, but I think we ought quite probably to wait and see how we come out. While Randolph Paul was the General Counsel I was very unhappy most of the time, because he

was essentially a tax man and was spending most of his time and energy on tax legislation. He was not interested in, nor very familiar with, the rest of the work of the Department. And as one of his assistants, I was always a little bit uncomfortable, partly because I was used to a different type of General Counsel with Ed Foley and Mr. Oliphant. Their coverage was broader, and I felt that the office of the General Counsel, as I understood it, suffered under Mr. Paul because he was spread pretty thin and the things that I was most familiar with suffered partly because he wasn't able to give the time to them, and partly because it is difficult to have the two bosses in the one office; and while I was supposed to be running the show, except the part he ran, it didn't work out awfully well.

It may be, if what the Secretary suggested goes through, that a condition like that would develop. I don't know. I do think I would have the advantage over Mr. Paul in having been here long enough so that with much less time and energy I could keep my finger on the sort of thing that is involved in the rest of the legal work of the Department, because I have worked myself in every one of the fields that our office handles, and it would seem to me that there would at least be a pretty good chance that I could do what the Secretary wants me to, and at the same time have an organization that will operate pretty well and give the Secretary the sort of service that he was used to having under a General Counsel years ago. And I would like to give it a whirl. I think it could be done.

I feel that way much more strongly with respect to the Hill side of this thing than I do about the administration of the Bureau of Internal Revenue, because that thought the Secretary gave me yesterday had never occurred to me for one minute until he suggested it to me. The other one had.

The main reason I wanted to have Wales' office put in the General Counsel's office four months ago was that I felt that there was a possibility that when we got about

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up to this stage in the game, you might say almost by default, it would be suggested that I be expected to carry the ball, or do something in connection with tax legislation on the Hill. And one of the reasons I wanted Wales' office put in my office was that I wanted to have three or four months to be prepared for that if it came about.

As far as attempting to ride herd on the Bureau of Internal Revenue, it never occurred to me until yesterday, but I would like to give it a try, and I don't think the office will suffer; certainly my office won't.

I guess that is my story.

H.M.JR: Charles?

MR. BELL: I don't think it is going to place such a heavy burden on Joe, Mr. Secretary. Magill used to handle this whole field. And Revenue is an old organized Bureau. It doesn't have a lot of new problems. They get off on the wrong foot every once in a while, but we have less trouble with the Bureau of Internal Revenue than we do with the War Savings staff with a thousand people, and Revenue has forty thousand, because it works more or less like a clock. I am speaking purely from the administrative viewpoint. The other stuff you see, anyway. And it certainly represents a whole lot better idea than anything we have now or have had in quite some time.

As the Secretary says, he wants to shuffle the same cards. I don't think we have much of any other out.

H.M.JR: Harry?

MR. WHITE: I find myself almost wholly in agreement with what has been said by Joe. I think Joe has expressed it very well. I think that it should well be the function of the Legislative Counsel to present the tax bill. I think it has some advantage when he isn't purely a tax man, because then he will rely much more heavily on technical assistants, both his Legislative Tax Counsel and his technical - Roy Blough.

I also feel that Roy Blough should be responsible directly to you and not to Joe.

H.M.JR: Excuse me. He is responsible now to Dan Bell.

MR. WHITE: Whoever he was responsible to before - but he should not be--

MR. O'CONNELL: I hadn't understood there was any suggestion that Roy's position be changed.

MR. WHITE: I don't think it is necessary for Joe to be an Assistant to you in order to present material before the Hill. It would seem to me to be the logical and appropriate thing for the Legislative Counsel to present legislation for the Hill; and I think Joe's remarks about taking a whirl at the Internal Revenue Bureau is about what it is. If it were any other group of men, the setup would be different. I think Luxford expressed that pithily.

But with the men you have, Joe can try that and, in a sense, be regarded as trustee of that job. Maybe in six months from now, either because there is a new man available who you think could do an excellent job at it, or because it is becoming too much for Joe, or both, then there could be a shift without disturbing any of the relationships. It is a very fluid situation, but one which, I think, at present lends itself to that kind of arrangement.

So I think the suggestion you have is perfectly all right. I certainly think the Legislative Counsel ought to be in the General Counsel's office. I think that Joe could facilitate matters somewhat by, whenever he is called in here to discuss taxes with you - and that probably would be the natural thing, I don't know - that he ought to take the man who is head of his legal tax section, Roy Blough. That would be natural. In that way, the man who is head of the Legislative Tax Section and who presumably would spend all his time at that work, would be present with the Secretary.

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MR. O'CONNELL: It is perfectly clear to me that the present Tax Legislative Counsel is Wales. He succeeded Stan Surrey. Now, for the past several years Surrey and Blough operated in just about the way I would assume they would operate - whoever was in charge of taxes for the Secretary. They are technicians; they work every day; they are down on the Hill every day. Now, when Mr. Paul was here I imagine he used them in the sense you are talking about, and perhaps a little less than I would be forced to, because he was of their same stripe - he was a technician, too.

I may be wrong, but I have always thought that it wouldn't be a bad idea to try a man to handle taxes on the Hill who was a little less technically well equipped. I mean, there is a certain disadvantage in dealing with Congressmen and others, of a man with the depth of understanding of taxes that a fellow like Roy Blough or the technicians in the bureau have. They sometimes don't tend quite to convert what they know into a thing that the average Congressman can understand. They sometimes get people to feel they are talking down to them. They don't mean that.

MR. WHITE: I think always a better presentation can be made before Congress when a line is drawn between broad policies and technical understanding. I think the man who speaks for the Treasury from beginning to end is always in a much more favorable position when he can say, "That is a technical question. Mr. Jones will handle that - Mr. Smith will handle that." That gives him a chance to sit back and see how things are going. He can pull the technician out at any time, and I think the Legislative Counsel can do that more freely when he is not a tax man.

H.M.JR: Don't let's get into too many details. I just want to say this. After all, Herbert Gaston has been looking after the political appointments for me, and I would like very much to have him continue to do that. I think we should have one man represent the Treasury on the Hill; if there is some legislation going on, that that person should cover the wholewater front.

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Let's take Bretton Woods, for example. I gave you (Mr. White) this assignment the other day. You are busy. Well, Joe could contact these people with you, but he ought to know everything that is going on on the Hill as far as the Treasury has business on the Hill. If it is political, then it should be Herbert Gaston; but if it is legislation, then it should be Joe - so he is completely familiar with any piece of legislation.

MR. BELL: Would that include the budget?

H.M.JR: Yes, sir. Anything. I mean, he isn't going to carry the budget through; he isn't going to carry Bretton Woods through - or this, that, or the other. But one man should be in position so that he would know at all times what is going on, and that person can say, "Look, Mr. Morgenthau, I need your help. Would you mind coming up with me, or having so-and-so for lunch," or something like that.

That is a thing we have never really had. We have sort of spluttered around. Every other Department has one man who represents them on the Hill. Justice has one man, doesn't it?

MR. WHITE: I think the Legal Counsel used to have one on there all the time.

MR. GASTON: Yes.

MR. O'CONNELL: I have two or three men - Tom Lynch and Dave Speck spend most of their time watching and keeping in touch with legislation, and keeping the various people like Dan and Harry and others informed as to what is going on - what the current situation is.

H.M.JR: And with me the day after or the week after.

MR. O'CONNELL: Well, we slip up sometimes.

H.M.JR: So do I. So just let me get everybody's feelings. This affects Joe and Luxford, personally. I would like to give them their day in court.

MR. DuBOIS: I can't add much, except I feel strongly that the important thing is the man and not the chart or the fact that he may be called a General Counsel. You only have a certain number of good men; you have to use them to their best--

H.M.JR: If I can address the two of you (Luxford and DuBois) simultaneously - either of you can answer me - I don't know whether you have had a chance to talk with Joe or not, and also White - when I talked to him on Sunday he raised the question of what kind of assistants he would get. I would sort of like to throw that on the table. I mean, I expect you people to do things for me, and also expect you to continue to take care of Harry White.

MR. LUXFORD: Mr. Secretary, we thought about that, and talked to Joe O'Connell about it this morning, and our feeling was we shouldn't talk in terms of having a staff, that that is wrong in a sense, that we don't know what our functions will be, or how they will develop. At one time you may need several men, and at another you wouldn't need anybody.

Under the circumstances, I would personally rather see the thing work along. If we need help at any time, why that is the time to talk to Joe O'Connell or somebody and see if we can't borrow some help - but certainly not at this point.

H.M.JR: Well, I think that makes horse sense, and I think - just thinking out loud, the way you are talking now - I don't like to compare lawyers to a stenographic pool, but there is a pool of lawyers there. You might even want to borrow a couple of economists, you never know!

MR. LUXFORD: I would be afraid to try it.

MR. O'CONNELL: It is easier to borrow lawyers.

H.M.JR: You don't know how hard up you will be. But I think the thing is this, that among yourselves, you people ought to talk this thing over, do you see? I mean

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anybody in this room, and find out whether this thing can shake down to a comfortable working arrangement. I agree with Luxford that he can't tell - I mean, I might say to Luxford - well, let's say we are not going to have the Bretton Woods legislation until the new Congress comes in - "Well, I want you to spend the next two months on the road, speaking." You wouldn't need any staff then.

MR. LUXFORD: That is right - except when we write the speeches! (Laughter)

MR. GASTON: A fellow named DuBois can write your speeches and Luxford can write DuBois'!

H.M.JR: You fellows just don't know, see?

MR. LUXFORD: That is right.

H.M.JR: And Harry White sent me a memorandum which I haven't read, and he discusses with me whether or not I want to do anything about the political situation in France. Well, I might get interested.

MR. LUXFORD: If you send us over there, of course, you wouldn't need any.

H.M.JR: I hear the cost of living in Paris is high. Why? We might have to investigate that. I mean, you just don't know what direction you are going to go in. But I want you boys to be happy, and now is the time to make your deal with the people in the room.

MR. LUXFORD: I would rather leave it just like it is. You can't draw a chart to cover everything.

H.M.JR: This is the time to make your deal, and if you have any doubts - anybody has any doubts - this is the best time to say so.

MR. GASTON: From what I hear about the functions of these two men, I should think that what they need would be

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a secretary apiece and maybe one or two file people apiece. If they need outside help they will look for it where it is.

H.M.JR: I tell you what they need, Herbert; you know, on a steam engine there is a thing that goes around--

MR. WHITE: A governor.

H.M.JR: You know, it goes up and down to keep the steam engine from running away. What they need, each one, is one of those things - a governor.

MR. LUXFORD: The governors are here; what they need is a throttle! (Laughter)

MR. O'CONNELL: While we are thinking about deals, while I agree there are a lot of things we can't quite tell, there are one or two things I am pretty sure of. I wonder if it wouldn't be possible, before too long, for me to get Buz Aarons back from abroad?

MR. WHITE: Along that line, without answering that question for the moment, I think it is all right to start out that way, but I know very well what will happen. It is a certainty, as far as I am concerned because I don't think you can operate without an assistant or two--

MR. LUXFORD: I have to know the problem first.

MR. WHITE: If you begin going around borrowing people there is going to be trouble. The trouble will develop and you will solve it by taking somebody away and attaching him to your staff. I don't think it has to be decided now, but I am pretty sure they have to have some assistants, and they can't keep barging in on other divisions. Then you get full responsibility.

MR. GASTON: You don't start travelling until you know what direction you are going to travel.

MR. O'CONNELL: Do you think what Harry said was at all in response to what I said?

MR. WHITE: It followed right after!

MR. O'CONNELL: In point of time, yes.

H.M.JR: You people seem to be fairly happy about this thing. I would suggest that Joe and Charlie Bell get hold of Roy Blough and the two of you fellows sit down with him and see if you can't make a deal with him, because this thing came as a complete surprise. For once the thing didn't travel all through the Treasury.

MRS. KLOTZ: I think he will be very unhappy until he can get it off his chest to you first.

H.M.JR: Anyway, if Charlie Bell and Joe could see Blough and Wales sometime today and sort of talk to them about this thing, and then I will try to have another meeting like this tomorrow.

Herbert, have you had any time to think of Procurement?

MR. GASTON: I think I would like to know something more about what the problem is to be faced there. I don't mind taking a whirl at it, but I would like to know something more about what it is going to be - whether Olrich is going to stay or keep his assistants.

MR. WHITE: He said he was not going to stay.

MR. BELL: His resignation is on the way to you now, dated the 27th of November.

H.M.JR: My desk is always clean!

MR. WHITE: Specially the outgoing box!

H.M.JR: Of course, Herbert, as far as Procurement is concerned, there are certain things going on which I want you to know about. The Bureau of the Budget is working on one Department to handle surplus property. I don't want it, see? So, before you get onto it I want you to know - we have been all through this months ago.

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I don't object if they want to keep us doing what we used to do in the old days about Procurement, but definitely, with the new setup, I don't want to keep the Disposal of Surplus Property.

MR. GASTON: But you don't have any assurance that we will be able to get rid of it?

H.M.JR: No, I am going to try awfully hard. That is one thing I want to tell the President tomorrow, if I get time. I have a thousand things to tell him.

MR. LUXFORD: Mr. Secretary, did you think about Ira Hirschmann at all to fill Olrich's job? You know Ira is a pretty good man. He is from Bloomingdale's and has had experience of that kind.

H.M.JR: Of course, you know what he does at Bloomingdale's don't you? He runs their radio station.

MR. LUXFORD: Well, that is good.

H.M.JR: ...which is continuous music.

MR. GASTON: What is the name of their radio station, do you know?

H.M.JR: No, I don't. He is public relations, he is not a merchandise man.

MR. LUXFORD: That ought to qualify him, then!

H.M.JR: His reputation of getting along with people isn't too good.

MR. LUXFORD: I don't know about that.

H.M.JR: I do. People are surprised that we had him. When I explained what he was doing they say, well, that he would be all right for that, but any long pull, no.

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MR. WHITE: I think if Herbert is going to take a whirl at that, what Herbert ought to get is some very able young man who will do a good deal of the leg work for him over there, and then I think it would make an excellent combination. He ought to concentrate on getting an ideal man if he could be--

MR. GASTON: It depends on the dimensions of this job.

MR. WHITE: I suggest somebody like Ullman for you. He is in the Army.

MR. GASTON: Ullman? Oh, yes.

MRS. KLOTZ: That is an excellent suggestion.

MR. WHITE: But there are doubtless others. But if you get that it will take a good deal of the physical work off and make a good combination.

H.M.JR: They have some very good men over there now.

MR. GASTON: If the thing is going to be only Procurement, and not Surplus Disposal, we can handle the thing very nicely with the staff we have there now and without the new men that Olrich brought in. If Surplus Disposal is going to be on there, then we have to start hunting very hard for somebody to take Olrich's place, and you have a big job of organization.

H.M.JR: I want to try very, very hard to get rid of Surplus Property.

MR. O'CONNELL: But until you do, Mr. Secretary, you have to operate as though you were going to, because you have an operation going on where they are selling fifteen or twenty million dollars' worth of stuff a month, and you can't sit still and wait on the theory we may not have the job to do.

MR. WHITE: Who is Olrich's assistant?

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MR. O'CONNELL: Duncan, a new man whom Olrich brought in with him. I don't know whether he is up to that or not.

MR. GASTON: Well, Cliff Mack - I suppose he is handling only the Procurement end, isn't he?

H.M.JR: What is Duncan's experience?

MR. BELL: He has been in business for himself, but earlier he had a lot of merchandising experience. I have the complete papers on him. I thought I would give them to Mr. Gaston the first thing tomorrow and go over the whole Procurement picture and give him the dimensions.

MR. O'CONNELL: The other day, Mr. Secretary, you mentioned Thurman Hill's name to me. Do you have any objection to my talking to Mr. Hill?

H.M.JR: I just suggest that if he is a top man and wants to come back in any capacity, that is all right. He made a pretty good run in Kansas. I don't know anything about his work.

MR. O'CONNELL: I was anxious to give him an opportunity to come back as Chief Counsel.

H.M.JR: I don't know how good he was. I just know that politically he seemed to make a pretty good run in Kansas.

MR. O'CONNELL: He is all right.

MR. GASTON: I think he made a good run. What I was about to say, my very slight impressions of him are this, that he is a good lawyer, and he is also pretty political, and sometimes he may have to be restrained.

MR. O'CONNELL: I don't think that is quite accurate. I think his judgment is pretty poor sometimes, but he is the soul of honor. What he lacks is organizational ability, I believe, more than anything else.

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H.M.JR: Somebody in connection with Procurement certainly ought to be put over the barrel and spanked. I don't know who the hell's fault it is, but the organization stinks.

MR. O'CONNELL: You couldn't possibly blame that on Thurman Hill. He has only been there two years. He only went in '42.

MR. GASTON: One great difficulty - I think Charlie Bell explained pretty well in that memorandum to you - this is a hard time to get men, and the temptations are very high in that Procurement, and the turn-over has been very rapid and here, as Harry points out, you have had thirty-five hundred dollar men handling deals involving millions.

MR. WHITE: Why doesn't the fellow fight for something different?

H.M.JR: Well, look, gentlemen, Mr. Charles Bell has spent fully half of his time on this thing, and is fully posted to discuss it with Mr. Gaston, and I suggest that he do that.

MR. GASTON: Yes.

H.M.JR: And I would say that I feel we have made progress. I think you people should see Roy Blough and Wales and we will have another meeting tomorrow.

Do you want to take another minute to tell me about Kung, and excuse the others?

MR. WHITE: Yes.

November 14, 1944  
2:33 p.m.

John  
Sullivan: Hello.

HMJr: John.

S: Yes, Mr. Secretary.

HMJr: I can't talk but I -- is there something on your mind?

S: No. You see, I thought -- see, I'm leaving today ....

HMJr: Yes.

S: .... for Chicago and then the Coast and I didn't know what your plans were or the plans of the gentleman across the street, so I thought I should get to you today ....

HMJr: Yes.

S: .... my letter to you and my letter to him.

HMJr: Yes.

S: But that's all I wanted to see you about.

HMJr: Oh. Well, they didn't -- if you'd only give me a little notice but I'm just chock-a-block.

S: I understand that. Now, I can see you later on in the afternoon if you prefer.

HMJr: Well, I thought you were leaving, they said, at three.

S: No, I -- I have to go home and get my things together and then I'm leaving here for the train at a quarter of five. I can be back at any time you say.

HMJr: Fitz told me you had to see me before -- right now.

S: Well, I'm sorry, I said that either now or later on.

HMJr: No, he didn't say that. Well, it will have to be later on.

S: All right, you name it and I'll be back.

HMJr: Well, four o'clock?

S: Certainly, that will be fine. I'll be here.

HMJr: All right. What's going on on the West Coast?

S: I'm making those War Bond speeches I told you about.

HMJr: Oh, yes.

S: Los Angeles and then probably up through Ted's State.

HMJr: Oh, yes. Well, I'll make it four o'clock.

S: Right, sir, I'll be here.

HMJr: Thank you.

S: Thank you.

November 14, 1944  
3:15 p.m.

CHINESE FINANCIAL NEGOTIATIONS

Present: Dr. White  
Mrs. Klotz

DR. WHITE: There was a good deal of talking around about many subjects before we came to the subject that was on his mind.

He apparently is eager to get some kind of settlement, and what he is striving at now is to get 125 million to settle up to June 30 and not take the period beyond, which was the arrangement. But in order to make it look as though he did a wonderful job, he wants to exclude-- he doesn't put it that way; he claims it is not in there-- the four-odd billion for the so-called Chengtu Airfields, which is in the thirteen point nine billion figure. He claims it is not in there.

Now, he wants to set that out and then, pursuant to some suggestion that was made by the Army at Bretton Woods, to charge that against us as Lend Lease in Reverse, so you won't have to pay for it, but it will make the exchange rate much higher.

H.M.JR: That is right. Your man knows about that.

DR. WHITE: Yes, he does. He was there.

That troubled me, because I don't understand how you can say that you paid this fourteen billion yuan and then have them come forward with the other and say, "You didn't pay it, but we'll just put it on the books."

H.M.JR: We did say that, that that will be against the ultimate day when the whole thing is settled.

DR. WHITE: You will be willing to have that charged as a future claim?

H.M.JR: What is your man's name?

DR. WHITE: Adler. He says that you made that.

Now, I think the way Kung talked he would be delighted, because then he could go back and say he got almost sixty to one. And he will hope that sometime something will be collected on the other or it will be charged against Lend Lease in Reverse.

H.M.JR: That really goes back to the Bretton Woods offer, doesn't it? I can't remember it. We have a record of it and Adler has it.

DR. WHITE: Adler says that it does, and he will apparently be delighted - though he may not show it at once - if that is the arrangement made. And he is not raising the question of the payments since June 30.

Adler tells me that the expenditures now, as of today, are increasing, because they have to build new fields to replace those which the Japanese have taken.

H.M.JR: What I thought he would do - and if he hasn't, he is not as smart as I thought he was - I'll tell you what I thought he was going to do, and I was afraid of it and I realized afterward I left myself open. We offered them the 125, as I remember, of which we had paid 25, so there is a hundred more. Then we said for the months of July, August, and September it would be 20 million each, which is 60, making 185 million. It came out 185.

Then we added 15 more to be over the whole period, didn't we?

DR. WHITE: I never heard that.

H.M.JR: Oh, yes, you were here. The figure that we offered them, net, was 185.

DR. WHITE: That is 125 and three months at 20.

MRS. KLOTZ: The sweetening was after that 125.

H.M.JR: The point that I was afraid of, whatever the sweetening was, I thought he would say, "We will apply

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that up to the first of July," and if he had been smart, that is what he would have said.

