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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Dec. 9, 1944

TO : Secretary Morgenthau
FROM : Mr. White

Subject: Some Matters Requiring Your Attention

1. There are a number of unfinished items of business remaining from the Lend-Lease discussions of the Joint Committee, some of which require decisions and some of which require action by you. The material is ready for your consideration.

2. A preliminary draft of a bill on Bretton Woods agreements to be introduced in Congress in January has been prepared in the Treasury and is now being discussed by the Technical Committee composed of various agencies. (Copy of this preliminary draft is appended.)

There are several decisions of some importance which you will have to make with respect to the provisions of this bill, and it would be helpful if you could set an hour aside to discuss those points with us before we get very far in our discussions with other agencies.

Congressman Spence telephoned and urged that you take prompt action to see that the legislation is assigned to his committee in the House and Senator Wagner's committee in the Senate. He said he was very much disturbed by the move on foot to assign these bills to the Foreign Affairs Committee.

3. Kung has said that he would like to settle payments due China for Army expenditures in yuan for October, November and December of this year. This is not an urgent matter and could easily be postponed

- 2 -

if you wish. In view of the acutely unstable political situation in China, and in view of Kung's altered status, it might be better if discussions on those payments were not taken up at this time.

The Chinese are now pressing to ship gold via commercial vessel. Hitherto we have insisted on military transportation. They are pressing very hard to get as much gold exported to China as quickly as possible. We have stalled as much as we have dared and have succeeded in limiting gold shipments to \$26 million during the past year. We think it would be a serious mistake to permit further large shipments at this time. We would like to discuss the matter with you.

Mr. Friedman, who has just returned from China, has brought back a number of personal messages to you from various persons in China which you will want to read. Mrs. McHugh has them.

4. The Stabilization Fund expires in June of this year and an amendment to renew it would normally be introduced in April or so. In view, however, of the proposed legislation on Bretton Woods, it is necessary to make some decisions with respect to the form of the renewal in the next few weeks.

5. The German "book" is being revised and still awaits being turned over to some competent writer or publisher that you are to select. Incidentally, I have started a couple of men on a similar book on Japan. How far you will want us to go on it can be a matter for later decision. In the meantime, I thought we might get started in the event that you are called upon to submit a plan for Japan or if the opportune moment for the submission of such a plan develops.

6. We had instructed Friedman to discuss with the Indian authorities in Delhi the question of obtaining all our rupee needs through the sale of gold. He did this and successfully made arrangements for us

- 3 -

to obtain all rupee needs that way. We have finally cleared the matter with the British and are going ahead with arrangements for increased sales of gold in India. We estimate that we can thus save from \$20 million to \$30 million during the next six months. What we save will reduce U.K.'s dollar receipts by an approximately equivalent amount.

7. The discussions which the boys have been having with the Italian Mission are about over. You might want to set aside a half hour to go into the matter and decide where we go from here.

8. Mr. Olsen, our Treasury man, has just returned from Sweden. You may be interested in spending a few minutes hearing his report on the situation in Sweden.

9. Mr. Taylor and Mr. Patterson have gone to Greece from London. Taylor will stay only for a couple of weeks and then will go back to London via Washington to make his report. We are sending Mr. Tomlinson of this Division to London to take Mr. Patterson's place.

SECRET 4

Preliminary Draft for Discussion of
U. S. Technical Committee

JOINT RESOLUTION

To authorize the President to sign on behalf of the United States the Articles of Agreement of the International Monetary Fund and the Articles of Agreement of the International Bank for Reconstruction and Development, and for other purposes.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the President is hereby authorized on behalf of the United States (a) to sign the Articles of Agreement of the International Monetary Fund (hereinafter referred to as the Fund), and the Articles of Agreement of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), both as set forth in the Final Act of the United Nations Monetary and Financial Conference, and (b) to cause to be deposited the instrument specified by Article XX, Section 2(a), of the Articles of Agreement of the Fund and the instrument specified by Article XI, Section 2(a), of the Articles of Agreement of the Bank.

SEC. 2. Appointment of governors. The President, by and with the advice and consent of the Senate, shall appoint a governor of the Fund and an alternate, and a governor of the Bank and an alternate. Governors and alternates shall serve for five years from the date of their respective appointments; shall be eligible for reappointment; shall be required to devote to their duties as governors or alternates only such time as may,

in the opinion of the President, be necessary; and in their capacity of governors or alternates shall receive no compensation from the United States. Governors and their alternates shall be eligible to appointment either as executive directors or as alternates under Section 3 of this Joint Resolution.

SEC. 3. Appointment of executive directors. The President, by and with the advice and consent of the Senate, shall appoint an executive director of the Fund and an executive director of the Bank. Executive directors shall serve for three years from the date of their respective appointments; Provided, That executive directors appointed before January 1, 1946 shall, respectively, be provisional directors under Article XX, Section 3(b), of the Articles of Agreement of the Fund and Article XI, Section 3(b), of the Articles of Agreement of the Bank, and their respective terms of office shall end on dates of the first regular elections of executive directors pursuant to said sections. Executive directors shall devote their full time to their duties as executive directors and shall be eligible for reappointment. Executive directors shall, with the approval of the President, appoint alternates. Executive directors and alternates in their capacity of executive directors or alternates shall receive no compensation from the United States.

SEC. 4. Supervision of governors and executive directors.

(a) There is hereby established the International Financial

- 3 -

Organizations Board which shall consist of the Secretary of the Treasury, who shall be Chairman of the Board, the Secretaries of State and Commerce, the Foreign Economic Administrator, and the Chairmen of the Board of Governors of the Federal Reserve System and the Securities and Exchange Commission. Each member of the Board may designate from his department or agency an officer who may act for him in all matters relating to the Board,

(b) The governors and executive directors of the Fund and the Bank, and their alternates, appointed by or on behalf of the United States, shall keep the International Financial Organizations Board fully informed of their activities and shall consult with and act pursuant to the direction of the Board.

(c) The International Financial Organizations Board shall be advised by and shall take into consideration suggestions and recommendations of a committee, to be known as the Advisory Committee on International Financial Organizations. The Advisory Committee shall consist of the following, each of whom shall serve for two years:

(1) Two members of the Senate to be appointed by the President from a panel of six Senators chosen by the President of the Senate;

(2) Two members of the House of Representatives to be

appointed by the President from a panel of six members of the House of Representatives chosen by the Speaker; and

(3) Two representatives each of banking, commercial, industrial, labor and agricultural interests to be appointed by the President.

Members of the Advisory Committee shall serve as such without compensation, but shall be entitled to necessary and actual transportation, subsistence and other expenses incidental to the performance of their duties.

SEC. 5. Communication of par value. The President, upon the request of the Fund, shall communicate to the Fund the par value of the United States dollar, which shall be defined as 15-5/21 grains of gold nine-tenths fine.

SEC. 6. Certain acts not to be undertaken without authorization. Without specific authorization in advance by joint resolution of Congress, no person shall on behalf of the United States (a) request or consent to any change in the quota of the United States under Article III, Section 2, of the Articles of Agreement of the Fund; (b) propose any change in the par value of the United States dollar under Article IV, Section 5, of the Articles of Agreement of the Fund, or approve any general change in par values under Section 7 of that Article; (c) vote for an increase of capital stock under Article II, Section 2, of the Articles of Agreement of the Bank, or subscribe to additional shares of stock under Section 3 of that

Article; (d) accept any amendment under Article XVII of the Articles of Agreement of the Fund or Article VIII of the Articles of Agreement of the Bank.

SEC. 7. Approval of acts of Fund and Bank. The President, through any agency that he may designate, or otherwise, is hereby authorized to give the approval of the United States whenever, under the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, such approval is required before any act may be done by the Fund or the Bank, respectively, provided that nothing in this section shall affect the provisions of Section 6 of this Joint Resolution.

SEC. 8. Agencies for dealing with Fund and Bank. The Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized for the account of the fund established by Section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, or otherwise, to deal with the Fund and the Bank in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purposes of the Articles of Agreement of the Fund and the Articles of Agreement of the Bank.

SEC. 9. Designation of depositories. The Secretary of the Treasury may designate one or more Federal Reserve Banks, as fiscal agent of the United States, to be depositories of the Fund and the Bank.

SEC. 10. Issuance of notes. In addition to obligations authorized by any other provisions of law, the Secretary of the Treasury is authorized to issue from time to time at par notes on the credit of the United States, for the purposes of Article II, Section 5, of the Articles of Agreement of the Fund, and Article V, Section 12, of the Articles of Agreement of the Bank. Such notes shall be non-negotiable, non-interest bearing, and payable on demand of the Fund or the Bank, as the case may be, by crediting the account of the Fund or Bank, respectively, in a depository designated under Section 9 of this Joint Resolution.

SEC. 11. Obtaining and furnishing information. (a) The President is hereby authorized, through any agency that he may designate, and under such rules and regulations as he may prescribe, to obtain from persons subject to the jurisdiction of the United States and to furnish to the Fund data requested by the Fund under Article V, Section 5 of the Articles of Agreement of the Fund. (b) Whoever wilfully violates any of the provisions of any rule or regulation issued under authority of this section shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. As used in this Section the term "person" means an individual, partnership, association, or corporation.

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SEC. 12. Removal of prohibition on dealings in securities.

Section 1 of the Act of April 13, 1934, is amended by the addition of the following sentence:

"The provisions of this Act shall not apply to the sale or purchase of bonds, securities or other obligations issued by any foreign government, or any organization or association acting for or on behalf of a foreign government, while it is a member of the International Monetary Fund and the International Bank for Reconstruction and Development."

SEC. 13. Jurisdiction of suits. Any suit at law or in equity, brought within the United States, its territories and possessions, to which either the Fund or the Bank shall be a party, shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits. The Fund or the Bank, as the case may be, when a defendant in any such suit, may at any time before the trial thereof remove such suit into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

SEC. 14. Provisional payments for administrative expenses. Section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is amended by adding at the end thereof the following new subsection:

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"(d) The fund established in this section shall be available until December 31, 1945 to meet the payments required by Article XX, Section 2(d), of the Articles of Agreement of the Fund and Article XI, Section 2(d), of the Articles of Agreement of the Bank."

SEC. 15. Appropriation authorized. The following sums are authorized to be appropriated, out of any money in the Treasury not otherwise appropriated:

(a) for paying the subscription of the United States to the Fund, \$949,725,000.

(b) for paying the subscription of the United States to 31,750 shares of stock in the Bank, \$3,175,682,500, of which \$3,111,500,000 shall remain available until called by the Bank.

ALTERNATIVES

I. Alternative Section 12:

SEC. 12. Removal of prohibition on dealings in securities.

The Act of April 13, 1934, c. 112, 48 Stat. 574, is hereby repealed:

Provided, however, That offenses committed and penalties incurred prior to the taking effect hereof may be prosecuted and punished, and proceedings for causes arising or acts done or committed prior to the taking effect hereof may be commenced and prosecuted, in the same manner and with the same effect as if this Section had not been passed.

II. Additional Section:

SEC. ____.

Section 3(b) of the Act of March 11, 1941, as amended, is further amended by adding at the end thereof the following sentence:

"The settlement of obligations under any agreement or arrangement made, pursuant to this Act, with the government of any country whose defense the President deems vital to the defense of the United States may include the settlement of all outstanding indebtedness of such government to the United States."

JMM-1016
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arrangement. (SECRET W)

London

Dated December 9, 1944

Rec'd 6:55 a.m.

Secretary of State

Washington

RUSH

10936, December 9, 6 p.m.

PEHLE FROM MANN

The Chief Rabbis Religious Emergency Council has received from Stockholm a cable stating Ecuadorian passports validity expires in January and asking Ecuadorian President be asked to authorize Consul Stockholm renew validity of passports and instruct the protecting power to protect interned holders of such passports. Inter-governmental committee made inquiry of Ecuadorian Minister here who stated that steps have been taken to prevent use in France of such passports legally invalid. Minister is going there soon to discuss matter with French Government. He says no steps have been taken to invalidate passports held by people in enemy or enemy occupied territory, but all passports valid only for one year unless prolonged. IGC has asked Minister to ask his government to prolong all Ecuadorian passports held by Jews in German or German occupied territory. Board and Department may want to consider taking up matter with Ecuadorian Government and requesting that all passports though irregularly issued be prolonged and none invalidated not even in liberated areas since this if known to Germans might prejudice any protection now accorded to holders by Germans.

WINANT

WSB

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

Please deliver following message to Emilie Lusse, Plaza Randazzo 1, Rome, from Dr. Frank Kingdon and Sheba Strunsky of International Rescue and Relief Committee, 103 Park Avenue, New York:

QUOTE WE CABLED YOU FIVE THOUSAND DOLLARS FOR RELIEF ANTIFASCIST REFUGEES AND OTHER DISPLACED PERSONS ALSO SENT FIVE THOUSAND DOLLARS ADDITIONAL BY MAIL ACCORDING ARRANGEMENTS MADE WITH YOU BY MONTANA. PLEASE CABLE ACKNOWLEDGEMENT ALSO NAME AND ADDRESS FOR FUTURE REMITTANCES.
UNQUOTE

4:25 p.m.
December 9, 1944

CABLE TO AMEMBASSY MADRID

Reference your 3896 of November 29 and 3912 of December 1.

Department and Board appreciate information contained in above cables. In this connection, authentic information from Budapest, dated October 23, indicates that several categories of Jews in Budapest, in possession of protective documents and visas from foreign governments, have been exempted from general treatment reserved to Hungarian Jews, excluded from deportation to labor camps, and held in Budapest under agreement with German authorities who are ready to grant them transit visas enabling them to leave Axis territory at a later date. Among Jews with Spanish visas, only one family consisting of three persons has been included in this concession. No mention is made of any extension of such exceptional treatment to the 2300 or the 570 Jews mentioned in your 3896 and 3912. Please urgently endeavor to obtain energetic Spanish intercession in favor of these 2870 persons, as well as in favor of the other 700 Jews, to whom, according to your 3912, Spanish visas have been authorized. In view of circumstances, it would appear desirable that the matter be taken up by Spain with German representatives in Budapest, Berlin, and Madrid, as well as with Hungarian officials in Budapest.

Please advise Board without delay of results of your endeavors.

9:00 a.m.
December 9, 1944

GEX

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December 9, 1944

7 p.m.

AMEMBASSY

MADRID

3215

The following is from War Refugee Board.

Reference year 3896 of November 29 and 3912 of December 1.

Department and Board appreciate information contained in above cables. In this connection, authentic information from Budapest, dated October 23, indicates that several categories of Jews in Budapest, in possession of protective documents and visas from foreign governments, have been exempted from general treatment reserved to Hungarian Jews, excluded from deportation to labor camps, and held in Budapest under agreement with German authorities who are ready to grant them transit visas enabling them to leave Axis territory at a later date. Among Jews with Spanish visas, only one family consisting of three persons has been included in this connection. No mention is made of any extension of such exceptional treatment to the 2300 or the 570 Jews mentioned in your 3896 and 3912. Please urgently endeavor to obtain energetic Spanish intercession in favor of these 2870 persons, as well as in favor of the other 700 Jews, to whom, according to your 3912, Spanish visas have been authorized. In view of circumstances, it would appear desirable that the matter be taken up by Spain with German representatives in Budapest, Berlin, and Madrid, as well as with Hungarian officials in Budapest.

Please advise Board without delay of results of your endeavors.

STEFINIUS
(GLW)

WRB:MMV:KG
12/9/44

WB

SE

AVH-731
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Stockholm
Dated December 9, 1944
Rec'd 11:26 a.m.

Secretary of State,
Washington, D. C.

5043, December 9, 11 a.m.

(SECTION ONE OF TWO)

Receipt confirmed of WRB lists of persons in enemy occupied Europe who are close relatives of United States citizens on whose behalf petitions for issuance of immigration visas have been approved (Department's 2273, November 11, 8 p.m.): 99, 100, 102, 112, 113, 116, 222, 240, 248, 249.

Relatives of resident aliens whose verification of last entry approved: 104, 108, 111, 221, 224, 237, 245, 246, 250.

Persons to whom United States visas authorized on or after July 1, 1941: 82, 87, 98, 103, 107, 232, 234.

All of above lists have been transmitted to the Foreign Office with exception of 248, 249, and 250 which were received December 5 and are being typed preparatory to submission.

This sur lll for WRB and Diver Olsen.

In conversation today with Legation member, Foreign Office official stated no action taken to forward these lists to Swedish Legations in countries concerned. Swedish authorities doubt such action would benefit intended beneficiaries. Transmittal of lists to Budapest Legation difficult because no departing courier for 2 months and telegraphing list felt impractical.

Following reason advanced to explain their retention of lists: special measures taken during last months were by Swedish Legation in Budapest is doing everything.

JOHNSON

MJF

Distribution of true
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arrangement. (SECRET W)

Stockholm

18

Dated December 9, 1944

Rec'd 12:03 p.m.

Secretary of State,

Washington

5043, December 9, 11 a.m. (SECTION TWO) possible to save and succor a large number of Jews under a special arrangement recognized by Hungarian Government. According to last reports Sweden has about 15,000 Jewish proteges under this program; 5,000 of these have protective passports. Swedish authorities are leath to do anything that in any way could jeopardize or retard this venture. They are of opinion that presentation of WRB lists to Hungarian Government would have unfavorable result and might conceivably damage their other Jewish relief work. Swedish officials further feel that no practical value is to be derived by presenting lists inasmuch Swedish Legation in Budapest stands ready to aid all Jews who apply.

Again as respect WRB lists of persons in France, Germany, Czechoslovakia, Poland, et cetera. Swedish authorities after consultation with Swedish Minister in Berlin are reluctant to submit lists to German Government as it is feared presentation of names would adversely affect outcome of the rather large number of special relief cases already being handled. It was suggested by Foreign Office that perhaps Swiss Government could hand lists to German Government with recommendation that advantage be taken of this opportunity to send Jews to United States. It was recalled by Foreign Office official that Sweden in August of this year informed German Government that Sweden is willing to allow entry into Sweden of any person to whom an American immigration visa was issued on or after July 1, 1944. He further stated Sweden simultaneously with presentation of lists by Swiss could repeat this assurance.

Legation is not optimistic concerning possibility of many benefits arising out of present procedure and feels Swedish standpoint and suggestion have merit. (END MESSAGE).

JOHNSON

EJM

GVK
Distribution of
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ment. (SECRET W)

December 9, 1944
5 p.m.

AMLEGATION

BERN
4163

The cable below for McClelland is WEB 319.

Greatly appreciate information contained in your letter of November 27 and enclosure. It is noted that no mention is made of special treatment of 2300 Budapest Jews to whom, according to Embassy Madrid, Spanish letters of protection have been issued, and of 570 Jews, including 500 children, in possession of visas to Spain and Spanish Morocco. Since then, Spanish Legation in Budapest was authorized to grant visas to 700 more Budapest Jews.

Please ascertain through available channels reasons for such omission of Jews with Spanish protective documents and visas from the exceptional treatment reserved to holders of similar papers issued by other governments. Embassy Madrid is being instructed to take appropriate steps.

Please advise Board of any information you can obtain in this matter.

WEB:MCV:KQ
12/9/44

WE

SESTINIUS
(GLW)
SE

reading only by special
arrangement. (SECRET W)

6 p.m.

AMERIKATION

HERR

4164

The cable below for MacLellan is WRB 320.

The following is an excerpt from a note by Ecuadoran Foreign Office to
U. S. Embassy, dated October 30:

QUOTE In accordance with humanitarian principles, my Government
addressed its diplomatic representative in Switzerland in order to
arrange for the Federal Government as protector of Ecuadoran interests
in Axis Nations, to negotiate with the German authorities so that they
would respect the foreign status of persons who might be protected by
Ecuadoran papers.

The Charge d'Affaires of Ecuador in Switzerland has informed me
that the Federal Government has indicated that it is necessary, in order
to carry out the negotiations entrusted to it, that the Ecuadoran Govern-
ment previously recognize the Ecuadoran nationality of the bearers of
these documents.

The Government of Ecuador cannot accede on any account to the re-
quirement stipulated by the Federal Government since the constitutional
provisions that regulate the declaration of nationality establish a pro-
cedure which cannot be set aside without committing grave error that
would give rise to a legislative investigation and to censure of whoever
might authorize the violation of the fundamental laws of the Nation.

Consequently, my Government in reiterating to Your Excellency's
Government its intention of not insisting for the moment on the invalidity
of those documents, informs it that in view of the foregoing, it has
decided to suspend the negotiations under reference with the Swiss
Government. UNQUOTE

We fully understand Ecuadoran position and fear that action of Swiss
authorities, by addressing to Ecuador a new demand clearly impossible of ful-
fillment, is jeopardizing the safety of people whom we, jointly with Switzer-
land, have sought to keep alive.

In this connection, please also convey our regret over varying attitudes
adopted with reference to Salvadoran documents reported in your 7929 of
December 4, and our fear that this too will threaten the life-saving action of
recent months.

Stidlar regret must be expressed over Swiss attitude concerning trans-
mission of Honduran documents as reported in your 7901 of December 2, involving
people said to be at Aussoix.

Please emphasize to appropriate Swiss officials that further adherence
to the attitude taken in the case of Ecuadoran, Honduran, and Salvadoran

-2- #4164, December 9, 6 p.m. to Bern

documents, and its extension to documents of other American republics might, in view of the well-known German attitude, lead to the horrible death of several thousand civilians hitherto kept alive by our joint efforts.

Concerning argument contained in last paragraph of your 7929 of December 4, this Government would be inclined to accept Swiss judgment on the subject, but the context leads us to believe that it is the newly developed strict approach of Switzerland to validation of citizenship documents rather than this argument that constitutes the main reason for Swiss attitude. That such strict approach, correct as it is in normal conditions, is being applied in the present circumstances, is a matter of deep regret.

Please explain the above to appropriate Swiss officials, expressing this Government's hope that they will resume their former attitude of liberally interpreting all grounds upon which they could continue their humanitarian function of saving innocent lives.

STETTINIUS
(GHK)

WRB:MMV:KO
12/9/44

WLE

HP
NWC

CCA

BAS-567

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

Bern

Dated December 8, 1944

Rec'd 9:20 p.m.

Secretary of State,

Washington.

8036, December 8, 9 p.m.

FOR WEB FROM MCCLELLAND.

With respect to Sterabuch's recent cable (Legation's 7993, December 7) to Union of Orthodox Rabbis, I should appreciate advice as to whether it is Beard's desire that we continue to transmit such messages which concern purely internal relief questions and could quite satisfactorily and safely be sent by normal commercial channels via the Legation's services.

HUDDLE

WMB

MAN-918

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

Bern

Dated December 9, 1944

Rec'd 10:34 p.m.

Secretary of State,

Washington.

8044, December 9, 9 a.m.

FOR WRB FROM MCCLELLAND

Department's 3927, November 18, WRB's 280.

Salvaged CRISTINA goods were made up into 25,600 parcels distributed to unassimilated persons in following concentration camps:

Buchenwald, 7694 parcels; Sachsenhausen-Oranienburg, 7273; Dachau 3799 Ravensbrueck (Women's camp), 2688; Hamburg-Neuengamme, 1277; Natzweiler, 1100; Weimar-Schliessfach, 685; Mauthausen, 520; Bergen-Belsen, 378; Feldpost 07702 (indication for camp containing number prominent French political deportees whose location Germans refuse to reveal) 206.

A certain limited number of Jewish internees (it is unfortunately not possible give exact figure) are present in camps of Ravensbrueck (Hungarian women) Mauthausen and Buchenwald. Bergen-Belsen is exclusively Jewish.

I should like to point out that distribution of CRISTINA goods in agreement with ICRC was particularly designed to bring relief to the very large number of non-Jewish (repeat non) political detainees in the vast German concentration camp system. Such non-Jews are treated practically as brutally as the Jews and up to the present exceedingly little has been done to help them. Relief shipments to Jewish deportees in the course of the past year on the other hand have been considerable. The JDC \$100,000 contribution to the ICRC, for example, was spent exclusively for Jewish relief as follows: 100,000 Swiss francs (out of total of 429,000) went to Rumania through ICRC delegate in Bucharest for purchase food, clothing and for financial relief to Jewish refugees, especially returning Transnistrian deportees; 100,000 francs to pharmaceutical division of ICRC Joint Relief Commission used to ship medical supplies to Bergen-Belsen Jewish community at Zagreb (including camps in Croatia) Theresienstadt camp of Birkenau in Upper Silesia and "Juedisch Untertutungsstelle" in Cracow; general government balance of 229,000 francs was also spent by Joint Commission for food (both collective and in parcels) shipments to Cracow (May, June and July) Theresienstadt (two shipments in July) Budapest (condensed milk for children in June) Birkenau (September) and Bergen-Belsen (November).

-2-

8044, December 9, 9 a.m. from Bern

Consent with ICRC's expressed and logical wish that relief shipments handled by Committee for unassimilated persons in German controlled areas be on an impartial basis and not limited to any national, religious or racial groups. I agree with them that CRISTINA goods and first lot of 15023 WEB parcels should go primarily to non-Jews. Our decision regarding the 15023 WEB parcels which are being sent to Dachau, Buchenwald, Sachsenhausen-Oranienburg, Hamburg-Neuengamme, Mauthausen, Feldpost 07702 and Bergen-Belsen was also influenced by shipment in process of 40,000 World Jewish Congress parcels exclusively to unassimilated Jews principally in Bergen-Belsen and Theresienstadt.

Future distribution of 224,328 WEB parcels, the news of whose shipment in Department's 4001, November 25 WEB's 291, was most welcome, scheduled to arrive in Gethenburg this month will be carried out as equitably as possible to Jews and non-Jews on basis of degree of need previous relief received and possibility for ICRC to exercise satisfactory control over receipt.

List of camps included in your 3927 has been submitted to ICRC. Preliminary discussions of this list with them (in this respect see Legation's 5971, September 9) reveals that most of these places are not (repeat not) camps properly speaking; are located too near eastern fighting front to be accessible to ICRC and offer very little possibility of adequate control of receipt. ICRC states in this respect that, if FEA and MEW wish to waive distribution control hitherto required of Committee, attempts could be made to send parcels to a larger number of camps containing Jewish deportees.

I will send you shortly a separate message regarding evidence submitted to me by ICRC that food parcels distributed up to now satisfactorily reach intended beneficiaries.

HUDDLE

WTD

JMM-876
Districution of true
reading only by special
arrangement. (SECRET W)

Bern

Dated December 9, 1944

Rec'd 7:37 p.m.

Secretary of State

Washington

8050, December 9, midnight.

WRB FROM MCCLELLAND.

Delegation's 7594 November 17.

I have received following reliable information from a man who left Bratislava eight days ago concerning situation of Jews in Slovakia as of December one.

About 900 Jews in Bratislava and some 2500 to 3000 in provinces (German occupied) have succeeded in hiding and hitherto escaping deportation. Only around 150 people are left in camp at Sered, mainly half Jews "mischlingeun" and Jewish partners of mixed marriages. As reported in Legation's 7802 November 28, eight Jews entitled to American citizenship were left at Marianka by Germans. Virtually all other Jews have been deported.

HUDDLE

WSB

RP-883
Distribution of true
reading only by special
arrangement. (SECRET W)

Bern

Dated December 9, 1944

Rec'd 8:45 p.m.

Secretary of State

Washington

8052, December 9, 2 p.m.

FOR WRB FROM MCCLELLAND

Have received following supplemental information regarding dispositions being taken with Jews remaining in Budapest from trustworthy private source.

Some 80,000 Jews are being concentrated in a getto located in seventh "arrondissement" of city in area of Weselexyi and Dehanyutcas. This section comprises about 162 Jewish 133 Christian and 101 "mixed" houses. Hungarian office in charge of this concentration estimates number of rooms available for 80,000 Jews at 10,000. About 20,000 Jews will be left in other parts of Budapest.

The former Jewish Senate "de facto" no longer exists having been dissolved toward end of November. A smaller group headed by a Dr. Karl Wilhelm has taken over Jewish representation within narrow limits left them by Szalasy regime and Gestapo.

HUDDIE

RR

EK-998
Distribution of true
reading only by special
arrangement. (SECRET W)

Ankara
Dated December 9, 1944
Rec'd 3:04 a.m. 10th.

Secretary of State,
Washington.

2337, December 9, 8 a.m.

FROM KATZKITOPEHLE WAR REFUGEE BOARD.

Ankara's No. 203.