DR. WHITE: I think that is what he has done. He has taken the extra 25 million and applied it to the first part.

H.M.JR: Let me question Adler, if you don't mind. I was afraid he would take the sweetening and add it from March 1 to July 1 and get the sweetening there.

DR. WHITE: He has some cock-and-bull story about being gypped out of a month's pay.

H.M.JR: We went all through that!

(Secretary checks with Mr. Adler's office)

Adler is out of the building, but I'll see him after four, if you'll remind me. (To Mrs. Klotz)

Now, don't let him go back; he's done that five times. We owe him, net, a hundred million. Then there was the sixty we added to that, making one hundred and sixty.

DR. WHITE: And you included the 25 million you paid him in the 125 million offered.

H.M.JR: My memory is pretty good - that we were offering him 185 million, net, to October 1 - from the first of March to October 1, net.

DR. WHITE: That is right. That is the offer.

H.M.JR: So the sweetening must be 25 million.

DR. WHITE: Of which they have 25 million.

H.M.JR: No, excuse me; 185 million, net, is what I offered them to October 1.

DR. WHITE: That is what you pay over, in addition to 25 which he got.

MRS. KLOTZ: That makes it right, then.

H.M.JR: From March 1 until October 1. We have already paid them 25.

DR. WHITE: That isn't my recollection, but that will be in the record. My recollection is the 185 would include the 25 you gave them. You were going to give them a hundred million for March, April, May and June. Now, what did he get the 25 million for?

H.M.JR: Cumshaw.

DR. WHITE: Not for February - then I think I am right. Where we differ, I didn't think it was new money; I thought it included the 25 million.

H.M.JR: Check it and come back and see me, will you?

DR. WHITE: Yes; I'd like to clear up something you mentioned to me about Mrs. Sundelson's going to New York. I made inquiries. She made no speeches.

H.M.JR: No, I had it wrong. She was there at a meeting at which Miss Newcomer spoke. After Miss Newcomer spoke, she took part in the discussion. It was a League of Women Voters meeting where they said she was too aggressive.

DR. WHITE: I'll find out. She says she hasn't spoken to anybody, but two women. She used to be President of the New York State League of Women Voters. The only women she spoke to were a Mrs. Hemming and a Mrs. Straus. She spoke to each of them separately and alone. She thought they were both very friendly. She says that is the only speaking she has done.

H.M.JR: It was at a meeting at which Miss Newcomer had spoken, and then she took part in a general discussion afterwards.

DR. WHITE: I will see.

November 14, 1944  
3:17 p.m.

HMJr: Hello.

Operator: Colonel McCarthy. Go ahead.

HMJr: Hello.

Colonel McCarthy: Yes, Mr. Secretary.

HMJr: Colonel, I got your letter with the enclosed memorandum from General Marshall.

M: Yes, sir.

HMJr: Mr. Herbert Gaston, Assistant Secretary of the Treasury is working on this speech for me....

M: I see.

HMJr: .... and he may call you and ask you some questions and I just want to tell you it will be all right if he did call you.

M: Grand, sir, I'll be glad to hear from him at any time.

HMJr: And we will do what you suggest when the thing is in draft form; we'll send it over to you.

M: Thank you, sir. I hesitated to ask that, Mr. Secretary, but it means that -- we've released some figures that our people are stiff against our releasing and I just wanted to make sure I didn't make a misstep on it.

HMJr: No, I'd much rather have it that way so that when we get to O.W.I., I can say that you've okayed it and then thumb my nose at O.W.I.

M: Correct, sir.

HMJr: I don't want to thumb my nose at you.

M: (Laughs) Well, thank you, Mr. Secretary.

HMJr: And again, thanks for bringing it around and I read it very carefully and I think out of it we're going to be able to do a good talk.

M: Well, fine, sir. It was a pleasure and I'll expect to hear from the Assistant Secretary.

HMJr: Thank you.

M: All right, sir.

HMJr: Bye.

M: Bye.

November 14, 1944  
8:30 p.m.

TREASURY REORGANIZATION

Present: Mr. D.W. Bell  
Mr. C.S. Bell  
Mr. Bartelt  
Mr. Cake

H.M.JR: Who is the mouthpiece here?

MR. D.W. BELL: Well, we have sort of a memorandum that can be looked over by you to see what you want to do - to see whether it should be a memorandum to the President or a letter.

I was hoping to have a meeting today with that whole group that was in your office, but I didn't get to it. No one has been over this except this group here. Charlie hasn't seen it. He came in for a few minutes this evening, but he only saw the first part of it. It is quite long, and it has got things in it that could come out. Do you want to read it? (Hands the Secretary attached memorandum)

H.M.JR: Let me glance at it, because I can skip the parts I don't want to read. Is this the electric typewriter you are using?

MR. D.W. BELL: No, this is the elite.

MR. BARTELT: That does good work.

H.M.JR: You know what the President will do - he will say, "My God, you haven't got a summary?"

MR. CAKE: These tables sort of summarize the proposals contained in the memorandum (refers to attached tables).

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H.M.JR: I ran over those once, didn't I?

MR. D.W. BELL: It has been changed to three parts. One is "Functions to be Centered in Treasury," that is the first one; the other, "Treasury Representation on Management Body," such as the Federal Reserve Board--

H.M.JR: You are putting the General Accounting Office in the Treasury?

MR. D.W. BELL: No, that is just part of the work - trying to make that an independent audit and have no executive functions. It now has the function of prescribing accounting systems for the Executive Branch, and it has the function of settling accounts, which is an administrative matter.

Now, that is one thing that probably ought to come out, because it has always been very controversial on the Hill and other places.

H.M.JR: Certainly every Civil Service employee will be for that, to bring it under the Treasury.

MR. D.W. BELL: I think most people in the Government service would favor that move.

H.M.JR: Now, this is Treasury representation?

MR. D.W. BELL: The first one is where you would take over the entire fiscal functions, and the second one is where you would be merely on the Board or on the Body.

H.M.JR: Office of the Comptroller and - oh, yes, Bureau of the Budget. Do you have to put that first?

MR. D.W. BELL: We didn't put it first in the letter. It could be changed.

H.M.JR: What do you mean (reading from Table I), "Responsibility for administrative management would be left entirely to the respective departments and agencies concerned"?

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MR. D.W. BELL: Since the Budget has moved to the White House they have set up a section over there under Donald Stone, who came from the Brownlow group, and I think he has got about three hundred employees.

MR. C.S. BELL: He must have a total of four hundred and fifty over there now.

MR. D.W. BELL: Over five hundred employees in the Bureau of the Budget, now.

MR. BARTELT: Five hundred and fifty.

H.M.JR: How many did there used to be?

MR. D.W. BELL: Forty-some employees when I first went over, and I increased it to sixty before I left. He has built up this force which goes around into the departments and tells them how to manage their affairs and sets up organizational procedures and builds up the organization. I think it is expensive and costs the Government a lot of money.

H.M.JR: Look, gentlemen, the trouble with this - this part is all right, but it doesn't explain enough. It is just enough to be dangerous. This thing isn't keyed to that.

MR. D.W. BELL: It is in the back. It isn't set out exactly as it is set up on the Table. It is on Page 10 where it says, "Appended are three tables outlining in summary form, the realignments contemplated in the foregoing proposals." It is the first full paragraph.

H.M.JR: Now, could I make a suggestion? I don't know whether you have time--

MR. D.W. BELL: When is it?

H.M.JR: It is one o'clock tomorrow. I was thinking in terms of a book - a binder, you see? Let's say it is in sections - "Functions to be Centered in the Treasury" -

that would be all right, and we could have a first page, or if it was necessary, two pages - I am just thinking out loud - with all these experts around here, I am embarrassed a little bit.

MR. D.W. BELL: I'll bet!

H.M.JR: "Functions to be Centered in the Treasury," that would be the first page; then would come this; and then you could put a number, Bureau of the Budget, Number 1. Then you could speak about that, and there would be a tab on it. If he is interested in the Bureau of the Budget there would be a tab on it; he could turn to tab number one, which would explain this.

Now, for instance, if I was going over it with him and he asked me about the responsibility for administrative management - but I take it there is an explanation in here of what that means?

MR. CAKE: Yes, sir, that is going into more details.

H.M.JR: Bureau of the Budget, Number 1; Office of the Comptroller of the Currency, Number 2. Well, you could just turn to the thing and you would have it. This way it just gets lost. What do you think?

MR. D.W. BELL: That may be all right.

H.M.JR: Then you could have in the front the argument for the functions to be centered in the Treasury.

Now, of these first three pages, I don't know whether that is all of that or not.

MR. D.W. BELL: The first three - the first is a general statement, and then we go into the Federal Reserve Board first.

MR. CAKE: On Page 3 the Federal Reserve Board is the first.

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MR. D.W. BELL: The first two pages are pretty general.

H.M.JR: Let me read that and see. That is sort of a general argument why the functions should be centered in the Treasury.

MR. D.W. BELL: Why it should be strengthened.

H.M.JR: The only thing which I think is missing here, gentlemen, is this - I think it is an excellent statement, but I don't think you have quite drummed in the fact enough that in the reconstruction period, when we still have to be borrowing almost as much as we do now, that for the Treasury to enjoy the confidence of the public it must be able to not only be held accountable for all these expenditures of the Federal Government, but also to convince the public that it has some check on it. I mean, that is the principal thing.

The fact that we have got to go out and borrow - and supposing I face an audience and we have a question and answer period; they say to me, "Well, Mr. Morgenthau, what about this?"

I say, "I am sorry. Ask somebody else."

"Well, who is that?"

"Well, that is the President."

"What about that?" "I am sorry, that is the President."

I think you could put that thing in and simply say that the way it is now, ninety percent of the expenditures, if I had to explain to any of my eighty-five million bondholders why that is, I would have to say that the Treasury has no control over it. Now, that, you see, might get under his skin, if he realizes.

MR. D.W. BELL: It is the President's Bureau of the Budget in the first instance, and his Cabinet Officers' in the second.

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H.M.JR: And that the Treasury in no way can be held accountable.

On the other hand, he does look to the Treasury to raise the money. Well, the fellow that raises the money also ought to be held accountable for controlling the expenditures.

An honest answer would have to be, "Well, Mr. President, it is your responsibility."

I don't think it should be his, I think it should be the Secretary of the Treasury's.

MR. D.W. BELL: Let me see your memorandum and see what Glass said in 1919.

H.M.JR: Don't yes me unless you agree with me.

MR. BARTELT: I think that is a very good point, I really do.

H.M.JR: Am I going to stand up before an audience and every time say, "Oh, oh, I can't help that; that is the President"?

MR. BARTELT: I think that is the real point.

H.M.JR: And I don't think that is clear in here at all, gentlemen. I think if that could be done in a very nice way - just point out, "Now, look, Mr. President, right now this is your responsibility and I don't think it should be yours because I don't think you should be asked to carry that."

MR. D.W. BELL: This is what Glass said in 1919 when he was arguing for the Budget to be in the Treasury. It was quite a controversy in Congress at the time: "It is indefensible that he (the Secretary) should be charged with the duty of keeping an adequate balance in the general fund to meet any and all demands, and denied any word with respect to determination of the expenditures of the Government outside of his own Department."

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H.M.JR: Yes, you can quote Glass.

MR. D.W. BELL: We have a memorandum for you to read, the background on the Budget, and also the Federal Reserve. We could put that in there. This whole memorandum would be good in there. It is a little long - that is what we were afraid of - on the background of the Budget.

H.M.JR: Why don't you quote some--

MR. D.W. BELL: But as long as you suggested setting it up in book form and under tabs, the length of it might not hurt so much. I think it ought to be fully explained.

H.M.JR: I don't think so. You have time - I mean, you have four or five hours tomorrow morning.

MR. D.W. BELL: It is a little difficult typing this by one o'clock, I am afraid.

H.M.JR: They can cut it. Use the shears. If it is just clipped and pasted I would tell the President I didn't have time and I will give him a better looking one some other day. That is all.

MR. D.W. BELL: Tell you what you could do, Gilbert - Mr. Cake has refrained from putting anybody on it except his own secretary - it is so confidential that he has only had one girl working on this, you see. I won't be there tomorrow; you might go down and use one of my girls, too, because they know about it.

H.M.JR: All right.

MR. C.S. BELL: We have plenty right in our own office.

H.M.JR: All right. But I think you ought to stress the point that this is - be a little colloquial, and I would go so far as to say that you can't hold the Secretary of the Treasury responsible to raise all of this money in the reconstruction period if he has no control over expenditures.

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MR. D.W. BELL: May I point out that that is probably going to be more important in that period because everybody is going to be looking for a more balanced budget and will want to know who--

H.M.JR: That I wouldn't say; I would just talk about the difficulty of the reconstruction period. I would say that everybody who wants their taxes reduced - George came out and said there would be no reduction.

MR. D.W. BELL: I didn't read that. Did he say no reduction after Germany?

H.M.JR: The statement I read said no change during '45.

MR. D.W. BELL: I think that is fair. They are assuming the war goes on.

H.M.JR: It is surprising, though, how many people will ask me and suggest that we don't meet this debt - even a fellow like Forrestal, in front of King the other day - "What are you going to do? You are not going to meet this debt," and so forth and so on.

I said, "That is a terrible thing to say. Just as long as I have breath in my body, whether I am in the Government or not, we will fight to meet the debt."

I said, "If you keep the taxes around where they are, why in twenty-five or thirty years we can pay it off."

He said, "Well, as long as it doesn't go above three hundred billion."

I said, "But I think we had better not let the war last too long."

He said, "Hear that! You had better get busy now and hurry it up."

But, I mean, a man like Forrestal playing with the idea that we are going to whittle the debt down.

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MR. D.W. BELL: Yes, well, they all asked the question, "What are you going to do? How are you going to pay it off?"

H.M.JR: Now, Treasury representation on management body - Federal Open Market Committee. What do you do with that?

MR. D.W. BELL: Leave that in the Federal Reserve Board, but you can get representation on the Board and automatically get representation on the Committee, or sufficiently close to it to know what is going on.

Do you remember when we talked in your office the other day we left a place where the Securities and Exchange Commission would go? We have put it in the Federal Reserve Board here, and you would have sufficient knowledge of what is going on by representation on the Board.

H.M.JR: That is what you did?

MR. D.W. BELL: Yes, but you did make a decision on it the other day.

H.M.JR: That is the logical place.

MR. D.W. BELL: I think it is. The Board has control of the margin requirements, and why shouldn't they all be together?

MR. BARTELT: In the original act they were supposed to put in the Federal Trade Commission instead of creating a separate Commission.

MR. D.W. BELL: The third one is your Cabinet Committee.

H.M.JR: If this ever went into being, it just would kill me from overwork.

MR. D.W. BELL: You talk about doing with your present personnel! We would have to have some new people, I think.

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H.M.JR: That is all right.

Let's see - Present Supervisory Agencies - RFC, Smaller War Plants Corporation, Department of Commerce - where is Smaller War Plants, now?

MR. CAKE: War Production Board, Mr. Secretary.

MR. D.W. BELL: Gosh, this is a maze of interlocking organizations.

H.M.JR: Now this Domestic Agricultural Financing - you take in the things from the RFC, War Production Board - is that one Committee?

MR. CAKE: Yes, sir.

H.M.JR: Now you are going to put Agriculture into the same Committee?

MR. CAKE: No, sir; that is a separate group.

H.M.JR: Domestic Industrial Financing, that makes sense.

MR. D.W. BELL: You might have some of the same people on two of these Committees, but you wouldn't have all of them.

H.M.JR: The Secretary of the Treasury is to be Chairman of each of these things?

MR. D.W. BELL: Yes. When you get through you will need an Executive Committee!

H.M.JR: Then Domestic Housing Financing - my God! I don't get this - Domestic Housing, and on the left is Federal Home Loan Bank Administration (in National Housing Agency) - what is on the right?

MR. CAKE: Those are the constituent agencies, Mr. Secretary, under the Federal Home Loan Bank Administration.

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H.M.JR: In the center?

MR. CAKE: No, sir; those are the functions.

H.M.JR: The Foreign Economic Administration has Office of Lend-Lease, Export-Import Bank, Petroleum Reserve?

MR. CAKE: Yes, sir.

H.M.JR: Petroleum Reserve is in Foreign Economic Administration - U.S. Commercial! I can't yet understand why I should have anything to do with the Office of Coordinator of Inter-American Affairs.

MR. D.W. BELL: Well, it has all of those corporations right there (indicating), see? It has a number of corporations they created to carry out the good-neighbor policy. The chances are that those things would be liquidated right after the war is over, and there wouldn't be any necessity--

H.M.JR: You men really think the Secretary of the Treasury should be Chairman of each one of these things?

MR. D.W. BELL: Well, when you get right down to it, you may want to combine some of them. This was set out in a way that you could see just what they are.

H.M.JR: It is done very clearly. It is a nice job.

MR. D.W. BELL: It is really throwing a lot of work in your lap, there is no question about that.

H.M.JR: It is a beautiful job. It is simply amazing to me.

MR. D.W. BELL: It is worse than the Trans-America setup in California.

H.M.JR: Well, that is simple.

MR. CAKE: Of course, there are some more corporations that aren't in here, but they are independent, such as the

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Tennessee Valley Authority, and probably through Budget and liaison you could exercise them.

H.M.JR: And boats run up and down the Mississippi River, and the Panama Railway.

MR. D.W. BELL: We had those in the first big sheet and we left those out because we thought he could get control over those through the Budget and official liaison. Might go to Panama once in a while and have a committee meeting, or ride up and down the Mississippi River.

H.M.JR: I will take the Mississippi River.

What about Olrich? Did he have a good trip to Puerto Rico?

MR. C.S. BELL: I have talked to him a couple of times. I don't know what kind of a trip he had.

H.M.JR: Do you have any suggestions on this, Charlie?

MR. C.S. BELL: I think most everything that you have in mind can be accomplished by an Executive Order. You didn't like that before when it was suggested, but to carry this whole program through Congress is going to be a pretty long and tough job. It will have to take the shape of a bill in Congress and it will be fought bitterly. The General Accounting Office has been ruled out in the Reorganization Bill and in the War Powers Act, both. And they singled it out in the War Powers Act as one organization that they would not allow to be transferred any place.

I don't see much to be gained by running into all of that opposition when the major part of your program can be accomplished by the President with an Executive Order, now. We won't be out of this war for another couple of years; by that time it will be so in the Treasury groove that no one would dare take it out.

MR. D.W. BELL: I hope it won't be that long.

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MR. C.S. BELL: Well, '47 in the Far East. It would be so embedded in our whole financial setup that they are not likely to yank it out. That would preclude the Bureau of the Budget and the General Accounting Office. Then if you feel that legislation is the answer, try legislation with the Bureau of the Budget.

MR. D.W. BELL: Why the Bureau of the Budget in the War Powers?

MR. C.S. BELL: Because that is the transfer of persons, location, and activity. This other is largely representation.

MR. D.W. BELL: Doesn't the President have authority to transfer any function and organization from one organization to another?

MR. C.S. BELL: Yes, he could do it, but I just can't conceive of his doing that - transferring an organization that was set up as firmly as the Bureau of the Budget. Now, he just might.

H.M.JR: How did he transfer it in the first instance?

MR. D.W. BELL: The Reorganization Act, which was approved by Congress.

MR. CAKE: It was in Reorganization Plan I. The Bureau of the Budget was taken out of the Treasury and transferred.

MR. D.W. BELL: That is statutory law, now.

MR. C.S. BELL: They can knock it out in thirty days, but that is all over with.

H.M.JR: They could?

MR. C.S. BELL: They could have under the Reorganization but not under the War Powers.

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H.M.JR: That is the way we took that hotel.

I think this is all right. I think if you just would put it together in a book for me, see? - the way I suggested - those first two pages - I would use a better type--

I can just have that in my mind and say, "Mr. President, you can do it through the War Powers Act or through legislation, but if you really meant business you could do it under the War Powers Act," all except--

MR. D.W. BELL: I think the General Accounting Office probably ought to come out.

H.M.JR: Out of this?

MR. D.W. BELL: It will get you into trouble. I should think you ought to give quite a bit of consideration to the whole thing before you start - whether you do it by legislation or Executive Order. I think if you do this by Executive Order you probably could get away with the Bureau of the Budget more than anything in here, because that would be the President's own shop. He could do as he pleases with it and nobody else would kick.

But on all the others you would have all kinds of lobbying on the Hill, and there would be an attempt, probably, to undo it all by legislation if the Republicans thought they were strong enough.

H.M.JR: I don't think there is the chance of a snowball in hell that the President is going to do this, starting with the Bureau of the Budget. But I want this document in existence.

MR. D.W. BELL: And I would keep it, I think, on a rather informal basis for a while to see how he does. I think it will get into somebody's hands and the first thing you know, Drew Pearson will have it and Budget will be sore, and *Stone* will be sore.

H.M.JR: Well, they can't be any sorer than they are now.

MR. D.W. BELL: The only thing is that they do speak, now.

H.M.JR: Then we will give them something to hang their hat on.

MR. BARTELT: Do you want to say any more about the Federal Reserve Board?

H.M.JR: That is representation. I would leave the General Accounting Office because that sort of flies in the face of Congress. Otherwise, I think Charlie has a good point, that you can do everything else under the War Powers Act if you want to.

MR. D.W. BELL: But again you raise the old question about doing things under the War Powers Act that are not strictly for war purposes; but what you are doing is for permanent purposes.

H.M.JR: We are doing it to help finance the war.

MR. C.S. BELL: When you speak of lobbying, Dan, you would have more lobbying if you attempted to get this through by legislation than you would have by Executive Order.

MR. D.W. BELL: Sure, but that is what you do - you fight it out on the home front.

H.M.JR: I am not going to fight for this. I am going to explain it carefully to the President if he gives me a chance, then leave it to him. I am not going to fight for this.

MR. D.W. BELL: Well, if you do it that way, I think that is all right.

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H.M.JR: I am going to say, "Well, now, look - here is the proposal which is absolutely necessary if a man is going to carry out this deficit financing program. You have to have something like this."

This supersedes all this Committee which I wrote him about, you know. I had a Committee on foreign loans; that won't be necessary.

MR. D.W. BELL: No, this would take the place of that.

H.M.JR: You know that one?

MR. D.W. BELL: I was in on it, yes.

H.M.JR: Well, I think that is about all. Any other suggestions, anyone?

MR. CAKE: Well, I would like to raise a question, Mr. Secretary. There was some question in the other meeting whether you wanted to bring in any release of functions of the Treasury, such as Procurement.

MR. D.W. BELL: They are in this memorandum.

MR. CAKE: But they are not in one of these tables - whether you would want that information set up--

H.M.JR: Yes, I think that would strengthen it, if it wasn't all on the "gimme" side.

MR. D.W. BELL: Well, you have Procurement and you have Coast Guard.

MR. CAKE: And there is a question about Foreign Funds Control.

H.M.JR: Where would that be?

MR. D.W. BELL: There are three in the memorandum, in the written memorandum, but not in the chart, as Mr. Cake explained. Then you have Narcotics.

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MR. CAKE: On Page 10 of the memorandum, Mr. Secretary.

MR. D.W. BELL: We left out Narcotics and Secret Service.

MR. CAKE: It is the middle of Page 10.

H.M.JR: That is Procurement, Coast Guard, and Foreign Funds - that would go to whom, Foreign Funds?

MR. D.W. BELL: Alien Property.

MR. C.S. BELL: Coast Guard and Procurement to the wolves - Federal Works Agency is suggested in there; you might want to separate the Procurement as between Procurement and Surplus, and hold Procurement and let Surplus go.

H.M.JR: I think I would. I will tell you something - let's be a little coony on this thing - I wouldn't suggest giving up anything, because the net result might be that we might lose this and get nothing.

MR. D.W. BELL: They might take the last page and separate it from this document.

H.M.JR: I wouldn't put that in; that is where we would end up.

MR. C.S. BELL: Except Surplus Property.

MR. D.W. BELL: Be generous!

H.M.JR: But to hell with the rest!

Anything else?

MR. CAKE: No, sir.

FEDERAL FOR STRENGTHENING FISCAL CONTROL  
IN THE FEDERAL GOVERNMENT

With the approach of V-E Day, the Treasury Department must be geared for borrowing and refunding operations on an extensive scale. In the post-war adjustment period, the Secretary of the Treasury will be called upon to make recommendations for the raising of revenue and will have responsibility for the planning and carrying out of a successful financing program for the Federal Government. The immediately foreseeable tasks in this respect may prove to be even more challenging and difficult than those with which the Treasury Department has been confronted during the course of the war. This is not only for the obvious reason that patriotic aspects will be to some extent in the background, but also because the raising of revenue must be more closely correlated with the economic condition of the country and with the borrowing and refunding operations of the Government. It is imperative that planning for the post-war period should be directed toward having taxation and other sources of revenue provide sufficient receipts to meet not only continued substantial outlays of Federal funds but also to afford a margin for the systematic retirement of debt in those years when economic conditions are favorable. Moreover, the need of unified fiscal control over the diverse expenditure programs of the Government will have increasing importance with the cessation of hostilities. The Secretary of the Treasury will be faced with the important duty of obtaining support of this program from the American people, and it is believed that serious attention should be given now to strengthening management of the Federal Government's fiscal and monetary affairs.

Throughout this administration, the Treasury Department has held the view that, as a national policy, the Federal Government's monetary force should be dynamic and useful as an instrument for improving the total national wellbeing. The use of Federal fiscal power through the early years of the administration represented a significant widening of the Government's responsibility toward the individual citizen and the industrial affairs of the nation. During the formative period, when new programs were conceived and brought into being rapidly to meet the exigencies of the times, it was necessary to set up many activities on an independent footing but experience over the past and also consideration for fiscal tasks of the future point to the need for realignments designed to bring about central control or coordinating authority for the entire area of Federal fiscal operations. The need for this is apparent from the fact that the financial transactions of every agency and instrumentality of the Federal Government, whether in the fields of borrowing, lending, insuring, or spending, are closely related to the domestic economy of the Nation and are bound to have a direct or indirect bearing upon the condition of the Treasury and the responsibilities of the Secretary in superintending the revenue and managing the public debt.

The Office of the Secretary of the Treasury should carry the responsibility for over-all policy direction of Federal fiscal affairs. While the Secretary is responsible for supplying the necessary funds for running the Government, and for carrying on the ordinary accounting functions, he is not in a position to exercise commensurate authority with regard to the disposition of funds and the coordination of Federal programs which have an impact upon the fiscal position of the Government. This is considered to be a weakness which is a material handicap not only to the Treasury Department in discharging its responsibilities but also to the orderly and unified conduct of the Government's financial affairs. The need for bringing together all of the components of Federal fiscal activity is great today and, as previously stated, will become still more pressing after the war when the preservation of an appropriate balance between taxation, borrowing, lending, and spending will be essential to a healthy internal economy and the meeting of international responsibilities which may be assumed by the United States. Under present circumstances the Secretary of the Treasury is unable to exercise adequate policy direction in this wide area which, although it is the proper field of the Government's fiscal program, is con-nected to the Treasury Department in some respects in no stronger way than in a bookkeeping sense. It is this deficiency which suggests a redefining of top policy lines so as to establish the Secretary of the Treasury in the true role of the Chief Fiscal Officer of the Government and place him in the position to exercise that degree of influence which is imperative to a cohesive Federal fiscal program.

While not attempting to present at this time a comprehensive analysis of the organizational and policy realignments in contemplation, there are indicated those activities which, from the purely fiscal point of view, should be centered in the Treasury Department, and those activities which, while remaining organizationally outside of the Treasury Department, would be subject to the degree of coordination necessary to afford the Secretary of the Treasury control from the standpoint of over-all fiscal policy. It is not proposed to detract, to any great degree, the basic corporate patterns, regulatory and insuring controls, or operational practices of the agencies concerned. The proposal for strengthening fiscal control in the Federal Government is aimed simply at bringing into focus, for policy purposes, all important financial undertakings that are related to the broad program of finance. It would be accomplished partly through organizational realignment, partly through policy committees chaired by the Secretary of the Treasury, partly through budgetary control placed in the Treasury Department over Federal expenditures, and partly through liaison where the element of budgetary control is not involved or the activities are not of sufficient scope and fundamental importance to warrant realignment or subjection to committee policy.

The proposal comprehends extension of the Treasury Department's influence into the following areas of the Federal Government's activities:

- (1) Policy making with respect to the money and credit markets of the country, typified by activities of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Securities and Exchange Commission;
- (2) Policy control over Federal revenue and expenditures typified by the President's Budget and proposed legislation submitted to the Congress from the standpoint of a unified fiscal program;
- (3) Policy control and correlation of programs relating to banking, insurance, lending, and borrowing now spread principally in the Departments of Agriculture, Commerce, Interior, and Post Office (postal savings), the National Housing Agency, the Office for Emergency Management, and the Federal Deposit Insurance Corporation.
- (4) Prescription of systems of administrative appropriation and fund accounting for the Executive branch, which is among the functions now performed by the General Accounting Office although not related to audit in the true sense.

Originally, the Secretary of the Treasury and the Comptroller of the Currency both were ex officio members of the Federal Reserve Board (now Board of Governors of the Federal Reserve System). By amendment to the Federal Reserve Act they continued to serve as members of the Board only until February 1, 1936, although there was retained the original legislative provision that any powers vested in the Board which may appear to conflict with the powers of the Secretary of the Treasury shall be exercised subject to the supervision and control of the Secretary.

The Board of Governors of the Federal Reserve System determines general monetary, credit, and operating policies for the Federal Reserve System; formulates rules and regulations for carrying out purposes of the Federal Reserve Act; supervises the Federal Reserve Banks and member banks of the system, and has the power to examine such member banks. The Federal Open Market Committee is composed of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks elected annually by the boards of directors of certain specified Federal Reserve Banks. Under regulations adopted by this Committee (with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country), the Federal Reserve Banks engage in open market operations involving the purchase and

sale of obligations of the United States, certain other securities, and bills of exchange and bankers' acceptances of the kind and maturities eligible for discount by the Reserve Banks.

Any decisions in this field which are made by the Board of Governors of the Federal Reserve System and the Federal Open Market Committee have an important bearing on the financial functions of the Treasury Department and therefore it is necessary that the Secretary of the Treasury have a voice in these decisions. Moreover, the functions of the Federal Reserve Banks as fiscal agents of the United States have assumed ever increasing importance and scope with the enlargement of the activities of the Treasury Department in recent years. The Secretary of the Treasury should be reinstated as a fully constituted and active member of the Board of Governors of the Federal Reserve System, and in view of the many demands upon his time he should have the power to designate an alternate to act for him in that capacity, if and when, he so desires.

The Securities and Exchange Commission, which at present is an independent agency, has regulatory powers and duties that have an important relation to the broad field of banking and credit in which the Federal Reserve System operates and with which the Secretary of the Treasury is vitally concerned. The Commission supervises the registration of security issues; suppresses fraudulent practices in the sale of securities; supervises and regulates transactions and trading in securities, both on the stock exchanges and in the over-the-counter markets; regulates public utility holding companies; supervises indentures used in the public offering of new securities; and registers and regulates investment companies and investment advisers. The functions and powers of the Securities and Exchange Commission should be transferred to the Board of Governors of the Federal Reserve System to be operated through a staff agency of the Board. The Secretary of the Treasury, through his participation on that Board, would have the contact with this activity necessary for its coordination with the Government's financing and its fiscal program in general.

The Comptroller of the Currency has general supervision over the national banking system, including supervision over the organization of new national banks, the consolidation of national banks or state with national, and the conversion of state banks with national; the granting of rights to operate branches by national banks and the administration, through receivers, of any national banks that fail. The Comptroller's office, through its staff of examiners, makes regular examinations of all national banks, reporting on the condition and

solvency and state of compliance with the provisions of law with respect to such banks. The Comptroller is also charged with administrative duties in connection with the shipment of Federal Reserve currency to Federal Reserve agents and for the destruction of such currency when it becomes unfit for circulation. These administrative duties could logically be transferred to the Treasurer of the United States to be performed as in the case of United States currency.

At present, functions of examination of various classes of banking and other financial institutions (both Governmental and public) are exercised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Administration, and the Farm Credit Administration. There should be centered in the Comptroller of the Currency the functions of the examination of all banking, insurance, and financial institutions which is now performed in different agencies, so as to effectuate a unified and consistent program of examinations. This also would offer possibilities for some economies in operation.

The Federal Deposit Insurance Corporation was organized to insure the deposits of all banks entitled to the benefits of such insurance under the Federal Reserve Act, as amended. The capital stock of the Corporation, which has no vote and is not entitled to the payment of dividends, is owned by the Treasury of the United States to the extent of \$150,000,000, and by the various Federal Reserve Banks to the extent of \$139,299,556.99. On September 30, 1944, the accumulated reserves of the Corporation from assessments on insured banks and earnings, amounted to \$487,847,143. The major functions of the Corporation are to

pay off the depositors of insured banks closed without adequate provision for the payment of their claims; to act as receiver for all suspended national banks and for suspended state banks when appointed by state authorities and to prevent the continuance or development of unsafe or unsound banking practices. Loans are made to, and assets are purchased from, insured banks when such loans or purchases will facilitate a merger or consolidation and thus reduce the probable loss to the Corporation. The Corporation periodically examines insured banks not members of the Federal Reserve System, and also makes examinations with the written consent of the Comptroller of the Currency in the case of national banks and of the Board of Governors of the Federal Reserve System in the case of other banks which are members of the Federal Reserve System.

In the case of the Federal Deposit Insurance Corporation there are two fundamental questions for consideration: first, whether the corporate form of organization is essential to the conduct of this activity; second, whether the activity should not be administered by the Comptroller of the Currency from the standpoint of a uniformity of supervision over banking matters. The capital and accumulated reserves of the Corporation essentially constitute a fund for the payment of insurance losses and for carrying on the other business of the Corporation. These purposes could equally be served by creating a special fund in the Treasury equivalent to the existing corporate assets and to assume the corporate obligations. This fund would be invested in the manner of other special or trust funds, and would be supplemented with future assessments and earnings. There does not appear otherwise to be anything peculiar to the operations of the corporation which would preclude the performance of its functions and the assumption of its obligations by a regular executive agency of the Government. The Comptroller of the Currency, by law, is one of the three members of the board of directors of the present Corporation. In line with the idea of centralizing in the Treasury Department supervision and coordination of authority over banking matters, the Federal Deposit Insurance Corporation could be dissolved, its capital stock retired, and its powers and functions transferred to the Bureau of the Comptroller of the Currency with provision for a Federal deposit insurance fund in the Treasury under the jurisdiction of the Secretary of the Treasury.

The Postal Savings System is headed by a board of trustees consisting of the Postmaster General, the Secretary of the Treasury, and the Attorney General, acting ex-officio, for the control, supervision, and administration of the System. The purpose of the Postal Savings System is to provide facilities for the deposit by the public of savings at interest, with the security of the United States Government for repayment on demand. Generally speaking, the administration of the Postal Savings System involves the designation of post

offices as postal savings depositories, the supervision of the postal savings business transacted at depository post offices, the qualification of depository banks for receiving postal savings funds for the Board of Trustees and the conditions and collateral security for such deposits, and the investment of postal savings funds by the Board of Trustees. The Third Assistant Postmaster General is the agent for these activities which are conducted through the Division of Postal Savings of his bureau. The Treasurer of the United States has custody of the 5 percent reserve fund which is required by law, the bonds and other securities of the United States purchased by the Board of Trustees as investments, and the collateral pledged by depository banks as security for postal savings funds.

Due to the manner in which the Postal Savings System is operated, there appears to be no need for a Board of Trustees. Hence the Board should be abolished and in order to integrate the functions of the Postal Savings System with the overall program of encouraging public savings and the investment of such savings in Government securities, these functions should be transferred to the Treasury Department. This contemplates leaving the Post Office Department to act essentially in the capacity of an agent of the Treasury Department for the receipt and disposition of postal savings deposits through post offices. The Post Office Department would continue to supervise the related business transacted at such post offices. The Treasury Department should be empowered to designate banking institutions also as postal savings depositories.

When the Budget and Accounting Act, 1921, was passed, the Bureau of the Budget was placed in the Treasury Department where it was subject to control by the Chief Fiscal Officer of the Government. During the years that this arrangement was in effect it was possible to obtain a close coordination between the fiscal policies of the Treasury Department and the financial program of the budget. Since the Budget organization was removed from the Treasury Department's control, experience has shown that it has been difficult to obtain the degree of coordination necessary for a unified fiscal program of financing and expenditures. There should be returned to the Treasury Department functions now performed by the Bureau of the Budget which concern the assembling and reviewing, for the President, of the budget estimates for the several departments and agencies, and the consideration, for the President, of all proposed legislation and executive orders. The review, as well as the approval or disapproval of appropriations estimates, ought properly to be made in the full light of the Government's entire financial program, including the important phase of general financing. This task of reviewing expenditures estimates as well as that of preparing estimates of revenues ought best to be carried on within the Treasury Department, where they can be coordinated with the Secretary's fiscal policy and closely associated with accounting operations now in his Department by law. In the main, proposed legislation and executive orders are financial

in nature or have important fiscal implications and hence should be considered by the Treasury Department in relation to the financial program in general. In addition, it might be desirable for the President to have his own legislative counsel to maintain close liaison with the Treasury Department in such matters. The present somewhat extensive functions of the Bureau of the Budget in the field of administrative management should be left entirely to the respective departments and agencies concerned, except that the Treasury Department should be in the position to make essential inquiry with regard to the consideration of estimates and matters of purely fiscal management.

The logic and efficiency of having the auditing branch of the Government prescribe accounting systems for the administrative departments and agencies has been questioned and debated for many years. Accounting is an essential element of effective fiscal management and to implement the program of strengthening and unifying fiscal control in the Government today, the function of prescribing accounting systems and procedures for the Executive branch should be centered in the Treasury Department and not the General Accounting Office.

In modifying the Budget and Accounting Act to accomplish this, the Secretary of the Treasury should be authorized to prescribe the forms, systems, and procedure for accounting in all agencies of the Government to the extent necessary to provide coordination and integration of all financial information in the records of such agencies with data in the central accounts of the Treasury Department relating to the receipts and expenditures of the Government (maintained pursuant to the Act of July 31, 1894), and further to provide information in such central accounts as is necessary for the preparation of complete and accurate reports of the Government's entire financial condition and operations. It should be the duty and responsibility of the head of each agency to see that such additional accounting records or procedure as may be used by the agency in the interest of effective management of operations, are coordinated and integrated with the prescribed forms, systems, and procedure and are consistent with their underlying principles. The Secretary of the Treasury should further be authorized to obtain such information regarding the accounting activities of the respective departments and agencies as may be necessary to report fully to the President regarding the maintenance of accounting systems and adherence to prescribed accounting principles and procedure and the coordination and integration therewith of any other accounting records and procedures of the agencies. On the other hand, the Comptroller General of the United States should continue to prescribe the forms, systems, and procedure for the audit of fiscal officers' accounts and his office should be required, during the course of its investigation of matters relating to the receipt, disbursement, and

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application of public funds to examine the accounting systems of the executive departments and agencies, from time to time, and report to the Congress and the President on the effectiveness of such systems in safeguarding the public interests.

The propriety of having the auditing branch of the Government settle all claims for and against the United States likewise has been questioned and debated in the past. There seems little, if any, grounds for the support of a system which permits audit by the same authority which directs the settlement of claims. True audit can be conducted only by others than those charged with the taking of administrative action and no public office should be authorized to audit its own financial acts and decisions. In connection with responsibility for the fiscal management of the Government, claims and demands by the United States or against it and accounts in which the United States is concerned, either as debtor or creditor, should be settled and adjusted by the Executive departments and agencies concerned, subject to regular post audit in the General Accounting Office.

With regard to the important lending, insuring, credit, and financing functions and powers scattered throughout the Government, principally in the departments of Agriculture, Commerce, and Interior, and the National Housing Agency, and Office for Emergency Management, it is proposed that they be reexamined with the view to establishing five coordinate spheres of policy influence: (1) domestic industrial financing; (2) domestic agricultural financing; (3) domestic housing financing; (4) maritime financing; and (5) foreign financial affairs. This grouping need not seriously affect the present organizational location of agencies except those relating to foreign financial activities. The greatly enlarged financial responsibilities of the United States in the foreign field indicates the desirability of placing all financial activities of such nature within the Foreign Economic Administration and associating them directly with the present staff of the Treasury Department which is concerned with matters of international stabilization and finance.

The needed element of influence by the Secretary of the Treasury over the fiscal policies of the operating agencies represented in the five groups of financing previously mentioned, could be exercised through a duly constituted committee for each group with appropriate representation at the top level of each agency concerned. Each committee, chaired by the Secretary of the Treasury with veto powers, would draw the framework of policy within which the respective financial operations are to be carried on. The committees' determinations on matters of broad fiscal policy should be controlling, subject of course to specific legislative requirements or Presidential direction. The action of the committees would necessarily be superimposed over the authority of boards of directors or other management bodies of

corporations in such matters. In addition, the approval of the Secretary of the Treasury should be required on all financing - capital or borrowing - of corporations owned by the United States or in which it has a direct or indirect controlling interest. The Secretary of the Treasury would need to have a small staff of experts available to carry on liaison with the operating agencies, to deal with important fiscal problems which might arise in any of the constituent groups, and to weld together the programing of all these activities in relation to the Government's financing.

Appended are three tables outlining in summary form, the realignments contemplated in the foregoing proposals. The first table shows the functions to be centered in the Treasury Department; the second shows the agencies and corporations in which the Treasury Department should have representation in management; and the third shows the grouping of agencies and corporations which should be subject to over-all policy directing committees. The financial policy of other agencies and corporations of the Government would be influenced by budgetary control of expenditures or by liaison in those cases where the element of budget control is not involved or the activities are not of sufficient scope or fundamental importance to warrant realignment or subjection to committee policy.

While on the one hand good government demands realignments of policy or organization in fiscal matters, on the other hand certain non-fiscal activities now in the Treasury Department might well be divorced from it. Specifically the Department might be divested of: (1) the functions performed by the Procurement Division, including its share in the surplus property program; (2) the United States Coast Guard which by law will revert to the Treasury Department from the Navy Department at the close of the war; and (3) the Foreign Funds Control activity.