The following information regarding new deportations from Budapest was received from Switzerland by Jewish Agency representatives in Istanbul:

On November 8 new deportations took place at Budapest beginning with the concentration of Jews between the ages of 10 and 80 in the Althof brick-yards. They were without food or clothing and their treatment was sadistic. Many persons died on the way to concentration. Only a minimum amount of food was permitted to be donated through the international Red Cross. Up to November 19, 25,000 persons were involved of whom 70% were women and 30% men. 25,000 Jews were forced to march 30 kilometers daily to Hegyeshalom. In addition, 13,000 Jewish forced laborers without food and shelter for ten days. As a result of the long distance the death rate increased four fold. According to escorting personnel 20% were dead up to Hegyeshalom. No lists of names were made up. As a result of local efforts the upper age limit for deportation was reduced and deportation ceased on November 22. 100,000 Jews remain in Budapest.

STEINHARDT

WSB

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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Moscow
 TO: Secretary of State, Washington
 DATED: December 9, 1944
 NUMBER: 4730

CONFIDENTIAL

References to a Committee of Polish Jews in the Soviet Union and to Jewish Provincial and Central Committees in liberated Poland may have been noted by the Department in the final paragraph of my message No. 4410 dated November 18. The Embassy has endeavored to get additional details on this subject, believing that this would be of interest to the War Refugee Board and perhaps to other organizations in the United States who are interested in the fate of the Jewish refugees in Eastern Europe. I am indebted to Henry Shapiro, United Press correspondent in Moscow, who kindly undertook to make informal approaches on the Embassy's behalf to Polish circles in Moscow, for the following information. Dr. Jedrychowsky representative of the Lublin Polish National Committee of Liberation in Moscow furnished him this data.

Twenty thousand Jews have been found in the liberated part of the territory now recognized as being Polish by the Soviet Union. Two thousand of these Jews are in the city of Lublin, and in addition to this about 150,000 Polish Jews are in the Soviet Union (this figure was placed at 250,000 by the Soviet writer Ehrenburg speaking in private conversation recently). In the exchanges of population which have begun between the Ukrainian and Polish territories no Jews have been included. An opportunity will be given it is presumed to Polish Jews in the Soviet Union whose former homes were in territory now recognized as being Polish by the Soviet Union, to choose which citizenship they wish to have and in which territory they wish to live.

There has been organized in Lublin a body termed the Central Jewish Committee; to which Central Jewish Committee the National Committee of Liberation has allotted the sum of sixteen million zlotys to be used in the liberated area for the rehabilitation of Jews. The establishment of mess halls, schools, childrens homes, hospitals, communal kitchens, et cetera are among the specific purposes to which this money will be applied. There is an organization called the Committee of Polish Jews which the Polish Jews have in the Soviet Union. Sommerstein, former Zionist Deputy in Poland, is the President of this committee and a writer by the name of Mark is Secretary.

We will report promptly any additional information which can be secured along these lines. I would be grateful if in the meantime the Department would make available the information contained in the above message to the War Refugee Board.

HARRIMAN

DCR:LCW:MEM
 12/12/44

COPY NO. 4SECRETOPTEL No. 398

Information received up to 10 A.M. 9th December 1944.

1. NAVAL

Off NORWAY yesterday two Norwegian manned MTE's torpedoed a large tanker which was left sinking.

Mediterranean 5th. A raiding force carried out an ambush at MILO and killed garrison commander. At ATHENS 6th. E.L.A.S. forces made a determined attack on Navy House causing two British casualties. E.L.A.S. Forces slowly being cleared from Naval College with supporting fire from H.M. Ships. Royal Marines were landed from a Cruiser. Wireless station PIRAEUS out of action and ATHENS road blocked.

2. MILITARY

Western Front Further slight advances towards COLMAD. In the SAAR, minor gains at several points and bridgeheads enlarged, house to house fighting continues SAAREB-UEMINES. Slight fall in floods south of ARNHEM.

Italy West of FAENZA U.K. troops of 8th Army continue to make progress against strong resistance

Eastern Front Between Lake BALATON and DANUBE Russians now within 9 miles of SZEKESFEHERVAR and have made further slight advances between the Lake and River DRAVA.

3. AIR OPERATIONS

Western Front 8th. 315 escorted Bomber Command aircraft (one bomber, 6 fighters missing) bombed DUISBURG Railway Centre 900 tons and Benzol Plant 32; also Dam on River URFT near DUREN 797 tons: thick cloud over objective results unobserved. 1689 fighters and fighter bombers (11 missing) operated over the battle area destroying 43 locomotives Enemy casualties 15:2:11.

Mediterranean 6th. 276 escorted U.S. Heavy Bombers dropped 563 tons on nine railway centres AUSTRIA, HUNGARY, YUGOSLAVIA and CZECHOSLOVAKIA obtaining good results at HEGYESHALOM South of BRATISLAVA 124 tons and SOPRON south of VIENNA 145.

4. HOME SECURITY

To 7 A.M. 9th. Three rockets reported.

ADDENDUM

Greece 7th. During whole day fighting continued in ATHENS and PIRAEUS and more districts in Centre ATHENS cleared by British troops Greek Brigade delayed by flank attack. At SALONIKA, demonstrations, following general strike 6th, passed off quietly.

1944 DEC 11 AM 10 25

SECRETARY OF THE TREASURY

Regraded Unclassified

SECRETOPTEL No. 399

Information received up to 10 a.m., 10th December, 1944

1. NAVAL

On 7th and 8th off South West Norway aircraft from one of H.M. Escort Carriers set on fire two small ships and a barge. Mines were laid by aircraft from two of H.M. Escort Carriers.

On 6th a Motor Launch and Destroyer attacked shipping in Krk Harbour near Fiume.

In Athens 8th street fighting continued. In Piraeus sector rebels shelled by H.M. ships and Greek Destroyer and attacked by fighters.

2. MILITARY

WESTERN FRONT. Little activity Southern sector except some progress Vosges northwest of Colmar. Northeast of Saarunion U.S. troops have advanced on 10 mile front and are within 4 miles of Bitch. Flooded area in North reported increasing.

ITALY. advance of one to three miles on five mile front north of Ravenna. West of Faenza bitter fighting has continued with the enemy making series of powerful counter attacks supported by tanks in an effort to recapture lost ground.

GREECE. 8th. Not much change Athens/Piraeus area where no indication rebels giving in and street fighting continued. Attacks on British troops, without provocation, increased. At Salonika and in Macedonia ELAS seized power 4th and now hold situation in their hands. Many arrests made by them and some executions carried out.

EASTERN FRONT. Russians have broken through strongly fortified German defences northeast of Budapest on 75 mile front to depth 35-40 miles reaching Danube at Vac and 1938 Czechoslovak-Hungarian frontier, 40 miles north of Budapest. At same time they forced the Danube south of Budapest, broke through German defences on the West Bank and linked up 30 miles southwest of city with other Russian forces advancing northwards, west of river.

3. AIR

WESTERN FRONT. 9th. 381 escorted Fortresses attacked objectives southwest Germany including railway centre Stuttgart - 531 tons, and two adjacent airfields - 198. Cloud over objectives, but some aircraft bombed visually. Six Fortresses missing and two fighters outstanding, but believed safe.

254 Marauders and Bostons (1 missing) attacked six defended villages, two barracks and a railway centre on Saar front dropping 410 tons unobserved. Fighters and fighter bombers flew 173 sorties, mainly over Central front. 11 aircraft have not returned but believed safe.

23 escorted Beaufighters (1 missing) set on fire 2,000 ton ship off Norway.

9th/10th. 132 Bomber Command aircraft (3 missing) attacked objectives Germany including 59 against Berlin. In addition, 230 aircraft sent Western Germany were recalled owing to bad weather.

MEDITERRANEAN. Operations again severely restricted by weather. On 6th/7th heavy bombers (31) (2 missing) dropped 55 tons on four railway centres and other targets Austria. Results unobserved. On 7th 202 fighters and fighter bombers (1 missing) attacked communications Po Valley and on Brenner route.

4. HOME SECURITY

9th. One rocket reported.
9th/10th. Three rockets.

December 11, 1944
10:10 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Sam
Rayburn: Henry.

HMJr: Good morning.

R: How are you?

HMJr: I was in your very nice town of Dallas a couple
of days ago.

R: Oh, you were?

HMJr: I slept at the -- what do they call it? The

R: The Adolphus?

HMJr: Yeah.

R: Well, that's a pretty good town and pretty good
hotel.

HMJr: Yeah, they're very nice there.

R: Yeah. Henry, you've got down there, of course,
this freeze thing.

HMJr: Freeze?

R: Yeah. Social Security.

HMJr: Oh, yes.

R: Now, what I'm interested in: we're trying to get
through here.

HMJr: Yeah.

R: And we're interested in the President passing on
that at the earliest date possible so we'll know.

HMJr: Yeah.

R: And if he's going to veto it, fine; and if he's going to sign it, fine.

HMJr: Yeah.

R: But we'd like to know....

HMJr: I see.

R: at the earliest date possible. If he's going to veto it, we'd like to get it up here and pass on it, sustain it or override it or whatever we're going to do in the next two or three days.

HMJr: Well, what -- well, what would you like him to do?

R: Well, that's his business. I wouldn't have voted for it if I'd have been voting, of course, but I don't know whether they'll pass it over his veto or not. Neither Houses -- both Houses passed it by more than two-thirds.

HMJr: Oh.

R: Now, whether it will stand up in both Houses on a veto, I don't know.

HMJr: Well, if he asks me, "What did Sam say?" -- because I'll tell him that you called me up

R: Well, I just want him to act on it. What I'm calling you up for is just to act on it.

HMJr: Yeah. You don't want

R: If I had my way

HMJr: Yeah.

R: I'd have let the two percent stay in and accumulated the fund now and maybe five years from now when the employers and employees don't have so much money, you may want to go back to one.

HMJr: In other words, you don't want him to veto it?

R: What's that?

HMJr: You don't want him to veto it?

- 3 -

R: No. I say -- well, I'm not -- I say I wouldn't have voted for the bill myself

HMJr: Oh.

R: if I had voted.

HMJr: Oh, you wouldn't?

R: No, I wouldn't. However, there were about two hundred and something to seventy-two

HMJr: I see.

R: voted for it, which, of course, is more than two-thirds. Now, I don't -- of course, if we adjourn, he can't pocket veto it and if we adjourn, it's doubtful whether he'd let it come along without his signature. I'll have to look into that. But if he's going to veto it, I'd like for him to do it pretty early.

HMJr: Well, I'll try to get through to him. I don't know what luck I'll have but I'll keep in touch with you.

R: All right, Henry.

HMJr: I'll let you know whatever luck I have.

R: Fine.

HMJr: Fair enough?

R: Thank you. You bet.

HMJr: Hello?

R: Yeah.

HMJr: Your state is doing a wonderful job on War Bonds.

R: How's that?

HMJr: Your state is doing a wonderful job.

R: Oh, Lord, yes.

HMJr: That fellow Adams is a great fellow.

R: Yeah.

HMJr: Don't you think so?

R: Who?

HMJr: Well, I mean, he's our State Chairman down there.

R: You mean Nathan Adams?

HMJr: Well, he's a man about seventy-five.

R: Yeah. I don't like him but he's a man of ability.

HMJr: Well, uh

R: He never agrees with us on anything.

HMJr: No, but

R: But he knows how to get to people who've got money.

HMJr: That's

R: Because he's head of the biggest bank in the Southwest.

HMJr: Well, we like to hire the fellows that can do a good job.

R: That's right. You bet. He does the business all right.

HMJr: Well, that's what we want.

R: All right, Henry.

HMJr: Thank you.

R: Thank you.

December 11, 1944
10:19 a.m.

Joseph J.
O'Connell: All right.

HMJr: The Speaker just called me up and said he wants me to find out from the President what he's going to do about the Social Security bill.

O: Huh.

HMJr: So I thought you -- in the next ten minutes you might be thinking about it.

O: Yeah.

HMJr: And he said he didn't know whether the President wanted to let -- pocket veto -- whether he could or not.

O: Yeah.

HMJr: So be thinking about it.

O: Right. We've had several talks here about it and we were preparing a document which we were going to suggest that the President issue if he -- on the assumption that he would sign the bill; that he would not veto it.

HMJr: Right.

O: And the Bureau of the Budget -- I talked with them on Saturday -- they don't seem to know -- they're getting the views of the various interested agencies. Altmeyer, presumably, is recommending a veto. We had a meeting here Friday afternoon with Dan and Roy Blough and all the boys, and Herb Gaston, too; and we all agreed that we didn't think we ought to recommend a veto.

HMJr: Well, we'll talk about it at ten-thirty.

O: All right, sir.

HMJr: Thank you.

O: All right.

December 11, 1944
10:30 a.m.

GROUP

Present: Mr. D. W. Bell
Mr. Gaston
Mr. White
Mr. O'Connell
Mr. Blough
Mr. C. S. Bell
Mr. Haas
Mr. Pehle
Mr. Luxford
Mr. DuBois
Mrs. Klotz

H.M.JR: The first order of business has been forced on me by Speaker Rayburn, who just called up and seems to think that I have something to do with the Government. He would like me to find out from the President what the President is going to do with Social Security. Congress wants to know, and know damned quick, see, whether he is going to sign it or veto it. They want to know. I said that was a fair request.

MR. D. W. BELL: They want to go home.

H.M.JR: Yes.

I said all I could say was if I could have voted for it I wouldn't have voted for it.

MR. D. W. BELL: The President did that the last time they went home--on some bill. He did it on surplus property legislation. He indicated to them he would sign the bill, and they went home. I think something could be said for doing the same thing now if we could find out.

H.M.JR: But supposing I could by any chance get the President on the phone and he said to me, "What do you advise, Henry?"

MR. O'CONNELL: Say, "Sign it."

MR. D. W. BELL: "We recommend you sign it."

MR. O'CONNELL: And issue a statement during the day.

H.M.JR: Why?

MR. D. W. BELL: We had a meeting on Friday, I believe, and went over the whole picture, and we feel that you ought to recommend that he sign the bill. It would be a little inconsistent for you to recommend that he veto it, because in '39 you went on record for a formula, and the fund now is way over the formula. We feel, however, that the President might issue a statement when he signs it. I think he did the same thing last year--no, that was in the tax bill last year. He vetoed the whole tax bill last year, but said very little about the Social Security end of it.

H.M.JR: What position did we take on the Hill?

MR. O'CONNELL: We didn't take any.

MR. D. W. BELL: We weren't asked, so we stayed out of the picture.

MR. BLOUGH: They have always considered this, at least for many years, as being outside the field of ordinary taxation. Their position on it was very clear. It was a hostile one to it. The Administration's point of view was presented by the Social Security Board. We felt that in the absence of any expression of interest on their part, it would probably do little good, and might do harm by coming in; unless you were prepared to change your formula and make a full-dress statement on it, that it probably would not be of much value to come in.

H.M.JR: Doesn't Social Security come under McNutt?

MR. GASTON: Yes.

H.M.JR: Wouldn't the courteous thing be for me to call him up and tell him I have had this message?

- 3 -

MR. BLOUGH: Oh, the Social Security Board is very strong for a veto.

H.M.JR: But that doesn't mean McNutt is. Wouldn't the courteous thing be to call up McNutt?

MR. D. W. BELL: Either that or Altmeyer. Altmeyer testified against it. McNutt is certainly the head of it.

H.M.JR: I will see if I can get him.

MR. GASTON: I think most of us feel that the whole thing requires a reorganization, that it isn't particularly important whether you have this additional one percent or not, but it is important that the system have benefits and the cost be looked at again, and the decision be made as to how much the general treasury is going to contribute. On the basis we are running now, the general fund is going to have to contribute heavily eventually to this fund, and there has been no calculation made as to how much it will amount to, nor of the benefits that will be derived in the light of the fact that in 1939 we reduced the tax and thus destroyed the full contributory character of the fund.

MR. D. W. BELL: And they added greatly to the costs by the amendments.

MR. GASTON: Yes, the whole character of it was changed in 1939, and no plan was worked out for financing it.

MR. DuBOIS: I take it on the merits there is good argument in favor of the freeze.

MR. WHITE: Yes, there are. That is why I think probably it would be a little difficult to justify fighting for the President vetoing the bill, particularly in view of the fact that it wouldn't be sustained, probably.

MR. LUXFORD: In fact, couldn't you say that on the merits there would be much to be said for the President's signing this bill and saying, "I think that the whole matter should be re-explored regarding the financing of Social Security?"

- 4 -

MR. GASTON: That is my belief.

MR. LUXFORD: That he say, "I am signing this bill because I think we should re-examine the whole basis for financing Social Security in terms of the wider spread we hope to give to Social Security, and at that time we should work out a completed program for financing."

MR. WHITE: In terms of our experience and new developments.

MR. LUXFORD: That is right. You remember our speech in terms of financing Social Security out of general funds instead of pay roll tax--the speech we wrote for the President?

H.M.JR: Did he ever give it?

MR. LUXFORD: No, but it would still make good policy.

H.M.JR: The speeches I wrote for the President which he never gave? You can hardly make that a keystone.

MR. LUXFORD: Presumably it reflected Treasury position, though.

H.M.JR: Presumably!

MR. BLOUGH: You never cleared it around the Treasury. How do you know it reflected the Treasury position?

MR. WHITE: I think you had better recede from that line.

MR. LUXFORD: I am not going to. I think it was right.

MR. BLOUGH: But you can't say it was cleared around the Treasury.

MR. LUXFORD: I think the Treasury position is reflected by the Secretary in the final analysis, but--

MR. BLOUGH: I happen to agree with the position that they took, but I don't agree with the statement that was made.

- 5 -

MR. WHITE: I think that it is very important to re-examine it, and if this provides the opportunity for re-examination, then I think the President ought to take this opportunity to say so.

H.M.JR: I feel flattered that the Speaker should call me up and ask me. I am just overwhelmed. I was surprised he didn't call up Max Gardner this morning. What is that committee, anyway?

MR. D. W. BELL: You mean, Byrnes' committee?

MR. GASTON: You mean, Surplus Property?

H.M.JR: No, Max Gardner has five new letters--

MR. GASTON: I heard on the radio that Max Gardner, instead of Guy Gillette, was to be the Chairman of the Surplus Property Board.

MR. WHITE: Are you speaking of the super-Cabinet Committee which has just been formed?

H.M.JR: No, this morning Mr. Byrnes takes over the homefront and Max Gardner called the meeting of the committee.

MR. D. W. BELL: He takes Clay over, too, you know--General Clay. That is bad. I think he was so good where he was.

H.M.JR: Yes, I thought he was in France. The last I heard they had sent him to France to get supplies for the front.

MR. D. W. BELL: He was very good where he was, I think.

H.M.JR: Anyway, the vote went through, he said, by almost two-thirds.

MR. GASTON: More than two-thirds, I think, in both Houses.

MR. O'CONNELL: In the House well over two-thirds, and in the Senate it was well over two-thirds.

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H.M.JR: If I can get the President, I will ask you people to leave if you don't mind.

(The Secretary on White House phone)

Good morning...

You want to see if I can get Mr. Roosevelt on the phone?....

Let's try.....

Thank you.....

MR. BLOUGH: The Budget Bureau says this is developing into something of a storm because the points of view within the Budget Bureau differ on this, and the points of view outside the Budget Bureau differ on it.

MR. WHITE: The points of view even in Labor differ.

MR. LUXFORD: That is why it is a perfect--

MR. WHITE: The group who are with him think it is a good opportunity to sock the insurance principle between the eyes.

MR. O'CONNELL: I have never seen a thing on which there was so much honest difference of opinion among the people having the same objective.

MR. BLOUGH: I have only seen one reason why that appealed to me for vetoing it, and that was to say this, "Congress, through this repeated refusal to allow these rates to advance, has abandoned the method of financing which it previously adopted. I don't want to be a part to that abandonment until a new system of financing is adopted, and I am vetoing it, in effect, to throw it over to you and say, 'Either keep this sytem or adopt another one.' That is about all I can say."

MR. D. W. BELL: It is a little late, Roy.

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MR. GASTON: Yes, five years late.

H.M.JR: Excuse me. You say that when the President left once before, on Surplus Property he left word--

MR. O'CONNELL: Yes, almost the same situation developed last September. Congress wanted to go away. They had two bills before the President. One was the Surplus Property legislation that we recommended a veto on. The other was the contract termination legislation. The President indicated, I think through Byrnes, within two or three days after the bill reached him that he would not veto the bills--either of them--and with that informal understanding, Congress went home. They would like to get the same thing this week. If they don't, he can hold the bill for ten days from the time it reaches him. It hasn't reached him yet. If they go home at the end of this week, say, he can pocket veto the bill, if they have gone home; and they don't want, if they can avoid it, to be in the position of having to hang around here until the 22nd or 23rd of December to be sure he doesn't pocket veto the bill.

If they go away and the Congress is not in session, he can kill the bill by not returning it to them. They can circumvent him on that only by waiting here until the ten days are up. So they would like to know this week. And I should think we ought to tell them if we can find out.

H.M.JR: And they have to stay here?

MR. O'CONNELL: To keep from a pocket veto if he wishes to do that.

H.M.JR: Herbert, you make a note--you might look up what this super-Cabinet is. I didn't see anything about it in the paper--what this Max Gardner business is.

MR. O'CONNELL: It was in Saturday's papers.

MR. BLOUGH: The paper said it was to be an advisory committee to reflect the views of Labor, Agriculture, and so forth.

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MR. WHITE: The radio commentators referred to it as a super-Cabinet Committee.

Mr. Secretary, why does Rayburn use this channel for that sort of request from the President? Wouldn't the President want to know how the various agencies feel before he would be able to answer you on this?

(Secretary holds telephone conversation with White House operator.)

H.M.JR: He is just finishing his breakfast and says he can talk in a couple of minutes.

MR. WHITE: He won't have an opportunity of canvassing the other agencies? I imagine that is what he will want.

MR. O'CONNELL: They have asked the Labor Department, Treasury Department, Social Security, and I think Vinson's office at least for their views, and they know they are going to get a recommendation for veto from Social Security. They know we are going to make a suggestion--

H.M.JR: Who is doing that?

MR. O'CONNELL: The one I talked to is Bailey. He is the--

H.M.JR: That is a much too intelligent way to do a thing. Since when does the Government work like that?

MR. GASTON: I think I have heard of the President acting without canvassing all the Departments concerned.

H.M.JR: I mean, Harry wants to go forward in the regular State Department reorganization manner.

MR. WHITE: It is time for "new deals" all the way around.

H.M.JR: I will do it the way he likes to have it done. Sam Rayburn called me--what do you think? If he says the Budget is handling it, that is all right.

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Now, Mr. Dan Bell, I saw Mr. Gamble yesterday, and he certainly is riding high, wide, and handsome.

MR. D. W. BELL: Yes, we got fourteen billion nine. There is a little lag on the E's, but I believe they might make that up this week.

H.M.JR: He is a competent devil.

MR. D. W. BELL: The extra payroll bonds for the corporations got a little late start, and they feel that that is just going to begin to come in this week. If it does, we will pick that lag up. It isn't a big lag. It is only seventy-five million.

H.M.JR: He has in mind that he wants me to make three statements, starting with Friday--almost in the bag--in the bag--

MR. WHITE: Out of the bag!

H.M.JR: I talked with Herbert about it, but he thinks-- I think this, I am not going to let them cry the way they did last time about the E bonds. I am kind of inclined to go along with them, if by Friday morning it looks all right.

MR. HAAS: They have an improvement this time about giving some publicity to a figure which is a percentage of the beam rather than a percentage of the quota. That looks better. What should be achieved at this point is coming out in print.

H.M.JR: I guess he has the best publicity setup over there he has ever had.

MR. GASTON: Yes.

H.M.JR: I had a wonderful letter from Frank Tripp.

Well, what have you got that is important?

MR. D. W. BELL: You will be interested to know that on November 30 there was a tentative memorandum put up in the

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Budget called a project assignment memorandum under which they contemplate post-war reorganization of the Treasury Department and the banking functions.

H.M.JR: Where is this?

MR. D. W. BELL: It is in the Budget Bureau. We got it rather confidentially, and ahead of schedule. It hasn't yet been approved.

H.M.JR: Is it going to leave the Treasury anything?

MR. D. W. BELL: It is going to be a reorganization, and it must be completed by December 31. I don't know whether it has started yet or not. We have seen no one over here to look into any organizations or functions, so I gather it is rather a simple matter for these people to reorganize the Treasury for post-war functions within thirty days. But I thought you would be interested in that in view of your recommendations.

H.M.JR: Has there ever been any leaks on the one I gave the President?

MR. D. W. BELL: I have never seen a thing on it, and whether this follows that and is the reason for it, I don't know.

H.M.JR: But have you ever heard anything?

MR. D. W. BELL: Nothing from anybody.

MR. WHITE: The Budget Bureau never heard of it until at least a week ago. I mean, I don't know whether they have heard of it since.

H.M.JR: Did they hear about it then?

MR. WHITE: I was talking to Paul Appleby before he was leaving, and he was talking about the many things, and I am sure if he heard of that he would have mentioned it, but he didn't. So it may be that Smith heard about it. If so, it didn't leak down any further.

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MR. D. W. BELL: I haven't heard a thing about it.

H.M.JR: I think if that had gotten to Smith there would have been--

MR. D. W. BELL: There would be a round-table discussion.

H.M.JR: The recent earthquake in Japan would have seemed small by comparison.

MR. D. W. BELL: Customarily, we have had an inaugural medal, and each time, I think, they have decided to have one about ten days before the inauguration, and the Mint people have had to work night and day to get it out. This year there isn't the usual setup of a District Committee to handle that matter, and Mrs. Ross has raised the question as to whether you wanted to consult with the President to see whether or not he wants an inaugural medal, and if so, could they have a little time to work on it. They will have to go outside, I think, for a man to work on it. Mr. Sinnock is their sculptor and is getting rather old and feeble.

H.M.JR: How much does that cost?

MR. D. W. BELL: I don't know, it depends on the medal.

H.M.JR: I hate to ask him until I get it.

MR. D. W. BELL: The District Committee has usually paid for it.

H.M.JR: Do you have to ask him on a thing like that?

MR. HAAS: Does he have a committee?

MR. D. W. BELL: He has about the only one. You have the Byrd Committee. She called Byrd, but they didn't know much about it, and didn't know what to do with it.

MR. WHITE: You could have the motif of it the first six notes of the song "Always!"

MR. D. W. BELL: It has usually been paid for by the Inaugural Committee which has their own funds.

MR. O'CONNELL: Is there any other way? There must be some way.

MR. D. W. BELL: It could be paid for, possibly; I think there is ten thousand dollars appropriated to the Congressional Committee. It wouldn't cost very much, not as much as a thousand dollars.

H.M.JR: Well, I will put it down.

What else?

MR. D. W. BELL: In making the troop pay available for Italy, we thought it would be a good thing to get the Comptroller General's approval before he got the vouchers from the War Department. Some of the boys here went over and discussed the matter with him after he had raised some questions on it, and he said that he would like to have the memorandum which you sent to the President containing your recommendations with the President's approval on it. On calling up the White House, I find that the original memorandum which you sent on September 5 was lost. Then you sent over a ribbon copy of the original with just your stamped signature on it. I asked Mr. Latta if he would get the original out of the file and send it to the President for approval, which he did. He sent the copy which did not contain your signature, and the President approved it as of December 8, rather than as of September 5. So we have to send that to the Comptroller with a memorandum explaining all of that, and I would like to get your signature on the original memorandum.

H.M.JR: If you say it is all right.

MRS. KLOTZ: There is a note here from the President in which he says he thinks you will have to keep Surplus Property! I just glanced at it quickly.

(Mr. Bell hands the Secretary memorandum to the Comptroller General, dated December 11, 1944, which the Secretary signs.)

MR. WHITE: Do you think the Secretary might be interested in the controversy?

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MR. LUXFORD: Well, no one is sure that the Comptroller is going to take this, because he has held out no outright promise. That is, he might kick up his heels and provoke a fight about it, Mr. Secretary.

H.M.JR: Who?

MR. LUXFORD: You know, the President announced that he would make troop pay available to Italy.

Now, the Comptroller General has raised some question as to whether that can be done under the terms of the armistice. We went over and talked to him about it. He wouldn't hold out an outright promise of approving it, although I do believe he will go along on the basis of this memo, but you can't be sure.

MR. D. W. BELL: He was pretty agreeable, wasn't he?

H.M.JR: Have you asked the King of Italy?

MR. GASTON: That is the wrong King.

H.M.JR: Which is the right one?

MR. WHITE: Churchill!

H.M.JR: After all, we did that troop pay gesture to get Roosevelt elected.

MR. D. W. BELL: You want to take it back now?