The activities of the Procurement Division are definitely non-fiscal in character and there appears to be no reason by its functions could not be performed with equal validity either independently or in some non-fiscal agency such as Federal Works. During peacetime, the United States Coast Guard is responsible in general terms for maritime law enforcement, saving and protecting life and property, safeguarding navigation on the high seas and in navigable waters of the United States, and maintaining a state of preparedness for national defense. It represents in its historical development, an amalgamation of the activities of the old Revenue Cutter Service, the Life Saving Service, and the Lighthouse Service. The importance of the Coast Guard from the standpoint of the Treasury Department rests in the protection of the customs revenue and the prevention of smuggling of narcotics and other contraband. This purpose can be served equally well with the United States Coast Guard located organizationally in the Navy Department which is in a position to administer its otherwise important functions. The Foreign Funds Control has been carried on as an important war time function of the Treasury

Department. It becomes increasingly apparent, however, that as the war goes into its closing phases there is little further need for two agencies so closely related as the Office of Alien Property Custodian and the Foreign Funds Control. A merger of the two would undoubtedly result in savings and the general strengthening of the activities they are carrying on. There is, of course, a relationship of the Foreign Funds Control with domestic fiscal work and foreign financial activity but it is not so direct and substantial as to warrant retention of the Foreign Funds Control as an operating office so long as appropriate liaison is provided for.

In presenting this tentative proposal for what amounts to a substantial rearrangement of the Federal Government's fiscal and monetary system of management, detailed plans have not as yet been drawn for the reason it would seem to be desirable to obtain the President's concurrence in the major policy involved. Some phases of the reorganization might be accomplished by executive order but should the general proposal meet with the President's approval it is believed that a sounder and more permanent approach would be to consider legislative action. In such event, the next action would be first, the working out of details such as the make-up of the top policy committees and the modus operandi by which the program would be effectuated, and second, the preparation of drafts of proposed legislation to bring it into existence.

AGENCY AFFECTED	FUNCTIONS TO BE TRANSFERRED TO DEPARTMENT	FUNCTIONS TO REMAIN WITH DEPARTMENT
OFFICE OF THE SECRETARY	<p>PREPARATION AND ADMINISTRATION OF THE BUDGET; CONSIDERATION OF ALL PROPOSED LEGISLATION AND EXECUTIVE ORDERS; AND INVESTIGATION WHICH SHOULD BE RESTRICTED TO ECONOMIC INQUIRY WITH REGARD TO THE CONSIDERATION OF ESTIMATES AND MATTERS OF PURELY FISCAL MANAGEMENT.</p>	<p>LEGISLATIVE COUNSEL TO PRESIDENT SHOULD MAINTAIN CLOSE LIAISON WITH THE TREASURY DEPARTMENT ON PROPOSED LEGISLATION AND EXECUTIVE ORDERS; (ALSO) RESPONSIBILITY FOR ADMINISTRATIVE MATTERS SHOULD BE LEFT ENTIRELY TO THE RESPECTIVE DEPARTMENTS AND AGENCIES CONCERNED.</p>
OFFICE OF COMPTROLLER OF THE CURRENCY	<p>FEDERAL FUNCTIONS OF SUPERVISING NATIONAL BANKING SYSTEM AND SUPERVISING CERTAIN OTHER FINANCIAL INSTITUTIONS; (ALSO) ALL FUNCTIONS RELATING TO INSURANCE OF DEPOSITS, RECEIVERSHIP, AND EXAMINATION OF INSURED INSTITUTIONS NOW PERFORMED BY FEDERAL DEPOSIT INSURANCE CORPORATION, TO BE ADMINISTERED BY THE COMPTROLLER OF THE CURRENCY IN CONNECTION WITH A FEDERAL DEPOSIT INSURANCE FUND TO BE ESTABLISHED IN THE TREASURY UNDER JURISDICTION OF THE SECRETARY OF THE TREASURY; (ALSO) ALL FUNCTIONS OF EXAMINATION OF BANKING, INSURANCE, OR FINANCIAL INSTITUTIONS WHICH AT PRESENT ARE VESTED IN THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEDERAL DEPOSIT INSURANCE CORPORATION, FEDERAL HOME LOAN BANK ADMINISTRATION, AND FARM CREDIT ADMINISTRATION.</p>	<p>FEDERAL FUNCTIONS RELATING TO ISSUE AND REDEMPTION OF FEDERAL RESERVE NOTES AND FEDERAL RESERVE CHECK NOTES SHOULD BE TRANSFERRED TO OFFICE OF THE TREASURER TO BE PERFORMED AS IN THE CASE OF UNITED STATES CURRENCY.</p>
FEDERAL DEPOSIT INSURANCE CORPORATION	<p>THE CORPORATION WOULD BE DISSOLVED, ITS CAPITAL STOCK RETIRED, AND ITS POWERS AND FUNCTIONS TRANSFERRED TO THE COMPTROLLER OF THE CURRENCY, AS INDICATED ABOVE. A SPECIAL FUND WOULD BE CREATED IN THE TREASURY EQUIVALENT TO THE CORPORATION'S ASSETS AND FOR THE ASSUMPTION OF ITS OBLIGATIONS, TO BE SUPPLEMENTED WITH FUTURE ASSESSMENTS AND EARNINGS AND INVESTED IN THE MANNER OF OTHER SPECIAL OR TRUST FUNDS.</p>	
BOARD OF TRUSTEES, POSTAL SAVINGS SYSTEM	<p>THE BOARD OF TRUSTEES WOULD BE ABOLISHED AND ITS POWERS AND FUNCTIONS TRANSFERRED TO THE TREASURY DEPARTMENT. QUALIFICATION OF DEPOSITORY BANKS AND THE MANAGEMENT AND INVESTMENT OF POSTAL SAVINGS FUNDS. THIS CONTEMPLATES THE USE OF DEPOSITORY BANKS AS WELL AS POST OFFICES FOR THE RECEIPT OF DEPOSITS FROM THE PUBLIC; (ALSO) TREASURER OF UNITED STATES WOULD CONTINUE FUNCTIONS AS CUSTODIAN OF RESERVE FUNDS, INVESTMENTS, AND COLLATERAL OF THE SYSTEM.</p>	<p>RECEIPT OF POSTAL SAVINGS DEPOSITS AS AGENT OF THE TREASURY DEPARTMENT, SUPERVISION OF POSTAL SAVINGS BUSINESS TRANSACTED AT POST OFFICES, AND ADMINISTRATIVE EXAMINATION OF RELATED ACCOUNTS OF POSTOFFICES, WOULD REMAIN WITH THE POST OFFICE DEPARTMENT.</p>
GENERAL ACCOUNTING OFFICE	<p>PRESCRIPTION OF SYSTEMS OF ADMINISTRATIVE APPROPRIATION AND FUND ACCOUNTING FOR THE EXECUTIVE BRANCH OF THE GOVERNMENT.</p>	<p>FUNCTIONS OF COUNTERSIGNING TREASURY WARRANTS, POST AUDIT OF FINANCIAL TRANSACTIONS, AND IDENTIFICATION OF MATTERS RELATING TO THE RECEIPT, DISBURSEMENT, AND APPLICATION OF PUBLIC FUNDS WOULD REMAIN WITH THE GENERAL ACCOUNTING OFFICE; (ALSO) FUNCTION OF SETTLEMENT OF CLAIMS FOR AND AGAINST THE UNITED STATES SHOULD BE TRANSFERRED TO THE RESPECTIVE DEPARTMENTS AND AGENCIES CONCERNED, EXCEPT TO POST AUDIT BY THE GENERAL ACCOUNTING OFFICE.</p>

AGENCY CONCERNED

FUNCTIONS OF AGENCY

STATUS OF AGENCY REPRESENTATION IN CONGRESS

BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

DETERMINES GENERAL MONETARY, CREDIT AND OPERATING POLICIES FOR THE FEDERAL RESERVE SYSTEM AND FORMULATES RULES AND REGULATIONS FOR CARRYING OUT PURPOSES OF FEDERAL RESERVE ACT; SUPERVISES FEDERAL RESERVE BANKS AND MEMBER BANKS. (NOTE: POWER TO EXAMINE MEMBER BANKS OF FEDERAL RESERVE SYSTEM WOULD BE TRANSFERRED TO COMPTROLLER OF THE CURRENCY - SEE CHART I).

SECRETARY OF TREASURY WOULD BE CONSIDERED AS A FULLY CONSTITUTED AND ACTIVE MEMBER OF THE BOARD OF GOVERNORS. SECRETARY SHOULD HAVE POWER TO DESIGNATE AN ALTERNATE.

FEDERAL OPEN MARKET COMMITTEE (FEDERAL RESERVE SYSTEM)

UNDER REGULATIONS OF THE COMMITTEE, FEDERAL RESERVE BANKS ENGAGE IN OPEN MARKET OPERATIONS INVOLVING PURCHASE AND SALE OF U. S. OBLIGATIONS AND CERTAIN OTHER SECURITIES, AND BILLS OF EXCHANGE AND BANKERS' ACCEPTANCES ELIGIBLE FOR DISCOUNT BY FEDERAL RESERVE BANKS.

COMMITTEE IS COMPOSED OF THE MEMBERS OF BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM AND FIVE REPRESENTATIVES OF FEDERAL RESERVE BANKS. SECRETARY OF TREASURY WOULD PARTICIPATE IN CONDUCTING AFFAIRS THROUGH MEMBERSHIP ON BOARD OF GOVERNORS.

SECURITIES AND EXCHANGE COMMISSION

SUPERVISES REGISTRATION OF SECURITY ISSUES AND SUPPRESSES FRAUDULENT PRACTICES IN SALE OF SECURITIES. REGULATES TRADING IN SECURITIES, BOTH ON STOCK EXCHANGES AND OVER THE COUNTER. REGULATES PUBLIC UTILITY HOLDING COMPANIES. SUPERVISES INDENTURES USED IN PUBLIC OFFERING OF NEW SECURITIES. REGISTERS AND REGULATES INVESTMENT COMPANIES AND ADVISERS.

THE FUNCTIONS AND POWERS OF THE SECURITIES AND EXCHANGE COMMISSION WOULD BE TRANSFERRED TO BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM TO BE PERFORMED THROUGH A STAFF AGENCY OF THE BOARD. SECRETARY OF THE TREASURY WOULD PARTICIPATE ON BOARD OF GOVERNORS WOULD HAVE REPRESENTATION IN CONNECTION WITH CONDUCTING OF THIS ACTIVITY.

EXPORT-IMPORT BANK OF WASHINGTON

ENGAGED IN GENERAL BANKING; PURCHASES, SELLS, RENEGOTIATES, AND DISCOUNTS, NOTES, DRAFTS, BILLS OF EXCHANGE, ACCEPTANCES, AND OTHER EVIDENCE OF INDEBTEDNESS; ISSUES LETTERS OF CREDIT AND LENDS MONEY IN ASSISTING IN THE DEVELOPMENT OF FOREIGN TRADE; MAKES ADDITIONAL CREDITS AVAILABLE TO COUNTRIES OF THE WESTERN HEMISPHERE FOR THE PRODUCTION OF STRATEGIC AND CRITICAL MATERIALS AND TO IMPROVE AND EXTEND TRANSPORTATION FACILITIES; AND MAKES LOANS TO ASSIST THE STABILIZATION OF ECONOMIES OF THE UNITED NATIONS.

A REPRESENTATIVE OF THE SECRETARY OF THE TREASURY WOULD CONTINUE TO SERVE ON THE BOARD OF DIRECTORS. IN ADDITION, SECRETARY WOULD HAVE INFLUENCE OVER FISCAL AFFAIRS OF BANK THROUGH CHAIRMANSHIP OF POLICY COMMITTEE - SEE CHART III

FEDERAL FARM MORTGAGE CORPORATION

MAKES FIRST AND SECOND MORTGAGE LOANS ON FARM PROPERTY UP TO 75 PERCENT OF APPRAISED NORMAL VALUE. THE FUNDS FOR THE LAND BANK COMMISSIONER LOANS ARE FURNISHED BY THE CORPORATION AND SUCH LOANS BECOME ITS PROPERTY. ALSO ASSISTS IN FINANCING OPERATIONS OF FEDERAL LAND BANKS.

SECRETARY OF TREASURY OR AN OFFICER OF THE TREASURY DESIGNATED BY HIM, WOULD CONTINUE ON THE MEMBERSHIP OF THE BOARD OF DIRECTORS. IN ADDITION, SECRETARY WOULD HAVE INFLUENCE OVER FISCAL AFFAIRS OF CORPORATION THROUGH CHAIRMANSHIP OF POLICY COMMITTEE - SEE CHART III

THE NEED FOR... OF THE SECRETARY OF THE TREASURY... FINANCIAL INSTITUTIONS AND...  
...WARRANTS...  
...CORPORATIONS OR AGENCIES...  
...TO DEAL WITH IMPORTANT FISCAL PROBLEMS...  
...OF FISCAL INTEREST WHICH MIGHT REQUIRE THE SECRETARY'S ATTENTION...  
...OF THE SECRETARY OF THE TREASURY SHOULD BE REQUIRED ON ALL FINANCING...  
...UNITED STATES OR IN WHICH IT HAS A DIRECT OR INDIRECT CONTROLLING INTEREST.

PRESIDENT SUPERVISORY AGENCIES	GENERAL SUPERVISORY FUNCTIONS	CONSTITUENT CORPORATIONS OR AGENCIES
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(A) DOMESTIC INDUSTRIAL FINANCING

SUGGESTED COMMITTEE PARTICIPATION: RECONSTRUCTION FINANCE CORPORATION (UNDER SECRETARY OF COMMERCE); SMALLER WAR PLANTS CORPORATION (UNDER WAR PRODUCTION BOARD IN EXECUTIVE OFFICE OF PRESIDENT); DEPARTMENT OF COMMERCE; WAR DEPARTMENT; AND NAVY DEPARTMENT.

RECONSTRUCTION FINANCE CORPORATION (UNDER SECRETARY OF COMMERCE)

EXTENDS FINANCIAL ASSISTANCE TO AGRICULTURE, COMMERCE, AND INDUSTRY THROUGH LOANS TO BANKS, OTHER FINANCIAL INSTITUTIONS, AND OTHER CLASSES OF BORROWERS, AND ALSO BY PURCHASE OF CAPITAL STOCK OF BANKS, INSURANCE COMPANIES, AND OTHER INSTITUTIONS, ASSISTS IN FINANCING THE CONSTRUCTION OF PUBLIC WORKS AND VARIOUS SELF-LIQUIDATING PROJECTS. THE CORPORATION, ACTING DIRECTLY AND THROUGH SUBSIDIARY CORPORATIONS, IS ENGAGED LARGELY ON WAR ACTIVITIES INCLUDING THE CONSTRUCTION AND EXPANSION OF PRODUCTION FACILITIES FOR THE MANUFACTURE OF WAR MATERIALS AND OTHER SUPPLIES AND EQUIPMENT, THE PROCUREMENT AND STOCK PILING OF STRATEGIC AND CRITICAL MATERIALS, THE OPERATION OF THE GOVERNMENT'S WAR DAMAGE INSURANCE PROGRAM, AND OTHER PROJECTS DIRECTLY RELATED TO THE WAR EFFORT.

FEDERAL NATIONAL MORTGAGE ASSOCIATION; THE NFC MORTGAGE COMPANY; DISASTER LOAN CORPORATION; WAR DAMAGE CORPORATION; DEFENSE SUPPLIES CORPORATION; METALS RESERVE COMPANY; RUBBER RESERVE COMPANY; DEFENSE PLANT CORPORATION

WAR PRODUCTION BOARD (IN EXECUTIVE OFFICE OF THE PRESIDENT)

HAS GENERAL SUPERVISION OVER ACTIVITIES OF THE SMALLER WAR PLANTS CORPORATION WHICH IS CONCERNED WITH UNFOLDING THE PRODUCTION CAPACITY OF SMALL BUSINESS CONCERNS TO BE USED EFFECTIVELY TO AUGMENT WAR PRODUCTION.

SMALLER WAR PLANTS CORPORATION

(B) DOMESTIC AGRICULTURAL FINANCING

SUGGESTED COMMITTEE PARTICIPATION: FARM CREDIT ADMINISTRATION; WAR FOOD ADMINISTRATION; AND THE OTHER INDICATED CORPORATIONS OR AGENCIES OF THE DEPARTMENT OF AGRICULTURE CONCERNED WITH THIS CLASS OF FINANCING.

FARM CREDIT ADMINISTRATION (IN DEPARTMENT OF AGRICULTURE)

SUPERVISES, THROUGH 12 DISTRICTS, THE FARM CREDIT SYSTEM AND CONDUCTS ACTIVITIES REGARDING LAND BANK COMMISSIONER LOANS, EMERGENCY CROP AND FEED LOANS, AND COOPERATIVE RESEARCH AND SERVICE. EXAMINATION OF BANKING OR FINANCIAL INSTITUTIONS, EVEN THOUGH CONTINUED BY THE ADMINISTRATION, SHOULD BE PLACED UNDER COORDINATION AND GENERAL JURISDICTION OF THE COMPTROLLER OF THE CURRENCY, TREASURY DEPARTMENT. PREFERABLY SUCH EXAMINATION FUNCTION SHOULD BE TAKEN OVER BY THE COMPTROLLER OF THE CURRENCY - SEE CHART I.

FEDERAL LAND BANKS; FEDERAL INTERMEDIATE CREDIT BANKS; THE CENTRAL AND DISTRICT BANKS FOR COOPERATIVES; PRODUCTION CREDIT CORPORATIONS; REGIONAL AGRICULTURAL CREDIT CORPORATION

DEPARTMENT SUPERVISORY  
AGENCIES

GENERAL SUPERVISORY  
FUNCTIONS

INDUSTRY ORGANIZATION  
OR ASSOCIATION

(8) DOMESTIC AGRICULTURAL FINANCING  
(CONTINUED)

DEPARTMENT OF AGRICULTURE  
(OTHER THAN FARM CREDIT AND  
WAR FOOD ADMINISTRATIONS)

DEPARTMENTAL SUPERVISION OVER ACTIVITIES RELATING TO FEDERAL  
FARM MORTGAGE CORPORATION, RURAL ELECTRIFICATION, FEDERAL  
DEEP INSURANCE (IN LIQUIDATION).

FEDERAL FARM MORTGAGE CORPORATION;  
RURAL ELECTRIFICATION ADMINISTRATION;  
FEDERAL DEEP INSURANCE CORPORATION  
(IN LIQUIDATION)

WAR FOOD ADMINISTRATION  
(ORGANIZATIONALLY IN DEPART-  
MENT OF AGRICULTURE BUT WITH  
ADMINISTRATOR RESPONSIBLE TO  
PRESIDENT)

DETERMINES THE DIRECT AND INDIRECT, MILITARY, OTHER GOVERN-  
MENTAL, CIVILIAN, AND FOREIGN REQUIREMENTS FOR HUMAN AND  
ANIMAL FOOD AND FOR FOOD USED INDUSTRIALLY. IN FURTHER-  
ANCE THEREOF, FORMULATES AND IMPLEMENTS A PROGRAM THAT WILL  
SUPPLY FOOD ADEQUATELY TO MEET REQUIREMENTS; ALLOCATES THE  
NATION'S FARM PRODUCTION RESOURCES AS NEEDED AND INSURES THE  
EFFICIENT AND PROPER DISTRIBUTION OF THE AVAILABLE FOOD  
SUPPLY. THE WAR FOOD ADMINISTRATOR ALSO HAS RESPONSIBILITY  
FOR FARM LABOR SUPPLY AND FARM WAGE AND SALARY STABILIZATION.

COMMUNITY CREDIT COOPERATION;  
FEDERAL SURPLUS COMMODITIES  
CORPORATION;  
FARM SECURITY ADMINISTRATION;  
VARIOUS DEPARTMENTAL AGENCIES CON-  
CERNED WITH PRODUCTION, DISTRIBU-  
TION, CONSERVATION, TRANSPORTATION,  
LABOR, PRICES, ETC.

(9) DOMESTIC HOUSING FINANCING

SUGGESTED COMMITTEE PARTICIPATION: FEDERAL HOME LOAN BANK ADMINISTRATION, FEDERAL  
HOUSING ADMINISTRATION, AND FEDERAL PUBLIC HOUSING AUTHORITY, AND SUCH OTHER  
REPRESENTATION OF THE NATIONAL HOUSING AGENCY AS MAY BE APPROPRIATE.

FEDERAL HOME LOAN BANK  
ADMINISTRATION (IN  
NATIONAL HOUSING AGENCY)

SUPERVISES THE FEDERAL HOME LOAN BANK SYSTEM AND FEDERAL  
SAVINGS AND LOAN ASSOCIATIONS. EXAMINATION OF MEMBER  
INSTITUTIONS, EVEN THOUGH CONTINUED BY THE ADMINISTRATION,  
WOULD BE PLACED UNDER COORDINATION AND GENERAL JURISDICTION  
OF THE CONTROLLER OF THE CURRENCY, TREASURY DEPART-  
MENT. PREFERABLY SUCH FUNCTION SHOULD BE TAKEN OVER  
BY THE CONTROLLER OF THE CURRENCY - SEE CHART 1.

FEDERAL HOME LOAN BANKS;  
FEDERAL SAVINGS AND LOAN ASSOCIA-  
TION CORPORATION;  
HOME OWNERS' LOAN CORPORATION  
(IN LIQUIDATION).

NATIONAL HOUSING AGENCY  
(OTHER THAN FEDERAL HOME  
LOAN BANK ADMINISTRATION)

ADMINISTERS ALL THE HOUSING FUNCTIONS AND ACTIVITIES WHICH  
FORMERLY WERE CARRIED ON BY 17 DIFFERENT AGENCIES AND AD-  
MINISTRATIVE UNITS CONSOLIDATED BY EXECUTIVE ORDER 9070  
(UNDER EXECUTIVE ORDER ACT, 1952). HAS JURISDICTION OVER  
PRESENT 3 AGENCIES CARRYING OUT SUCH PROGRAMS.