H.M.JR: That is the idea. It no longer has any significance. I mean, that is a hot issue. Even Hannegan was interested in it. How did the Wops vote in New York, anyway?

MR. O'CONNELL: The President did pretty well in New York City.

H.M.JR: Well, I am not going to get excited about it. I have enough of a staff here.

MR. D. W. BELL: I think he will go along--the Comptroller General. He went along on the French, the Dutch, and the Belgians, which are analogous.

H.M.JR: I am still full of Arizona sunshine and ozone.

MR. D. W. BELL: That is all I have.

H.M.JR: How does it stand on this matter of Leon Fraser? I sent you a message--

MR. D. W. BELL: Don't you have my answer?

H.M.JR: ...to do nothing until he talked to me.

MR. D. W. BELL: He said he had not seen Leon Fraser since he had come to Washington, and that he would not think of bringing any of these steel colleagues into the State Department.

H.M.JR: Do you want to know what I got? Then you can embellish or subtract. The message I got was that you had talked to Stettinius and that he had not seen Mr. Leon Fraser since he had been Chairman of the Board of U. S. Steel, and he would do nothing until I got back.

MR. D. W. BELL: There was a good deal in between. One was that he hadn't seen him; he hadn't crossed his mind.

The thing that you had seen in the New York Times, that he would not bring any of his colleagues from the U. S. Steel Corporation into the State Department--that he would not appoint anybody, particularly a New York banker, to a financial position without consulting you. I think that was a very forthright statement.

H.M.JR: Yes. Well, I didn't get that.

MR. D. W. BELL: I don't think he has any intention of bringing Leon Fraser in.

H.M.JR: The way it was written, every other one of those writeups in advance as to who he was going to appoint were true,

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and this thing was written in such a way. I guess Fraser is Chairman of the Finance Committee of U. S. Steel, isn't he?

MR. D. W. BELL: I think he is.

H.M.JR: Well, it didn't do any harm to send him that message.

MR. D. W. BELL: He was very friendly, and said he was very glad to tell you that.

H.M.JR: Did you tell him I did it on account of Fraser's position at Bretton Woods?

MR. D. W. BELL: Yes. I told him you were a little worried about the article because of his position on Bretton Woods and you would like to know in advance.

H.M.JR: Well, at least that is something, anyway. To paraphrase Mr. Jack Garner, that is a blow for democracy.

Anything else?

MR. D. W. BELL: That is all.

MR. GASTON: I haven't anything.

H.M.JR: Lucky man! When are you going away?

MR. GASTON: I hadn't made up my mind.

H.M.JR: You have the month of December.

MR. GASTON: I thought I would wait until you got back, anyway--soon, I think.

H.M.JR: Mr. O'Connell?

MR. O'CONNELL: There are a couple of things. The Senate Military Affairs Committee is holding another public hearing this morning on the appointees to the Surplus Property Board. Goodness knows when they are going to get through with that. I was quite confident that after Taft and the Republicans

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announced they were going to oppose them that would solve the problem, because it would immediately be decided on party lines. It probably still will be, but they have been horsing around with it for a couple of weeks now. There may be something develop today, but they had an executive session last Tuesday and decided to hold another hearing today.

H.M.JR: Did Bell take you up on the Hill and introduce you?

MR. O'CONNELL: Yes, I was about to mention that. The 1st of December Dan, Roy, and I went up and had a pleasant little talk with Doughton and George. I thought it was all right.

MR. D. W. BELL: Yes, I thought we had a good conference.

H.M.JR: Good. I think I saw something in the New York Tribune, but I didn't see anything else.

MR. O'CONNELL: Well, we prepared a release which was put out on the 1st of December, the day we went up on the Hill, announcing the number of changes and making clear what we had agreed to, including Orvis Schmidt's new assignment and Roy's new assignment. The whole thing was put in one press release.

H.M.JR: Did people like Kiplinger and Whaley-Eaton carry it?

MR. D. W. BELL: I haven't seen it.

MR. O'CONNELL: Those usually come out on Monday. I haven't seen it yet.

H.M.JR: There is really a more significant change in Treasury than what they are doing in the State Department, but I am willing to let it slide by.

MR. O'CONNELL: I think we all are. I didn't think there should be a release, that we should make it available internally and go down to see Doughton and George.

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H.M.JR: Mrs. Klotz, get a copy of that press release for two o'clock. Maybe we will send it to the President to let him know. We did let him know about Pehle, didn't we?

MR. PEHLE: Yes.

H.M.JR: I do want him to know about this. I will write him.

MR. D. W. BELL: By the way, Bob McConnell's son has been seriously wounded in the Seventh Army. I haven't heard any details, but he got that last Monday.

H.M.JR: Would you write a letter on that for me, Herbert?

MR. GASTON: Yes.

H.M.JR: And you might write a letter to the President for me, and get it to me by two o'clock, telling him about O'Connell and how we took him up on the Hill--Bell did--and everybody was happy, and that we shifted Foreign Funds from the General Counsel's Office to Harry White, and about Blough's position, you see.

MR. GASTON: Yes.

Do you think we should enclose the release?

H.M.JR: No, because it is so cold.

Then I think you might use that letter to say that under those circumstances--

MR. GASTON: Yes.

H.M.JR: Could you get that to me by two, do you think?

MR. GASTON: Yes.

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MR. O'CONNELL: Just before you went away we had a talk, as you recall, in connection with the application of the Nation Associates for tax exemptions under the code, and we have had several discussions since then with the Commissioner, and Deputy Commissioner in charge of income tax, with Mr. Wenchel and myself, and I have here a memorandum from the Commissioner addressed to you indicating that it is his intention, subject to your approval, to affirm the ruling that we gave them before, that they were not entitled to a tax exemption, and that we would in the process have to revise some of the rulings that we have made which are quite obviously inconsistent with the position we took in the Nation case.

You remember they pointed out some such cases. There is a very important question of policy involved. Do you want to take two or three minutes on it here? The question is the direction in which we go. We have been going in probably two or three directions, but generally we have been pretty lax, or rather pretty free, in granting exemptions for organizations which turn out in many cases to be not exactly phony, but we are sorry later. We will grant an exemption under 1016 because of the provisions that are contained in the certificate of incorporation that makes it sound as though this organization was a very high-minded organization and devoted to educational purposes. Then we take a look at it three or four years later and we find the fact that they have spent all their time influencing legislations, lobbying, and doing things the statute did not contemplate. Unless you believe that we ought to take a more liberal view, unless you believe that we ought to follow the line that we would have to follow if we were to decide the Nation was entitled to a tax exemption, we would reexamine the cases in which we have been inconsistent with the ruling made in the Nation's case and we would put out more detailed regulation indicating a tightening up of the granting of exemptions under 1016 of the code. It is very easy for people to differ about this question, and it is perfectly true that we are in an inconsistent position as between rulings made in the Nation case and other rulings.

H. M. JR.: There was the Free World.

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MR. O'CONNELL: Free World is one of the cases. We have the Union for Democratic Action, the League for Industrial Democracy, Free World, and another periodical known as the Protestant.

MR. WHITE: Did the Farmer's Union just come forward?

MR. O'CONNELL: They are over there now wanting us to grant them an exemption under 1016 with respect to some fund that they are proposing to set up. I don't know the detail of it. I think you spoke to me about it. Patton and his lawyer went over and saw Norman Cann. We have that question up too. I don't know what the answer is in that case.

MR. PEHLE: What is the ground on which the Nation is being turned down?

MR. O'CONNELL: The question is, are they entitled to an exemption.

MR. PEHLE: On what grounds do you think they are not? What is the quality they lack?

MR. O'CONNELL: In order to be entitled to exemption they have to be organized and operated exclusively for educational purposes and a substantial part of their activities are to be engaged in spreading propaganda or influencing legislation. None of these activities are for profits.

MR. PEHLE: The trouble is it is propaganda if you like it; otherwise it is educational.

MR. WHITE: That is the definition of propaganda--education you are not in favor of.

MR. GASTON: I don't think it is a question of tax-- it is a question of whether we get reports in--

MR. DuBOIS: I'd like to compare this case with the Brookings Institute. Will we continue to give them the exemption?

MR. O'CONNELL: I would think so.

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MR. WHITE: Is the case important enough, Mr. Secretary, possibly so that it might be examined by some committee that you might appoint?

H. M. JR.: It is important enough that I went into it myself. The thing that bothers me, I mean from the standpoint of law as I understand it--if you read the law as it is written there is no question that the Nation cannot qualify. Miss Kirchwey admits that they do do propoganda and try to influence legislation. There is no argument about that. Her argument was largely based on the facts that we had granted this exemption to other people.

MR. O'CONNELL: That is right.

MR. PEHLE: She is a little more honest, that is all. The Bookings Institute certainly--

H. M. JR.: I have spent quite a lot of time on this thing. I explained to her about America First, and that I didn't know whether we were going to get that organization or not. We can only get them if they are not entitled to exemption. She said, well, as far as she was concerned she would rather be taxed if that in any way would help to get America First. But I think this, I don't understand why they let some of these other go by; I am not familiar with Bookings Institute. What I am familiar with, I don't know what the date was, but it was at a certain time when I established a policy that these tax-exempt concerns would have to prove their worthiness of this privilege once a year. I went back a long time ago and said that the burden of proof should be on them. I remember at the time I compared it, Herbert, to when we had the honorary or special game wardens in New York.

MR. GASTON: Protectors.

H. M. JR: And I found all kind of gangsters--they were entitled to have a gun. So I said that once a year these people would have to come before us and prove their worthiness of this privilege or else they would lose it. I don't know whether it was ever carried out. Do you remember my saying it?

MR. GASTON: Yes.

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H. M. JR.: I said that these people once a year--their license to be tax-exempt would expire and the burden of proof would be on these people as to whether they were entitled to renew their license.

MR. D. W. BELL: I didn't think it was ever issued. We discussed it here, and discussed it at Cabinet.

H. M. JR.: Absolutely, clearly I laid that down, that principle. I still think the principle is a good one.

MR. WHITE: How many requests would there be a year?

MR. O'CONNELL: Oh, my goodness, there would be thousands of them.

MR. WHITE: But you can immediately set aside all universities, for example, couldn't you?

H. M. JR.: That was the principle, that these licenses would expire every year and the burden of proof would be on these people.

MR. D. W. BELL: How about labor unions?

H. M. JR.: The same way.

MR. GASTON: I think they came back and convinced you that it wasn't practical, or they said it wasn't--that it would take too much work.

H. M. JR.: There is enough interest in this thing, Joe--that anybody in this room who is interested--you appoint a time and sit down and have a talk with them, anybody that is interested. The meeting will take place in your room.

MR. O'CONNELL: All right.

H. M. JR.: Let any of these boys--for instance the boys interested in Brookings Institute, Luxford is interested in something else, Harry is interested in Mr. Patton's organization--

MR. O'CONNELL: I might mention one reason why we ought

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probably to tighten up, and that is that we have two policies which tend a little bit to conflict with each other. Every time we grant an organization of this sort an exemption under 1016, we also excluded their employees from social security benefits because all the tax-exempt organizations are automatically out from under social security. So we have one policy which is tending toward pressure from the Social Security Board. We are trying to broaden social security coverage, narrow the exemptions as far as possible, and I have no doubt the Nation is in favor of much broader social security coverage than now exists. But if we give them the exemption, we exclude their employees, and there are probably several hundred of them, from social security benefits.

H. M. JR.: It is mandatory?

MR. O'CONNELL: That is right, they are definitely out of social security if they are under 1016.

H. M. JR.: May I interrupt, Joe? The thing that the Nation wants, they want to be able to go to somebody and say, "If you will give us a thousand dollars, you can deduct it from your income tax," and that is what they want. The chances that they are making money are very slight, but they do want to be able to solicit funds for this association and have it deductible. So we might just as well call a spade a spade. For anybody who is interested, you call a little meeting and we'll have another talk. This thing is a pretty important thing, because it takes in labor unions, religious organizations--

MR. BLOUGH: No, Mr. Secretary--

MR. LUXFORD: It worries me that you will get into the position of Walker and Esquire, that you have to police these things. Walker made a strict interpretation of second class mail privileges in Esquire. You will find yourself in there-- what is good and what is bad.

H. M. JR.: Well, I went into this thing--I wanted to be very strict on this thing. As I remember it, we got into this thing and called a spade a spade, and Sullivan advised me to sort of drop it, that we would get into a lot of these Catholic institutions. But it doesn't do any harm every time Mr. Roosevelt is elected to take a new look at this thing.

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MR. BLOUGH: This does not involve all tax-exempt cases.

MR. O'CONNELL: No. It is important, though.

H. M. JR.: You have some boys here who haven't enough to do!

MR. O'CONNELL: We will have a meeting this afternoon.

MR. BLOUGH: Can you make it some other time, Joe?

MR. O'CONNELL: Certainly, we will make it tomorrow. I want you to be there.

MRS. KLOTZ: They have called up and would like an answer before next year. They can't make their plans for next year unless they know where they stand.

MR. O'CONNELL: By Wednesday ought to be all right.

H. M. JR.: All right. It is very interesting. Don't let's rush it.

MR. O'CONNELL: I cannot be accused of having rushed it; I have spent more time talking to people on this than anything.

H. M. JR.: I mean I would rather let the Nation wait a day or two and be sure we are right than say no.

MR. O'CONNELL: You will never be awfully sure you are right. Frank Gannett's Committee for Constitutional Government, from everything they have said, would probably have been entitled to an exemption under 1016, and it was only by accident that we did not give it to them.

H. M. JR.: Will you get Sam Klaus to attend that meeting?

MR. O'CONNELL: All right.

H. M. JR.: Joe?

MR. DuBOIS: I have nothing, sir.

H. M. JR.: George, how long have you been out of circulation?

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MR. HAAS: This is more or less for seven weeks. I don't know when I will get rid of the crutches.

H. M. JR.: You have lost a lot of weight, haven't you?

MR. HAAS: I have lost some. If you try to go around on crutches you have to lose weight!

H. M. JR.: All right?

MR. HAAS: You probably know about this, it is a question of Federal Reserve policy and interest rate which has come up again.

H. M. JR.: Every four years!

MR. HAAS: More frequently than that. But the situation is easy now because of the war loan accounts. But the bills you insisted they put in helped the thing out, but it was not enough and they had let the short certificate slip. We have some solution for the problem--Dan and the boys.

H. M. JR.: We'll get around to it.

MR. PEHLE: The most urgent thing is that the Murray Small Business Committee have the Treasury Surplus Property Office down on the pan. The subcommittee of the Murray committee is holding public hearings beginning tomorrow, lasting through Tuesday, Thursday and Friday; and they have called in a large number of people from the Surplus Office here. They have called in the director in New York, and the head of the office in Atlanta, and it will not be entirely pleasant because they are going to poke a lot of holes in what has been done. What I plan to do is attend the session and make a statement at the end.

H. M. JR.: Is Joe in on this?

MR. PEHLE: I had had Tom Lynch right with me.

MR. O'CONNELL: That is right.

MR. PEHLE: But there will be some adverse facts brought out, I have no doubt. One of the things, this being a small

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business committee, they are going to be critical of Olrich's lack of cooperation with the Smaller War Plant Corporations, and in my judgment, with some merit--but that has now been cleared up. I cleared that up last week so that Maverick's testimony will be to the effect that relations now are very good with the Treasury as far as small business is concerned; but according to the record down there, they had kept these Smaller War Plant Corporations at arm's length all the way through and made no real attempts to cooperate.

H. M. JR.: Who is Chairman of this committee?

MR. PEHLE: The subcommittee is Tom Stewart, and the committee is Taft, Murray and Stewart.

H. M. JR.: Murray is all right, isn't he?

MR. PEHLE: Oh yes, the committee is all right. It is a very small business committee, and, as a matter of fact, Taft on the one side and the two on the other side are outdoing each other to see who can do the most for small business, but there hasn't been much impact of small business philosophy on our work down there.

H. M. JR.: I certainly told Olrich where I stood on small business, and told him I would rather sell my dozen to one man than five thousand dozen to someone else.

MR. PEHLE: I knew you felt that way, so I went right ahead--

MR. D. W. BELL: Didn't they do that, John? As I understood it, Maury Maverick wanted Olrich to agree to allow him to put a Small War Plant organization representative in each one of his offices. He said if he allowed that he would have to allow all the other people who have priority to put a representative in. And, furthermore, he wanted to wait and see what the Surplus Property Board did in the way of relations and instructions before he went out on that limb; he asked Maury to wait. Maury would not wait. That is where the controversy came in.

MR. PEHLE: That is right. I have agreed to let the

- 26 -

Smaller War Plant organization's men have liaison men in the field offices. RFC has already done it, and I think we are in a bad position to refuse to consent to cooperate as much as RFC has.

MR. O'CONNELL: They were pretty much dogmatic about it. One of the Small War Plants' people was pretty peremptory in language, and I think you and I were agreed that it was necessary to support Olrich to the extent of delaying matters a bit.

H. M. JR.: You are not bored with the job?

MR. PEHLE: No sir, it is a big job. There is a lot to be done. I would like to talk with you a little bit later today. That is all I have right now.

H. M. JR.: Tell Fitz. Harry?

MR. WHITE: There are a number of matters here that you can take up as soon as you get around to it.

H. M. JR.: One thing that I was reading during the evening was this letter, I think from Taylor, or somebody, saying that the new Minister of Finance of France had sent me a telegram and he had never gotten an answer.

MR. WHITE: Yes, he got an answer at once. He sent the telegram to you. The letter expanded on the fact that Pleven seemed eager to cooperate with you very fully.

H. M. JR.: Can't you write a nice friendly letter from me to Pleven congratulating him on his pleasant relations with me?

MR. WHITE: All right, we will do that.

There is also a letter from Connally asking for the file in the General Counsel's office on Anderson-Clayton. I understand that they are being gathered, and they will be forwarded today. There are some countervailing duties and some on the Foreign Funds activities.

H.M.JR: Is it interesting?

MR. WHITE: En masse.

MR. LUXFORD: Not enough.

MR. WHITE: I do not think there is anything there that would reveal any--

H.M.JR: Again I am just questioning something like that to Connally. Is the Hill representative kept familiar with a thing like that?

MR. WHITE: I presume this comes through the General Counsel's office.

MR. O'CONNELL: I was not familiar with that, but it was only because Schmidt was not able to reach me Saturday night on the phone. Joe was just starting to tell me about it.

MR. WHITE: It would go through his office after we gathered the material, yes.

H.M.JR: In his capacity as representative on the Hill?

MR. WHITE: All right. It would have been his capacity as General Counsel, but either or both.

MR. O'CONNELL: Both.

H.M.JR: O.K., I am just checking what kind of organization I have.

MR. WHITE: Congressman Spence called; I think he called the General Counsel's office.

H.M.JR: And me.

MR. WHITE: Then I needn't repeat it.

H.M.JR: I was not on the phone.

MR. WHITE: Well, he called and he was very much disturbed over the information that he had received that the Bretton Woods proposals were going to be assigned to the Foreign Affairs Committee, and he wanted you to take prompt action to see that the Banking and Currency Committee would have it. He said he wants it very much. He said he is pretty certain that his committee can deliver, and he thinks it is a grave mistake to have it sent to Foreign Affairs. He does

not see what they have to do with it, and he wanted you to call Sam Rayburn up, and the President. I told him I would submit the message to you as soon as you came.

MR. LUXFORD: I talked to him the same time you did.

H.M.JR: Is that something you can handle?

MR. O'CONNELL: I would like after talking to Luxford and the boys about it, with your permission, to have a talk with Sam Rayburn. It is primarily Rayburn's problem, but it seems to me a better case can be made for Spence's committee than the other committees.

MR. WHITE: Well, I think it is probably a little more important than the Bretton Woods, because I gather from Spence - and the implication is there - that it is being given to Foreign Affairs, or likely to be given to them, because they regard all matters of international financial arrangements as a State Department matter. That is the significance of it, in addition to Bretton Woods. I think it would need some definite blocking before it gets very far and becomes troublesome.

H.M.JR: Let Joe go on the Hill in the first instance. If you need some help from me, I am glad to get in on it.

Anyway, will you take it over and see what happens?

MR. WHITE: The other items can all wait until you get around to them - none are urgent.

H.M.JR: The only thing you said was urgent was the Spence matter?

MR. WHITE: That is all - and this Connally thing.

MR. O'CONNELL: I wouldn't want to talk to Rayburn until we had a chance to see whether you are going to get an answer to that other question.

MR. WHITE: Sometime within the next few days if you could set aside some time to wind up a number of unfinished matters on the British negotiations - a number of things require your signature and decisions. It should be done this week.

MR. BLOUGH: On the Social Security, I don't know just where we left it. I gathered from the general tenor of the conversation that you approved sending a letter to Budget in response to their request indicating that you do

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not favor a veto, but calling for re-investigation of the Social Security problem.

H.M.JR: That is what these people say. I am willing to go along.

MR. BLOUGH: That is what all the rest say.

H.M.JR: Okay.

MR. BLOUGH: The first meeting of the Joint Committee on this tax study is scheduled now for tomorrow afternoon. It may or may not be held, depending on whether important matters are up. There is no great hurry in either Doughton's mind or George's mind of doing anything with regard to taxation, because the lack of present optimism about the end of the war in Europe has calmed them down a great deal. So I don't think there will be great pressure.

H.M.JR: Would you like to see me and tell me what has happened?

MR. BLOUGH: I'd be delighted to, Mr. Secretary, and also show you some of the material we are giving them.

H.M.JR: Well, why not ten o'clock; and I think Joe should be here.

MR. BLOUGH: Tomorrow morning?

H.M.JR: Yes. I'll give you an hour.

MR. BLOUGH: Wonderful! If we are going to get the hour tomorrow, I'll leave the other matters. I just wanted to mention that they are writing some tax material for the Budget message, and we are going to see what they are up to, and I hope to see some of it this afternoon. There is a question of whether you want to put something in your Annual Report on tax policy. There is nothing in there now, and it is getting very late. If you want to put something in, we'll decide on it right away.

H.M.JR: Sure. I'm "agin" 'em!

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MR. GASTON: Has the lead been written on the Annual Report, Dan?

MR. D. W. BELL: Some of the forepart has been written and galley-proofed. I haven't seen it all yet.

H.M.JR: You usually go over that, don't you, Herbert?

MR. GASTON: Yes, Dan usually calls me in on it before it goes very far along.

MR. WHITE: I had forgotten - the Budget Bureau sent over a page dealing with Bretton Woods to be incorporated in the Budget message. As a matter of fact, they didn't send over a page - they called up and wanted to know whether we would like something in. So we drafted the page. So far as the Budget Bureau is concerned, there will be something in there recommending passage of those two proposals.

MR. BLOUGH: Finally, we are hoping to wind up the negotiations on double taxation with Great Britain almost any day. As a matter of fact, there is an important meeting going on this morning. That seems to be going all right.

That is all I have.

H.M.JR: Would you let me know, Herbert - let Mrs. Klotz know - by two o'clock today: Elmer Davis sent me out a biography of myself which they sent out, and I wondered whether it was ever submitted to the Treasury.

MR. GASTON: It was sent out?

H.M.JR: Yes. Then they sent me clippings on it from China. I am writing him a letter which is not going to leave him any skin, and I am writing it now. I am not going to ask anybody. It will be very unpleasant. But I just wanted to make sure.

Why don't they submit a thing like that in advance? I am going to tell him the last time I saw an article like that was in Denmark in a paper subsidized by the Nazis, and I wondered if they got some of their ideas from that; and I want to know, also, whether they are for or against

Mr. Roosevelt and his Administration.

They took every unpleasant thing and time of life that was ever written about me and put it into this article and sent it out. But I want to be sure it wasn't submitted in advance.

MR. GASTON: I didn't write it, is all I can remember!

Yes, I'll find out. Do you want to let me see that?

H.M.JR: No, you will see it after I have written my letter.

MR. GASTON: Okay - find out whether he got anything from us.

H.M.JR: This was sent out to the Far East and reprinted - China, and so forth. I am going to dictate my letter and I'll let you look at it.

MR. D. W. BELL: I have a faint recollection that I had something on that for myself, about me. It was just a biography - Government service.

H.M.JR: No, this is four or five closely-typewritten pages.

MR. GASTON: I'll find out.

MR. LUXFORD: I have nothing.

H.M.JR: Charles?

MR. C. S. BELL: Mr. Blough wants to get Mr. Ecker-Racz back. He is a major in the Army over in Paris, and the State Department have offered him a job over there and are attempting to get him out of the Army.

This was up once before, and you decided to leave him in the Army; but if the State Department are going to get him, we would like to have him, ourselves. The Civil Service Commission has the matter up with us now.

H.M.JR: How old is he?

MR. BLOUGH: He is thirty-eight years old.

As Charlie says, the Civil Service Commission wants us to release him to State Department. State Department will then get a release from the Army. The Area Representative - or the European Area - has already agreed to release him so far as they are concerned, so I'm told. Your previous objection which was, I think, a very good one, was that you didn't want to get him out of the Army for a civilian job. The question is, does the fact that State will take him out of the Army and also away from us change your point of view on it. I would very much like to have him if he is not going to continue in the Army.

H.M.JR: I think if he is not going to continue in the Army, anyway, we might as well have him.

MR. C. S. BELL: He is furloughed from Treasury, so we'll start in and try to get him.

H.M.JR: We'll have to go into this business all over again now, since he is thirty-eight.

MR. C. S. BELL: He was one of Roy's best men.

MR. BLOUGH: Oh, yes.

H.M.JR: I think if he is thirty-eight and is going to be released, that is all right.

MR. GASTON: Somewhat the same question is up about Kamarck. He is here in this country, and Harry wanted him detailed over here. The War Department wrote back they would be willing to do either of two things - detail him over or release him - permit him to resign.

MR. WHITE: That is right.

MR. GASTON: Then they called up a little later and said that letter was premature; would we please hold it until they heard from the field.

H.M.JR: It is in the works, isn't it?

MR. GASTON: Well, we are waiting to hear from the War Department. Our request was that he be loaned to us as an Army officer.

H.M.JR: How old is he?

MR. WHITE: He's in his early thirties. We would be reluctant to have him resign from the Army and take him on. What we thought we would do was to have him assigned to us and send him out in the field; but evidently they have withdrawn their letter, so that changes the case.

H.M.JR: Let's see how it develops. That is a little different.

MR. C. S. BELL: Harry wants to send William Tomlinson to London to assist Taylor.

MR. WHITE: To replace Patterson who has gone to Greece.

H.M.JR: That is all right with me.

MR. C. S. BELL: I have one draft case that we think is pretty good. It is in the mint in Philadelphia.

H.M.JR: This is different again, isn't it?

MR. C. S. BELL: You have approved similar cases.

MR. PEHLE: The new ruling wouldn't change Government service.

MR. O'CONNELL: That thirty-six to thirty-seven statement of Byrnes' - I don't think that changes it.

(Secretary signs draft deferment application of F. H. Mancuso, machinist)

MR. C. S. BELL: That is all for now.

H.M.JR: You (Mr. C. S. Bell) wait outside; I want to see you for a couple of minutes.

Everything seems to be going along all right. Since I'm having Henry Wallace for lunch, I thought I'd start with him first and see what he knows.

By the way, before I do anything, Henry has a 1942 Chevrolet convertible car which I'm going to sell at ceiling price. I wondered if anybody - before I, so to speak, put it on the market - is interested?

MRS. KLOTZ: They can't buy it.

MR. C. S. BELL: They can only buy it if they get a purchase order for a new car.

MRS. KLOTZ: Then it has to be a doctor or somebody.

H.M.JR: If they're working in the Treasury?

MR. C. S. BELL: If they can get the purchase order from OPA, yes, sir.

MR. WHITE: There'll be a demand for it.

H.M.JR: I thought I might be doing somebody a favor.

MR. WHITE: That is why the OPA might be reluctant to do it for somebody here, because there is a big demand for them.

MR. C. S. BELL: There is a large number who wanted to buy cars, but we have discouraged it because we didn't think the need was sufficient.

H.M.JR: Why not take it to the Alexandria dealer where I got it, because he was very nice about it?

MR. C. S. BELL: He would supposedly be very glad to get it back. Offer it to him at the ceiling price, and if he doesn't want it, offer it to the principal Washington dealer.

H.M.JR: I wasn't trying to make a sale here - just as a favor!

MR. C. S. BELL: That would be \$1,245.

H.M.JR: Do I understand that is the price, and then if the dealer buys it he can ask twenty-five percent more?

MR. C. S. BELL: The original price was three or four hundred dollars more than that.

MR. D. W. BELL: What? For a Chevrolet?

MR. C. S. BELL: This is a convertible coupe.

MR. WHITE: Supposing the owner sells direct to the consumer?

MRS. KLOTZ: He can only sell it at ceiling price.

H.M.JR: Between Charles Bell and Joe O'Connell, I might get a package of cigarettes - but that is about all!

DEC 11 1944

MEMORANDUM FOR THE COMPTROLLER GENERAL

After the conference in your office on December 6 concerning my letter to you of November 14 with respect to making available to the Italian Government dollars representing the pay of our troops spent in Italy, Mr. Luxford advised me of the desire of your office to obtain a copy of the memorandum which had been sent to the President on this matter.

I am sending you herewith a photostatic copy of the document which we have just obtained from the White House.

When we asked for this memorandum we discovered that, although the President had approved it and had acted on the basis of it through the issuance of his press release of October 10, he had failed to formally sign his name to the memorandum and had sent it to his own files. We requested that it be taken out of the White House files and the President's signature obtained thereon. This was done and is the reason why, although the memorandum is dated September 5 and was actually approved October 10, it bears the date of December 8 over the President's signature. We have also been advised that although this memorandum states that the Secretary of War has no objection to the proposed action, Secretary Stimson later verbally advised the White House that he approved of the action.

Your prompt attention to this matter will be appreciated and if you desire any further information do not hesitate to call me.

(Signed) H. Morgenthau, Jr.

Attachment.

Secretary of the Treasury.

JED:ecr
12/9/44



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

December 9, 1944.

MR. LUXFORD:

Here is the copy of the Secretary's memorandum dated September 5, 1944, addressed to the President, which he has approved as of December 8th. I believe it should be explained to the Comptroller General that you found upon your return from his conference that the original memorandum had not been returned approved, but had been sent by the President to his own files, and that we had it taken out of the White House files and sent to the President for his approval. As I recall, the original memorandum was lost, which was the reason for this one being marked "Copy". You may want to explain that also.

sub





THE SECRETARY OF THE TREASURY
WASHINGTON

September 5, 1944

MEMORANDUM FOR THE PRESIDENT

As you know, we will pay currently to the Western European countries the dollar equivalent of the local currency which our troops will be spending out of their pay in such countries, it being traditional that the United States should not place the burden of the pay of its troops on friendly countries.

In the case of Italy, however, we have not been paying the Italians the dollars representing our troop pay. Instead, we have been placing these dollars in a special account in the Treasury, holding them with the thought in mind that they might eventually be turned over for the use of the Italian people.

In view of the present situation in Italy I suggest that Italy should now be accorded arrangements similar to those in effect with the Western European countries except that we reserve all rights in the final settlement of accounts with Italy.

I recommend, therefore, that the dollars which we have set aside in this special account representing troop pay be made available to the Italian Government and that from now on dollars representing the pay of our troops spent in Italy be made available currently to the Italian Government.

This step is particularly significant at this time because of the need of Italy for foreign exchange with which to pay for the necessary civilian supplies



for its people which have heretofore been paid for out of Army appropriations.

The British are entirely agreeable to this method of financing U. S. supplies, and will continue to provide their part of the supplies for Italy under their own financial arrangements but will not use troop pay. Changes in the present scope of the supply program will be the subject of further agreement.

The attached press release should not be issued until the Italian Government is informed, which will be done as soon as you approve the arrangement.

The Secretary of State and the Foreign Economic Administrator are in agreement with this proposal. The Secretary of War indicates that the matter is not one of concern to the War Department and he has no objection to the proposed action.


(Signed) M. Mergenthaler, Jr.

Approved
Dec. 8 1944
Franklin D. Roosevelt

December 11, 1944.

Memorandum to the President:

In view of your memorandum of December 9 on the subject of surplus property in which you ask me to "see it through", you may be interested in organizational changes we have made to carry on that and other Treasury responsibilities:

John Pehle, Assistant to the Secretary, has been placed in supervision over the Procurement Division, including the Office of Surplus Property. He is retaining his position as Executive Director of the War Refugee Board, since that need not now take much of his time.

Joe O'Connell, General Counsel, has been made responsible for representing the Treasury on the Hill in tax matters and the office of Tax Legislative Counsel has been placed under him. He also takes over administrative supervision of the Bureau of Internal Revenue, formerly under John Sullivan.

Roy Blough, Director of Tax Research, will continue to advise me directly on tax policy matters and will assist in presentation of technical tax matters before the Committees of Congress.

Orvis Schmidt, who has been Acting Director of Foreign Funds, becomes Director, and hereafter, instead of reporting to the General Counsel, will report to Harry White, Director of Monetary Research, who is in general charge of foreign affairs affecting the Treasury.

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury


HEG/mah

12/11/44

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Photostats to Mr. D. Bell
Mr. C. Bell
Mr. Penle

C

ribbon copy in President's folder

THE WHITE HOUSE
WASHINGTON

December 9, 1944

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

This is in reference to your memorandum expressing the opinion that the Treasury should be relieved of the duty of disposing of surplus property.

As I understand it, the law provides that except as to surplus vessels the Surplus Property Board shall designate one or more government agencies to act as disposal agencies. It does not contemplate the establishment of a new organization for the disposal of all surplus property.

I have no doubt the Congress realized that it would be difficult at this time to perfect an organization of this character. It would take a long time to secure the personnel necessary for such an organization. We can't wait.

Again, an existing organization is better able to secure competent persons because some of these persons will hope to remain with that permanent organization. They would feel differently about accepting employment with an organization that would fold up as the property was disposed of.

When we look to the existing organizations, the Treasury having already established a division for the disposition of consumer goods, which division is being operated by very competent men, it would be exceedingly unwise to attempt to transfer that division to some other department or agency. Many of the men who accepted employment with the Treasury would not remain if the division should be transferred to some other agency. And I really can not think of any agency that could do the job as well as it is now being done by the Treasury.

The Surplus Property Board, as you know, has not been confirmed. After confirmation it will be some time before the members can become acquainted with what has been done by the Surplus Property Administrator since his appointment last spring. They will undoubtedly have to seek amendments to the law. If while so engaged they had the duty of establishing a new organization for the disposal of property, there would be great delay and we might be caught entirely unprepared.

I know that it is not a pleasant task. No department would seek it, but some department must do the job and because the Treasury is now engaged in it, I hope you will see it through.

Franklin D. Roosevelt

December 11, 1944
11:57 a.m.

Operator; Go ahead.

HMJr: Hello.

Carter
Harrison: Hello.

HMJr: Morgenthau speaking.

H: Is this Mr. Morgenthau?

HMJr: Yes.

H: Well, good morning, sir.

HMJr: How are you?

H: Mr. Morgenthau

HMJr: Yeah.

H: you know the 15th is the deadline for me.

HMJr: Yes.

H: Is that understood?

HMJr: Yes, that's understood.

H: Well, now, how is it to be made public?

HMJr: Well -- ah

H: Shall I give it out here?

HMJr: No, I think you send your resignation in

H: I beg your pardon.

HMJr: I think you send your -- you write out your resignation to the President and forward it to me.

H: Write out what?

HMJr: You -- you -- you have to resign.

- 2 -

H: Oh, then the verbal isn't -- uh -- isn't satisfactory to the President?

HMJr: What -- uh -- what the collectors usually do is: they write out their resignation; address it to the President

H: Yes.

HMJr: and forward it to me.

H: Oh, I see.

HMJr: And then I forward it to the President.

H: I see.

HMJr: See?

H: All right. I shall do that at once.

HMJr: And then we announce it from here.

H: Oh, yes. That's all right. Have you selected a successor?

HMJr: No.

H: Not yet?

HMJr: I've been away for

H: Now, you know the only trouble about this is that if I go out, I leave the office in -- in the hands of the assistant, but my bond continues.

HMJr: Well, I'll -- I will tell Mr. Joe O'Connell of this conversation right away and have him look into it.

H: Yes.

HMJr: I will

H: What do I do? Just wait until I hear from you?

HMJr: Yes.

H: But I'll forward the resignation?

HMJr: If you please.

H: If you please. Thank you and thank you for all your courtesies while being in the job.

HMJr: Well, I hope to see you some time soon.

H: All right. Thank you.

HMJr: Good bye.

H: Good bye.

81
December 11, 1944
3:31 p.m.

Joseph J.
O'Connell:

Have you?

HMJr:

No.

O:

I've just been advised that the Bureau of the Budget has received a letter from Mr. McNutt recommending a veto of the bill.

HMJr:

Yeah.

O:

They have also received one from the Secretary of Labor recommending a veto.

HMJr:

Yeah.

O:

They're getting one from Vinson recommending that it be signed and if we got one over to the same effect, the score will be two to two as far as the agencies reporting to the Budget is concerned. There's nothing I can tell Mr. Rayburn?

HMJr:

No. You'll have to wait. I haven't been able to get to the President.

O:

Yeah. All right, sir. I just wanted you to know about McNutt in case he should call you.

HMJr:

Right.

O:

All right.

December 11, 1944
5:25 p.m.

HMJr: Hello.

Harry Hopkins: Hello, Henry.

HMJr: How are you?

H: Fine. How are you?

HMJr: Fine.

H: When did you get back?

HMJr: Yesterday.

H: Yeah. How's Elinor?

HMJr: She's getting along nicely.

H: Good.

HMJr: How's your wife?

H: She's getting all right now.

HMJr: Good.

H: She's up and about a little.

HMJr: Do you care to come over and get some of my food?

H: I'd love it, Henry.

HMJr: How are you fixed tomorrow?

H: Tomorrow is bad.

HMJr: What?

H: Tomorrow is bad. Wednesday -- Thursday would be better.

HMJr: Well, I -- Thursday I've got a date.

H: How about Wednesday?

HMJr: Wednesday would be perfect.

H: One o'clock?

HMJr: One o'clock.

H: Good. Thank you so much, Henry.

HMJr: Right.

H: Bye.

December 11, 1944
5:26 p.m.

Operator: Go ahead.

HMJr: Hello.

Secretary
Forrestal: Henry.

HMJr: Yes.

F: Have you any method of rewarding the people that work for you, like Gamble -- I mean, do you give them any certificate when they've finished that they can sort of hang up in their library?

HMJr: Yes.

F: Of -- it's a sort of civilian award?

HMJr: Yes.

F: Well, the reason I've asked was: we've had -- Frank gave out such an -- he had a similar certificate here. The President -- Frank, I know, thought he'd cleared it with the President and the President was a little dubious about whether he had or not.

HMJr: Well, let me send you over a sample. I know I gave one to Admiral King.

F: But it seems to me that that's the -- I mean, you've got to have something to get a man down here. There's nothing you can do for them except to say that the country thinks he did a good job.

HMJr: Well, would you like me to send you over a sample of what we do?

F: Yes, I would.

HMJr: What?

F: And I'd like you then to, if you'll be kind enough, if I argue with the President about it and say that it's what you've been doing

HMJr: Oh, yes.

- 2 -

F: and you think it's a good thing to do.

HMJr: I'll tell you what we'll do. I'll get up a list of people that we've -- we've been very careful about who we've given it to.

F: Well, that -- we have too.

HMJr: And I'll get up a list of some of the people that we've given this thing to and I'll send it over to you -- and a sample.

F: I'd appreciate it very much, Henry.

HMJr: That's easy.

F: Okay.

HMJr: When am I going to see you?

F: Well, any -- will you be here the rest of the week?

HMJr: Yeah.

F: Well, what about lunch on Friday?

HMJr: Fine. Do you want to come over here? I had you last -- you had me last.

F: All right. I'll be over.

HMJr: Friday.

F: Yeah.

HMJr: I'll look forward to it.

F: Okay.

HMJr: Thank you.

December 11, 1944
5:28 p.m.

Judge
Rosenman: How's Ellie?
HMJr: She's getting along nicely.
R: Is she home?
HMJr: Yes.
R: Good. Fine.
HMJr: How would you like to have some pig knuckles
and sauerkraut tomorrow?
R: Very good.
HMJr: For lunch?
R: Oh, no, wait a minute -- I just made a lunch
with Chester Bowles.
HMJr: Oh.
R: Wouldn't they hold 'til~~l~~ Wednesday?
HMJr: No, unfortunately I'm booked. Could you switch
him around?
R: To Wednesday?
HMJr: Yeah.
R: All right. Let me -- let me see if I can.
HMJr: Will you?
R: Yeah. All right. Let me see if I can.
HMJr: And will you have your girl call us up?
R: Yeah.
HMJr: I'll put you down tentatively for tomorrow.
R: All right. I'll see if I can switch him 'til~~l~~
Wednesday.
HMJr: What?

R: I'll see if I can switch him 'till Wednesday.
HMJr: My pig knuckles won't keep.
R: My God, they're wonderful!
HMJr: All right. I'll look forward to seeing you.
R: All right.
HMJr: Right.
R: Fine.
HMJr: Bye.

DEC 11 1944

My dear Mr. President:

I wish to acknowledge receipt of your letter of December 1, 1944, directing that government officials refrain from making highly speculative public statements indicating an early termination of the war.

Your instructions have been brought to the attention of the officials of the Treasury Department and strict compliance in every respect is assured.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House

PMcDonald:ove
12-8-44

THE WHITE HOUSE
WASHINGTON

1 December 1944

My dear Mr. Secretary:

At a most critical time, when production of essential supplies vital to the war effort must be kept at a high level, speculative public statements by responsible military and civilian public officials at home and abroad indicating an early termination of the war tend to curtail production of essential war materials. It is highly necessary that this condition be remedied and to this end all government officials are directed to refrain from such public statements.

Sincerely yours,



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

For your information
Sam Rayburn thinks
it a great mistake
that you do not
announce where you are.
He says that there
are all kinds of ~~not~~

12/11/44

THE PRESIDENT:

FOR YOUR INFORMATION SAM RAYBURN THINKS IT IS A GREAT MISTAKE THAT YOU DO NOT ANNOUNCE WHERE YOU ARE HE SAYS THAT THERE ARE ALL KINDS OF WILD RUMORS BEING CIRCULATED ABOUT YOUR HEALTH.

HENRY MORGANTHAU, JR.,

64MC. TRANSMITTED 10:55 P.M.

December 11, 1944

Dear Henry:

I am enclosing herewith a copy of a letter that I sent to the President.

I saw Mrs. Roosevelt at four o'clock today and told her about our conversation at lunch. She was intensely interested.

Yours sincerely,

(Signed) Henry

The Honorable Henry A. Wallace,
The Vice President.

December 11, 1944

My dear Mr. President:

For many reasons, I strongly
recommend that you appoint Henry
Wallace as Secretary of Commerce.

With kind regards,

Yours sincerely,

(Signed) Henry Morgenthau, Jr.

The President,
The White House.

DEC 11 1944

Dear Mr. Gehle:

I have your letter of December 5, 1944, which was acknowledged by Mrs. Flots under date of December 7th, regarding the redemptions of Series E Savings Bonds.

Each time the Treasury has considered a War Loan Drive it has also considered the matter of issuing marketable securities in lower denominations than \$500, which is the lowest denomination we have issued of marketable securities in any of the Drives. Each time we have come to the conclusion that a denomination lower than \$500 would interfere with the sales of Series E Bonds. It has also been our thought that anyone who has less than \$500 to invest would not be so much interested in current income and should, therefore, go into Series E Bonds because they are fully protected from market risks and can get their money out of their securities very promptly if it is needed in an emergency.

We have also had many suggestions that Series E Bonds be permitted to be used as collateral for loans, the thought being that this would prevent redemptions. We have also given this matter a great deal of consideration and have come to the conclusion that Series E Bonds should not be used as collateral as it would be almost impossible for the Treasury to keep any control over the transferability. As you know these securities cannot now, under our regulations, be transferred. I believe that to permit the pledging of these securities as collateral for loans would complicate our machinery a great deal.

I appreciate very much your submitting these suggestions to the Treasury. We are always glad to get them, even though we do not feel in this case we should adopt them.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Frederick W. Gehle
War Finance Committee
1270 Sixth Avenue
New York 20, N. Y.
DNB:ew

ew
DNB

December 7, 1944

Dear Mr. Gehle:

Your letter of December 5 giving the information the Secretary requested when he was in New York, has been received during his absence from Washington.

I am, therefore, acknowledging your letter, and I shall be glad to bring it to his attention as soon as he returns.

Sincerely,

(Signed) H.S. Klotz

H. S. Klotz,
Private Secretary

Mr. Frederick W. Gehle
State Chairman
War Finance Committee
1270 Sixth Avenue
New York 20, New York

GEF:mn



TREASURY DEPARTMENT
WAR FINANCE COMMITTEE



OFFICE OF STATE CHAIRMAN

1270 Sixth Avenue
New York 20, New York
December 5, 1944

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

Dear Mr. Morgenthau:

When you were in New York last, I mentioned to you something about the redemptions of E Bonds and you asked me to put what I said in writing.

It was this:

A number of our banks have told me that redemptions are due in many cases to the necessity of owners, but that the necessity is for smaller amounts than the E Bonds redeemed. For example, many \$100 Bonds are being redeemed by people who are in need of \$20 or \$25, but because they have no Bonds of smaller denominations, they redeem the Bond they have on hand and then instead of re-investing the money not needed, they take it away and it is dissipated.

The suggestion made by our bank friends is that some way be provided whereby people with \$100 E Bonds might be prompted to borrow say \$25 or \$30, using the Bond as collateral. If this could be done, the feeling is that a great many of the current redemptions would not occur.

In this connection, I have been urged to present to your attention recommendations that have been made to you from New York before, that a Bond be devised for people of moderate means, that would be sold at par, offer current income and that could be used as collateral at banks. I, myself, have no present convictions with reference to this, but a number of my associates feel that a Bond of this nature would have a wide market.

Sincerely yours,

Frederick W. Gehle
State Chairman

DEC 11 1944

Pages 97 and 98 missing
due to faulty numbering
machine

DEC 11 1944

Dear Mr. Leffingwell:

I am sorry that I have been unable to reply earlier to your letter of November 28, received in my absence.

Your comment on my Waldorf-Astoria speech was very welcome and pleasing and I am grateful to you for writing out for me an outline of your views of the German problem as well as sending me a reprint of Mr. Lamont's letter to the Times.

Certainly we are all in agreement in recognizing that it is not a case of having to deal merely with the bad Nazis who have corrupted the good Germans and that our objective is to do what we can to prevent another German war of conquest.

I think we all would agree that we have a very vital interest in the solution of that problem, and that all of us ought to be concentrating very vigorously on finding the right answer to it. For that reason I think that the public discussion of it that has been going on has served a good purpose, notwithstanding that I have been placed in a false light - which is, after all, a matter of small consequence. Differing somewhat from your view, perhaps, I do not think that at this stage of the war what we say on this subject has had or is likely to have any effect on the vigor of German resistance.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. R. C. Leffingwell
23 Wall Street
New York 8, New York

HEG/mah
[Handwritten initials]

November 29, 1944

Dear Mr. Leffingwell:

Your letter of November 28 reached the Secretary's office just after he left for the West Coast.

He will be away only a short time, and I know that he will be most interested in having both the letter itself and the enclosure. Just as soon as he is back in Washington, I shall see that these are then brought to his immediate attention, and I know he would wish me to thank you for writing as you did of the meeting held at the Waldorf.

Sincerely,

(Signed) H.S. Klotz

H. S. Klotz,
Private Secretary

Mr. R. G. Leffingwell
23 Wall Street
New York 6, New York

OSF:ma

23 Wall Street
New York 8

R. C. LEFFINGWELL

November 28, 1944

Dear Mr. Secretary:

This is just a line to extend my congratulations to you on the fine start you gave to the New York campaign for the Sixth War Loan at the Waldorf. It was a fine speech and just right. I wish you and the Loan every success, of course, and I am confident of it.

I did so enjoy sitting next to Mrs. Morgenthau and having a chance to talk with her. I am old enough to have come to dread sitting through these long public dinners on hard chairs, and enduring smoke and drink and indifferent food and clatter and noise. Mrs. Morgenthau made me forget all that, and I did enjoy myself. Please tell her.

We fell into talk about how to deal with Germany. That talk showed that I had not at all understood from the newspapers what your thought on the subject is -- and no wonder since only what other people say about what you said has been disclosed. And that talk also showed that the account of Tom Lamont's letter to the Times which she had seen was not clear; for Mrs. Morgenthau thought that he wanted Germany to be a great power after the war. Certainly he doesn't want any such thing, and his letter to the Times said just the opposite. I enclose a copy of it.

I wonder whether you would care to glance at the

Notes on the Treatment of Germany

There are two essential fallacies. One is that Germany makes war because she is the injured party and that if we do not let her neighbors annex German territory but leave her in possession of all she had before this series of depredations, she will not go to war again. This is the teaching of German propaganda and was accepted by many intelligent people in the 1920s and early 1930s. Nothing can be more contrary to history. Germany had made all her wars wars of conquest and aggression. Frederick the Great's wars were wars of aggression and conquest. So were Bismarck's wars. There was no irredenta about Germany's part in the war of 1914. The terra irredenta was Alsace-Lorraine, and the aggrieved party there was France, the victim, not Germany, the aggressor.

Surely nobody outside of Germany now thinks, whatever they thought once upon a ^{time}, that Germany launched the war of 1939 just for Danzig and the Corridor. No. Germany's policy is the policy of world conquest and world domination. She is like a dog that has once killed a sheep. She will go on quenching her thirst for blood as long as she is let. There is not a chance in the world that by letting Germany keep what she had in 1939, or any other confirmation of her territorial power, Germany will be prevented from pursuing her long-established policy of conquest -- not a chance. As a matter of fact, the stronger Germany is the more likely she will be to wage war effectively: the weaker she is the less likely.

The other fundamental fallacy is that Germany's neighbors

expect us to bail them out a generation from now if need be. That is typically an isolationist interpretation of our intervention in 1917 and our intervention in 1941. I do not know what Germany's neighbors expect of us -- very little I guess in view of the fact that twice we have let them suffer the agonies of invasion and only intervened desperately late from their point of view. On neither occasion did we intervene to bail them out. We intervened simply and solely because we dared not let Germany own the whole of Europe and face her alone after she had digested her European conquests.

I spoke of two fundamental fallacies. There is a third, which is perhaps less fundamental but still quite important. That is the assumption that by intervening in a European settlement and attempting to fix boundaries again, as Wilson attempted in 1918-19, we shall be less likely to be involved in a third world war. I hold the contrary view. We are much less competent to settle boundaries between Germany and her neighbors than the people directly concerned. If we do settle the boundaries, as Wilson attempted to do, they are much less likely to be well settled, and war will more likely follow, and we shall be much more responsible for the consequences and more likely to be drawn in. What business is it of ours to draw the boundary between Poland and Russia or between Prussia and Poland?

Germany has had just one policy under several regimes, whether Bismarck, the Kaiser, the Weimar Republic in its last phase, or Hitler: the policy of growth by conquest. The crooked-mindedness which enables Germans to compare the acquisition by England and America

of the empty spaces, or spaces empty except of savages, nomads and squatters, with the wars of conquest which Germany has waged against her civilized neighbors, neighbors more civilized than she and having a more ancient title than she; that crooked-mindedness is quite typical of the German State-taught thinking.

I do not favor a soft peace. I do favor a hard peace, and I use those terms because they are descriptive and frank, and I consider that the wish to avoid them is typical of the German desire to muddle our thinking. Good straight simple words are the words to use. We don't want to get all muddled up again as we did after the last war.

I have always thought and said that to the victor belong the spoils, provided the victor can seize the spoils and can keep them, and provided that he does so at once and does not take more than he can take at once, and keep, or carry away. The great mistake that was made by President Wilson and in the Treaty of Versailles was that although the Allies, roughly speaking, made no annexations from Germany, they did carve up Germany to the extent of putting a corridor through her, and they took her colonies away without annexing them. And instead of taking a cash sum for immediate payment, by way of reparations, as the Germans had done from France after the war of 1870, the Allies attempted to impose a tribute to be collected from the German people for many years to come.

I do not want the United States to attempt to manage Germany after the war except just long enough to get some law and order working. I think each of the neighboring nations should be permitted to take any territorial gains which it is strong enough to keep itself -- not by U.S. guaranty. I should be glad if France felt able to take the Saar and Ruhr and keep them by her own force,

but she isn't strong enough I fear. I do not favor internationalization if that means that the United States Government is to participate in governing this area. That is not annexation. It is taking something away from Germany and giving it to nobody. I should not object to Poland's taking East Prussia, or part of it, if she can keep it without our guaranty. But I do not want us to fix or guarantee frontiers.

I approve removing any machinery and tools from Germany that the Allies want to take. I approve seizing any removable assets that Germany has got. I hope we leave Germany weaker than she has been for one hundred years; but I think it is nonsense to carve Germany up according to a map into three or thirty pieces. If you divorce a man and a woman, how are you going to keep them from re-marrying? If you split Germany up into fragments, how are you going to keep the fragments from coalescing? Does anybody suppose that the United States or England will go to war against Germany if later on the fragments choose to consolidate? Would the American people think that was a good cause of war? I don't think so. I hope the countries around the edges of Germany will make as big annexations as they can keep. I hope they will take such spoils as may be removable. I hope we shall not help Germany to do more than avoid pestilence and famine and disorder at the beginning. I hope we shall not stimulate her recovery as we did after the last war. I hope she will be allowed to stew in her own juice after being stripped of whatever the victors can take and keep. But I hope we will not attempt to decide that she must have an agrarian instead of an industrial civilization, and I hope that the United States will consent to let Germany's neighbors deal with these problems, and not insist on mussing them up and meddling with them in accordance with our fine old Messianic delusion that we know how to mind

everybody else's business and we know how to do it without knowing anything about it.

I do not think these are things to say in public yet, lest they stiffen German resistance.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 11, 1944

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending December 9, 1944.

Summary

War production: Emphasis on critical war production programs continues to feature current industrial activity. Strenuous efforts are being made to step up ammunition production, with facilities for shells and infantry mortar ammunition slated for a \$500 million expansion. In order to aid the munitions program, new authorizations for production of civilian goods under the spot authorization program have been suspended for 90 days in areas of acute labor shortages.

Stock market: Stimulated by heavy buying of railroad securities, stock prices last week rose to new highs for the year on sharply increased trading activity. Railroad stock prices have risen to the highest level since 1937, although they are still about 29 percent below the peak for that year. Second-grade railroad bonds have shown conspicuous strength and are now within 6 percent of the 1937 peak.

Commodity prices: Commodity prices rose moderately during the past two weeks, with steel scrap prices in particular showing sharp increases. The BLS index of 28 basic commodities advanced 1.2 percent, an appreciable rise for that index. In the week ended December 2 the BLS general index of wholesale prices was up 0.1 percent to a new high.

Rural living costs: Living costs on farms appear to have risen more than in large cities. While subject to some qualifications, the Department of Agriculture figures on prices of commodities bought by farmers show a substantially greater rise in costs of food, clothing, and other items than is shown by the BLS cost-of-living index.

National income: The annual rate of income payments in October rose to a new high of \$157.7 billions from \$156.3 billions in the previous month. A greater than seasonal rise in farm income and continued expansion of military payrolls were the principal factors in the rise. Cash farm income in October rose 9 percent above year-earlier levels to a new record high.

- 2 -

War production requirements feature
industrial outlook

Mounting pressure for increased production of urgently needed war materials continues to be the outstanding feature of current industrial developments. In sharp contrast to earlier concern over reconversion problems, war production officials are now stressing the vital necessity of speeding the flow of certain critical munitions and equipment items to the fighting fronts. Following up repeated statements of top WPB officials expressing concern over lagging output of heavy shells, heavy trucks, heavy tires and numerous other items, War Mobilization Director Byrnes last week announced a renewed and intensified war production drive. Furthermore, Lt. General Somervell of the Army Service Forces stated that, during the last 90 days, estimates of production needed to carry on the war against Japan have been raised 25 percent.

Ammunition facilities to be increased

Indicative of the increased demand for ammunition, it has just been revealed that a new \$500,000,000 mortar and medium artillery program alone will involve the construction of 50 new plants and the expansion of 50 existing plants. Moreover, success in carrying out the program will require the prompt delivery of 5,000 new machine tools and the recruiting of a large number of additional workers. Illustrative of the difficulties to be overcome, this program will have to compete for presses with the Navy's new rocket program, upon which \$100,000,000 is expected to be expended by the first quarter of 1945.