FEDERAL HOME LOAN BANK ADMINISTRATION;  
FEDERAL HOUSING ADMINISTRATION;  
FEDERAL PUBLIC HOUSING AUTHORITY;  
DEFENSE HOMES CORPORATION (UNDER  
FEDERAL PUBLIC HOUSING AUTHORITY)

(10) MARITIME FINANCING

SUGGESTED COMMITTEE PARTICIPATION: UNITED STATES MARITIME COMMISSION; WAR  
SHIPPING ADMINISTRATION (IN THE OFFICE FOR EMERGENCY MANAGEMENT); WAR DEPART-  
MENT; NAVY DEPARTMENT; AND POSSIBLY FOREIGN ECONOMIC ADMINISTRATION.

UNITED STATES MARITIME  
COMMISSION

CARRIES OUT LONG RANGE SHIP CONSTRUCTION PROGRAM THROUGH  
DEVELOPMENT OF SHIPYARD FACILITIES UTILIZED IN MERCHANT  
SHIP BUILDING PROGRAM, AND INCLUDES MORTGAGES ON PASSENGER,  
CARGO, AND OTHER VESSELS.

WAR SHIPPING ADMINISTRATION  
(IN OFFICE FOR EMERGENCY  
MANAGEMENT)

CONTROLS THE OPERATION, PURCHASE, CHARTER, REQUISITION, AND  
USE OF ALL OCEAN VESSELS UNDER CONTROL OF THE UNITED STATES  
EXCEPT COMBATANT AND AUXILIARY VESSELS. ALLOCATE VESSELS  
FOR USE BY THE ARMY, NAVY, AND GOVERNMENTS OF THE UNITED  
NATIONS. PROVIDES MARINE INSURANCE AND REINSURANCE AGAINST  
LOSS OR DAMAGE OF VESSELS. THE ADMINISTRATION REPRESENTS  
THE UNITED STATES IN DEALINGS WITH THE BRITISH MINISTRY OF  
WAR TRANSPORT AND SIMILAR AGENCIES OF THE ALLIED NATIONS.

PRESENT SUPERVISORY  
AGENCIES

GENERAL SUPERVISORY  
FUNCTIONS

CONSTITUENT ORGANIZATIONS  
OR AGENCIES

(E) FOREIGN FINANCIAL AFFAIRS

SUGGESTED COMMITTEE PARTICIPATION: FOREIGN ECONOMIC ADMINISTRATION, AND OFFICE OF COORDINATOR FOR INTER-AMERICAN AFFAIRS (BOTH IN OFFICE FOR EMERGENCY MANAGEMENT); DEPARTMENT OF COMMERCE; RECONSTRUCTION FINANCE CORPORATION (UNDER SECRETARY OF COMMERCE); DEPARTMENT OF STATE; WAR DEPARTMENT; AND NAVY DEPARTMENT.

FOREIGN ECONOMIC  
ADMINISTRATION (IN  
OFFICE FOR EMERGENCY  
MANAGEMENT)

UNIFIED AND CONSOLIDATED GOVERNMENT ACTIVITIES RELATING TO FOREIGN ECONOMIC AFFAIRS, AND HAS JURISDICTION OVER VARIOUS AGENCIES AND CORPORATIONS ENGAGED IN SUCH PROGRAM. ALSO IS THE ACTIVE AGENCY IN EFFECTING U. S. PARTICIPATION IN UNITED NATIONS REHABILITATION AND RELIEF PROGRAM.

OFFICE OF LONG-LEASE ADMINISTRATION;  
EXPORT-IMPORT BANK OF WASHINGTON;  
PETROLEUM RESERVE CORPORATION;  
RUSSIAN DEVELOPMENT CORPORATION;  
UNITED STATES COMMERCIAL COMPANY;  
CARGOES, INCORPORATED;  
OFFICE OF ECONOMIC RESEARCH;  
OFFICE OF FOREIGN RELIEF AND  
REHABILITATION OPERATIONS;  
FOREIGN ECONOMIC OPERATIONS OF  
OFFICE OF FOREIGN ECONOMIC  
COORDINATION;  
FORMER FOREIGN PROGRAMS  
ACTIVITIES OF WAR FINANCE  
ADMINISTRATION AND COMMERCE  
CREDIT CORPORATION;

OFFICE OF COORDINATOR OF  
INTER-AMERICAN AFFAIRS  
(IN OFFICE FOR EMERGENCY  
MANAGEMENT)

SERVES AS CENTER FOR COORDINATION OF CULTURAL AND COMMERCIAL RELATIONS FOR WESTERN HEMISPHERE. FORMULATES AND EXECUTES PROGRAMS (WITH STATE DEPARTMENT) FOR EFFECTIVE USE OF FACILITIES IN SUCH FIELDS AS ARTS AND SCIENCES, EDUCATION, TRAVEL, ETC. TO FURTHER NATIONAL DEFENSE IN THE WESTERN HEMISPHERE. FORMULATES AND EXECUTES PROGRAMS IN COMMERCIAL AND ECONOMIC FIELDS TO FURTHER COMMERCIAL WELL-BEING IN THE WESTERN HEMISPHERE. ASSISTS IN WAR AND NAVY PROGRAMS TO HELP AMERICAN REPUBLICS INCREASE THEIR MILITARY AND NAVAL ESTABLISHMENTS. HAS JURISDICTION OVER VARIOUS AGENCIES AND CORPORATIONS ENGAGED IN SUCH PROGRAMS.

INSTITUTE OF INTER-AMERICAN AFFAIRS;  
INSTITUTE OF INTER-AMERICAN  
TRANSPORTATION;  
INTER-AMERICAN NAVIGATION  
CORPORATION;  
INTER-AMERICAN EDUCATIONAL FOUNDATION, INC;  
FRANSHAWAGIS, INC.

## WAR FINANCE DIVISION

## EXPENSES OF LOANS

STRAIGHT WIRE - 11/24/46

UNITED STATES SAVINGS & LOAN LEAGUE  
221 N LASALLE ST  
CHICAGO ILL

I AM DELIGHTED TO LEARN OF YOUR EXCELLENT PLANS FOR COOPERATION WITH THE SIXTH WAR LOAN. SAVINGS AND LOAN ASSOCIATIONS HAVE ALREADY ASSISTED THE TREASURY IN PAST DRIVES AND I AM CONFIDENT THEIR AID IN THE FORTHCOMING CAMPAIGN WILL BE EVEN MORE OUTSTANDING THAN BEFORE. THE TREASURY APPRECIATES THE GENEROUS SERVICES OF YOUR PERSONNEL, YOUR ADVERTISING SUPPORT, THE BOND PURCHASES BY YOUR MEMBERS, AND YOUR SALE OF HUNDREDS OF MILLIONS OF DOLLARS OF GOVERNMENT SECURITIES TO THE PUBLIC. I KNOW YOU WILL GO FORTH TO MEET THE SIXTH WAR LOAN WITH DETERMINATION AND UNFLAGGING ZEAL. OUR COUNTRY IS STILL AT WAR, AND SO ARE WE ON THE WAR BOND FRONT. LET US HASTEN THE DAY OF VICTORY.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY.

*129-11-11-11*  
JEL/TRG:cm

R W COYNE

226

WAR FINANCE DIVISION

EXPENSES OF LOANS

NOVEMBER 14 1944

PLEASE SEND AS NIGHT LETTER TO EACH PERSON ON THE ATTACHED LIST  
EXCEPT NAVY RADIO TO ALASKA, HAWAII, AND PUERTO RICO:

I AM GREATLY ENCOURAGED BY REPORTS RECEIVED FROM TED GAMBLE OF YOUR  
READINESS AND ENTHUSIASM FOR THE START OF THE SIXTH WAR LOAN DRIVE  
NOVEMBER 20. I FEEL THAT QUITE APART FROM THE IMPORTANCE OF THIS  
DRIVE AS A VITAL WAR FINANCING VENTURE ITS TIMING AND EXECUTION  
FOLLOWING THE NATIONAL ELECTION WILL PROVIDE LIVING EVIDENCE OF THE  
NATION'S UNITY AND OF ITS DEVOTION TO OUR NUMBER ONE PRIORITY JOB  
OF WINNING THE WAR. I WANT YOU AND YOUR ASSOCIATES TO KNOW THAT  
WE APPRECIATE THE EFFORT YOU ARE EXPENDING IN PREPARATION AND WE  
LOOK FORWARD WITH CONFIDENCE TO YOUR SUCCESS.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY.

RWC:ebm

Marc Ray Clement  
Executive Manager  
War Finance Committee  
2002 Comer Building  
Birmingham, Alabama

Vernon L. Clark  
Executive Manager  
War Finance Committee  
800 Walnut Building  
Des Moines, Iowa

Walter R. Bimson  
War Finance Chairman  
215 New Post Office Bldg.  
Phoenix, Arizona

W. Laird Dean  
War Finance Chairman  
208 Federal Building  
Topeka, Kansas

W. W. Campbell  
War Finance Chairman  
Radio Center Building  
114 East Capitol Avenue  
Little Rock, Arkansas

Ben Williamson, Jr.  
War Finance Chairman  
808 Second Natl. Bank Bldg.  
Ashland, Kentucky

~~Clarence H. Adams~~ *Philip K. Alexander*  
War Finance Chairman  
551 Equitable Building  
17th and Stout Streets  
Denver, Colorado

S. Albert Phillips  
War Finance Chairman  
510 Republic Building  
Louisville, Kentucky

Eugene E. Wilson  
War Finance Chairman  
36 Pearl Street, Room 523  
Hartford, Connecticut

Leon G. Tujague  
War Finance Chairman  
512 Pan American Bldg.  
Camp and Poydras Streets  
New Orleans, Louisiana

~~Donald P. Ross~~ *Henry J. Bush*  
Executive Vice Chairman  
War Finance Committee Chairman  
1064 Hotel duPont Building  
Wilmington, Delaware

Phillips M. Payson  
War Finance Chairman  
142 High Street  
Portland, Maine

W. W. McEachern  
War Finance Chairman  
404 Federal Building  
Jacksonville, Florida

~~W. Bladen Bowdler, Jr.~~ *Frank W. Wright*  
War Finance Chairman  
601 Maryland Trust Building  
Baltimore, Maryland

~~Charles A. Starr~~ *Robert A. McCord*  
War Finance Chairman  
1202 Citizens and Southern  
National Bank Bldg.  
Atlanta, Georgia

O. J. Arnold  
War Finance Chairman  
570 Northwestern Bank Bldg.  
Minneapolis, Minnesota

John A. Schoonover  
War Finance Chairman  
634 Idaho First Nat'l. Bank Bldg.  
Boise, Idaho

Ex I. Brown  
War Finance Chairman  
1005 Lampton Building  
Jackson, Mississippi

Eugene C. Pulliam  
War Finance Chairman  
815 Illinois Building  
Indianapolis, Indiana

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28 Union Bank Building  
Helena, Montana

W. Dale Clark  
War Finance Chairman  
636 World-Herald Building  
Omaha, Nebraska

Forest Lovelock  
War Finance Chairman  
35 East 4th Street  
Reno, Nevada

R. A. Soderlund  
War Finance Chairman  
Bell Building  
923 Elm Street  
Manchester, New Hampshire

Cale W. Carson  
War Finance Chairman  
101 Federal Building  
Albuquerque, New Mexico

Clarence T. Leinbach  
War Finance Chairman  
c/o Wachovia Bank & Trust Co.  
Winston-Salem, North Carolina

F. L. Conklin  
War Finance Chairman  
Neirling Block  
Jamestown, North Dakota

A. E. Bradshaw  
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Farm Credit Adm. Building  
1401 Hampton Street  
Columbia, South Carolina

Walter H. Burke  
War Finance Chairman  
Post Office Building  
Sioux Falls, South Dakota

G. Cecil Woods  
War Finance Chairman  
330 Third Natl. Bank Bldg.  
170 Fourth Avenue  
Nashville, Tennessee

Judson S. James, Jr.  
Executive Manager  
War Finance Committee  
Dallas Power & Light Bldg.  
Dallas, Texas

Charles L. Smith  
War Finance Chairman  
Union Pacific Bldg. Annex  
3rd Floor  
19 West South Temple Street  
Salt Lake City, Utah

Fred C. Martin  
Executive Manager  
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135 Main Street  
Burlington, Vermont

Francois P. Gaines  
War Finance Chairman  
214 North Fifth Street  
Richmond, Virginia

Wm. C. H. Lewis  
Executive Manager  
War Finance Committee  
901 Federal Office Bldg.  
Seattle, Washington

A. C. Spurr  
War Finance Chairman  
608 Security Building  
Charleston, West Virginia

Walter Kasten  
War Finance Chairman  
Room 630  
735 North Water Street  
Milwaukee, Wisconsin

A. E. Wilde  
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303 Federal Building  
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Howard D. Mills  
Associate Field Director  
War Finance Division  
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Los Angeles, California

VIA NAVY RADIO

Governor Ernest H. Gruening  
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Young Hotel Bldg.  
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Honolulu, Hawaii

*Raphael H. O'Malley*  
*War Finance Committee*  
*40 Hon. Jean D. Whittamore*  
*U. S. Customs House*  
*San Juan, Puerto Rico*

WAR FINANCE CHAIRMEN

Mr. W. Crocker  
War Finance Chairman  
733 Monardneck Building  
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Robert H. Moulton  
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~~Novitt-Ford~~ *Frederick W. Goble*  
War Finance Chairman  
1270 Sixth Avenue  
New York, New York

Phil J. Trounstine  
War Finance Chairman  
536 Union Commerce Building  
Cleveland, Ohio

G. Ruhland Rebmann  
War Finance Chairman  
12 South Twelfth Street  
Philadelphia, Pennsylvania

## WAR FINANCE DIVISION

## EXPENSES OF LOANS

NOVEMBER 14 1944

PLEASE SEND AS DAY LETTER TO EACH PERSON ON THE ATTACHED LIST EXCEPT NAVY RADIO TO ALASKA, HAWAII, AND PUERTO RICO:

A NEWS STORY EMANATING FROM WASHINGTON VIA A PRESS SERVICE UNDER DATE OF NOVEMBER 9 INDICATED THAT THE TREASURY WAS CONTEMPLATING THE ABANDONMENT OF THE PRESENT REDEMPTION PROCEDURE. THE STORY IMPLIED THAT ANY CHANGE WOULD BE POSTPONED UNTIL AFTER THE COMING SIXTH WAR LOAN. THIS IS TO ADVISE YOU THAT THIS STORY AND CONCLUSIONS ARE ENTIRELY FALSE. THE TREASURY HAS NO PLANS WHICH CALL FOR REVISION OF THE REDEMPTION MACHINERY WHICH WENT INTO OPERATION OCTOBER 2. WE WILL CONTINUE TO URGE PEOPLE TO BUY AND HOLD WAR BONDS AND THE AVAILABILITY OF THE FUNDS IN EMERGENCIES WILL BE OF VALUE IN OUR SALES COPY.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY.

HFG:clm

Marc Ray Clement  
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*Raphael H. O'Malley*  
*War Finance Committee*  
*9. Hon. Jean S. Whittemore*  
*U. S. Customs House*  
*San Juan, Puerto Rico*

- 4 -

TELEPHONE STATIONS

Wm. W. Crocker  
War Finance Chairman  
733 Monoclock Building  
San Francisco, California

Robert H. Moulton  
War Finance Chairman  
621 South Spring Street  
Los Angeles, California

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~~Novil Ford~~ *Dudrick W. Jehle*  
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536 Union Commerce Building  
Cleveland, Ohio

G. Ruhland Rebnann  
War Finance Chairman  
12 South Twelfth Street  
Philadelphia, Pennsylvania

SEVENTY-EIGHTH CONGRESS

ROBERT L. DAUGHTON, N. C., CHAIRMAN

JERE COOPER, TENN.  
WESLEY E. DISNEY, OKLA.  
D. DINGELL, MICH.  
ELLIS ROBERTSON, VA.  
RON H. WEST, TEX.  
WILBUR D. MILLS, ARIZ.  
NOBLE J. GREGORY, KY.  
A. SIDNEY CAMP, GA.  
WALTER A. LYNCH, N. Y.  
AIME J. FORAND, R. I.  
THAD F. WABIELEWSKI, WIS.  
PAUL H. MALONEY, LA.  
HERMAN P. EBERHARTER, PA.  
CECIL R. KING, CALIF.

ALLEN T. TREADWAY, MASS.  
HAROLD KNUTSON, MINN.  
DANIEL A. REED, N. Y.  
ROY G. WOODRUFF, MICH.  
THOMAS A. JENKINS, OHIO  
BERTRAND W. SEARHART, CALIF.  
FRANK CARLSON, KANS.  
RICHARD M. SIMPSON, PA.  
CHARLES E. DEWEY, ILL.  
ROBERT W. KEAN, N. J.

C. MALCOLM HEVENOR, CLERK

COMMITTEE ON WAYS AND MEANS  
HOUSE OF REPRESENTATIVES

WASHINGTON, D. C.

November 14, 1944.

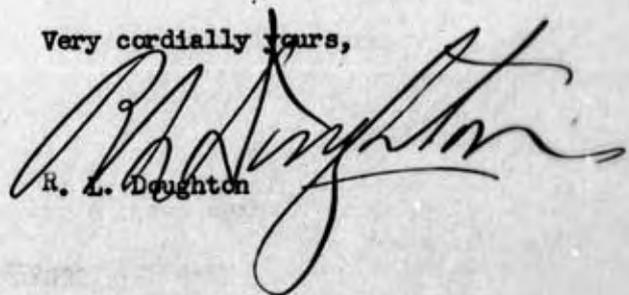
The Honorable Henry Morgenthau,  
Secretary of the Treasury,  
Washington, D. C.

Dear Henry:

Upon my return to the city this morning I find  
your gracious message on my desk which I deeply and sincerely  
appreciate.

Looking forward with much pleasure to our future  
efforts in behalf of our government and assuring you of my  
great appreciation of your valuable friendship, I am, with  
highest esteem,

Very cordially yours,



R. L. Daughton

RLD/sm

DEMOCRATIC NATIONAL COMMITTEE  
MAYFLOWER HOTEL  
WASHINGTON  
ZONE 6

235

ROBERT E. HANNEGAN  
CHAIRMAN

November 14, 1944

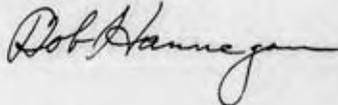
My dear Mr. Secretary:-

It was certainly very kind of you and Mrs. Morgenthau to send me such a nice congratulatory note-- many thanks.

I am going away for a few weeks and will stop by your office to see you as soon as I get back to Washington.

Kindest personal regards.

Sincerely yours,



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



## TREASURY DEPARTMENT

WASHINGTON 25

November 14, 1944



## MEMORANDUM TO THE SECRETARY

It is my considered suggestion that Mr. Russell Duncan be appointed Surplus Property Director on the severance of my connection with the Treasury Department. I believe that somewhere we should be able to find the right person to become Assistant to the Secretary and that Mr. Duncan should head up Surplus Property under the Assistant to the Secretary. I believe the title Mr. Duncan should have is Director of Surplus Property. I am attaching a list of references from Mr. Duncan. I think his experience in business and Government and with me warrants this promotion.

*E. L. Olrich*  
E. L. Olrich  
Assistant to the Secretary

Attachment

Minnesota References

John Peyton, President  
Federal Reserve Bank, Minneapolis

Arthur Upgren, Vice President  
Federal Reserve Bank, Minneapolis

F. Peavey Heffelfinger (Officer)  
F. H. Peavey Company, Minneapolis

Sheldon V. Wood, President  
Minneapolis Electric Steel Castings Company, Minneapolis

George Halpin, Vice President  
Minneapolis Mining and Manufacturing Company, St. Paul

Richard C. Lilly, President  
First National Bank, St. Paul

Arthur Kemp, Vice President  
First National Bank, Minneapolis

Walter Feldman, Vice President  
Electric Machinery & Manufacturing Company, Minneapolis

David W. Onan, President  
D. W. Onan & Sons, Minneapolis

Chas. Horn, President  
E. A. Purdy, Assistant to President  
Twin City Ordnance Plant Foshay Tower, Minneapolis

John C. Benson (Lawyer)  
Benson-Faegre, Northwestern Bank Building, Minneapolis

Hugh Arthur, Vice President  
Dayton Company, Minneapolis

Perry Williams, Secretary  
Minneapolis Civic & Commerce Association, Minneapolis

Willis Salisbury, President  
Salisbury Satterlee Company, Minneapolis

Hon. Paul Guilford, Judge  
Minneapolis

Paul W. Anderson, President  
Farwell, Ozmun, Kirk Company, St. Paul

Gerald Howze, President  
Duluth Glass Block Store, Duluth

Daniel Mahoney, Vice President  
First & American National Bank, Duluth

Ed. Palmer, Vice President & Trust Officer  
First & American National Bank, Duluth

Otto Swanstrom, President  
Diamond Calk Horseshoe Company, Duluth

Chas. Applehagen, President  
Zenith Furnace Company, Duluth

Carlisle Heimbach, President  
Heimback Lumber Company, Duluth

Across Country References

George A. Fernley, Secretary  
Wholesale Hardware Association  
505 Arch Street  
Philadelphia, Pennsylvania

R. Kennedy Hanson, Secretary  
American Supply & Machinery Manufacturers Assn.  
1108 Clark Building  
Pittsburgh, Pennsylvania

Carl Channon, President  
Great Lakes Supply Company  
Chicago, Illinois

S. D. Black, President  
Black & Decker Manufacturing Company  
Towson, Maryland

H. F. Seymour, Vice President  
Columbian Vise & Manufacturing Company  
9021 Bessmer Avenue  
Cleveland, Ohio

R. G. Thompson, President  
Lufkin Rule Company  
Saginaw, Michigan

H. A. Buzby, President  
Keystone Lubricating Company  
21st, Clearfield & Lippincott Sts.  
Philadelphia, Pennsylvania

Alvin Smith, President  
Smith Courtney Company  
Richmond, Virginia

Carl Kruger, President  
San Antonio Machinery and Supply Company  
San Antonio, Texas

L. M. Knouse, Vice President  
The Stanley Works  
New Britain, Connecticut

D. W. Northup, President  
Henry G. Thompson & Son Company  
277 Chapel Street  
New Haven, Connecticut

H. V. Waterman, President  
Hendrie & Bolthoff Mfg. & Supply Company  
Denver, Colorado

Lewis D. Herndon, Vice President  
Chas. Ectorff, President  
Belknap Hardware Company  
Louisville, Kentucky

F. Marsena Butts, President  
Butts & Ordway Company  
Boston, Massachusetts

A. R. Smith, Vice President  
Boyer Campbell Company  
Detroit, Michigan

Chas. T. Bush, President  
Chas. A. Strelinger Company  
Detroit, Michigan

P. Ridings, Vice President  
Syracuse Supply Company  
Syracuse, New York

H. H. Kuhn, President  
Hardware & Supply Company  
Akron, Ohio

Percy G. Maddock, President  
Maddock & Company  
Philadelphia, Pennsylvania

Wm. T. Todd, Jr., President  
Somers, Fidler & Todd Company  
Pittsburgh, Pennsylvania

Chas. E. Curtis, President  
Western Iron Stores Company  
Milwaukee, Wisconsin

Robt. S. Page, President  
Henry Walke Company  
Norfolk, Virginia



TREASURY DEPARTMENT  
WASHINGTON 25



November 14, 1944

MEMORANDUM TO THE SECRETARY

I am enclosing a list of the special items valued in excess of \$50,000 as of November 13, 1944.

A handwritten signature in cursive script, appearing to read "E. L. Olrich", written over a horizontal line.

E. L. Olrich  
Assistant to the Secretary

Enclosures

PROPERTY FOR DISPOSAL

SPECIAL ITEMS, COST TO GOVERNMENT IN EXCESS OF \$50,000

AS OF NOVEMBER 13, 1944

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
1. <u>Furniture</u>			
<u>BEDS AND COTS, NEW AND USED</u>	63 000	\$3.50 average	220 500
Includes wooden, double-deck bunks; steel, single beds; folding, wood and canvas cots.			
<u>BED PARTS</u>			65 000
Springs, heads, feet, and side rails; un-assembled. Negotiating with bed mfrs. regarding repurchase.			
<u>MATTRESSES, NEW AND USED</u>	525 000	5.50	2 887 500
About 1/3 are new. Substantial sales of used mattresses for conversion into paper, take place regularly.			
<u>PILLOWS, USED</u>	954 000	.73	696 420
Some cotton, some feather pillows, - mixed in bales. Deal is pending for entire lot, probably for export, as state laws prohibit sale of used bedding in this country.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>STOOLS, WOOD, REVOLVING SEAT</u>	14 000	\$6.30	88 200

Small sales indicate ultimate disposal at favorable price.

## 2. Machinery

<u>CONSTRUCTION MACHINERY, HEAVY</u>	6 936	1,000.00 average	6 936 000
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General inventory of (used) heavy machinery, most of it in very poor condition. Sales are being made regularly but inventory mounts. In addition we have heavy valuation of light machines - tampers, jack-hammers, vibrators, etc.

<u>DRILL, ROCK, REPLACEABLE TIP</u>	281 097	.25 average	70 933
-------------------------------------	---------	----------------	--------

In kegs and drums. Have been offered to the original mfr. They are not interested.

<u>CROUSERS, ICE, NEW</u>	76 726	2.70	207 160
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Ice gripping shoes to be attached to special rubber tired treads of high speed military tractors. There is no known application on standard machines. Decision has been made to scrap them.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>GROUSERS</u>	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 being mailed to 7000 prospects.

### 3. General Products

<u>AMMUNITION BOXES, METAL, USED</u>	3 200 000	\$0.57	1 800 000
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National sales plan will be announced this week.

<u>BATTERIES, DRY CELLS AND PACKS</u>			75 000
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Represents current inventory at a low point.

<u>CAMERAS, AIRCRAFT</u>	96		307 386
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Each camera has great variety of collateral equipment. Obsolete type. Physical inspection being made. Informal negotiations with Fairchild Camera Co. in process.

<u>CRATES, WOODEN, NEW AND USED</u>	2 300 000		1 000 000
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Designed for packing artillery pieces. Offer for entire lot being considered, from mfr. of wood products who wants to use material in production.

<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
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FILM & PAPER, PHOTOGRAPHIC60 000,  
pkgs.

360 000

Rolls, cut film, and packs - mostly overage. The overage material will be processed to recover the silver and chemicals. About \$37,000 worth of non-expired material is out on bid.

GENERATING SETS, USED

12 \$5,000.00

60 000

25 K.W., gasoline driven. No action, pending transfer to R.F.C.

HORSES

2 200

165.00

333 000

All horses will be sold according to established program of auctions.

4. AutomotiveAUTOMOTIVE PARTS, OBSOLETE, USED

2 000 000

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.

2/6

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>AUTOMOTIVE SPARE PARTS, NEW</u>	13 000 000		7 000 000
<p>Large quantities on recent declarations are bolts, nuts, spark plugs, fuses - call "parts common" that can be used on any motor vehicles. 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.</p>			
<u>CRADLES, ENGINE</u>	240	\$375.00	90 000
<p>Stands used to hold engines undergoing repair. Inspection report awaited.</p>			
<u>HYDRAULIC FLUID</u>	378 459 gals.	1.74	658 580
<p>Needs reprocessing for civilian use. Packed in 1 gal. cans. Manufacturer not interested. Declarations are being passed to regional offices for disposition.</p>			
<u>JACKS, HYDRAULIC</u>	10 741	79.00	848 539
<p>Four wheel, roller type, 10-ton capacity, for garage use. Two manufacturers have made offers. Awaiting policy action.</p>			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>TIRES, TRUCK &amp; BUS, USED</u>	40 000	\$20.00	800 000

Most have been returned from battle areas and need sectional or spot repairs, or recapping. Letters to the trade have been sent out.

#### 5. Hardware

<u>BOLTS, MISCELLANEOUS</u>	10 800 000		3 300 000
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The regional offices have been instructed to contact manufacturers and large jobbers. Little interest shown.

<u>CLAMPS, FENCE</u>	199 926	.50	94 963
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New declaration e will be offered to the manufacturer for repurchase.

<u>COVERS AND SEALS, RUBBER</u>	27 3/4 tons		169 245
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Includes 3/4 ton seals, which are round rubber washers about 1 inch in diameter. There are 27 tons of new "covers" which are 2 in. lengths of black rubber hose - thin wall, about 1 inch in diameter. Inspection report awaited.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>EMPLACEMENTS, MACHINE GUN</u>	32	\$5,300.00	169 600
A mount for a machine gun. No utility value known.			
<u>FIRE EXTINGUISHERS, NEW</u>	12 000	7.60 average	91 000
Includes 10000 carbon tetrachloride hand extinguishers. Will be sold back to the manufacturers.			
<u>HELMETS, SAFETY, O.C.D.</u>	300 000	.89	267 000
Packed 10 to a carton. Have been allocated to each regional office for sale at established prices. Orders now coming in.			
<u>HOSE, RUBBER</u>	5 000	33.50	167 500
Large size, 25 ft. lengths. Army will inspect.			
<u>IMPRINTING MACHINES, NEW</u>	35 600	21.95	781 420
Original manufacturer has shown no interest. Ad- vertising folder has been sent out to prospects.			
<u>LANTERNS, OIL BURNING</u>	34 460	3.00	107 316
Navy will withdraw for transfer to Army.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>MACHINE GUNS, ELECTRIC</u>	707	\$279.00	197 253
Practice gun. Specifications have been submitted to amusement park owners. New York regional office has one on display and has a few bids for small quantities.			
<u>MASKS, GAS, USED</u>	350 000		864 000
New declaration - sample awaited. Includes 47,967 masks from O.C.D. stocks (\$6.28) being transferred to Chemical Warfare.			
<u>MARKERS, MINE FIELD</u>	7 600 sets	6.85	52 060
Carrying case with 30 metal flags on pins. Several orders for small quantities have been received from state road commissions.			
<u>NUTS, SQUARE, NEW</u>	925 000		57 350
The regional offices have been instructed to contact manufacturers and jobbers. Little interest shown.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>PLATFORM TRUCKS, STEEL, NEW</u>	5 700	\$75.00	427 500
Steel trucks on casters. The truck weighs 800 lbs. and it takes 2 men to push an empty truck. About one-third of original lot have been sold. Remainder expected to go this week.			
<u>RAFTS, PNEUMATIC, 5-MAN</u>	623	200.00	124 600
Three quarters of original lot have been sold and we have prospects on the remainder.			
<u>SCREWS (WOOD), BRASS</u>	250 000	.25	62 000
The regional offices have been instructed to offer these screws to manufacturers and large jobbers. Little interest shown.			
<u>SKIIS AND BINDINGS, USED</u>	4 000 pr.	16.00	64 000
Have immediate prospect for the purchase of entire amount.			
<u>SMOKE GENERATOR PARTS</u>			86 000
Small metal parts (valves, fittings) for Army mobile-smoke generator. Two-thirds of original lot have been sold. Remainder expected to go this week.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>SPURS, NEW AND USED</u>	200 000 pr.	\$1.30	260 000
Some small sales have been made at \$.50 a pair. 100,000 pr. sold at \$.25. Negotiating for sale of balance in a few days.			
<u>STAPLES, GALVANIZED</u>	18 000 kegs	4.52	81 360
100 lbs. to a keg. Sales are being made in small quantities at price near cost to government.			
<u>WIRE CUTTERS</u>	101 257	.55	55 065
New declaration - will be offered to original manufacturers for repurchase.			

#### 6. 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 a program for occupied countries.

<u>APRONS, IMPERMIABLE</u>	93 989	5.00	469 945
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Rubber coated, with sleeves. Manufacturer not interested in repurchase. Samples have been distributed to regional offices with instructions to ask for bids.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>BELT POCKET FOR CARTRIDGE CLIPS</u>	900 000	\$0.10	90 000

Web pocket with fastener. Radio advertiser is taking quantities under option as requests from program develop. Price received \$0.06.

BELTS, AMMUNITION  
BELT TIPS

4 000 000	.80	3 200 000
5 000 000	.05	250 000

Olive drab, web fabric about 1 1/2" wide, 20 feet long, double woven to provide loops in which to insert cartridges.

The tips are fabric, about 12" long, to be attached to feed belt into gun. Central office has received bids and is arranging sale through regional office.

CAPS, W.A.C.

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. New disposal plan is being tried.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>GLOVES, RUBBER, ANTI-GAS</u>	667 000	\$1.00	667 000
Gauntlet type - special design for anti-gas work. We are now taking offers to sell for export shipment.			
<u>HATS, ARMY SERVICE</u>	45 928	3.00	137 784
The old-style broad brimmed campaign hat. Of original amount of 91,000, half have been sold. Negotiations in process for balance with little prospect for sale.			
<u>HOODS, ANTI-GAS, NEW</u>	97 997	1.00	97 997
Regional offices have been instructed to ask for bids.			
<u>MAGAZINE BELTS</u>	55 369	2.35	130 325
An apron of web fabric belt pockets to hold bullet clips. Samples have been sent to all regions to widen sales effort.			
<u>PANELS, SIGNALING, COTTON</u>	247 254	.30	76 686
White panels and black panels 1 1/2 ft. square with eyelets in corners.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
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PANELS, SIGNALLING, DUCK

	9 000	\$20.00	180 000
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Orange duck, 6 ft. x 30 ft., with grommets in edges.  
Being held for Lend Lease.

RUCKSACKS

	7 500	12.66	94 950
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Regions have been authorized to sell as they are  
in bad condition.

SHOES, WOMEN'S, LOW, WHITE

	39 986	3.71	148 335
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New declaration - no action as yet.

SLIDE FASTENERS

	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.

TARGETS, ANTI-AIRCRAFT

	8 861	14.32	126 891
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New declaration - no action will be taken by  
central office.

7. Medical & SurgicalANESTHESIA & SUCTION APPARATUS

	490	173.00	84 770
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Being offered to original manufacturers.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>BAGS, WET DRESSING</u>	105 000	\$0.58	61 500
New declaration - sample awaited.			
<u>BANDAGES, MUSLIN</u>	125 000 doz.		110 000
Offers have been transmitted to owning regional offices. Sales action not known.			
<u>BATTERY BOXES, MEDICAL, USED</u>	3 650	24.25	88 512
New declaration - sample awaited.			
<u>BOTTLES, WIDEMOUTH, 250 CC</u>	201 307	.45	90 588
Purchase being considered by a large jobber for re-sale to vinegar bottlers.			
<u>BOXES, TABLET</u>	600 000 cartons		200 000
500 boxes in a carton. Small size nested into larger, and stick together. Not suitable for original purpose, although sale of large quantity in Atlanta is reported.			
<u>CARTS, FOOD</u>	586	86.00	50 396
Hospital equipment. Manufacturer is interested but awaits identification as to serial numbers.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>DENTAL SUPPLIES</u>			100 000
World War I stocks located at Perry Point, Md. Instructions have been given regional office for disposition.			
<u>DISINFECTORS, 50 GAL.</u>	1 600	\$43.33	73 360
New declaration - inspection report awaited.			
<u>DISHES, EVAPORATION, PORCELAIN</u>	58 525	.09	52 672
Laboratory equipment. Have been offered to the manufacturer.			
<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>DRESSINGS, FIRST AID PKGS.</u>	27 000 000		3 300 000
Several offers awaited this week.			
<u>FLASK, WITH CUP</u>	200 000	.33	66 000
A small flask with metal cup fitted over lower half, - used by soldiers to carry medicine in the field. Offers have been received - action expected this week.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>FLOSS, SILK, DENTAL</u>	510 000 spools		173 400
Awaiting possible offer from manufacturer.			
<u>FORCEPS, HEMOSTATIC</u>	21 034	\$2.63	55 433
Surgical instrument being offered to the manufacturers.			
<u>GAUZE, PLAIN, 25 YD. ROLLS</u>	150 000	.75	112 500
Has been earmarked for F.E.A.			
<u>KITS AND CASES, MEDICAL</u>	3 865	19.11	73 860
From O.C.D. stocks. Suitcase type, filled principally with professional first aid items. New declaration - sample awaited.			
<u>PERIMETERS, ELECTRIC, MEDICAL</u>	345	160.00	551 060
New and used. New declaration - sample awaited.			
<u>PLASTER, ADHESIVE</u>	154 000 rolls		184 800
Rolls 12" long, redicut, for hospital racks. Inspection report awaited to determine quantities of each brand.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>POUCHES, FIRST-AID, FILLED</u>	144 350	\$1.19	171 776
Fabric pouch with professional items, tags, pencils, etc. Offers being considered.			
<u>SCALES, PRESCRIPTION</u>	3 980	23.30	92 897
Lot apparently represents production of several mfrs. One has been contacted and is not interested.			
<u>SCREEN, INTENSIFYING</u>	7 000 pair	9.00	63 000
X-ray equipment. New declaration. Samples awaited. Names of mfrs. being determined.			
<u>SCREWS, BONE, MOLYB.</u>	705 000	.20	141 000
Manufacturer is not interested.			
<u>STERILIZERS, NEW AND USED</u>	6 097		799 000
Includes 1331 considered unsafe by Army, and 688 new sterilizers of inferior quality due to wartime restrictions on materials. Largest manufacturer is not interested.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
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STRETCHERS, CANVAS AND METAL, NEW

	8 400	\$6.43	54 000
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New items from O.C.D. stocks. Have found no interest among government agencies or mfrs.

SURGICAL INSTRUMENTS

			250 000
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Old stocks at Louisville, Ky. Current inventory unknown. Repurchase of certain items by original manufacturers is going on.

SUTURES, SILK AND CATGUT

	15 000 000 units		3 000 000
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For sewing after surgical operations. The two big mfrs. are not interested. The catgut sutures are boilable, - a type not wanted by institutions in the U. S.

TEST TUBES, GLASS

	5 670 000	.03	190 100
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Some samples have arrived and disposal plans are being made.

ACETOPHENETIDIN

	70 000 bottles	1.35	94 500
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5 gr. tablets, packed 1000 in a bottle. Obsolete item awaiting action by board of medical officers.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>AZOCHLORAMID IN TRIACETIN</u>	360 000 quarts	\$4.55	1 638 000
World War I stock. Awaiting action by board of medical officers.			
<u>BURROWES SOLUTION</u>	18 000 bottles		144 000
2.27 gm. tablets - 500 to a bottle. This item is being offered to the manufacturer.			
<u>DICHLORAMINE T</u>	359 000 pints	1.66	595 940
16 2/3% in Tri. World War I stock. Awaiting action by board of medical officers.			
<u>HAEMOTOXYLIN, LIGHT</u>	99 000 bottles	1.50	148 500
10 gram bottle. Awaiting action by board of medical officers.			
<u>HYDROGEN PEROXIDE, 8% SOL.</u>	402 000		250 000
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.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>PEPTONE PROTEOSE BACT.</u>	35 000 pounds	\$6.20	217 000
Has been offered to govt. agencies - not interested.			
<u>PEPTONE, DRIED, U.S.P.BLAG.</u>	96 500 pounds	4.00	386 000
Has been offered to govt. agencies - not interested.			
<u>PROCAINE HYDROCHLORIDE</u>	163 000 boxes	2.75	448 250
10 units in a box, 150 and 200 MM ampules. Being offered to other govt. agencies by our regional offices (after test).			
<u>SODIUM ALURATE</u>	13 500 boxes	7.50	101 250
3 1/2 and 1 3/4 gr. tablets packed in 500 unit boxes. Special Army package - manufacturer not interested.			
<u>SULFANILAMIDE</u>	539 000 packages		344 930
5 and 7.5 gr. tablets. 250,000 boxes of 12 tablets. 289,000 bottles of 1000 tablets. Obsolete Army item. Awaiting action by board of medical officers.			

QUANTITY    UNIT COST    COST TO GOVT.

8. Paper & Office Supplies

NONE

Total . . . . . \$ 51 632 879

SURPLUS USED TRUCKS REPORT

For 7 Days and Period Ended November 11, 1944  
(Period Began January 1, 1944)

		<u>7 Days to Nov. 11, 1944</u>	<u>Period to Date</u>
Total Used Trucks Declared		<u>2179</u>	<u>46990</u>
Less Declarations withdrawn	<u>0</u>		<u>1466</u>
Less Loans to Other Federal Agencies	<u>0</u>		<u>150</u>
Less Transfers to Other Federal Agencies	<u>31</u>	<u>31</u>	<u>4712</u>
Net Used Trucks Declared for Sale		<u>2148</u>	<u>42278</u>
Less Used Trucks Sold		<u>916</u>	<u>34787</u>
Balance of Used Trucks on hand			<u>7491</u>

ANALYSIS OF INVENTORY

Inspected and ready for sale	<u>3958</u>
Not Inspected	<u>3533</u>
	<u>7491</u>

SURPLUS USED CARS REPORT

For 7 Days and Period Ended November 11, 1944  
(Period Began January 1, 1944)

		<u>7 Days to Nov. 11, 1944</u>	<u>Period to Date</u>
Total Used Cars Declared		<u>120</u>	<u>6610</u>
Less Declarations withdrawn	<u>0</u>		<u>133</u>
Less Loans to Other Federal Agencies	<u>0</u>		<u>19</u>
Less Transfers to Other Federal Agencies	<u>1</u>	<u>1</u>	<u>584</u>
			<u>736</u>
Net Used Cars Declared for Sale		<u>119</u>	<u>5874</u>
Less Used Cars Sold		<u>100</u>	<u>4915</u>
Balance of Used Cars on hand			<u>959</u>

ANALYSIS OF INVENTORY

Inspected and ready for sale	<u>649</u>
Not Inspected	<u>310</u>
	<u>959</u>

SURPLUS MOTORCYCLES REPORT

For 7 Days and Period Ended, November 11, 1944  
(Period Began January 1, 1944)

7 Days to Nov. 11, 1944      Period to Date

Total Motorcycles Declared		<u>324</u>		<u>15656</u>
Less Declarations withdrawn	<u>0</u>		<u>138</u>	
Less Loans to Other Federal Agencies	<u>0</u>		<u>0</u>	
Less Transfers to Other Federal Agencies	<u>0</u>	<u>0</u>	<u>210</u>	<u>348</u>
Net Motorcycles Declared for Sale		<u>324</u>		<u>15308</u>
Less Motorcycles Sold		<u>225</u>		<u>9996</u>
Balance of Motorcycles on hand				<u>5312</u>

ANALYSIS OF INVENTORY

Inspected and ready for sale		<u>3730</u>
Not Inspected		<u>1582</u>
		<u>5312</u>

THE UNDER SECRETARY OF STATE  
WASHINGTON

November 14, 1944

Dear Henry,

Harry White and I had a most satisfactory private talk in my office this afternoon.

Thank you for having made the suggestion.