Manpower shortages hamper war production

According to the WMC, more than 130,000 additional war workers will be required for the new artillery, mortar and small arms ammunition programs. Additional workers are also said to be needed in brass and strip mills, forges and machine tool plants, and in numerous other lines. In this connection the Army has estimated that 300,000 more workers are needed to bring lagging munitions production up to schedule. In order to achieve more effective manpower utilization, WPB Chairman Krug last week testified in favor of legislation to enable the WMC to adequately enforce regulations designed to keep workers in war plants. Mobilization Director Byrnes' announcement over the week-end that men aged 26 to 37 "who are not now doing their part to contribute to the war effort" are to be given particular attention by draft boards, is interpreted in the press as intended principally to check the outflow of workers from war industries.

- 3 -

However, the facts of the manpower situation, and the best method of securing maximum manpower utilization, continue to be subjects of controversy. Thus at the end of November the president of the United Automobile Workers CIO Union asserted that employment in 20 major Detroit war plants had declined approximately 24 percent from the war-time peak, and proposed that the executive order establishing the 48-hour week in the area be relaxed to spread the work. In the face of this assertion, the WMC was reporting a need for 28,000 workers in the Detroit area, and was understood to be compiling figures to refute the United Automobile Workers contentions.

Spot authorization reconversion program halted
in many areas

In an effort to aid the current war production drive, the WPB, in conjunction with the WMC and the armed services, recently ordered field representatives in labor shortage areas to refuse authorizations for civilian goods production under the spot reconversion program for a period of 90 days. The 90-day suspension will apply to all of the 68 acute labor shortage areas, classified as Group I by the WMC. In addition, the suspension will also apply to about 45 other labor areas where critical war programs are under way.

On the other hand, authorizations for civilian goods production under the spot program will continue to be made in areas where war production is on schedule and labor is adequate to meet military needs. Moreover, it was indicated that where applications for limited civilian goods production already have been approved, there probably will be no cancellations even if war production is behind schedule in the area.

Stock prices rise in active trading

Recent persistent strength in railroad securities finally broadened out into a general buying movement last week and stock prices, in active trading, rose to the highest level of the year. At the close on Saturday the Dow-Jones railroad stock average stood at the highest level since 1937, while the industrial stock average was slightly above the previous 1944 high reached last July. (See Chart 1.) Trading activity expanded on the rise, with transactions on the New York Exchange for the week averaging nearly 1,500,000 shares daily. Trading on Saturday was at the fastest pace for any Saturday since June 17.

- 4 -

In contrast to the late summer uncertainty over reconversion and post-war problems, market sentiment appears to have veered heavily toward a longer war prospect. Evidence to this effect is seen in the heavy buying of railroad securities, which are prime beneficiaries of war-time conditions. Reference to Chart 2 will disclose that after declining in the late summer, when hopes for an early peace were rising, prices of railroad stocks and second-grade bonds have subsequently risen sharply. The advance has been paced by second-grade bonds, with the Dow-Jones average of 10 bonds now standing within 6 percent of the 1937 peak. Despite the recent rise, however, railroad stocks are still about 29 percent below the highest level attained in 1937.

Steel scrap prices advance

An outstanding example of the recent shift in business opinion over war prospects is seen in the strong recovery in steel scrap prices following the sharp decline which began at the end of August. By the end of October heavy melting steel scrap at Pittsburgh was \$4.25 per gross ton, or 21 percent, below the ceiling price. However, a sharp recovery in prices got under way last month and near the end of last week the price of #1 heavy melting steel scrap at Pittsburgh was again at ceiling levels.

Although all grades of scrap have not fully recovered to ceiling levels, by December 5 the Iron Age steel scrap composite price was only 50 cents per gross ton below the level prevailing before the break in prices near the end of the summer. Trade sources attribute the strong recovery largely to a revision of earlier premature expectations of an imminent end of the war in Europe. In addition, steel operations have been maintained at a relatively high level, with steel ingot production last week scheduled at 96 percent of capacity.

Commodity prices strengthen

Commodity prices rose moderately during the past two weeks, after the rather dull period which followed the election. The Dow-Jones futures index last Tuesday reached the highest level since April, but leveled out in the later part of the week, making a net gain during the last two weeks of 0.3 percent. Due largely to substantial increases in steel scrap prices, the BLS index of 28 basic commodities rose 1.2 percent, a sizeable increase for this index. (See Chart 3.)

- 5 -

Grain prices firmed, with corn prices in particular showing a noticeable rise. Bullish influences in the corn market included CCC purchases for export to Britian, an announcement that distillers would be permitted to use corn grading No. 5 or lower for industrial alcohol production, and the rescinding of embargoes on corn shipments to some Mid-western markets.

Cotton prices last week made small advances but remained more than one-half cent per pound below the CCC purchase price. Sales of cotton to the CCC have been heavy in recent weeks, amounting to about 140,000 bales in the week ending December 5 and to 408,000 bales since purchases began early in November. Steel scrap prices at Chicago rose 5.6 percent and at Philadelphia 13.6 percent. In contrast to the rising tendency in other commodity prices, hog prices declined noticeably with the seasonal increase in marketings.

The ELS general index of wholesale prices, after holding at 104.1 for three consecutive weeks, rose 0.1 percent to a new war-time high in the week ended December 2. Higher prices for farm products were responsible for the rise. At the present level, the index is 1.4 percent higher than a year ago and is 38.9 percent above the pre-war August 1939 average.

Farm prices higher

The Department of Agriculture's farm price index rose 1 percent from mid-October to mid-November but the index is still within the narrow range of the past year and a half. At 196 percent of the 1910-14 average, the index is 120 percent above the pre-war level of August 1939.

A 23 percent increase in truck crop prices was the most important factor in the rise last month. The truck crop index, however, is still 18 percent below the level of a year ago. (See Chart 4.) Egg prices showed a sharp seasonal rise, but they continue substantially below last year's levels. On the other hand, the price index for fruit was moderately lower, due to a sharp drop in orange and lemon prices. A 6 percent decline in corn prices lowered the feed grain index. Cotton prices declined moderately and, despite the Government's parity purchase program, are now 2 percent below parity.

Due to a slight rise in farm living costs, the index of prices paid by farmers (including interest and taxes) advanced 0.6 percent in November, following 5 successive months with no change. Since this increase was smaller than

- 6 -

that of the index of prices received, the parity ratio was up 1 point to 115 percent of parity. A year ago farm prices averaged 117 percent of parity.

Farm living costs rise more than city costs

Rural living costs appear to have risen more during the war period than living costs in large cities. The Bureau of Agricultural Economics index of prices paid by farmers for all commodities used for family maintenance (not including rents and services) has risen 51 percent since the pre-war month of June 1939, while the Bureau of Labor Statistics cost-of-living index for wage and lower-salaried workers in large cities has risen only 28 percent. (See Chart 5, upper section.) Although both indexes have tended to level off in the past year and a half, the BLS index has risen only 1.8 percent in that period while the farm index has risen 6.5 percent.

It should be noted, however, that the farm index exaggerates somewhat the rise in farm living costs because it does not include costs for rents and services, which have shown a smaller increase during the war period than prices of commodities. If rents and services were excluded from the BLS cost-of-living index, that index would be approximately 7 percent higher. Nevertheless, these expenditures undoubtedly constitute a smaller proportion of a farmer's income than they do of a city worker's income.

Although the inclusion of service costs in the farm index would have moderated the rise somewhat, prices of commodities in this index have shown, on the average, a larger increase than those in the BLS index. (Refer to Chart 5, lower section.) Since June 1939, food prices in the farm index have risen 54.7 percent as compared with 45.7 percent in the BLS index, clothing prices 68.9 percent as compared with 41.3 percent, and household furnishings 51.5 percent as compared with 40.5 percent. The items in these groups in the two indexes differ somewhat, and their relative importance differs, since the requirements of farmers vary to some extent from those of city workers. Moreover, with smaller per capita cash incomes, farmers ordinarily purchase more lower-priced items than workers in cities, and the tendency for upgrading and the disappearance of cheaper price lines during the war has consequently affected farm living costs to a larger degree than urban living costs.

- 7 -

Variations in the proportions of farm and urban population in different regions of the country are also an important factor accounting for differences in the two indexes. Both the BAE and the BLS index indicate that the largest increases in retail prices have occurred in the South Atlantic and South Central States, where 54 percent of the farm population is located, while the smallest increases have occurred in the North and East, where large cities are concentrated. The farm index thus gives more weight to regions in which the largest increases in living costs have occurred, whereas the BLS index gives more weight to regions having the smallest increases.

Post-war cotton program under consideration

Representatives of various phases of the cotton industry presented their ideas for a post-war cotton program last week at hearings of a House Agricultural subcommittee. The meetings were arranged by Representative Pace of Georgia, preparatory to the development of a legislative program to enable the cotton industry to meet the competitive situation in the post-war period.

Due partly to Government support measures, domestic cotton prices have risen to such high levels as to make free competition in world markets practically impossible, and to threaten the domestic markets for cotton as a result of competition from such materials as rayon and paper. Even before the war the competitive position of cotton was deteriorating, largely as a result of acreage limitations and the maintenance of artificially high prices, which had stimulated foreign production and led to the displacement of American cotton in foreign markets.

Domestic cotton prices are now several cents a pound higher than comparable world prices. Moreover, while raw cotton prices have more than doubled in the past 5 years, rayon yarn and staple fiber prices have shown practically no change. Despite heavy war-time consumption, the domestic carryover of American cotton has continued around 10 to 11 million bales, or approximately equal to one year's requirements.

Secretary Wickard would eliminate subsidies

The proposal of Secretary of Agriculture Wickard received much favorable comment. His program, designed to make cotton farming eventually self-sustaining and to eliminate Government payments, was based on the following

- 8 -

main points: (1) The domestic and the world market prices of American cotton should be the same. (2) Income payments should be made to farmers on a descending scale for a fixed number of years, during which time farmers could take advantage of mechanization and other efficient methods to lower production costs. (3) High cost producers who could not lower their costs sufficiently would be aided in changing over to the raising of other commodities.

While the proposals of the representatives of the different branches of the cotton industry varied considerably, several general points were common to most of them: (1) cotton prices should be restored to a free or competitive market basis through the elimination of Government price support programs, (2) the cotton farmers' income should be supplemented by direct payments by the Government, either permanently or until readjustments in cotton production can be made, (3) production costs should be lowered through mechanization of cotton farming, (4) research should be intensified to develop new uses, and (5) tariffs should be lowered. The use of export subsidies was generally disapproved.

Taking a stand opposite to that of other representatives, the President of the Mississippi Farm Bureau Federation, Ransom E. Aldrich, favored the continuation of existing legislation, including mandatory commodity loans, export subsidies, limitation of Government sales, and the use, when needed, of crop marketing quotas.

Annual rate of income payments at new high

Due largely to a greater than seasonal rise in farm income and continued expansion in military pay, the annual rate of national income payments in October rose to a new record high of \$157.7 billions. This compares with \$156.3 billions in the previous month and \$146.1 billions in October of last year. (See Chart 6.) As a result of the usual September to October drop in interest and dividend disbursements, total income payments in October were actually slightly below the September level. However, the decline was less than seasonal, thus raising the annual rate of payments to a new high.

Payments for salaries and wages in the commodity producing industries (chiefly manufacturing) were slightly lower in October than in the previous month and were about 3 percent below year-earlier levels. Reference to Chart 6 will disclose that with the exception of interest and

- 9 -

dividend payments, this was the only major income component to show a decline from the corresponding month in 1943. Despite the slight decline in wage payments in manufacturing industries, aggregate payments for salaries and wages increased in October due to gains in trade, in the service industries, and in military pay.

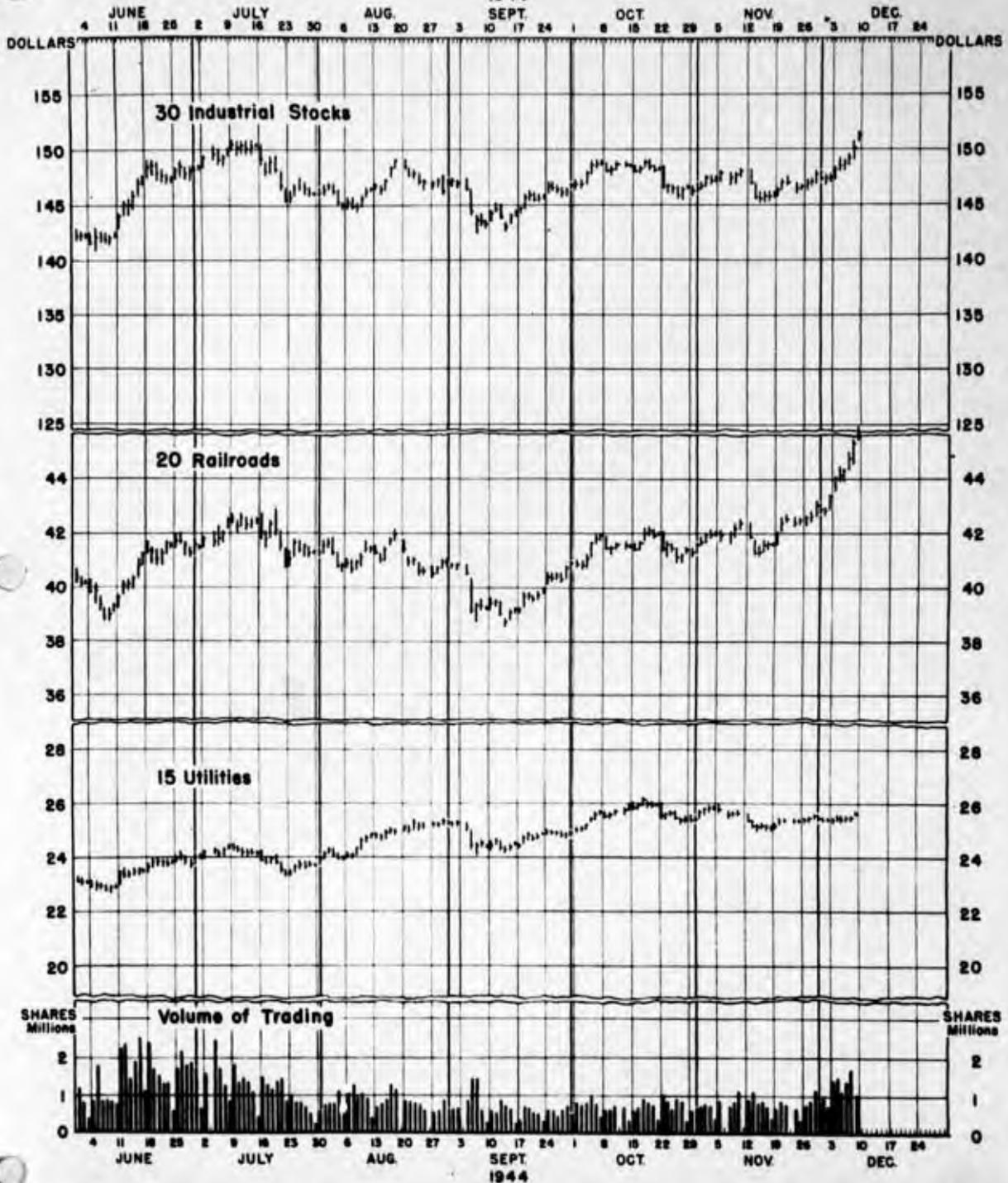
Cash farm income at record high

Cash farm income in October rose more than seasonally and exceeded the 1943 level by 9 percent, thus attaining a new record high. Income from crops showed considerably more than the usual seasonal rise, with receipts from cotton and cottonseed more than twice as large as in September. Income from fruits and nuts rose more than seasonally as a result of gains in citrus fruit marketings and larger than average crops of apples and grapes in most major producing sections. Receipts from livestock and livestock products in October showed a gain only slightly greater than seasonal.

STOCK PRICES, DOW-JONES AVERAGES

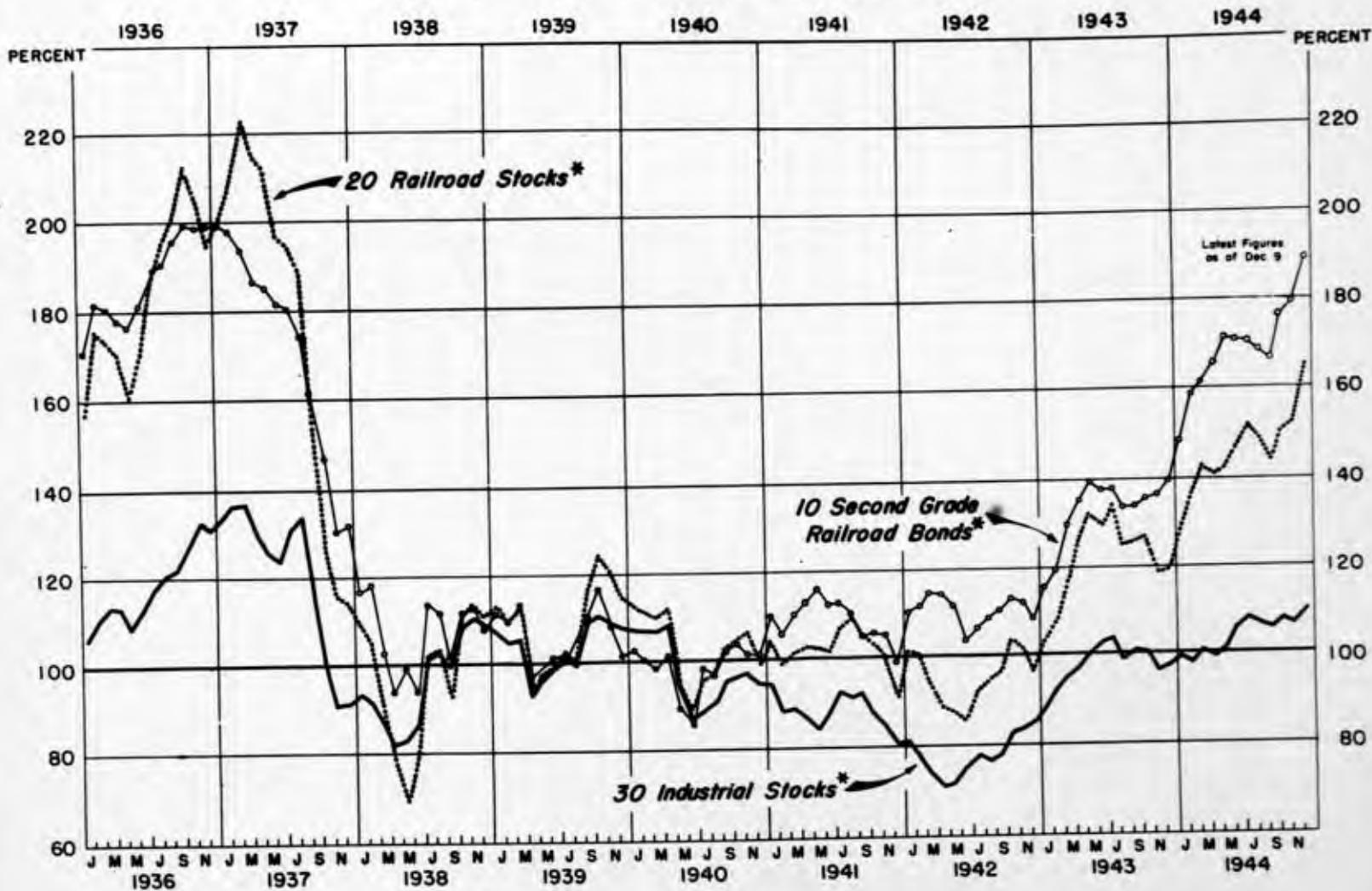
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1944



SECURITY PRICES

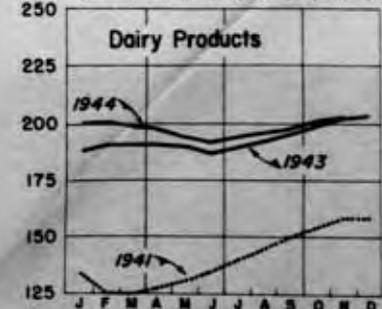
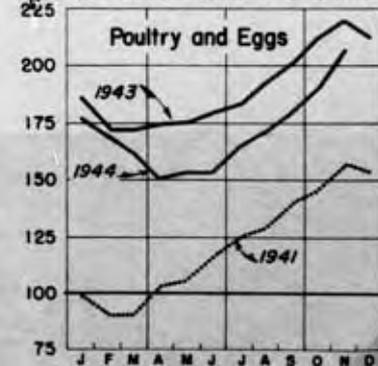
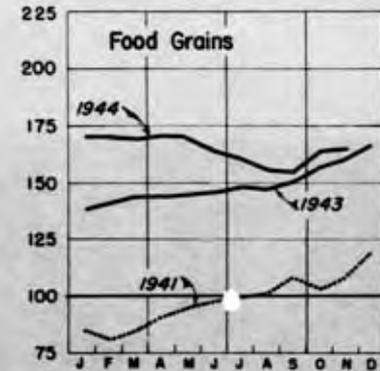
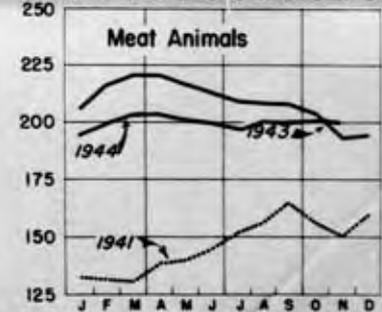
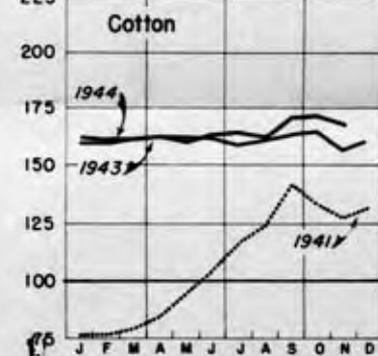
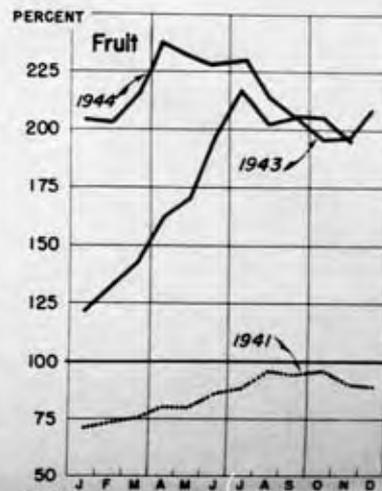
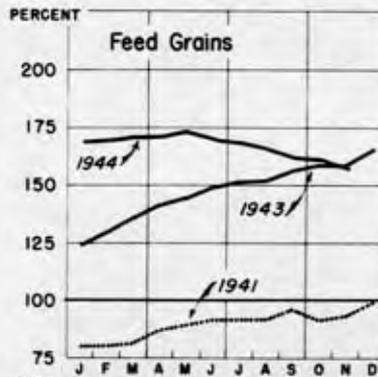
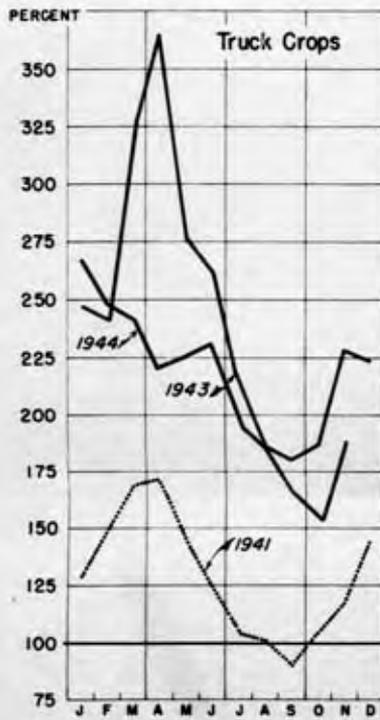
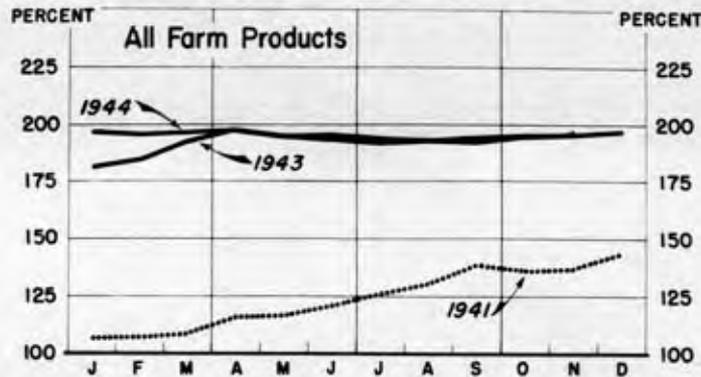
Selected Railroad and Industrial Indexes, August 1939=100



* Dow-Jones averages converted to August 1939 base.

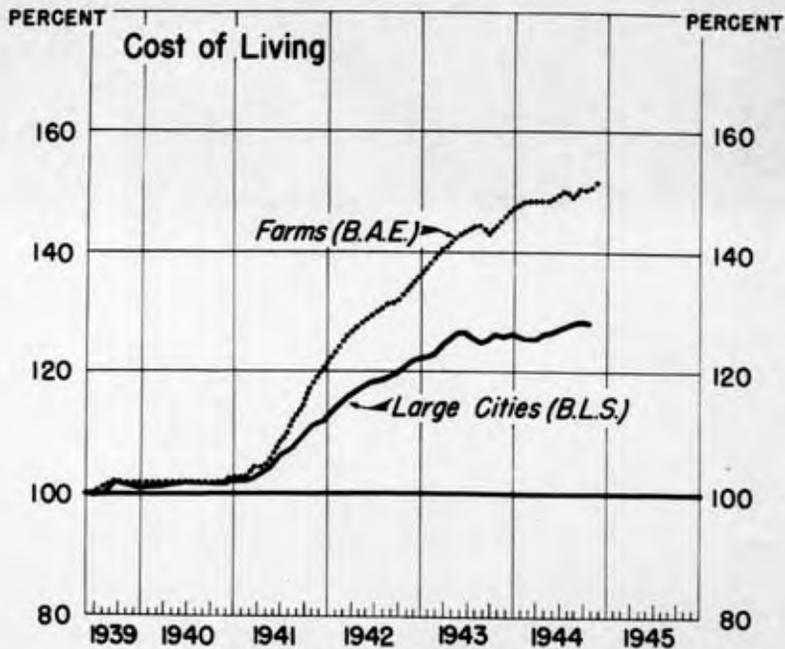
AVERAGE PRICES RECEIVED BY FARMERS

Indexes, August 1909-July 1914=100

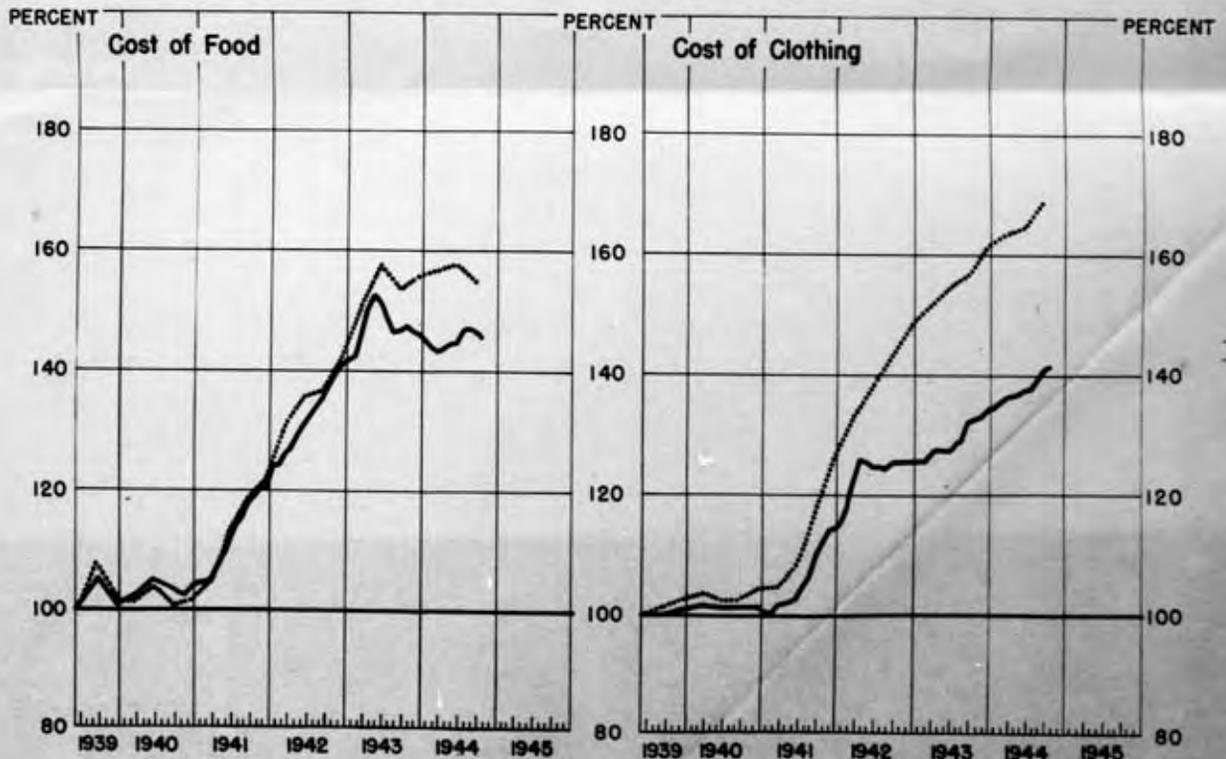


COST OF LIVING IN CITIES AND ON FARMS

June 1939 = 100



SELECTED COMPONENTS

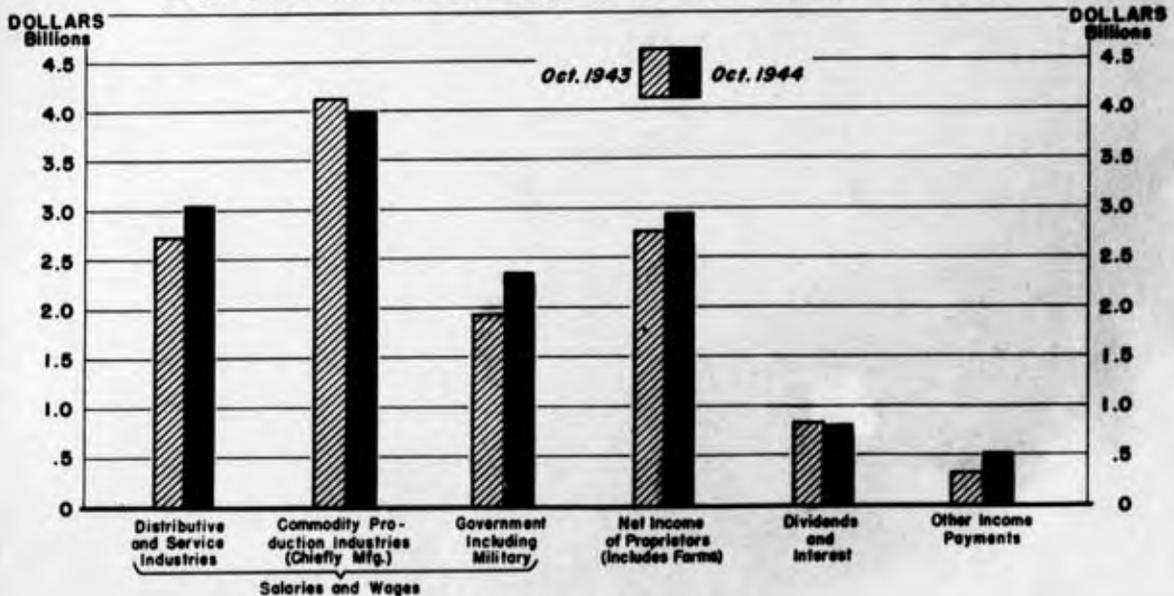


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NATIONAL INCOME PAYMENTS AND COMPONENTS



Dollar Totals for Selected Components, Oct. 1943 and Oct. 1944



Source: Department of Commerce

DEC 11 1944

My dear Mr. President:

There is attached a report of Lend-Lease purchases made by the Treasury Procurement Division for the Soviet government, indicating the availability of cargo for December.