Sincerely yours,



The Honorable  
Henry Morgenthau  
Secretary of the Treasury

FOREIGN ECONOMIC ADMINISTRATION  
WASHINGTON

November 14, 1944

Dear Secretary Morgenthau:

I gather that there are some garbled accounts going the rounds about my discussions with Keynes on public statements on the stage 2 discussions.

Keynes asked to talk to me about some debate that was likely to take place in the House of Commons this week on export policy. In this connection he knew that I had gotten up for Mr Crowley a draft of a possible statement to counter the Krock article. I sent him a copy of it for his information and for such use as it might be in the Parliamentary debate. He understood that no statements would be put out without your and the committees' approval. It was also, I thought, clearly understood that he wasn't clearing it.

This was before our talk on public statements on Saturday. At that meeting and the follow-up with Harry White, Gaston and Coe it was understood that probably the best thing to do  
(over)

was to prepare an overall statement for submission to you when the discussions were concluded.

This is long-winded. But I value your friendship and my respect for you too much to have even a possibility of misunderstanding.

Oscar Cox

SECRET

WAR DEPARTMENT  
OFFICE OF THE UNDER SECRETARY  
WASHINGTON, D. C.

NOV 3 4 1944

The Honorable

The Secretary of the Treasury

SUBJECT: Reciprocal aid from the Dominions  
of the British Commonwealth of  
Nations

Dear Mr. Secretary:

The sub-committee which negotiated the military items of lend-lease requirements for the U. K., its colonial empire, the commonwealths and the Government of India submitted a report to you containing a recommendation by the U. S. representatives that certain conditions be imposed in the acceptance by the U. S. of the requirements. This recommendation is contained in paragraph 10 of the report and reads as follows:

"10. The U. S. representatives also recommend that as a condition of the acceptance of the scheduled U. K. requirements by the U. S. that the U. K. accept the responsibility for furnishing reciprocal aid throughout the British Empire and Commonwealth as required by the common interest."

It is understood that the British have objected to the above mentioned conditions and state that they cannot be accepted for various reasons which they have advanced. A number of meetings have been held on the subject of reciprocal aid from the Dominions and the Government of India to obtain further information concerning the views of the U. K. representatives, and to discuss among U. S. representatives, possible solutions which will meet the requirements of the War Department and which will be acceptable to the U. K. representatives.

The views of the War Department, which have previously been presented are, in general, as follows:

a. Arrangements should be made so that the armed forces of the United States and the armed forces of the Allies fighting under the command of the United States can be assured of obtaining necessary reciprocal aid items promptly and without regard to the area to which these items will be sent for use.

SECRET

Regraded Unclassified

SECRET

b. The War Department believes that these items should be furnished on a reciprocal aid basis, and that the United States should not have to provide funds therefor.

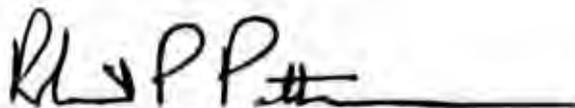
g. Inasmuch as military lend-lease items are sponsored, bid for and justified by the United Kingdom for itself, its colonial empire, the commonwealths and the Government of India, the War Department believes it preferable to have a corresponding arrangement for reciprocal aid whereby the U. K. assumes responsibility for reciprocal aid from the United Kingdom, its colonial empire, the commonwealths and the Government of India. The War Department is not concerned with the internal financial arrangements made by U. K. with its colonial empire, the commonwealths and the Government of India to effect this.

At one of the recent meetings at which the subject of reciprocal aid was discussed, Mr. Acheson of the State Department made a suggestion which might meet the objections of the U. K. representatives, and at the same time, satisfy the views of the War Department. A draft of a suggested substitute for the conditions in paragraph 10 referred to above along the lines of Mr. Acheson's proposal, is as follows:

As required by the common interest for Stage Two (U.S. Period I), the British Colonial Empire, the Commonwealth of Australia, the Commonwealth of New Zealand, and the Government of India each guarantee to supply promptly to the U.S., without geographical limitation, the total dollar amount of reciprocal aid furnished during 1944 and as much additional reciprocal aid as the Japanese War may require; and the U.K. guarantees to assume the cost to each of the above governments to the extent that the reciprocal aid supplied to the U. S. exceeds the total dollar amount or the total quantity of any item furnished by each government during the calendar year 1944.

I appreciate your consideration in suspending submission of substitute proposals to the U. K. representatives until General Somervell and I could consider the matter. Our views are expressed above and I hope that you will be able to arrive at a final solution.

Sincerely yours,



ROBERT P. PATTERSON  
Under Secretary of War

SECRET

271  
dated on typewriter  
11-14-44

NOV 14 1944

Dear Mr. Cornish:

I read with great appreciation and interest William L. Shirer's realistic dispatch from Aachen published in last Sunday's papers.

I need not make a secret of the fact that I was particularly pleased by his judgment that stories published here about the so-called "Morgenthau plan" had not affected German resistance.

If you can find occasion to let Mr. Shirer know of my appreciation, I shall be additionally grateful to you.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. George Cornish,  
Managing Editor,  
New York Herald Tribune,  
230 West 41st Street,  
New York, New York.

  
HEG:aja

November 14, 1944

Dear Harry:

I don't know whether you happened to read the article by William L. Shirer in Sunday's Tribune, but in case you did not I am sending it to you enclosed herewith.

I am marking one particular paragraph which I thought was most interesting.

With kind regards,

Yours sincerely,

(Signed) Henry

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

# PROPAGANDA FRONT

By WILLIAM L. SHIRER

By Wireless to the Herald Tribune.  
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**AACHEN, Germany, Nov. 11.**—Here in the city of Charlemagne, where your correspondent once heard Adolf Hitler boast that his Third Reich would last a thousand years, if not longer, one can see Nazism dead amongst the ruins.

Bent and broken Germans of all ages, but mostly old, dig in the debris which is all there is left of this once proud city of 180,000 inhabitants. American artillery thunders from behind the town and shells explode in the German lines not far away. Occasionally a German shell comes over adding its might to the utter destruction of this German town. Civilians, a little shell-shocked still from the bombardment and bombings and shocked, too, that the war which Hitler waged so long in distant lands should return to lay waste to their German homes, pause in their digging to curse "the brown pest," meaning the Nazis. They dig and curse and as night falls they crawl down to their cellar holes, dark and cold and damp, to prepare a sparse evening meal.

## They Used to Cheer

Pitiful specimens of humanity you think. And yet I saw them in this same historic town exactly four years ago. They were not bent or broken or shell-shocked then. They did not curse the "brown pest" then. They cheered it. For it had, they thought—and some of them admitted it to me today—won them a great war. Swastika flags flew from their windows then and the citizens greeted each other with a resounding "Heil Hitler."

Today when Hitler is mentioned it is with a curse. And for a very simple reason. He has brought ruin to Germany—ruin they never dreamed was possible four years ago.

When did they have a change of heart about Hitler and Nazism and the war? I returned to Germany today after an absence of four years to try to find out. We have occupied but a tiny fraction of the Reich. The few of Germany still in German hands are being treated as the Allies are so doing in other occupied areas. The people

you get here is still incomplete. And the few thousands who remained in the shambles of Aachen were those who defied the Nazi evacuation order, the Gestapo who tried to drive them from their cellars into interior Germany, and the terrible bombing and shelling in order to remain.

Such folk obviously are not fanatical Nazis, except the spies who remained behind for an obvious purpose. But they insisted to me today that there are millions more like them between here and the Rhine, and millions more behind the Rhine, all the way to East Prussia. These Germans, they stoutly maintain, want to halt the war, preferring anything that the Allies may have in store for them rather than to go down in Goetterdaemmerung ruin with the Nazi leaders.

## In Himmler's Grip

Why don't they quit then, you ask. The answer invariably is the same. They can't. Himmler's grip on the population and on the army is too iron. To falter now means instant execution whether you are a worker, housewife, farmer, business man or general. Eleven years of Nazism and five years of war—all Germans I talked to agreed—have knocked out of the German people all the principles and morals and, above all, any urge to revolt. All they think of now is how to survive. But they all know that the war is lost and secretly hope that the Allies finish the war before winter, which promises to be the grimest in modern German history.

I was curious to know—since Germany has been pretty much of a closed book to us for four years—when the German people themselves realized the jig was up and the Nazis had merely led them to another lost war as had the Kaiser's regime a quarter-century before. I questioned several Germans of all types and classes among the ruins today. A few church officials said that they had the war was lost in July 22, 1940, when Germany attacked Russia. "Why?" Because they said that German army leaders could have won a half-year war.

Others said they realized that the war was lost when the British

December, 1941, and the United States entered the war. The best agreed the people knew that the war was lost after Stalingrad.

Many hoped then that the Army would take over and get a negotiated peace. But all I talked with today were unanimous that there is little hope of a revolt in the Army command today. Hitler and Himmler have seen to that. The moment a general does not toe the line he is a candidate for a firing squad.

I found little evidence that, as Governor Thomas Dewey and many others in America and Britain, believe that our insistence on unconditional surrender or even the publicity given the so-called Morgenthau and Vansittart plans for harsh peace are spurring the Germans on to fight to the death. The general attitude seems to be that any kind of peace is preferable to a continuance of the war. All acknowledge that Goebbels' propagandist was highly effective in spurring the masses in the first three years of the war, but has lost its effect now.

When I brought up the subject of Goebbels today most of the Germans either cursed or laughed. But they have an unholy fear of Himmler and his S. S. gunmen. And in Aachen they hope the German Army won't retake the city, since they feel it would mean their doom for having stayed behind. The American military government, so far as I can see, is taking a firm but fair attitude. Most of the German civilians I talked to were shocked that we were treating them so decently. Most of them said they expected the worst.

I watched the American military police bringing in men and women apprehended for the lack of identity papers or military permits. The police were highly polite and usually drive the civilians, especially the elderly ones, to the Civil Affairs Headquarters, where matters are straightened out for the German population. They also were impressed by the recent acquittal by an American military court of two German civilians for harboring German soldiers who had shed their uniforms for civilian clothing. An Oberbuergermeister, whose name cannot be mentioned for fear of Nazi reprisals against his family, remarked to me: "We hardly expected you to be so fair."

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November 14, 1944

My dear Mr. Merz:

I read with interest your letter of November 4 and I am perfectly willing to abide by Arthur's decision.

May I take this opportunity of thanking you personally for the very splendid editorial which, I understand from Arthur, you wrote. It gave me a source of great personal satisfaction.

I wonder if you saw William L. Shirer's article of last Sunday. I am enclosing it herewith in case you did not. What he personally observed in Aachen confirms your feelings as expressed in your editorial.

I am also naturally pleased at the Kilgore Committee Report.

The next time you come to Washington, I hope you will give me the pleasure of having lunch with me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Charles Merz,  
The New York Times,  
Times Square,  
New York, New York.

The New York Times  
Times Square

November 4, 1944.

Dear Mr. Secretary:

Arthur Sulzberger is in a considerable state of excitement this morning because of the birth of his first grandson (an event which took place at 6 a. m.) and plans for an immediate departure for a two months' tour of the Pacific battle fronts. For this reason he has asked me to answer your letter to him of November 2nd. He has also asked me to explain that one additional reason why he has done so is that you may wish to communicate further with someone at The Times on the subject of your letter, while Arthur himself is away, and so he wants me to be informed on the point you have been discussing.

It is Arthur's feeling that neither Daniell, writing from London, nor Middleton, writing from a battle front which has barely penetrated Germany, is in a position to make an authoritative statement in our news columns regarding the reactions of the German people. However, in a leading editorial published in The Times yesterday—a copy of which is enclosed—we pointed out that it is only natural to expect the Germans to fight "fiercely and stubbornly" because it is their own soil which is now being invaded. I think that this is the point which your letter to Arthur thought should be emphasized.

With all best wishes,

Sincerely yours,

*Charles Merg.*

Mr. Henry Morgenthau,  
Secretary of the Treasury,  
Washington, D. C.

### ON THE GERMAN FRONT

With Allied shipping at last able to enter the Schelde estuary on the way to Antwerp, to make this great port the nearest Allied base for the Western Front, American forces have made a new lunge into the Westwall. Striking under cover of a heavy artillery barrage, but without the benefit of supporting air attacks because of the weather, they have fought their way through the difficult Huertgen forest to score advances of several miles on the way to Cologne and the Rhine. Judging from the whole situation, this is presumably a local thrust, rather than the beginning of the great offensive for which the full occupation of Antwerp is the necessary preliminary. But such local thrusts serve to keep the enemy off balance, to exhaust his badly strained armies, and to punch new holes in his fortifications. They are thus preparing the ground for the big push when the time is ripe for it.

They are also bringing our armies deeper into Germany and putting greater numbers of the German population under Allied rule. The deeper the armies penetrate the more apparent become the problems that confront them in a hostile land. German resistance, which has become especially fierce and stubborn on German soil, is merely additional proof of what must be accepted as axiomatic in Europe, namely, that any European nation will fight invasion from any quarter with all the means at its disposal. That is a situation which we must face, and since Germany began the war with the deliberate purpose of making herself master of Europe and the world, there is only one way to meet it. This is to break all resistance with overwhelming military force.

This is all the more necessary because, as revealed in reactions from occupied German areas, the German people, while admitting defeat, are still unaware of the moral, or the political, or the strategic considerations that have caused their defeat. They now realize that the lance corporal who proclaimed himself "the greatest war lord of all times" is not what he declared himself to be; but they do not blame him for plunging the nation into war, or for the barbarous methods with which he waged it. They do not even realize that the whole project of one nation conquering the world is doomed to defeat from its inception because the rest of the world is bound to resist, and, however divided at the start, bound to form a common front against a common enemy. They merely blame Hitler for having made "mistakes" in the execution of a plan which they still approve. Unless that attitude, harking back to the "Holy Roman Empire of German Nationality," is thoroughly eradicated, it will form fertile soil for the next world war.

But this eradication cannot be achieved by mere education, or even by a ruthless counter-oppression. It can be achieved only by a convincing demonstration of the mighty power of the angered forces of humanity, paired with strict justice which will show the Germans that they have nothing to fear from peace and everything to fear from war. This demonstration can begin only by a German defeat so crushing that never again will the prophets of the "German master race" find humor in German lands.

## The Kilgore Conclusions 277

Seven weeks ago Secretary of the Treasury Morgenthau had the temerity to suggest that one way to make sure Germany doesn't make war again is to take away the industries that produce her war materiel.

So the Secretary proposed that we internationalize the industrial Ruhr and transfer the German chemical and steel plants to some of the nations whose industries have been despoiled by the Nazis.

Sounds reasonable, doesn't it?

Morgenthau's plan was immediately and universally likened to the Carthaginian peace by which the Romans destroyed Carthage and then sowed salt on the site. The kindest words Time Magazine could think of for Carthaginian Morgenthau was "fanatical Naziphobe."

Alf Landon naturally leaped to the attack and Governor Dewey with heavy-handed sarcasm called Morgenthau "that master of military strategy and foreign affairs." Dewey blamed Morgenthau for putting "fight into the German army," prolonging the war and killing American boys.

There, on that accusing note, the Morgenthau Plan rested. The President tried to quiet the controversy by directing the FEA to start studying a peace plan for Germany. He asked that the findings be reported to the State Department.

Alf Landon, Time and Thomas Dewey breathed easier. That bloodthirsty blunderer Morgenthau, they thought, had been given his lumps.

### Nary a 'Phobe'

But they reckoned without Congress. For years, certain Congressional committees, just chockful of respectable Congressmen who never had a "phobe" in their lives, have been studying German industry, among other matters.

Yesterday, the Kilgore Committee, which has been hearing testimony for about eleven months on nothing but German industry, presented 14 pages of conclusions to the American people. They were that "to crush German imperialism permanently . . . the structure and control of German industry must be so altered that it cannot again serve the purposes of war. This is . . . fundamental . . ."

"A real disarmament program requires not only the dismantling of all direct munitions industries but also the dismantling and removal to the devastated areas of Europe of the primary indirect munitions industries, including the metallurgical and chemical industries."

Would Time, Landon or Dewey care to comment?

It was easy enough to say that Morgenthau was an amateur and a bungler. But what can be said when the essentials of the Morgenthau Plan are found again and again in the statements and proposals of Justice Department experts who have been studying German industry ever since the war first started?

Attorney General Biddle has stated, "The period between the wars was only an armistice during which the firms of Germany conducted war against us . . . They evaded and violated the peace treaties in order to build up Germany's military strength . . . A peace with Germany which leaves these companies intact will be a peace to ensure another war against us."

New York Post  
NOV 14 1944

**The Best So Far**

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Can it all be a gigantic Morgenthau plot, a gathering of the "phobes"?

Or rather can it be that the Morgenthau Plan is actually the sanest, most intelligent plan for ensuring the world against future German aggression?

We think it's the sanest plan we've heard of. It avoids the pitfalls of the only other plan—the control plan.

Controls will not last. The Commission that is supposed to control German steel will fade away just as it did after the last war under the pressure of isolationist sentiment and the "Aw, the Germans aren't so bad, anyhow" school.

True, the Morgenthau Plan may be rough on the Germans, but then the Germans have been more than rough on the world for about seventy-five years. And there may not be as much profit for Germany—making her hoe potatoes instead of leaving her to forge cannon—but then it's a lot safer for the world. Better for the Germans, too.

November 14, 1944

Dear Ed:

Thank you for your letter of November 7 with which you enclosed copy of the cable received from London quoting the answer by Mr. George Hall in the house of Commons on the post-war treatment of Germany. I appreciate having this information.

Yours sincerely,

[Signed] Henry

The Honorable Edward R. Stettinius, Jr.,  
Under Secretary of State,  
State Department,  
Washington, D. C.

THE UNDER SECRETARY OF STATE  
WASHINGTON

37-100-1  
please  
forward to  
Mr. White

November 7, 1944

Dear Henry,

As agreed in our recent conversation,  
I enclose herewith a copy of a cable just re-  
ceived from London containing the transcript of  
the answer given on the second in the House of  
Commons by Mr. George Hall to a question raised  
on the post-war treatment of Germany.

With best wishes,

Sincerely yours,



The Honorable

Henry Morgenthau, Jr.

Secretary of Treasury

DEPARTMENT  
OF  
STATE

INCOMING  
TELEGRAM

281  
DIVISION OF  
COMMUNICATIONS  
AND RECORDS

LFC-774

PLAIN

London

Dated November 3, 1944

Rec'd 7:16 a.m., 7th

Secretary of State,  
Washington.

2568, Third

FOR THE SECRETARIES OF STATE AND TREASURY

The following comment was made in the House of  
Commons on November 2 as reported in Hansard for the  
same date:

"Sir L Lyle asked the Secretary of State for  
Foreign Affairs whether the Allied will consider  
requisitioning all the modern equipment, mechanical  
and otherwise, of German factories.

"The Under-Secretary of State for Foreign Affairs-  
(Mr George Hall): while a decision in this matter can  
only be taken by agreement among all the Allies, I  
should expect that it would be thought desirable to  
confiscate such of the equipment of German factories  
as might seem expedient on security grounds and in  
the light of the circumstances prevailing after the

end

-2- BOGG, Third, from London

end of hostilities with Germany.

"Sir L Lyle: is it not a fact that at Tilburg the Huns destroyed everything, including the locomotive works; and is it not right they should be made to replace those things?

"Mr Hall: that and other relevant matters will be taken into consideration in consultation with the Allies."

GALEMAN

RR

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



OFFICE OF THE  
EXECUTIVE DIRECTOR

NOV 14 1944

My dear Mr. Secretary:

I am pleased to send you herewith a copy of the report of the War Refugee Board for the week of October 30 to November 4, 1944.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. W. Pehle".

J. W. Pehle  
Executive Director

The Honorable,

The Secretary of the Treasury.

Enclosure.

Report of the War Refugee Board  
for the Week of October 30 to November 4, 1944

SITUATION IN GERMANY AND GERMAN-CONTROLLED AREAS

Proposed Intercession by Vatican and Neutrals for Deportees

A report from private sources reaching us through our Legation in Bern indicates that the Nunciature at Bern may present to the Holy See a proposal that the Vatican, together with certain neutral governments, intercede with the German Government on behalf of civilian deportees in German-controlled territories. According to this report, the Germans would be asked to liberate or allow to be interned in neutral countries the elderly men, women, and children among those deportees and to apply to other deportees treatment similar to that accorded prisoners of war. It was indicated that the Polish Minister at Bern has already requested his government in London to support the proposal. We advised the Apostolic Delegate in Washington of this report and asked him to present to the Vatican the Board's view that two important circumstances merit attention in connection with such an approach--first, that the Germans have been prone to exclude Jews from concessions made in response to foreign intercession and to assume that Jews are not among the persons on whose behalf any intercession is made unless express reference is made to them; second, that the value of any German concessions will be doubtful unless provision is made for effective supervision of their execution by competent neutral authorities.

SITUATION IN HUNGARY

Reports from Sweden

The firm position of the Swedish Government as presented to the Government of Hungary with respect to the treatment of Jews in Hungary holding Swedish protective passports and the recent intervention by the King of Sweden have brought from the Hungarian government assurances that such passports will be respected. The Hungarian Foreign Minister assured the Swedish Minister in Budapest that the new government recognizes and will continue the policies of the previous government with respect to the treatment of such Jews. It was reported that the government of Hungary has declared its willingness to permit the departure of some 4,500 Jews in possession of Swedish protective passports and that German authorities have stated that they will allow transit of a group of 400 to 500 such persons through Germany. Our Embassy in London

advised us that the British Legation at Stockholm has been instructed by the British Foreign Office to urge the Swedes to arrange for the transportation and reception of such a group and that the Foreign Office is also endeavoring to persuade the governments of Switzerland and Sweden to take similar measures for the benefit of the remaining 4,000 persons in Hungary with Swedish protective passports.