The inventory of material in storage as of December 1, 1944, was 97,759 tons or 6,496 tons less than the November 1st inventory. Production scheduled for December shows an increase of 211,954 tons as compared with November.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House

WFBrennan:hsc
(12/8/44)

TREASURY DEPARTMENT - U. S. S. F.
MATERIALS AVAILABLE FROM STORAGE AND PRODUCTION DURING DECEMBER, 1944
(IN 2000 LB. TONS)

COMMODITY	STORAGE	PRODUCTION	TOTAL AVAILABLE	PRIORITY CARGONS
	DECEMBER 1, 1944	DURING DECEMBER		FOR PORT AREAS SPECIFIED TO DATE FOR DECEMBER
ALUMINUM	23	3,426	3,426	3,426
BEARINGS	983	391	1,374	1,374
BRASS AND BRONZE	4,280	9,550	10,533	10,533
CHEMICALS		112,511	112,511	5,522
CLOTHING AND TEXTILES		2,278	2,278	2,278
CONSTRUCTION MACHINERY		1,044	1,044	
COPPER IN VARIOUS FORMS	11,844	14,661	26,505	16,419
FEROUS ALLOYS	59	504	563	563
GRAPHITE PRODUCTS	47		47	47
HAND AND CUTTING TOOLS		2,199	2,199	2,199
INDUSTRIAL MACHINERY	33,633	107,367	141,000	53,990*
NICKEL AND NICKEL PRODUCTS		255	255	
NON-FERROUS METALS, OTHER		346	346	346
NON-FERROUS METALS, OTHER		1,623	1,623	
PAPER AND PAPER PRODUCTS	200	2,213	2,413	2,240
PLASTICS	556		556	
RUBBER	227	14,775	15,002	5,152
STEEL, ALLOY AND SPECIAL	3,224	42,870	46,094	16,621
STEEL, CARBON	16,525	88,722	105,237	31,108
STEEL, PIPE AND TUBING	9,531	9,273	18,804	12,880
STEEL, RAILS	12,910	25,732	38,642	15,120
TIN PLATE	3,687	7,702	11,389	7,280
TOTAL	97,759	447,442	545,201	186,130

* In addition, all available tonnage applicable to the OMI Refinery Program is classed as priority cargo for prompt shipment to ports.

DEC 11 1944

Dear Mr. Crowley:

This is to acknowledge your letter of December 1, 1944, commenting on the views of the military petroleum officials, as set forth in Admiral Horne's letter to me of November 21, 1944, with reference to the lend-lease petroleum program submitted by the British for the first year of Stage II.

I note your statement that Admiral Horne's letter leaves in suspense certain questions on which the U.S. civilian technicians need the guidance of the military in order to arrive at a more precise definition of British lend-lease oil requirements in Stage II. Copies of your letter are being made available in the regular way to Admiral Horne and others concerned with the formulation of the petroleum program and I assume your office will maintain contact with the military petroleum officials in order to obtain the required information.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Leo T. Crowley,
Administrator,
Foreign Economic Administration,
Room 414,
National Press Building,
14th & F Streets, N.W.,
Washington, D.C.

FOREIGN ECONOMIC ADMINISTRATION
OFFICE OF THE ADMINISTRATOR
WASHINGTON 25, D. C.

127
Copy to White-
12/1/44

TOP SECRET

DEC 1 - 1944

Mr. Henry Morgenthau, Jr.
Chairman, British-American
Committee on Lend-Lease
Washington, D.C.

Sir:

We have reviewed the letter addressed to you by Admiral F. J. Horne on November 21, expressing the view of the military petroleum officials on the lend lease petroleum program submitted by the British for the first year of Phase II.

The basic U.K. consumption requirements used by Admiral Horne appear to be substantially the same as those used in our tabulation of British Phase II lend lease requirements, which was handed to representatives of the Army-Navy Petroleum Board on November 14. They are also identical with the civilian consumption requirements in the U.K. which were included, with the concurrence of the military, in the world petroleum and tanker program recently formulated with the British.

Admiral Horne's principal conclusion seems to concern the rate of lend lease shipments in Phase II as distinct from the rate of consumption. He proposes that the provision for lend lease shipments be revised to \$222,000,000 from the financial provision of \$338,000,000, which we contemplated for Phase II. Almost all this difference is accounted for by Admiral Horne's acceptance, in his calculations, of the British position that petroleum stocks in the U.K. should be maintained at 7,300,000 tons throughout Phase I. The size of Phase I stocks, which will be drawn down in Phase II, greatly affects the volume and value of shipments in Phase II.

We do not accept this British contention and we have so advised the British. We believe that stocks should be reduced now, not at some indefinite time in Phase II. Our position conforms to the recommendations of the U.S. Joint Chiefs of Staff paper of July 20, 1944, cited by Admiral Horne, and is consistent with the fact that present shipping plans call for a substantial immediate reduction in U.K. stocks.

2--Mr. Henry Morgenthau, Jr.

As the attached table shows, our calculations have demonstrated that if U.K. stocks are reduced in Phase I to the level recommended by the U.S. Joint Chiefs of Staff, the lend lease petroleum requirements for the British Empire during Phase II would total approximately \$319,000,000. This compares with \$338,000,000 requested by the British on completely different assumptions. Because of the uncertainty in the U.S. Joint Chiefs of Staff position referred to in Admiral Horne's letter, it has not yet been possible to reach an agreement with the British on the reduction in the Phase I stock target. Consequently, to avoid prejudicing the decision which would be ultimately reached regarding stock levels in the U.K., we concurred in making financial provision in the amount of \$338,000,000 for the British Phase II petroleum program, which would be adequate to provide for any eventual decision regarding stocks.

Admiral Horne's letter leaves in suspense the principal questions on which the American side needs the guidance of the military and without which we are prevented from defining more accurately the British lend lease requirements in Phase II. These questions are:

1. What stock level does the military approve for the U.K. for Phase I? Joint Chiefs of Staff paper of July 20 determined that these stocks should be fixed at a level equal to 60 days forward consumption. On the basis of current figures this would fix the U.K. petroleum stock level at approximately 5,100,000 tons. We note the Joint Chiefs of Staff are still reconsidering this decision. However, in anticipation of a stock reduction now instead of next year, we believe the provisional U.K. Phase II petroleum requirement figure of \$338,000,000 should stand.
2. What part of the Phase II military stocks are expected to be kept in the U.K. and what part on the Continent? Separate figures for U.S. and British military are desirable. If, as indicated in paragraph 4 of Admiral Horne's letter, no U.S. military reserves are to be

3--Mr. Henry Morgenthau, Jr.

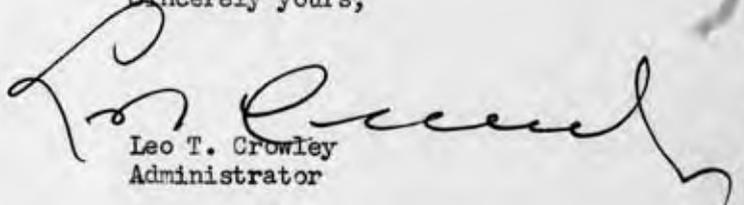
carried in the U.K. during Phase II, we would need only the U.S. Joint Chiefs of Staff estimate of justifiable reserves to be kept in the U.K. for British military purposes during Phase II.

If Admiral Horne could provide the necessary data on these points, the British lend lease petroleum program could be made correspondingly more specific.

In addition to the matters discussed above, Admiral Horne's proposed petroleum program assumes that the U.K. petroleum stock for civilian purposes during Phase II shall be maintained at the same sixty-day forward consumption level which is adopted for continental military stocks. We believe that in Phase II, the ramified domestic economy of the United Kingdom will require the maintenance of somewhat larger civilian stocks than this, especially since the cushion now provided by large military reserves in the U.K. will then be gone. A higher level for U.K. civilian stocks than for continental military stocks will also be necessary because of the fact that U.K. civilian supplies during Phase II will receive a lower shipping priority than continental and Pacific military supplies and because of the more direct and simplified system of distribution for military supplies. We have, therefore, proposed that civilian stocks in the United Kingdom during Phase II be maintained at about a seventy-five day forward consumption level.

We also direct attention to the fact that there are a number of economic considerations concerning the distribution of petroleum supplies during Phase II which Admiral Horne does not discuss in his letter. These considerations may nevertheless substantially affect the volume and value of supplies of petroleum which the British will receive under Lend-Lease during Phase II. We have discussed these points with the British in detail in the past month and the necessary references to them will be included in the statement which we propose to submit to you on the British Phase II programs.

Sincerely yours,



Leo T. Crowley
Administrator

Attachment

SECRET

SCHEDULE 4 (a)

ALTERNATIVE BRITISH EMPIRE PETROLEUM PROGRAMS FOR THE FIRST YEAR OF STAGE II
UNDER VARIOUS U.K. STOCK LEVEL ASSUMPTIONS

	A		B		C	
	Thousands of Tons	Thousands of Dollars	Thousands of Tons	Thousands of Dollars	Thousands of Tons	Thousands of Dollars
	Requirements Requested by British Assuming Stock Reduc- tion They Propose Takes Place All in Stage II (Reduction from 7,300,000 Tons to 5,750,000 Tons in Stage II)		Requirements Assuming Stock Reduction U.S. Proposes Takes Place Entirely in Stage II (Reduction from 7,300,000 Tons to 2,650,000 Tons All During Stage II)		Requirements Assuming Stock Reduction U.S. Proposes Takes Place Partly in Stage I and Partly in Stage II (Reduction from 7,300,000 Tons to 5,103,000 Tons in Stage I followed by Reduction to 2,650,000 Tons in Stage II)	
Aviation Spirit	232	11,000	107	5,072	107	5,072
Motor Spirit	3,207	121,000	2,612	98,551	3,467	130,809
Kero- sene	990	24,000	850	20,604	977	23,682
Gas - Diesel	1,212	33,000	862	23,472	1,177	32,049
Fuels	1,947	27,000	742	10,291	1,107	15,354
Lubes: Crudes, etc.	1,613	108,000	928	62,176	1,463	98,021
Wax T.E.L., etc.	-	14,000	-	14,000	-	14,000
TOTALS	9,201	338,000	6,101	234,166	8,298	318,987

25

DEC 11 1944

My dear Mr. Secretary:

Reference is made to my letter of November 22, 1944, in regard to certain proposals to obtain French francs at less than the official rate of 49,566 francs to the dollar for United States civilian representatives in France.

Sometime ago, the State Department sent a cable to the United States Embassy in Paris proposing various alternative methods of obtaining the franc requirements of the United States Government civilian representatives in France at other than the official rate of exchange. Among these proposals were the following:

- (1) To sell United States dollar currency in the local unofficial markets.
- (2) To sell United States dollar currency or checks in Spain or Switzerland, such instruments to be transmitted thereto by diplomatic pouch.
- (3) To obtain a confidential preferential exchange rate for this purpose from the French Government.

I understand that the United States Embassy in Paris is still actively considering the approach to the French Government to obtain facilities whereby the franc requirements of the United States civilian representatives would be obtained at other than the official rate. As outlined in my previous letter on this matter it is my considered view that such representation to the French authorities would be detrimental to the financial relationships between the French Government and the United States Government.

I hope that you will take immediate action to prevent any attempt to solve by the methods indicated above, the problems of the high cost of living with which the diplomatic representatives claim to be faced.

Very truly yours,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

Secretary of the Treasury.

HD:MT:lra, 12/1/44

letter

My dear Mr. Secretary:

I am writing in regard to conversations which recently took place between officials of the State and Treasury Departments concerning the problems faced by United States Government civilian representatives in France because of the high living costs in relation to their salaries and allowances converted at the official franc rate of exchange.

Certain proposals involving various methods of obtaining French francs at less than the official rate of 49.566 francs to the dollar were tentatively put forward by officials of the State Department. The official rate was set by the French authorities and various French government officials have recently made public announcements that the Provisional Government of the French Republic intends to take every measure possible to maintain this rate. It is my view that the French authorities would consider a special diplomatic rate or any procedure for acquiring francs on official markets in France or outside France as tending to undermine the official rate of exchange for the franc and as serving to defeat the measures which the French authorities have taken or plan to take to maintain the rate. I do not feel that it would be appropriate for this Government to assume any responsibility for the future value of the franc by requesting the French authorities to approve any arrangement whereby the franc requirements of the United States Government civilian establishments in France would be obtained at any other than the official rate of exchange.

If the State Department should feel it desirable to request a Congressional appropriation for the purpose of extending supplementary living expense allowances to United States civilian representatives in France, the Treasury would have no objections to this step.

The suggestion of establishing commissary facilities for United States civilian representatives in France and of arranging for centralized procurement facilities in the United States for such personnel for items other than those made available through the commissary facilities appears to me to be an excellent method of meeting the immediate problem.

Very truly yours,

The Honorable,
The Secretary of State,
Washington, D. C.

Secretary of the Treasury.



TREASURY DEPARTMENT

WASHINGTON 25

PARIS, 20 November 1944



AIR MAIL

AIR POUCH
SAXON NO. 6

Dear Mr. White:

As you may know, the State Department personnel here have been very concerned about the high cost of living and entertainment. They have put their problem back to the State Department in Washington. About three weeks ago State Washington sent a long cable here proposing various alternative solutions as to this problem. Among the solutions proposed were the following:

- a) Sell US dollars in the local black market;
- b) Sell US dollars or checks in Spain or Switzerland, transmitted thereto by Diplomatic Pouch, or
- c) Obtain a confidential preferential exchange rate from the French.

Chapin and Fullerton of the Embassy asked me my views of these proposals. I told them that I was shocked that the State Department should officially suggest such solutions to this Embassy. I stated that none of the three was feasible or practicable. With reference to (a) I pointed out that this proposal would surely prove embarrassing to the US when the information became known, as it most certainly would, and would most certainly discriminate in favor of the Embassy employees as against the Army, especially the soldiers. With reference to (b) I pointed out that it was unthinkable that we should even indirectly suggest a solution to the French when just recently a demarche had been made on the French in response to instructions from the State Department to ask the French to work out some arrangements with the Spanish and Swiss Government to reduce black market trafficking in French francs. With reference to (c) I stated unqualifiedly

Mr. White,

2.

20 November 1944

that I certainly would not approve of such a proposition to the Ministry of Finances or any other Ministry of the French Government; that I thought the Treasury would certainly be opposed to any such proposition and that I, therefore, would not join in any such proposition to the French.

Chapin, Counsellor of Embassy, pointed out that he too was very surprised by the alternatives proposed by the State Department. Fullerton had the same view. Consequently, as a result of the expression of their views and their statement that they would cable back to Washington in this vein, I took no further interest in the matter.

I was somewhat disturbed this morning to learn that this matter has not died at all; that the Embassy may have or intends to ask the French for a confidential preferential rate. I understand that the Ambassador is keeping the matter very secret. Accordingly, I can not actually be sure that the proposal has been or will be made to the French. As the matter is in the Ambassador's hands personally, I don't know whether I am in position to state further my objections. I may decide to do so, and in any event if a proper opening developed I certainly would express my strong objections again. Therefore, in the meantime I wonder if you would not be willing to try to tackle the problem from your end.

For my own, I certainly would not be willing to accept any preferential rate which the French may offer, and further so long as I am here no other Treasury personnel will be permitted to accept such questionable favors. I hate to think what the Army will say if they should learn, as they most certainly will, of such an arrangement, if as and when it goes into effect.

Mr. White,

3.

20 November 1944

In so far as the French Government is concerned, especially the Ministry of Finances, I should leave here in preference to accepting any such favors.

Frankly, I should not have believed that the State Department would transmit officially such a cable if I had not actually seen it.

Very truly yours,



James J. Saxon
U. S. Treasury Representative

Mr. Harry D. White
Assistant to the Secretary
Treasury Department
Washington, D. C.

An Editorial

The Value of the Franc

YOUR attention is directed to the first letter in today's B-Bag. It is one of many letters we've received on the value of the franc.

The value of the franc is what is known in newspaper circles as a hot subject. The exchange rate was set by finance experts of the United States, France and Britain. Why they set it at two cents a franc we don't know.

In fact, not being any J. Pierpont Morgan, we can't answer the questions raised in the letter. It's all mixed up with supply and demand, lend-lease, the post-war purchasing power of France,



and other matters too complicated for financial dimwits like us to figure out.

As for "what to do about it"—all we know is this. Every dollar we get our hands on in this theater is going to be spent on one

thing—United States War Bonds.

It's our belief that every officer and man who's watched his hard-earned dough disappear in a bar or a bazaar will most certainly do the same.

THE B BAG
BLOW IT OUT HEEF

Wants Dope on Franc

I believe The Stars and Stripes could do a good service to all of us if they'd publish the straight dope on this business of the value of the franc. I've heard a lot of griping about:

- How we're being syped on the exchange value.
- That the franc has a different value to the French and that this value is about half or one-quarter of the present exchange rate.
- That prices are fluctuated all ways to give the break to French sellers.
- That there is a vicious U.S. money-buying market in progress (where our currency is purchased at our exchange rate and either held for a "market" or sold at a price running anywhere from 50 percent to 200 percent).

All of this, as far as concrete facts and figures are concerned, is just talk, rumor, or what have you. I couldn't, personally, substantiate any of it; yet it has been my experience that where there's so much talk there's some small kernel of truth, or fact, involved. I suspect it to be a part of the German undercover work stemming from their efforts to secure their future. There are, it seems to me, two "prongs":

- An effort to acquire as much of our currency as possible—something they've been working at for years.
- Another angle of their subversive activities—their old business of splitting Allies.

In any event, seems to me this whole money thing should be put in the spotlight and the common-sense answer to "what to do about it" given. I could very easily be entirely off the beam on this whole thing; I mention it to you for what it's worth.—An Infantryman.

GEK-1276

PLAIN

Lisbon

Dated December 11, 1944

Rec'd 4:40 p.m.

Secretary of State,

Washington.

4185 Eleventh

WRB 273 JDC 134.

FOR LEAVITT FROM PILPEL.

Joseph Schwartz Switzerland advises difficult
arrange entry Belgium. Advised him communicate Jules
Block Brussels.

NORWEB

MRM

EAS-1313
Distribution of true
reading only by special
arrangement. (SECRET W)

Lisbon

Dated December 11, 1944

Rec'd 6:22 p.m.

Secretary of State,
Washington.

4186, December 11, 6 p.m.

This is WRB 272 JDC 135 for Leavitt from Pilpel.

Please remit immediately to Saly following amounts:
for Rumania \$250,000; for Hungarians in Rumania \$100,000;
for Bulgaria \$50,000 totalling \$400,000. This is at
request Joseph Schwartz.

NOFWEB

RR

MF-1373
Distribution of true
reading only by special
arrangement. (SECRET W)

Lisbon

Dated December 11, 1944

Rec'd 9:45 p.m.

Secretary of State

Washington

4189, December 11, 6 p.m.

Informed by Mayer that large sums required for
food and clothing Hungary which we hope you can pro-
vide. This is under new arrangement for supervision
by Intercross. This is WRB 274 JDC 136 for Leavitt
from Pilpel. Saly also informs us deportations from
Hungary have stopped.

NOHWEB

WSB

CABLE TO MINISTER JOHNSON, STOCKHOLM, FROM WAR REFUGEE BOARD

Please deliver following message to Fritz Hollander, Congress Committee, Postbox 7305, Stockholm, from Dr. Arieh Tartakower of World Jewish Congress:

QUOTE KINDLY HAVE FOODPARCELS FORWARDED FOLLOWING BERGENBELSEN INMATES: HENRY AND HANNAH FEILCHENFELDT: MARCUS EMANUEL, WIFE AND EIGHT CHILDREN; MAX JOSHUA, WIFE AND THREE CHILDREN; HANS FELIX ROBERT OPPENHEIMER: RITA OPPENHEIMER, NEE FUERST; PAUL, RUDOLF AND EVA OPPENHEIMER: THERESE AND JULIUS SIEGFRIED BIRNBAUM; SIEGRIED GRUENEBAUM; KURT SLUIZER; JEAN AND FANNY LIPPMAN; SOPHIE VEDER; ARNOLD LEBUNIN, WIFE BERTA, CHILDREN CELINA AND CLARA; CAROLINA LAN, NEE ROZELAAR AND MR. M. LAN; MRS. MARIE SLYPER, NEE ASSCHER; SARA PAKKEDBAGER, ELIE PAKKEDGRAGER AND TWO CHILDREN; EVA COHEN, NEE KONGISBERGER MR. RU. COHEN, SON AND DAUGHTER; RABBI DR. NEUBAUER; ERNST KAUFFMANN. UNQUOTE

THIS IS STOCKHOLM CABLE NO. 267.

11:35 a.m.

12/11/44

RDrury 12/9/44

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

Please deliver following message to Noel Field, Geneva, from
Dr. Charles R. Joy of Unitarian Service Committee:

QUOTE WE HOPE TO SEND CLOTHING TO PARIS FROM THE NEW YORK UNITARIAN WAREHOUSE AS SOON AS POSSIBLE BUT THERE ARE ACUTE SHIPPING DIFFICULTIES. OWING TO NEW SITUATION HERE WE ARE NOW EAGER FOR YOU TO SEND A DELEGATE OR DELEGATES TO INVESTIGATE RELIEF NEEDS IN POLAND TO TO INAUGURATE A PROGRAM THERE AS SOON AS POSSIBLE, PREFERABLY AMERICAN BUT IF NECESSARY SWISS OR POLISH. MODEST REFUGEE RELIEF FUNDS AVAILABLE AND LARGER CIVILIAN RELIEF FUNDS PROCURABLE IF YOU CAN GET ASSURANCE THAT RELIEF WILL BE DISTRIBUTED BY OUR COMMITTEE REPRESENTATIVES ALONE AND WITHOUT ANY DISCRIMINATION. IS FOOD AND CLOTHING AVAILABLE FOR POLISH RELIEF IN SWITZERLAND PLEASE REPORT POSSIBILITIES AND RUSH ACTION. MRS. WAITSTILL H. SHARP IS GOING TO LISBON WITHIN NEXT FEW WEEKS AS AREA DIRECTOR FOR PORTUGAL AND SPAIN TO WORK UNDER YOUR DIRECTION. AS YOU ARE NOW IN CHARGE IN WESTERN EUROPE PLEASE SEND ALL COMMUNICATIONS DIRECTLY TO BOSTON RATHER THAN BELAY THEM THROUGH LISBON. WHAT IS MME. TEMPI'S NATIONALITY? EXCHANGE RATES FORTYNINE FRANCS PER DOLLAR SHALL WE SEND REMITTANCES TO PAUL ANDERSON OR MME. TEMPI OR WILL YOU RAISE LOAN LOCALLY COMMITTING US ONLY TO EXTENT OF APPROVED BUDGET IN DOLLARS? AT OFFICIAL EXCHANGE RATE ABSOLUTELY IMPOSSIBLE FOR US TO PROVIDE RECOMMENDED MINIMUM BUDGET FOR PARIS WE HAVE TOLD YOU MAXIMUM NOW AVAILABLE. 500 DOLLARS AVAILABLE GIFT BERNARD SCHERR FOR CIVILIAN RELIEF IN ANNEMASSE HAUTE SAVOIE AND VICINITY TO BE ADMINISTERED IN CONSULTATION WITH MAYOR OF ANNEMASSE LATTER ALREADY INFORMED. REFERRING QUESTION SHIPMENT SARDINES TO CHAMBERY TO LISBON. BEARING IN MIND YOUR ADVICE ON SIZE AMERICAN STAFF FOR FRANCE BUT MUST FOLLOW POLICIES AND REGULATIONS OF STATE DEPARTMENT AND WAR RELIEF CONTROL BOARD WHICH REQUIRE AMERICAN LEADERSHIP. UNQUOTE

THIS IS BERN CABLE NO. 321.

11:25 a.m.

12/11/44

RDrury 12/9/44

CABLE TO STEINHARDT, ANKARA, FOR KATZKI FROM WAR REFUGEE BOARD

Emergency Committee has asked Board to recommend issuance of appropriate Treasury Department license to permit transfer of \$200,000 to Jabotinsky for charter of S.S. Tari to transport 1600 Jews from Constanza to Haifa. Although refugee problems in liberated areas are not regarded as being within Board's functions (see WRB cable No. 106 of September 7, 1944, to Ankara), we would appreciate having report from you on the matter as soon as possible in order to be in position to give background material to Treasury.

This is ANKARA CABLE NO. 134.

12/11/44

12:03 p.m.

FH:hd 12/11/44

CORRECTED COPY

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

December 11, 1944

8 p.m.

AMEMBASSY

ANKARA

1157

The cable below for Katski is WRB 134.

Emergency Committee has asked Board to recommend issuance of appropriate Treasury Department license to permit transfer of \$200,000 to Jabotinsky for charter of SS Tari to transport 1600 Jews from Constansa to Haifa. Although refugee problems in liberated areas are not regarded as being within Board's functions (see WRB cable No. 106 of September 7, 1944, to Ankara), we would appreciate having report from you on the matter as soon as possible in order to be in a position to give background material to Treasury.