The Swedish Minister at Budapest wired his Government on October 24 that at the time the Papal Nuncio presented his letters of credence he declared his interest as a representative of the Pope in affording protection to the Jews and was advised that representations concerning the treatment of Jews had been made by other governments and that there would be no molestation of Jews under the protective custody of the countries with which Hungary maintained normal diplomatic relations.

Minister Johnson cabled us the substance of two reports reaching Stockholm from Mr. Wallenberg, the Special Attache to the Swedish Legation in Budapest. The first report, which was dated October 18 and reflected considerable optimism with respect to the local situation of the Jews, stated that while the transportation of Jews for the construction of defense fortifications had been rather extensive, the program had apparently been carried out in a comparatively humane manner. It indicated that Jews with Swedish protection were being released from internment and labor camps and that the German Legation had promised that this group would be given special treatment. The Special Attache reported that his activities included the moving of Jews with Swedish protection to non-Jewish homes, the development with the Red Cross of preliminary plans for the opening of a hospital for the Jews, the setting up of quarters in Zagreb with the assistance of the Swedish Consul there for the purchase of needed supplies, the development in collaboration with the Red Cross, the International Red Cross, the Zionist Organization, and the Jewish Council of a program now under way for sending parcels to Hungarian Jews in Germany, and the working out of a plan for the importation of paper clothes and old clothing urgently needed. The second report was dated October 22 and described extremely unfavorable developments, such as the issuance by the new government of an order for all Jews to be used as labor on defense works and the cancellation of all special privileges for any groups previously exempted from anti-Jewish regulations. An order for all Jews in such groups to move back into Jewish quarters within six hours was partially cancelled. The treatment received by Jews at the hands of the Gestapo and the Hungarian MAFCS was described as very severe, a few thousand, mostly in labor camps, being murdered. Wallenberg's Jewish staff employed in relief activities disappeared completely on October 17; he finally succeeded in locating all but ten of them. Under a plan worked out with the Hungarian Foreign Minister he is now moving all of this staff to specially protected homes.

Minister Johnson advised us that the Swedish Government is continuing to make strong representations to the Hungarian Government with respect to the treatment of Jews. We requested him and Board Representative Olsen to transmit to the Swedish Government this Government's appreciation of its humanitarian activities and of the courage and ingenuity displayed by Mr. Wallenberg in energetically assisting the persecuted Jews in Hungary.

Reports from Switzerland

Representative McClelland advised us that the Swiss received a message from their Legation in Budapest on October 27 stating that, according to an agreement arrived at between the German and Hungarian Governments, the emigration of approximately 8,000 Jews from Hungary will soon be authorized to be carried out by November 15, the Germans and Hungarians to furnish transportation to the Swiss frontier. To avoid any possible use of alleged lack of readiness on the part of the Swiss as an excuse not to allow these people to depart, the Swiss Political Department has already notified its Budapest Legation that these refugees will be received in Switzerland. There was no indication of whether this move was an attempt by the Hungarians to revive the offer made by the Swiss in August to give temporary asylum to 8,000 individuals holding Palestine certificates in the event that they were unable to proceed eastward. The Swiss have wired their Legation in Budapest for information regarding the documentation, composition, and ultimate destination of the group involved in the present proposal. McClelland pointed out that, while the recently intensified anti-Jewish stand taken by the Szalasy regime and the consistent refusal of the Germans to allow the departure of even the initial group of 2,000 Palestine certificate holders make it very difficult to believe that the release of 8,000 Jews has suddenly been decided upon, consideration should be given to the practical difficulties with which the Swiss will be faced in such an eventuality. More than 25,000 new refugees have been received in Switzerland during the past six weeks, chiefly women and children from Italy and combat zones in France, while only 8,000 people have left Switzerland. The matter of providing adequate housing, fuel, blankets, and clothing to properly care for another 8,000 people during the winter presents a grave problem. The practicability of furnishing Swiss trains for the immediate transportation to Marseilles or some other French port of all those who are eligible for emigration to Palestine is being explored by the Swiss. McClelland recommended that the Board study the problem of obtaining one or more ships for Palestine and the possibilities for evacuating to North Africa or elsewhere all or part of those who are not destined for Palestine. We requested Minister Harrison and Representative McClelland by cable to transmit

to the Swiss government this Government's appreciation of its action and to assure Swiss officials that we will do everything possible to assist in the reception and evacuation of these refugees from Hungary. In this connection we also requested them to furnish us with information as to the total number of Jewish refugees now in Switzerland, indicating the numbers holding Palestine certificates, valid visas to any other countries, or valid passports of countries to which they can safely return.

McClelland advised us that radio broadcasts from Budapest repeated several times during the evening of October 29 and the morning of October 30 instructed all Hungarian authorities, the army, and the police that protective documents or foreign passports should be respected, that in the future Jewish holders of such documents should not be sent to compulsory labor service, and that foreign consulates and legations and the premises of the International Red Cross are to enjoy the rights of extraterritoriality. These instructions apparently constitute a reversal of the decision broadcast by the new Hungarian Minister of Interior on October 17. It was also reported that the majority of the 50,000 Jewish men said to have been deported as labor probably are being sent to western Hungary for work on fortifications along the Austro-Hungarian border. A message received in Bern from the Swiss Legation at Budapest reported that during the first days after the overthrow of the Horthy Government Jews were shot on the streets and in houses in Budapest on the pretext that they had offered opposition. The situation was said to have improved since that time and the Legation had no information as to further murders of Jews during the last few days.

In reply to the inquiry made by the Swiss at our request concerning the measures taken by the Hungarian authorities to insure humane treatment of Jews "placed at Germany's disposal," the Hungarian Foreign Office addressed a note to the Swiss Legation stating that a Workers' Supervisory Office has been established by the Hungarian Legation at Berlin. The competence of this office, it was declared, extends "to every male and female worker of Hungarian nationality, regardless of religion or race." The note further stated that International Red Cross relief and humanitarian activity for these Jews has been authorized by the Government of Hungary and that the latter has requested the German Government to allow an Intercross representative to visit Hungarian Jews working in Germany. The communication also purported to answer other informal inquiries as to whether deportations for all categories of Jews were stopped or only suspended and as to the extent to which emigration of Jews over ten years of age is permitted to countries other than Palestine. It declared that definite cessation of the "transfer of Jews of Jewish faith for labor service abroad" was ordered in August

and that no Jews have been put at the disposal of the German Government since that time. It reiterated that "the Government of Hungary is ready to give authorization to emigrate to all categories of Jews." A statement that "consent has been given by the Government of Hungary for International Red Cross organs to observe the treatment of Jews and their living conditions" may have been intended to answer our inquiry as to the extent to which, in view of the internal situation in Hungary, it is possible to count on Hungarian promises being made effective and continuing up to the termination of hostilities.

Communications to our Legation at Bern from the Swiss reported that our protest against renewed or impending deportations of Jews from Hungary and Slovakia has been orally presented to the German Foreign Office by the Swiss Legation in Berlin, and that notification of our views with respect to reports of active Hungarian participation in deportations of Jews from Hungary was delivered to the Hungarian Foreign Office on October 11.

#### Reports from Turkey

Representative Katzki in Ankara informed us of a telegram received by the Jewish Agency in Istanbul from the Budapest representative of the Agency stating that exit permits for the first group of 2,000 Palestine certificate holders in Hungary will be secured and that the projected route of travel is through Switzerland and Portugal. The assistance of the Board in obtaining the necessary transit visas was requested. We immediately cabled this information to Minister Harrison and Representative McClelland, requesting them to verify the report, to take all necessary steps to obtain speedy Swiss action to enable this group from Hungary to reach Switzerland without delay, and to assure Swiss authorities that this Government will endeavor to secure the unimpeded progress of the certificate holders to Palestine. We also notified Representative Mann of this report and requested him to present to British authorities the Board's view that this unexpected chance to rescue some of the doomed Jews in Budapest, if verified, confronts Great Britain and the United States with an opportunity that may not be allowed to end in failure by reason of any hesitation or delay on the part of either of our two governments. We asked him to suggest that the British undertake steps similar to those which we are prepared to take in interceding with Swiss, French, Spanish, and Portuguese officials and in making recommendations to Allied military and shipping authorities to make possible the speedy transportation of these refugees by rail and by boat.

#### Private Reports on Conditions in Hungary

According to a representative of the Jewish Agency who recently arrived in Switzerland, 25,000 boys and men from

14 to 60 and 45,000 girls and women (without small children) from 14 to 40 are employed on fortification work in Hungary. Of these, 50,000 are said to have been ordered to march on foot to Germany via Austria, possibly to be used en route for work on fortifications along the Austro-Hungarian border. There are 90,000 men in forced labor camps in Hungary, approximately 7,000 Hungarian Jews are located in the Vienna area, and approximately 17,000 others formerly deported from Hungary are in camps in various parts of Austria. About 100,000 children, old people, and invalids are being grouped in "Jewish houses" or ghettos in the suburbs of Budapest.

A report from a private organization representative indicated that deportations from Hungary are already under way and that the food situation is serious. A later report from the same source indicated that food is procurable within Hungary if funds are available. A communication from an International Red Cross representative in Budapest stated that old people and children in ghettos had been without food since October 15 and were not permitted to leave the premises. The Inter-cross representative also reported that the proposal to post signs on houses and at the entrance to Jewish camps indicating that the occupants were under the protection of the International Red Cross was not carried out because of the disapproval of the Jewish Senate.

According to another private source, the Hungarians have adopted a passive attitude toward deportation operations and all of the arrangements are being made by the Nazis. It was reported that the "cremation factory" has been idle since the end of August and that the Jews are not in immediate danger of death.

Information received through our Legation in Bern from another private agency representative indicated that the situation in Budapest was calm on October 17 but rapidly deteriorated between that date and October 23 when urgent appeals for help were made. Authorities were said to be proceeding with the evacuation of the inhabitants of Jewish houses to surroundings of Budapest, according to no recognition to foreign intervention or protective documents. This informant also stated that the protest made to the Hungarian Government by the International Red Cross against new deportations was backed by a threat to publicize a breach of the official promise which it received from Hungarian authorities on July 18.

SITUATION IN SLOVAKIA

Information contained in a report from the Swiss Consul at Bratislava informally made available to our Legation in Bern verified that several thousand Jews remaining in Slovakia have been arrested and placed in concentration camps, most of them at Sered. This action was attributed not to Slovak

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authorities but to the Gestapo, which assumed great power in Slovakia following the recent uprising there. German officials assemble the Jews, guard them in camps, and decide their fate.

There were among these Jews a substantial number of persons claiming United States nationality, and Slovak authorities succeeded in their attempt to have the American Jews transferred to a special camp under Slovak control. The evacuation of these persons on October 11 by the Gestapo was made on the pretext that their identity papers were all of a doubtful nature. The Swiss Consul pointed out that, since the group included a considerable number of bona fide American citizens, the latter statement is definitely incorrect. He suggested that the fact that German officials and not Slovaks are taking this action might be used as a basis for intervention with the German Government by the Swiss Legation in Berlin. To avoid the impression by the Slovak government that its sovereignty is not respected by Switzerland, the Germans could be asked to deliver the Jews in question to the Slovak Government. He observed that it might also be helpful to point out that American Jews interned in Slovakia under German control are given less favorable treatment than American Jews in similar German camps; for example, there is no International Red Cross delegate in Slovakia. This problem was discussed by the Swiss Consul with the Chief of the Political Division of the Slovak Foreign Office and his collaborators who approved the suggested procedure. We cabled our agreement in the proposal to Minister Harrison and Representative McClelland and requested that the necessary steps for the suggested approach be taken without delay.

#### EVACUATIONS THROUGH TURKEY

Representative Katzi advised us that the M/S SALAHATTIN arrived in Istanbul on October 29 with 547 passengers en route to Palestine from Rumania. The group was reported to include 409 men, 133 women, and 5 children. Most of these persons, including 24 liberated from the forced labor mine at Bor, Yugoslavia, were refugees from Hungary who had succeeded in entering Rumania. A special train was made available by the Turkish authorities for the transportation of these refugees to the Syrian border, and the entire group left Istanbul on October 31 for Palestine.

#### FOOD PARCELS

In connection with the recently approved program for shipping food parcels from Sweden for distribution to internees in German-controlled areas under the supervision of the Swedish Y. M. C. A., Representative Olsen advised us that a trial consignment of a few thousand parcels is being shipped in the

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near future and that prospects for satisfactory delivery appear good.

RECOGNITION OF LATIN AMERICAN PASSPORTS

Information was received from our Embassy in Managua to the effect that the Nicaraguan Foreign Minister has transmitted to the Swiss Foreign Office a request that the German Government be informed that the government of Nicaragua has authorized the United States government to negotiate the exchange of all persons who claim Nicaraguan nationality for German nationals in this hemisphere.

ECUADORAN VISAS FOR JEWS

On the basis of indications that the Government of Ecuador is disposed to authorize the issuance of Ecuadoran visas to Jews desiring to immigrate to Ecuador, we cabled our Embassy in Quito a summary of the steps taken by this Government in developing special procedures to benefit persons in enemy territory for whom United States immigration visas were issued or authorized after July 1, 1941, or who are eligible as close relatives of American citizens or resident aliens for non-quota or preference quota visas. It was suggested that, if it is considered desirable to do so, this information be presented to Ecuadoran authorities, with the observation that, since there are probably few or no victims of enemy persecution in enemy-controlled areas who hold lapsed Ecuadoran visas or who are closely related to Ecuadoran citizens, they may wish to extend any program of this nature to other categories or to a definite number of enemy victims.

*J. W. Pehle*

J. W. Pehle  
Executive Director

CABLE TO AMERICAN LEGATION, CAIRO, FROM WAR REFUGEE BOARD.

Please deliver the following message to Jaques Bensonana and Elie Cohen, care of Greek Legation, Cairo, from M. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE WE ACKNOWLEDGE RECEIPT YOUR CABLE WHICH WE IMMEDIATELY COMMUNICATING OUR LISBON HEADQUARTERS 242 RUA AUREA. NATURALLY WE VERY ANXIOUS DO UTMOST IN OUR POWER HELP SURVIVING GREEK JEWS AND MEANTIME SUGGEST YOU COMMUNICATE WITH HARRY GREENSTEIN REPRESENTATIVE UNRRA CAIRO. UNQUOTE

12:30 p.m.  
November 14, 1944

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

RDury 11/14/44

CONFIDENTIAL

From: London

Dated: Nov. 14, 1944

Rec'd.: 1 p.m., Nov. 21

SECRETARY OF STATE

WASHINGTON

A-1366, November 14, 1944.

With reference to Department's telegram No. 8925, October 26, 3 p.m., and supplementing the last sentence of Embassy's telegram No. 9498, November 2, 7 p.m., the following information was received in a communication dated November 11, 1944, from the Foreign Office regarding the number of immigrants permitted by the Government of Palestine to enter that country, which confirms the figures set forth in the Department's telegram under reference:

"A re-allocation of part of the balance of places still available under the White Paper of 1939 has been made in the light of recent developments in the Balkans. It has been decided to provide for the entry into Palestine of Jews to the total of 10,300 persons as follows:

Roumania and Bulgaria . . . . .	5,000
Italy . . . . .	900
France (children) . . . . .	2,000
Switzerland (children) . . . . .	1,000
Belgium (mostly children) . . . . .	200
Yemeni Jews in Aden . . . . .	1,000
Turkey (mostly children) . . . . .	<u>200</u>
Total	10,300 souls

"In making the above decision the very difficult housing situation in Palestine and the possibility of serious difficulties in the economic sphere as regards absorption of immigrants have been taken into account. Further, for the present not more than 1,500 immigrants will be permitted to enter Palestine in any one month from the 1st October; the monthly rate of entry may be reviewed at the 1st January, 1945 in the light of the position at that time."

GALMAN

November 14, 1944

9 pm.

AMPOLAD

CASERTA

381

The following for Kirk is from War Refugee Board.

Prior to Ackermann's departure he had discussion with Office regarding Jews in Croatia whose evacuation by plane had been arranged. After 29 persons had been evacuated, movement was delayed for several reasons. Please furnish information as to possibility of completing evacuation promptly. Kindly acquaint Major Klugman of British Military Mission and Merrill in Bari with situation. Refugees are now located at Topusko near Karlovac. Please advise whether it is now considered by military that this area is on possible line of retreat of Germans. If at all feasible we consider it important that evacuations be completed.

STETTINIUS  
(ACTING)  
(GLW)

WRB:MMV:KG  
11/11/44

SE

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

CABLE TO AMBASSADOR NORWEB, LISBON, FROM WAR REFUGEE BOARD.

Please deliver the following message to Robert Pilpel, 242 Rua Aurea, Lisbon, from M. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE JAQUES BENZONANA ON BEHALF OF JEWISH COMMUNITY COUNCIL OF ATHENS AND ELIE COHEN ON BEHALF OF JEWISH COMMUNITY COUNCIL SALONIKA, NOW CARE OF GREEK LEGATION CAIRO, CABLED US: INNERQUOTE THIS IS TO INFORM YOU THAT JEWISH COMMUNITY COUNCILS ATHENS AND SALONIKA HAVE BEEN RECONSTITUTED BY ROYAL DECREE GREEK GOVERNMENT. ON EVE OF OUR RETURN TO GREECE TO TAKE UP DIFFICULT TASK REHABILITATION GREEK JEWRY FERVENT APPEAL IS MADE ON BEHALF CO-RELIGIONISTS SURVIVED NAZI TOTAL PERSECUTION. REMAINING JEWS SCATTERED THROUGHOUT LIBERATED GREECE ESTIMATED AT ABOUT 15,000 ARE IN PITTABLE PHYSICAL AND ECONOMIC CONDITION AND COMPLETELY DESTITUTE AS OUTLAWS UNDER GERMAN OCCUPATION. FINANCIAL AID IS URGENTLY NEEDED TO SAVE THEM. PLEASE REPLY CARE OF GREEK LEGATION CAIRO. END INNERQUOTE. WE REPLIED: INNERQUOTE WE ACKNOWLEDGE RECEIPT YOUR CABLE WHICH WE IMMEDIATELY COMMUNICATING OUR LISBON HEADQUARTERS 242 RUA AUREA. NATURALLY WE VERY ANXIOUS DO UTMOST IN OUR POWER HELP SURVIVING GREEK JEWS AND MEANTIME SUGGEST YOU COMMUNICATE WITH HARRY GREENSTEIN REPRESENTATIVE UNRRA CAIRO. END INNERQUOTE. PLEASE ASK SCHWARTZ, MAGNES CABLE US THEIR RECOMMENDATIONS. ASSUME SCHWARTZ WILL DISCUSS CABLE WITH UNRRA LONDON. UNQUOTE

THIS IS WRB LISBON CABLENO. 114.

12:30 p.m.  
November 14, 1944

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

RD:ary 11/14/44

## CORRECTION

SFG

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

November 14, 1944

In cable from Bern, numbered 7344, November 4,  
7 p.m., page 1, line 9 delete "Swiss" insert "Swedish"  
so as to read "Two. Swedish protection documents  
were not et cetera"

DIVISION OF COMMUNICATIONS AND RECORDS

JMB

4

SECRET

OPTEL No. 370

Information received up to 10 a.m., 14th November, 1944.

1. NAVAL

Reference para. 1, yesterday's telegram. Enemy convoy northward bound consisted of about 11 ships, including four escorts. Believed all convoy except possibly two ships sunk and one of these run ashore. Complete surprise achieved. German shore batteries opened fire ineffectively. 2 killed, 5 wounded on one of H.M. Destroyers and 2 wounded on one of H.M. Cruisers. One of H.M. Canadian Destroyers took part in this action.

CALAIS. Train Ferry Terminal will be in operation tomorrow.

2. MILITARY

WESTERN FRONT. In South, U.S. troops have advanced 2 more miles east of Baccarat. Good progress by U.S. troops attacking Metz from the south. Heavily defended outer defences have been reached. Slight gains only in area of bridgehead over Moselle east of Thionville. In north, Meas and Waal both in flood.

ITALY. Further progress by 8th Army against considerable resistance. Gains of 2 to 3 miles by U.K. troops in north-westerly direction from Korli while other U.K. formations have moved forward to the west of the Forli-San Casciano road. Our forces have passed tanks across the Montone and are bitterly engaged. East of Modigliana Poles have eliminated a German salient and captured a village and several hill features.

BURMA. Our troops are closing in on Kalemyo from west and north. The town is being shelled by our artillery.

3. AIR OPERATIONS

WESTERN FRONT. 13th. Bad weather prevented bomber operations. Fighters and fighter bombers operated over battle area and other aircraft flew reconnaissances. Coastal Command Mosquitoes and Beaufighters attacked shipping off S.W. Norway. 2 small ships, 1 R-boat, a trawler and a tug left on fire, while an escort and launch also hit. Former left sinking.

MEDITERRANEAN. 12th. 108 escorted Liberators (2 missing) attacked railway bridge, a viaduct and an airfield in Northern Italy dropping 258 tons with good results. 800 light and fighter bombers and fighters (4 missing) attacked communications Po Valley and Yugoslavia and gave close support ground operations with excellent results. 20 bridges, 11 locomotives, 26 railway wagons, 80 M.T. and 14 barges destroyed or damaged.

4. HOME SECURITY

13th. Two rocket incidents.

13th/14th. Three rockets, no fatal casualties.

Between 6 p.m. and 6.30 p.m. 14 flying bombs plotted. Eight destroyed by A.A.