STETTINIUS
(OLW)

WRB:ISV:KG NE SWP

NOTE: Originally issued with "SECRET" rubric.

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Information received up to 10 a.m., 11th December, 1944.

1. NAVAL

On 9th at Athens ELAS troops outflanked our defences covering Naval Headquarters, but situation restored by close support fire from one of H.M. Corvettes. A Greek destroyer also bombarded targets Piraeus.

2. MILITARY

WESTERN FRONT. N.W. of Mulhouse heavy fighting has continued. North of Strasbourg some progress towards Haguenau and forward troops have reached Bischweiler. Firm bridgehead established across Saar S.E. Saareguemines and our bridgehead near Saarlouis strengthened. In Hurtgen Forest Germans resisting stubbornly. Organised resistance has ceased west of Roer in Julich area.

ITALY. Germans have delivered series determined counter-attacks against our salient just west of Faenza. All beaten off and no changes in position reported.

EASTERN FRONT. Russians report progress N.E. and N. of Budapest to within 8 miles north of city.

3. AIR

WESTERN FRONT. 10th. U.S. heavy bombers attacked railway centres:- 277 Fortresses (1 missing) - Coblenz, 523 tons; and 173 Liberators - Bingen, 674; Pathfinder technique employed. Of 668 supporting fighters 30 not yet returned, but 27 believed landed Allied territory. 25 Mitchells attacked lock gates and railway bridge Zutphen and 130 U.S. medium bombers bombed defended villages Julich/Duren area. 961 fighters and fighter bombers (4 missing) scored 6, 2, 7 over battle areas. 16 Spitfires attacked rocket sites Hague and Leyden areas. Coastal Command Mosquitoes successfully attacked merchant vessel, Norway.

MEDITERRANEAN. 9th. 714 U.S. escorted heavy bombers sent against industrial targets. Owing to adverse weather only 116 attacked, of which 81 bombed oil refinery Regensburg - 195 tons, and 16 Skoda Works Pilsen. 4 bombers, 11 fighters missing. 453 fighter bombers and fighters (8 missing) gave close support over battle area.

4. HOME SECURITY

To 7 a.m. 11th. Between 6:40 and 7:40 p.m. 18 flying bombs plotted. No rockets reported.

ADDENDUM

GREECE. 9th. Several minor clashes with ELAS forces throughout Athens/Piraeus area after quiet night. Elsewhere no serious engagements by British troops. Salonika strike ended in morning. Situation tense at Patras where ELAS forces reported digging in round town.

December 12, 1944

At 8:30 last night I called up Sam Rayburn to give him a progress report. He said, "Why in the Hell didn't the President say where he was?" They had him being operated on in Bethesda and in Boston. They had all kinds of rumors around. He said, "Why, in God's name, doesn't he say where he is and have the people stop worrying?" I told him I didn't know of any good reason why he didn't say where he was.

December 12, 1944
11:15 a.m.

STUDIES IN POST-WAR TAXATION

Present: Mr. O'Connell
Mr. Blough
Mrs. Klotz

H.M.JR: Go ahead, please.

MR. BLOUGH: On the Social Security, of course, in the normal course of time the Budget reports would get to the President. That is how he gets his information. So there was no particular reason why he should have known about it.

H.M.JR: Well, he does read the newspapers.

MR. BLOUGH: I was surprised at that!

This afternoon the Joint Committee on Internal Revenue Taxation is meeting, and these will be jointly--we hope they are meeting. They are meeting, assuming the Congress doesn't get into some jam. These reports are jointly prepared by Stam's group and our group, and will be presented to them at that time.

The first one concerns the outlook for Federal expenditures over the years 1945, 1946, and 1947, making certain assumptions which we have been careful to indicate are in no sense forecasts. They are speculations about the probable end of the war, but are working assumptions.

(The Secretary holds a telephone conversation with Congressman Spence, as follows:)

December 12, 1944
11:18 a.m.

HMJr: Hello.

Operator: Congressman Spence.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Brent
Spence: Hello, Mr. Secretary.

HMJr: How are you?

S: Pretty well. I hope you're rested after your vacation.

HMJr: Yeah, I had a good week's rest.

S: I had a little conversation with the parliamentarian some time ago and much to my surprise, he said he might send the Bretton Woods agreement to the Foreign Relations Committee.

HMJr: Yeah.

S: It seems to me that's not only slapping at Wolcott and myself, but it's putting it in the State Department rather than your Department.

HMJr: Yeah.

S: And

HMJr: Well, I

S: I'm not going to do anything more than speak to you but I'd like to preserve the integrity of my committee. I believe it belongs there. It was essentially monetary and financial and I don't think the other committee wants it.

HMJr: Well, I sincerely hope it will go to you and I'm going to send that word to Sam Rayburn.

S: That's all right. Thank you.

HMJr: I think it would be a great

S: I'm not looking for additional work but I just felt after being a delegate up there and being so interested in it, and I'm sure that it will be in the hands of your friends when it comes to our committee, because

HMJr: Well, I

S: I think it's a splendid thing and I hope we can put it through without trouble. And another thing, they've got that Dumbarton Oaks proposal.

HMJr: Yeah.

S: That will take up all their time.

HMJr: Yeah.

S: This will be the side show over there.

HMJr: Well, I think it would be a tragedy if your committee did not get it.

S: Thank you, Mr. Secretary. That's all. I just wanted to tell you that.

HMJr: Well, we'll do all we can.

S: Thank you.

HMJr: Good bye.

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(Mr. Blough hands the Secretary Parts One and Two of "Studies in Post-War Taxation.")

H.M.JR: All right. Now this thing here is--

MR. BLOUGH: Part One is an outlook for Federal expenditures, with certain assumptions about the end of the war-- the first assumption being now completely unrealistic that the war in Europe would end by the end of 1944.

H.M.JR: That is still in here?

MR. BLOUGH: Yes. We would a little rather have taken it out, but Stam preferred to leave it in, and I think that it won't do any harm because it will indicate that obviously these aren't forecasts because there is a case where the situation has actually been proved not to be correct. And it will have this advantage, that by having the two assumptions in, it will show the fact that the longer the war continues, the higher these expenditures in the next three years will be, which is obviously true, but which this points out fairly definitely.

MR. O'CONNELL: We have two assumptions for the end of the German war.

(Mrs. Klotz enters the conference temporarily.)

MR. BLOUGH: Those are the end of 1944, and around March or April of 1945. As for the end of the Japanese war, the first assumption is a year from now, and the second assumption is June 30, 1946. And we make it clear that other assumptions may, of course, be necessary.

MR. BLOUGH: You would have to have something to work on. That is what we used. And, of course, last summer when we started, even some people around the White House were talking about the end of the year for this and that, so we had plenty of company. Now, the figures, as they turn out, are big enough in all conscience, despite the optimism of the assumption. And they show for 1945--

H.M.JR: Calendar or fiscal?

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MR. BLOUGH: These are all on a calendar year basis, partly to avoid the possibility of conflict with later fiscal year figures which would be presented to them, and partly because the tax liabilities will be on the calendar year basis, and much of the other material will be on the calendar year basis.

In 1944 the expenditures will be about ninety-eight billion dollars. That is this year just ending. That is page sixteen.

Under the first assumption, which is that the war ends in Europe December 1944 and in Japan December 1945--in 1945 the figures show eighty-three billion dollars expenditures.

In 1946 between fifty-two and forty-nine billion dollars of expenditures, depending on how good business is.

And in 1947, between thirty-seven and thirty-two billion dollars, depending on how good business is.

We have given no estimate of what the level would be after the transition period is entirely over. The reason we give no level for that is that we feel the Committee should indicate what assumptions they would have in mind for the size of the Army, for Social Security, their attitude toward farmers, and so forth, and that if we made an estimate for that final post-war period, we might be accused of telling them what their policies ought to be in the future.

For the second assumption, the figures show up in the next table, which is on pages twenty and twenty-one. There the figures are somewhat higher, naturally, because the war continues somewhat longer. But the orders of magnitude are about the same. And we have a summary of those figures later, so I will come to that and suggest it might not be necessary to look at them at this point.

H.M.JR: Now, these things are all going to come out before the public?

MR. BLOUGH: On the front we have this written, "Confidential. No part of this print to be released or published by

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any person unless specifically authorized by the Joint Committee on Internal Revenue Taxation." And both Stam and I are going to stress the idea that it would be most undesirable to have this become public in any way. I assume that eventually it will leak out to the public. Dan was pretty careful and cautious--had representatives of the Army and Navy over and had them read the section on the military here. He didn't ask them to approve it, but just said that he felt that if they felt they were objectionable or would do harm, that they would let him know.

They said, "No." They made a few minor suggestions, and then said they had no objections to it. So the military is broken down into several sub-classes, and the way in which this was built up is explained in the text. I have given you the final summary of it. That is Part One on expenditures.

Part Two, then, is on the revenue side, and there again there is no forecast or outlook or estimate. It is called an outlook for Federal revenues, but it isn't an estimate. It says something like this, "If we accept the present tax system, what would the revenues be at the various levels?"

We assumed various income levels, because, obviously, we wouldn't take in as much money if the income payments in 1947, let's say, are a hundred billion dollars, than if they were one hundred and forty billion dollars. And rather than make any estimate as to what they will be--

(The Secretary on White House phone:)

Hello.....

Thank you.....

Good morning.....

Hello, Grace.....

Good morning to you.....

You know, last night I said we would send a wire down this morning on Social Security.....

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Well, Dan Bell found out that the Bureau of the Budget was about to send something down by pouch this afternoon, so we are putting our stuff in with theirs so the President will get it all together, which I thought was better.....

Coming down on this afternoon's pouch.....

The whole thing.....

All right.....

And don't forget about the White matter, either.....

We had a lovely snow storm here this morning.....

But the sun has come out here now.....

She is getting along slowly.....

Oh, no.....

But definitely improving.....

Thank you, Grace.....

H.M.JR: She hadn't seen the President yet.

MR. BLOUGH: I think page three might give you as good an idea of this as anything. That is a chart.

H.M.JR: On page three?

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MR. O'CONNELL: Of part two, that is.

MR. BLOUGH: Now that chart, along the bottom of the chart you have income payments to individuals. You notice the range from which there is a line is from a hundred to a hundred and sixty billion dollars. Then along the left side, the federal revenues in billions of dollars. Now that does not mean the money that would come into the Treasury during the year, but the tax liabilities that would be accrued and which would eventually come in under the terms of the law. And it gives you an idea here that at, say, a hundred and fifty billion dollars, if you find that and run your finger up that line to where the black line crosses it, it is nearly forty-five billion dollars of revenue.

H. M. JR: On the present tax structure?

MR. BLOUGH: Yes. While if we had only one hundred and twenty billions of dollars, then it would be about twenty-seven or twenty-eight.

Now there are tables, of course, supporting that, but we had hoped that this would not be too complicated for Congressmen and the subsequent charts are for other years, because the situation is a little different in different years.

H. M. JR: You thought they might get one line?

MR. BLOUGH: We thought that would be easy for them to handle.

The breakdown, then, by the types of taxes, the charts begin on page eleven. There you have the income and excess profits taxes, chart four; chart five, you have the individual income tax. Now the difference which years make is indicated by the fact there are three lines there. That difference is largely a question of how many men are still in the Army and other non-taxable income which would be received during the different years.

Chart six, revenues from employment taxes, is the

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same type. And chart seven covering the miscellaneous revenues and excise taxes --

H. M. JR: Now, Roy without going into too much of these charts and too much of this and that, give me a thumbnail sketch, what are you trying to get over to the Committee this afternoon? I do not quite get it. You know too much about it and I know too little.

MR. BLOUGH: I think you know enough now so that I can tell you in a moment.

We have an assignment from the Committee to study postwar taxes. The Committee directed its staff in collaboration with the Treasury staff and the staff of Internal Revenue to make a special study of postwar taxation. Today we are presenting to them the outlook for expenditures so that they can see what the problem is in terms of magnitude, how much money is this Government going to spend over the next few years, not in terms of a forecast of actuals, but in terms of certain assumptions as to the end of the war, and so forth. It gives them an order of magnitude.

And secondly, the present tax law at various income levels would yield so and so much. Now what you have then is some notion of what room there is for tax reduction.

Now the third part of the report is not ready for today. We have deliberately not made it ready for today because we think this is enough for today. When they come back after Christmas -- and they are in no hurry as far as I know -- we will present them the third part, which will be on the economic outlook for the next few years, the factors which will make for high employment or low employment, good business or bad business over the next few years. That will be part three and that we will not give them at this time.

Part four, then, will be a summary of the suggestions which we have received in all these conferences that we held jointly throughout the summer and fall. They will

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be organized according to subject and will not be our suggestions but a summary of the suggestions we receive. Then, if the Committee approves, part five will be our suggestions, as staff, for the transition period and probably then also for the postwar period.

Now, when I asked some weeks ago for a quick decision, we had thought that the committee would meet much earlier and that we would be forced to indicate policy views at that time. That has proved not to be necessary, because neither George nor Doughton is in any hurry to get to this and the result is we have until after the holidays for going into the things we were going to suggest. We have had good success in coming to some agreement with Stam with regard to the transition period, 1945 and 1946.

I am afraid as we get into the farther postwar period that the views of Stam and of the Administration as reflected in our discussions with people from various branches and the Treasury's point of view will separate to a considerable extent; and that raises, I think, a major problem as to whether the President or you or someone may want over the next few months -- I am not sure just when it should be done yet -- to outline the general principles of a postwar tax system. I don't think anything should be said until the German war is over, because what is the use of talking about a postwar tax system as long as we are in the middle of fighting a war in its worst phase.

H. M. JR: That is what everybody is so interested in.

MR. BLOUGH: Everybody is interested, that is true, but the interest has somewhat subsided in the last month or two. But I do think that we would be faced with this problem, that as you get into the farther postwar period it will no longer be a technical matter any more, it will be a policy matter and the Administration may want to make a policy statement on its general views.

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H. M. JR: I should think so. If I don't, Mr. Byrnes will. Now there is one thing here which definitely is missing, and that is the expenditure side and the debt side.

MR. BLOUGH: The debt side is missing. The expenditure side is not missing.

H. M. JR: I meant the debt side.

MR. BLOUGH: It is missing, but the debt side, of course, is the net result of the expenditures and receipts.

H. M. JR: But what I was thinking is this, because the President -- Somebody sent him a damn fool memorandum I can't make head or tails out of, one of these things that isn't signed, which always irks me, on a sliding scale on taxes. I don't know whom I sent it to.

Now the point is this, on the debt, after all, I think that an approach has to be made there, but we have got so much debt and when are we going to pay this debt off? And how soon are we going to pay it off? And that is this memorandum which this person sent to the President. I don't know what I did with it, maybe I gave it to Mrs. McHugh. I don't gather from anything you tell me that they are looking at it from that point of view. After all, let's say by the time we get through we have a three hundred billion dollar debt. All right, I think a very important part of the planning should be, well, how quickly are we going to pay that off.

MR. BLOUGH: That is right, Mr. Secretary.

H. M. JR: And from what you have outlined that has not been included. Can't you include that in your studies? I mean, have some kind of thing, the tax structure -- I remember the President, when we were talking of two hundred billion, said, "After all, if you could have so much revenue you could pay this debt off in twenty or twenty-five years."

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Well, now I think, supposing we were figuring we want to pay this debt off in thirty years.

MR. BLOUGH: Well, I think that is completely unrealistic.

H. M. JR: You do? All right now. He has that in his mind. You make a note, Mrs. Klotz, to find this other thing that came in yesterday.

MR. O'CONNELL: It isn't as though that had been ignored in this.

H. M. JR: It has to do with paying off the debt. Let me just finish. Let's say what is realistic, and I think the quicker we get that to the President, the better, because I am afraid he is going to say something one of these days.

MR. O'CONNELL: That could be. Certainly, if he is going to say you could pay off a three hundred billion dollar debt in thirty years --

H. M. JR: The military fellows, particularly, worry about this -- fellows like Admiral Leahy, and General Marshall. They have all mentioned it to me -- "How are we going to pay off the debt. What about the War Bonds -- are they good?" That gets around, particularly to a fellow who is looking for a pension; he is living on that pension, and he is interested in the bonds. And I very much wish that that would be begun -- a plan in connection with revenue on the various assumptions of when the war is going to end, How soon can we pay off this debt.

BLOUGH: I would like to explain first why it isn't in these.

H. M. JR: Don't you think everybody is interested in it?

MRS. KLOTZ: Absolutely.

BLOUGH: It is not in these, because these relate to the transition period. We haven't gotten

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into the ultimate postwar period yet and through all of these it is clear, if you look at page 15, Part Two, that there is practically no expectation in the transition period of revenues exceeding expenditures, even at present levels of taxation. So that the repayment of the debt is really something which falls beyond 1947 where we have brought this to an end, and we certainly want to get into that. We will have something in the economic outlook part of it, but what we had planned to do is if the Committee says, "We want something which goes beyond 1947 and shows us a postwar budget," then we say, "All right, now give us some assumption about this postwar budget." I am talking now to the Committee. "What assumption have you?" And then we will go back and make them a postwar budget. But if we go in now and say, "We think you ought to have ten billion --"

H. M. JR: If you don't mind I would like to have in the not too distant future for myself -- all these things come across my desk, Baruch sent me a memorandum, are we weakening ourselves to do the second phase, Lend-Lease for the English, Bingo right in Arthur Krock's column! The idea is, it is so insidious that we are sort of selling Dumbarton Oaks down the river. I don't know how he hooks it up, through this second phase, British Lend-Lease agreement. You read the thing, see?

As I say, the only people who read Krock are Cabinet Members and their associates, but Bingo, he gets something unpleasant, right away he gives it to Krock. But the point is, you have to have all these answers. We are not weakening ourselves, we have got to have a strong tax for a long time.

Now, I don't know how many years, but I would like to be able to take certain years -- I think it is like all of these other things. You know last summer everybody wanted to be back in business the first of the year. Have I put somebody on that thing?

MRS. KLOTZ: I don't think so.

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H. M. JR: And I think we ought to begin to say to people that they are going to have high taxes for my generation the rest of their life.

MR. BLOUGH: It has been said a good deal.

H. M. JR: Nobody believes it.

MRS. KLOTZ: They certainly do not.

MR. O'CONNELL: If people read the material that has been collected here, they would have no difficulty in realizing that they are going to be like that for a long time. You get such a high budget figure before you even begin to get to any debt retirement that it scares you.

H. M. JR: These are also confidential. Anyway, throw that in.

MR. BLOUGH: You would like us to begin to consider as, of course, we have been considering, this problem, but put down on paper the debt problem and what to do about it in effect.

H. M. JR: That is right.

MR. BLOUGH: I would like to say that the plans which have been presented by business men and others, even the most conservative, have dodged this problem of debt retirement.

H. M. JR: Well, you have eighty-five billion bondholders.

MR. BLOUGH: We can't dodge it.

MR. O'CONNELL: But the business group have dodged it.

H. M. JR: But I can't. Don't forget that.

MR. BLOUGH: I quite agree, Mr. Secretary, and I am not trying to dodge the assignment, because I think it is very important; but I would like to point out

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that the people you would naturally expect to be the ones to say, "Well, we have got to pay off the debt and we have got to have sound finance, and so forth," what are they saying? They are saying, "We have to meet expenditures and make some token reduction in the debt."

H. M. JR: That does not suit me.

Well, look I have a kind of thumbnail sketch of this thing.

MR. BLOUGH: That is what I was trying to give you.

H. M. JR: I have given you my reaction. I am mighty glad you people have gotten so far along with this stuff. Before this year is out, I am going to get hold of you somewhere, if we have to go up to the country some place where you will have a day or two at me so you can pump it into me. I have got to get it.

MRS. KLOTZ: You can't get it here.

H. M. JR: It is impossible. Now I have all kinds of things.

MR. BLOUGH: Well, this isn't the sort of thing you can pick up in fifteen minutes.

H. M. JR: Well, I think just what you have given me sounds very good and I compliment you.

MR. BLOUGH: We have succeeded in doing this -- I don't know how long this is going to last. We have succeeded in maintaining very good relations with Stam and his group, and I think they are better than they have ever been. We have also maintained good relations -- I think very good -- with the other executive branches who have expressed an interest in taxes, and with which we have worked on the staff level.

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H. M. JR: You will have to begin to put words in my mouth very soon.

MR. BLOUGH: I would only ask one thing, and that is that you give us a chance to suggest words.

H. M. JR: I am asking for it now.

MR. BLOUGH: Rather than talking off the cuff.

H. M. JR: I have never done that.

MR. BLOUGH: You have been very careful this fall. I thank you for it.

H. M. JR: O. K.

[CONFIDENTIAL]

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PRELIMINARY PRINT
STUDIES IN POST-WAR TAXATION

Pursuant to resolution of the
**JOINT COMMITTEE ON INTERNAL REVENUE
TAXATION**

By the Technical Staffs of the
**JOINT COMMITTEE ON INTERNAL REVENUE TAXATION
AND TREASURY DEPARTMENT**

PART 1



DECEMBER 1944

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1944

STUDIES IN POST-WAR TAXATION

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION FOR
POST-WAR TAXATION

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PRELIMINARY PRINT

STUDIES IN POST-WAR TAXATION

PREFACE

These preliminary studies in post-war taxation are being prepared pursuant to a resolution of the Joint Committee on Internal Revenue Taxation adopted on June 15, 1944, as follows:

Resolved, That the committee direct its staff, in collaboration with the Treasury staff and the staff of the Bureau of Internal Revenue, to make a special study of post-war taxation."

In accordance with the resolution of the joint committee, the studies have been made by the technical staffs of the joint committee and the Treasury Department (including the Bureau of Internal Revenue) and are presented to the Joint Committee on Internal Revenue Taxation for consideration.

Part 1, Outlook for Federal Expenditures, was prepared in collaboration with the technical staff of the Bureau of the Budget, after consultation with the various agencies concerned.

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Part 1. OUTLOOK FOR FEDERAL EXPENDITURES

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PRELIMINARY PRINT

Part I. OUTLOOK FOR FEDERAL EXPENDITURES

INTRODUCTION

Before considering the size and nature of changes in the tax structure in the post-war period and in the transition from war to peace, it is desirable to consider the outlook for Federal expenditures. It has become widely recognized that Federal expenditures will inevitably be vastly increased in the post-war period over the level before this war. The large increase in the public debt during the war period will require interest disbursements each year many times the interest payments on the pre-war debt. Also, there are other enlarged expenditures in the category of "aftermath of war" which will contribute to the expansion of annual expenditures.

It should be emphasized at the outset that the forecasting of Federal expenditures is a hazardous undertaking, especially in view of the considerable number of assumptions that must be made. It is true that some items are uniform enough from year to year so that they may be estimated with some certainty. In a great many categories, however, expenditures fluctuate considerably from year to year. These concern mostly those governmental functions which are sensitive to changes in economic conditions. Even more difficult, however, is the estimating of those expenditures which are tied up with military factors. No one knows at this time what the size of the permanent armed forces will be after the war. Moreover, the timing of the end of the war in Europe and in the Pacific must be assumed quite arbitrarily in making estimates of military outlays in the immediate period ahead. Allowance must also be made as to the extent of need for occupation forces in the Axis countries.

Still another difficulty faced in estimating future expenditures is the uncertainty as to what action Congress will take in regard to policy in a great number of fields. This report generally assumes the continuation of present law with such exceptions as are set forth later.

With regard to the continuation of the war, it is necessary to make definite assumptions. A number of possible assumptions suggest themselves ranging from extremely optimistic possibilities, such as the almost immediate defeat of Germany and the defeat of Japan in a few months, to definitely pessimistic possibilities, such as the prolongation of the war with Germany for perhaps another year and that with Japan for an additional 2 or 3 years. It was decided that two working assumptions would be practical. Assumption A is that major hostilities in Europe end before the end of the calendar year 1944, and in Asia about a year later; or more specifically the German defeat is assumed to occur late in December 1944 and the Japanese defeat in

December 1945. While this assumption now seems unrealistic, it has been used in several other studies and it was thought desirable to use it here for comparative purposes. Assumption B is that major hostilities in Europe end sometime before the end of the fiscal year 1945, say around March 1945, and that the war with Japan continues until June 1946. Even this, of course, is an optimistic assumption. A pessimistic assumption could have been developed also but none has been worked out in this preliminary report. Neither of the two assumptions used may be proved correct by subsequent events, but they are intended to show the probable expenditure situation under a quick termination of the war and under a somewhat longer period of conflict. A comparison of expenditures under the two assumptions throws light on the effects on expenditures of the duration of the war.

The first problem which Congress will face is that of the transition period. Accordingly, it was deemed desirable to concentrate attention on expenditure estimates for the next 3 calendar years, 1945, 1946, and 1947.

The figures presented here should be considered as preliminary working data and not as official estimates. They are based on the best information available and were worked out after consultation and collaboration with a number of technicians in the Bureau of the Budget and the War Production Board.

In the discussion which follows, no allowance has been made for possible expenditures for debt retirement. The expenditure estimates include net outlays of Government corporations, as well as budgetary items. This seems desirable in order to present the over-all picture of Federal expenditures. For example, war activities of the Reconstruction Finance Corporation and its subsidiaries must be covered to have a complete analysis of war expenditures, and to demonstrate the magnitude of financial requirements. However, since net budgetary receipts are applied only to meet budgetary expenditures, the estimates of total expenditures are shown in summary tables at the end of this report broken down between budgetary items and net outlays of Government corporations.

WAR EXPENDITURES

War expenditures may be considered conveniently in two broad categories: Munitions (including war construction), representing the major production items; and nonmunitions, including pay and subsistence of the armed forces and certain other items.

In the calendar year 1944, it appears that war expenditures will aggregate \$91 billions. On the basis of available data this \$91 billions may be divided between \$59 billions for munitions and \$32 billions for nonmunitions.

1. Munitions.

The classification "munitions" includes not only military type items (guns, ammunition, planes, ships, etc.) but also civilian or industrial type products (locomotives, lumber, medical supplies, war construction, etc.). Actually the term "munitions" covers all products except food, procured in the continental United States for the armed forces or for lend-lease.

Turning first to the \$59 billions estimated expenditures for the calendar year 1944 on munitions, what is the outlook for this group of expenditures after cut-backs are inaugurated following the defeat of Germany? A great many conflicting figures have been discussed in various quarters about the size of cut-backs after the German defeat. The information available at mid-November indicated cut-backs of munitions, under either assumption as to the end of the war with Germany, might run to approximately 40 percent, mostly effective shortly after the German defeat, but not completely effective until the lapse of approximately 12 months. It should be emphasized that estimates of average cut-backs after the German defeat have varied somewhat over recent weeks and this probably will continue to be true, but 40 percent appears to be a reasonable approximation subject to variation of a few points in either direction. The 40-percent figure, of course, is an average of more detailed cut-back figures applicable to the component programs, which together make up the present \$59 billions total. Accordingly, efforts were made to obtain information on the value of the component programs and the estimated cut-back figures for each.

The various programs may be broken down into two principal categories, (1) aircraft and navy; and (2) ground army, merchant shipping, military construction, and other programs. Presumably, the cut-backs will be smaller in the aircraft and navy programs and larger in the various other programs. For the last half of 1944, it is estimated that the aircraft and navy programs will take up about 55 percent of total munitions expenditures, the remaining programs accounting for the other 45 percent. The best information available indicates that the average 40 percent cut-back referred to above would be made up of average cuts of from 25 to 35 percent in the combined aircraft and navy programs and from 50 to 60 percent in the other programs. These figures thus indicate that an average cut-back of more than 40 percent would be possible only if much more drastic cut-backs were deemed feasible for the aircraft and navy programs. On the other hand, the average cut-back figure might be reduced if ground Army requirements in the Asiatic war were increased substantially.

The full 40-percent cut would not take place immediately. It is expected that the cut in the first quarter after the defeat of Germany would be 30 percent and that it would increase to 35 percent in the second quarter, to 38 percent in the third, and to the full 40 percent in the fourth quarter. These cut-back percentages refer to military production rather than to cash outlays by the Treasury. There is of necessity a lag in cash expenditures of varying periods behind actual production. Taking into consideration this lag, it is estimated that munitions expenditures in the calendar year 1945 would be about \$39 billions under assumption A and \$43 billions under assumption B as compared with the \$59 billions estimate for the calendar year 1944.

With regard to estimating munitions expenditures after the Japanese defeat, available data do not provide a basis for a detailed breakdown for a period so far in advance. A very rapid liquidation of the munitions program is expected but it should be remembered that a small amount of munitions production is likely to be continued at least for a while after the Japanese defeat. Navy ships which are

partially completed may be finished; also, there may well be production of certain new types of military items if available supplies are considered obsolete. No effort has been made to weight these factors with any statistical accuracy; they are merely mentioned as reasons why military production is not likely to be wiped out completely.

On the other hand it is recognized that there may be a breathing spell in the production of many military items between the Japanese collapse and the establishment of a permanent peacetime military policy. This will be accentuated by the fact that large volumes of military supplies will certainly be on hand at that time.

After checking with the technical people in various agencies it has seemed reasonable to estimate that in the first six months following the end of the Japanese war, the cut-backs under the munitions program would be pushed upward to perhaps 85 percent. Specifically, this means that the 1944 level of munitions production would be cut back 40 percent after victory in Europe, and by another 45 percent within six months following victory in the Pacific. It has been further assumed that the cut-backs would reach 90 to 95 percent one year after victory in the Pacific.

The cut-back figures enumerated, with allowances for the lag in expenditures, indicate that munitions expenditures under assumption A would aggregate \$7 billions in the first half of 1946 and \$3 billions in the second half, or \$10 billions for the entire calendar year. Carrying these cut-back figures forward into the calendar year 1947 it is estimated that munitions expenditures will aggregate about \$4 billions. Under assumption B, victory in Europe in March 1945 and victory in the Pacific in June 1946, munitions expenditures in the first half of calendar 1946 are estimated at \$16 billions and at \$7 billions in the second half, giving a total of \$23 billions for the year. Extending these reductions, an estimate of \$5 billions for the calendar year 1947 is obtained. The figures on the basis of both assumptions are set out in the table below:

Estimated expenditures for munitions
(In billions of dollars)

Calendar years	Assumption A	Assumption B
1944.....	59	59
1945.....	39	43
1946.....	10	23
1947.....	4	5

2. Nonmunitions.

The nonmunitions war expenditures, estimated at \$32 billions for the calendar year 1944, can be broken down into two groups: The larger of these groups, estimated at \$21 billions, consists of pay of the armed forces, dependency allowances, subsistence, and travel allowances. The second group of nonmunitions war expenditures, estimated at \$11 billions for the calendar year 1944, includes such items as civilian pay in war agencies, mustering-out pay, stock piling of critical materials, agricultural lend-lease, payments for United Nations Relief and Rehabilitation Administration, contract-termination pay-

ments, and commercial transportation and public utilities relating to troops and equipment in the United States.

(a) *Pay and subsistence, etc., of the armed forces.*—The estimated \$21 billions for 1944 for pay and subsistence, etc., of the armed forces will be reduced in the future more or less proportionately as the number of men in the armed forces is decreased. The figure of \$21 billions relates to an average of about 11½ million persons in the armed forces in 1944; the number will be slightly higher at the year end. No official figures are available on the projected decline in the armed forces after the defeat of Germany because of the need for flexibility in the war against Japan. Any decrease which occurs probably will not take place until the last half of the year following victory in Europe since shipping facilities will be needed in the forefront of the year to shift supplies and men from the European to the Pacific theater. On the basis of assumption A expenditures for pay and subsistence, etc., of the armed forces may be estimated at approximately \$22 billions in the calendar year 1945. This assumes that increased average pay of the armed forces due to promotions, overseas pay, etc., will slightly more than offset any decrease in the size of the armed forces.

The question of how fast the military forces can be demobilized after the defeat of Japan depends on such imponderables as the amount of policing to be done in Europe and the Pacific, the post-war military policies of this country and its allies, and the shipping capacity that will be available. It has not been possible to obtain sufficient information on these various factors to arrive at a satisfactory forecast of probable demobilization after the Japanese defeat. Accordingly, it has been necessary to make rough assumptions of changes in expenditures for pay and subsistence, etc., of the armed forces after the defeat of Japan. Under assumption A, it has been estimated that pay and subsistence, etc., of the armed forces would decline by about one-third in 1946, giving an estimate of \$14 billions, and by about the same amount in 1947, giving an estimate of \$7 billions. Under assumption B, the estimate of \$22 billions for 1945 is retained, and estimates of \$18 billions and \$10 billions are used for 1946 and 1947, respectively.

Estimated expenditures for pay and subsistence, etc. of the armed forces
(In billions of dollars)

Calendar years	Assumption A	Assumption B
1944.....	21	21
1945.....	22	22
1946.....	14	18
1947.....	7	10

(b) *Other nonmunitions.*—The sum of \$11 billions representing the 1944 level of annual expenditures for other nonmunitions items includes some components which will decrease and others which will increase or stay about the same for some time. The increasing items include payments resulting from the termination of contracts and mustering-out pay. Negative expenditures will occur in some components, however, to the extent that Government corporations dispose of stock piles of strategic materials, and surplus war commodities

which had been paid for from corporation funds. (Proceeds of items which had been purchased from appropriated funds will be deposited in the Treasury as miscellaneous receipts.) Other items which may vary with changing conditions include transportation costs, agricultural lend-lease, civilian pay in war agencies, and military public utilities. It is not possible to estimate all of these decreases and increases with certainty, but it appears that in the first year following the defeat of Germany the decreasing factors will slightly more than offset the factors which would otherwise result in an increase.

Accordingly, under both assumptions \$10 billions has been allowed for this category for the calendar year 1945 and \$9 billions for 1946. In 1947 expenditures are cut to \$4 billions under assumption A while remaining at the relatively high level of \$7 billions under assumption B because of continuing contract termination payments, mustering-out pay, etc.

Estimated expenditures for other nonmunitions

(In billions of dollars)

Calendar years	Assumption A	Assumption B
1944.....	11	11
1945.....	10	10
1946.....	9	9
1947.....	4	7

8. Total war expenditures.

All of the components of war expenditures have now been discussed in the brief summaries as given above, and the figures may be brought together at this point. The table below shows the recapitulation of estimated total war expenditures under assumption A and assumption B:

Estimated total war expenditures

(In billions of dollars)

Calendar years	Assumption A	Assumption B
1944.....	91	91
1945.....	71	75
1946.....	33	50
1947.....	15	22

OTHER EXPENDITURES

Many of the expenditures appearing under this heading vary in accordance with general economic conditions. Such expenditures as those for work programs and agricultural price support are directly related to the state of economic health. On the other hand, a great many expenditures for operating functions of executive agencies vary only slightly with changes in economic conditions.

In this report income payments to individuals have been used as an indication of the general economic conditions of the country. (Note: This concept differs somewhat from national income.) For the calendar year 1945 income payments have been estimated to range from

\$140 billions to \$150 billions, which compares with an estimate of about \$154 billions for the calendar year 1944. This range allows for variations in income payments which might be expected under the two assumptions in regard to the timing of the German collapse. If the war ends in December of 1944, the income payments might be expected to approach the lower end of the range, while the reverse could be expected under the March 1945 assumption for the German collapse. For the calendar years 1946 and 1947 no forecast has been made but expenditure estimates have been made on the basis of assumed levels of income payments selected to bring out differences in expenditures under different economic conditions. There is no intention of forecasting that the level of income payments will in fact necessarily fall within the range indicated. The estimates of income payments for 1944 and 1945 and the assumed levels for 1946 and 1947 may be summarized as follows:

Estimated and assumed levels of income payments to individuals¹

(In billions of dollars)

Calendar year	Income payments to individuals			
1944 (estimated).....				154
1945 (estimated).....			140-150	
1946 (assumed).....	120	140		
1947 (assumed).....	100	120	140	

¹ Income payments are not expressed in constant prices. The prices associated with the levels of income payments shown in the above table are discussed in appendix A.

"Other expenditures" have been divided into three groups for discussion in this report—"aftermath of war," aid programs, and "other Government activities." The estimated expenditures are shown for each of the levels of income payments as indicated above. Fluctuation according to these economic levels is shown only in five categories within the three groupings—veterans' pensions and benefits, aids to agriculture, aid to the unemployed, cash refunds of taxes, and excess-profits tax bonds. Of these five categories, fluctuations with economic conditions have been estimated for all but one on the basis of present law. The exception, aid to the unemployed, required special treatment. It has been the practice of the Government in recent years to provide work programs as the need for them arose, rather than to set up basic legislation long in advance. Accordingly, present law does not indicate the full extent of expenditures of this type, and estimates of aid to the unemployed have been made on the basis of particular assumptions as indicated below in this report.

Most of the expenditure functions discussed under "other expenditures" could be expected to vary somewhat depending on the timing of the end of the war in Europe and Asia. Variations were not thought to be of significance, however, except in the case of "aftermath of war," aids to agriculture, and aid to the unemployed.

1. "Aftermath of war" expenditures.

In addition to direct outlays for war purposes, a high percentage of expenditures in the period ahead, not classified as war, are a direct result of war or the needs of reconversion to peace. These may be

referred to as "aftermath of war" expenditures. Among these might be included in whole or in large part veterans' pensions and benefits, interest on the public debt (mostly attributable to war), refunds growing out of taxes imposed to raise revenue for war, aids to agriculture resulting from certain increases in farm production beyond ordinary peacetime needs, possible expenditures for readjustment of the labor force to a peacetime basis, and similar items.

No attempt has been made to isolate all of such "aftermath of war" expenditures, but it seems proper to set out four items, the bulk of which clearly fall in this category, namely, veterans' pensions and benefits, interest on the public debt, cash refunds of taxes, and excess-profits tax bonds.

Expenditures appearing under this heading, although war caused, are not temporary in character and many of them can be expected to continue for some time after the war.

(a) *Veterans' pensions and benefits.*—This provides for expenditures under the Servicemen's Readjustment Act of 1944 as well as previous veterans' measures, but does not provide for the costs of any possible future legislation liberalizing veterans' benefits. Portions of the benefits provided under the Servicemen's Readjustment Act vary in accordance with economic conditions, although most of the veterans' programs show no such variation. It should be pointed out that there is a wide margin of error in these estimates because of the difficulty of allowing for war casualties. The following table shows estimated expenditures under both assumption A and assumption B.

Estimated expenditures for veterans' pensions and benefits
(In billions of dollars)

Calendar year	Assumed income payments				
	\$100 billions	\$120 billions	\$140 billions	\$160-\$180 billions	\$150* billions
ASSUMPTION A					
1944.....				2.5	1.0
1945.....					
1946.....		4.4	3.7		
1947.....	5.5	4.5	3.8		
ASSUMPTION B					
1944.....				2.4	1.0
1945.....					
1946.....		4.2	3.4		
1947.....	4.9	4.2	3.5		

(b) *Interest on the public debt.*—In order to project interest on the assumed public debt over the years under consideration, it is necessary to take into account not only variations in the timing of the war but also to consider possible variations in other expenditures and in taxes. The other expenditures and the taxes, of course, are at least partially related to the national income. Changes in these items are not expected to be large enough in the aggregate, however, to affect interest

disbursements significantly. The timing of the war, on the other hand, is an important factor.

The computed average interest rate on the public debt is currently about 1.94 percent. Borrowing during the war period has been done at an average rate of about 13/4 percent, but the older debt at higher rates of interest is responsible for the fact that the computed rate on the entire debt is somewhat higher. For the purposes of this analysis an arbitrary interest rate of 2 percent has been assumed. This is not intended to indicate any expectation that interest rates will in fact rise to 2 percent, but this figure has been used merely for convenience. It may be noted in this connection that the Secretary of the Treasury said recently that he did not anticipate a rise in interest rates

in the foreseeable future.

The following table shows the assumed outstanding public debt at the end of each year and the projected interest expenditures for the calendar years under review under both assumptions as to the end of the war. In the case of assumption A the debt figures assume arbitrarily that net new borrowing will be reduced from about \$40 billions in 1945 to \$5 billions in each of the calendar years 1946 and 1947. Under assumption B new borrowing for 1945 is assumed to be \$45 billions; in 1946, \$20 billions, and in 1947, \$5 billions. The figures on net increase in debt reflect the net deficit as well as minor changes in the cash balance of the Treasury. It should be noted that there is a lag in interest expenditures as compared with increases in the public debt.

Assumed public debt and estimated expenditures for interest on the public debt
(In billions of dollars)

Calendar year	Assumption A		Assumption B	
	Public debt at end of period	Expenditures for interest	Public debt at end of period	Expenditures for interest
1944.....	225	3.1	225	3.1
1945.....	265	4.2	270	4.2
1946.....	270	5.0	290	5.1
1947.....	275	5.1	295	5.4

(c) *Cash refunds of taxes.*—This classification includes all overpayments of taxes and duties which require cash refunds by the Treasury. Overpayments which are offset against current taxes operate merely to reduce revenue collections, and are not included here. The present category includes refunds of corporation taxes arising from: (1) carry-backs of net operating losses, (2) carry-backs of unused excess profits tax credits, (3) overpayments of corporate taxes, (4) adjustments in the excess profits tax base, and (5) recomputation of amortization allowances for war facilities. Refunds of individual income taxes, arising principally from overwithholding, refunds of other internal revenue taxes, and refunds and draw-backs of customs duties are also included.

Estimates of cash refunds for the years under consideration under both assumptions in regard to the end of the war are shown in the table below. It will be noted that no variation under the assumed levels of income payments is shown until 1947. This is because of the

lag in actual disbursement of refunds (especially carry-backs) behind the base year for which the claim was filed. For example, if income payments are low in 1946, claims for most corporate refunds for that year would not be filed prior to March 1947 and possibly not paid until 1948.

The variations between assumptions A and B are caused mostly by the fact that the different timing of the end of the war under the two assumptions alters the final adjustment of the rapid amortization permitted for certain war plants and equipment. Under assumption A \$400 to \$500 millions is included for recomputation of the amortization in each of the calendar years 1946 and 1947. With the assumed continuation of the war under assumption B, these refunds are not expected to exceed \$100 millions prior to 1947 while the payments for 1947 are estimated at \$500 millions.

Refunds of individual income taxes, mostly due to excess withholding, account for most of the \$400 millions estimated for 1944, and for \$500 million to \$800 millions in each of the years 1945, 1946, and 1947. No great variation according to economic conditions is shown in the refunds of personal taxes. The amount withheld will fall as income payments fall, but, on the other hand, tax liabilities will also be less and withholding in the forepart of the year will have been at too high a rate on an annual basis (thereby resulting in overwithholding) for those who have their wages drastically reduced or become unemployed later in the year.

Carry-backs of unused excess profits tax credits and net losses are other important types of cash refunds. Combined estimates of refunds for the carry-backs range from \$155 millions in 1945 to \$540 millions under the \$100 billions income payment assumption in 1947. Since there is a lag in the refunds due to carry-backs under present law a large portion of the payments for refunds based on 1946 returns would actually be made after 1947, and all of the refunds based on 1947 returns under present law would be made after that year.

Estimated expenditures for cash refunds of taxes¹

(In billions of dollars)

Calendar year	Assumed income payments				
	\$100 billions	\$120 billions	\$140 billions	\$140-\$150 billions	\$154 billions
ASSUMPTION A					
1944.....					0.4
1945.....				1.3	
1946.....		1.6	1.6		
1947.....	1.9	1.8	1.7		
ASSUMPTION B					
1944.....					0.4
1945.....				1.3	
1946.....		1.3	1.3		
1947.....	1.9	1.8	1.7		

¹ Refunds in the calendar years 1946 and 1947 will be largely determined by incomes in preceding years. For each income level in these years, it is assumed that the income level in the preceding year was higher or unchanged as explained in appendix A.

(d) *Excess profits tax bonds.*—Under the Revenue Act of 1942 corporations receive an amount equal to 10 percent of excess profits taxes as credits either currently or in the form of bonds which may not be transferred or pledged as collateral before the end of the war. The credits can be taken currently only for the reduction of corporate debt. Roughly one-third of the credits were assumed to be taken in this manner. After the war the bonds become fully negotiable although many of them will not mature for several years.

Estimates of the amount of these bonds to be issued are included to place the expenditure estimates in this report on a comparable basis with the reporting practices of the Treasury Department and Bureau of the Budget. It should be made clear, however, that under present law the Government will not pay out any cash in connection with the redemption of these bonds until after the end of the war.

No variations are shown in the estimates for 1946 in the two assumed levels of income payments, since the bonds issued in 1946 will be based principally on 1944 and 1945 tax liabilities. The estimates for 1947 are based upon economic conditions in 1945 and 1946. Present law provides only that post-war bonds shall be issued for taxable years beginning before the end of the war. This accounts for lower estimates in 1947 under assumption A than under assumption B.

Estimated issuance of excess profits tax bonds¹

(In billions of dollars)

Calendar year	Assumed income payments				
	\$100 billions	\$120 billions	\$140 billions	\$140-\$150 billions	\$154 billions
ASSUMPTION A ¹					
1944.....					0.5
1945.....				0.8	
1946.....		0.9	0.9		
1947.....	0.1	.2	.4		
ASSUMPTION B					
1944.....					0.5
1945.....				0.8	
1946.....		0.9	0.9		
1947.....	0.2	.4	.6		

¹ The amount of bonds in the calendar years 1946 and 1947 will be largely determined by incomes in the preceding two years. For each income level in these years it is assumed that the income level in the preceding year was higher or unchanged as explained in appendix A.

(c) *Total expenditures for "aftermath of war."*—The expenditures classified under this heading are summarized below:

Estimated total expenditures for "aftermath of war"
(In billions of dollars)

Calendar year	Assumed income payments				
	\$100 billions	\$120 billions	\$140 billions	\$140-\$150 billions	\$154 billions
ASSUMPTION A					
1944.....					5.0
1945.....				8.8	
1946.....		11.9	11.2		
1947.....	12.6	11.6	11.0		
ASSUMPTION B					
1944.....					5.0
1945.....				8.7	
1946.....		11.5	10.7		
1947.....	12.4	11.8	11.2		

2. Aid programs.

Aids to agriculture and aid to the unemployed constitute the two expenditure categories most closely concerned with programs to alleviate economic distress. Social security assistance is also included, although this does not fluctuate under present legislation to a large extent with changes in economic conditions. Parts of other programs might have been included here but this would have involved overlapping of classifications and they have been placed in other categories.

(a) *Aids to agriculture.*—This program is defined to include net outlays of the Commodity Credit Corporation as well as budgetary expenditures.

Farm prices will tend to rise or fall, in relation to parity, with the movement of income payments. It is assumed that there will be a continuation of such programs as soil conservation, disposition of surpluses, and parity payments, with such modification of existing legislation as may be necessary particularly with respect to the disposition of agricultural surpluses. In addition it is assumed that existing law making mandatory the support of farm prices close to parity for 2 or 3 years after the end of the war will be fully implemented by Congress. In the past aids to agriculture ran to more than \$1½ billions in some years. At that time mandatory price supports were on a lower level and applied only to certain basic commodities. If the present statutory policy for agricultural aids had existed in the past, these expenditures would have been much higher. Accordingly, it has been estimated on an arbitrary basis that expenditures for aids to agriculture will run from \$2.0 to \$3.5 billions in 1947, depending on the level of income payments, and will be somewhat less in 1946. These figures are high in relation to past outlays but could be reduced substantially only by a change in present law with regard to mandatory price supports.

It should be observed that the Commodity Credit Corporation whose net outlays are included here, would carry a substantial share of the price support program through its loan, purchase and sale operations. It is assumed that the Commodity Credit Corporation will remain in operation at least during the early post-war years, and that considerable expansion will be necessary in its loaning and purchasing activities to support the farm price structure under present law, even under a fairly optimistic assumption of income payments. It is probable that under a pessimistic assumption of income payments the Commodity Credit Corporation's cash outlays would be more substantial. Reimbursements for capital losses of the Commodity Credit Corporation by the Treasury constitute a budgetary charge for aids to agriculture and correspondingly reduce the net outlays of the Corporation, thereby offsetting each other in these figures.

Estimated expenditures for aids to agriculture¹

Calendar year	Assumed income payments				
	\$100 billions	\$120 billions	\$140 billions	\$140-\$150 billions	\$154 billions
Assumption A					
1944.....					1.0
1945.....				1.2	
1946.....		2.2	1.6		
1947.....	3.5	3.0	2.0		
Assumption B					
1944.....					1.0
1945.....				1.2	
1946.....		2.0	1.4		
1947.....	3.5	3.0	2.0		

¹ Includes net outlays of the Commodity Credit Corporation as indicated in text.

(b) *Aid to the unemployed.*—In estimating the amount of aid to the unemployed the procedure has been first, to estimate the number of unemployed at different income levels and second, to assume that total unemployment aid and compensation would average \$500 a year per unemployed person (for a discussion of these estimates see appendix B).

After estimating total unemployment aid and compensation at the \$500 rate, allowance is made for unemployment trust fund expenditures which would be made under State programs and payments to unemployed veterans under the Servicemen's Readjustment Act of 1944 (included under the category "veterans' pensions and benefits"). The present category thus includes only the residual amounts needed, after account is taken of such other programs, to bring unemployment outlays per unemployed person up to \$500. The following table summarizes estimated budgetary payments to the unemployed under the

assumed income payment levels on this basis. No particular form of aid is implied. It might be work relief, public works, direct relief, supplementary unemployment compensation allowances, etc., or a combination of these.

Expenditures for aid to the unemployed in 1946 and 1947 do not vary proportionately to the number of the unemployed, since trust fund expenditures under the State unemployment compensation programs will decline as benefit rights become exhausted at high levels of unemployment, and aid to the unemployed as classified here will thus have to cover a larger part of the assumed \$500 rate per person.

Estimated expenditures for aid to unemployed¹

Calendar year	Assumed income payments				
	\$100 billions	\$120 billions	\$140 billions	\$140-\$150 billions	\$154 billions
Assumption A					
1944.....					0
1945.....				0.8	
1946.....		1.6	0.6		
1947.....	2.8	1.0	.3		
Assumption B					
1944.....				0.6	0
1945.....					
1946.....		1.8	0.6		
1947.....	3.4	1.4	.3		

¹ After allowance for expenditures under other programs for unemployment aid and compensation as indicated in text and Appendix B.

(c) *Social security assistance.*—This is the budgetary figure for social security and excludes benefit payments from the Federal old-age and survivors insurance trust fund, the railroad retirement account, and withdrawals by States and the Railroad Retirement Board from the unemployment trust fund. It covers, however, aid to dependent children, noncontributory old-age assistance, aid to the blind, and certain administrative expenses. Variation according to economic conditions is not expected to be of sufficient importance to affect the rounded figures given below:

Estimated expenditures for social security assistance

Calendar year:	(In billions of dollars)
1944.....	0.5
1945.....	.6
1946.....	.6
1947.....	.6

(d) *Total expenditures for aid programs.*—Expenditures for the foregoing aid programs are summarized below:

Estimated total expenditures for aid programs
(In billions of dollars)

Calendar year	Assumed income payments				
	\$100 billions	\$120 billions	\$140 billions	\$140-\$150 billions	\$154 billions
Assumption A					
1944.....					1.5
1945.....				2.6	
1946.....		4.4	2.8		
1947.....	6.9	4.6	2.9		
Assumption B					
1944.....					1.5
1945.....				2.4	
1946.....		4.4	2.6		
1947.....	7.5	5.0	2.9		

5. "Other Government activities."

Included under "Other Government activities" are the operating expenditures of executive, legislative, and judicial agencies, the continuing or regular public works program, and the other net outlays of Government corporations. As in the case of war expenditures, corporation outlays are included to give a more comprehensive picture of total Federal expenditures. The figures for "Other Government activities" do not vary significantly with economic conditions.

(a) *Continuing public works.*—The figures under this category do not include any allowances for special programs designed to prevent unemployment which Congress in the future may enact. The public works program assumed follows along the lines of regular, continuing public works and the principal items are construction and maintenance activities of such agencies as Corps of Engineers (river and harbor work and flood control), Veterans' Administration, Bureau of Reclamation, Public Roads Administration, Public Buildings Administration, and Tennessee Valley Authority. Because of the advanced stage of action in Congress on the Federal aid to highways bill, estimated expenditures resulting from this legislation are included in this category. The assumptions followed in making the estimates have meant that no allowance was made for any new special public works of the Tennessee Valley Authority type. Expenditures of the Federal Public Housing Authority payable from corporate funds are classified with nonwar outlays of Government corporations. No variations are shown for different levels of income payments in this category. It should be recognized that part of the payments classified as "Aid to the unemployed" above, might take the form of public works programs. The estimates for public works are summarized below:

Estimated expenditures for continuing public works

Calendar year:	(In billions of dollars)
1944.....	0.4
1945.....	.4
1946.....	.6
1947.....	.9

(b) *Departmental administrative expenses, etc.*—Included in this category are the legislative establishment, judiciary, Executive Office of the President, civilian departments and agencies, Post Office deficiency, Federal contribution to the District of Columbia, and transfers to retirement funds. Expenditures for 1945 are projected at the 1944 level. For 1946 and 1947 they are decreased slightly. Many of these miscellaneous Government activities are related to the war and are expected to decline after the war. On the other hand, the strictly nonwar activities have been curtailed below the level of peacetime operations and some increase in these activities after the war can hardly be avoided. On balance, however, the factors tending toward a decrease are assumed to offset the increasing factors, at least in a minimum budget. It will be noted in the tabulation below that no variation in expenditures is shown for the different income payment levels. In reality there is, of course, some variation but it is not significant in terms of tenths of billions.

Estimated expenditures for departmental administrative expenses, etc.

Calendar year:	(In billions of dollars)
1944	1.5
1945	1.5
1946	1.4
1947	1.4

(c) *Other outlays of Government corporations.*—This category includes net outlays of Government corporations and credit agencies not previously discussed. It includes nonwar outlays of Reconstruction Finance Corporation, Home Owners' Loan Corporation, Federal Farm Mortgage Corporation, Export-Import Bank of Washington, and other Government corporations. War outlays of the Reconstruction Finance Corporation were included under war expenditures and expenditures of the Commodity Credit Corporation appear under the heading "Aids to Agriculture." Corporation expenditures, which are not included as budgetary expenditures but supplement them, are included on a net basis; that is, gross payments less gross repayments. The figures do not include operations of the agencies in issuing or redeeming their own securities.

Some of the basic assumptions made in estimating corporation outlays may be briefly mentioned. It is assumed that the Federal Farm Mortgage Corporation and the Home Owners' Loan Corporation continue their present process of liquidation but at a slower rate after the war. It is expected that lending operations will be carried on to finance the sale of surplus war materials. No new program for the Federal Public Housing Authority has been assumed.

There has been some public discussion concerning possible extensive programs of loans and credits to foreign countries after the war. Presumably such programs would be carried on through the Government corporations. It was not deemed feasible to include estimates for such programs.

Estimated expenditures for other outlays of Government corporations¹

Calendar year:	(In billions of dollars)
1944	1.5
1945	1.0
1946	.2
1947	.4

¹ Excludes war expenditures of Reconstruction Finance Corporation and its subsidiaries, and expenditures of the Commodity Credit Corporation.

(d) *Total expenditures for "other Government activities."*—All of the components of "other Government activities" have been discussed and may be brought together at this time in the following recapitulation:

Estimated total expenditures for "other Government activities"

Calendar year:	(In billions of dollars)
1944	0.4
1945	.9
1946	2.2
1947	2.7

TOTAL EXPENDITURES

The estimates for the various groups of expenditures (based largely on existing law) have been brought together in tables 1 and 2 below to indicate the outlook for total expenditures in the calendar years under consideration. Table 1 shows estimated expenditures under assumption A, namely, that the war with Germany ends late in December of 1944 and the war with Japan ends a year later. Table 2 shows the estimates under assumption B, namely, that Germany is defeated in March of 1945 and that Japan collapses by the end of June 1946. For convenient reference, actual expenditures for the calendar years 1940-43 are also shown.

It is estimated that total budgetary expenditures will amount to \$97 billions in the calendar year 1944, and will decline to \$84 billions in the calendar year 1945 under assumption A. In 1946 budgetary expenditures under the same war assumption would drop to an estimated \$53 or \$50 billions, with assumed income payment levels of \$120 and \$140 billions, respectively. In 1947 budgetary expenditures under assumption A are estimated to drop further to \$38, \$35, or \$33 billions under the assumed income payment levels of \$100, \$120, and \$140 billions, respectively.

The prolongation of the war (assumption B) assumed in the estimates shown in table 2, raises estimated total budgetary expenditures considerably above those estimated under assumption A. Total budgetary expenditures under assumption B are expected to amount to \$88 billions in 1945, and decrease to \$69 or \$67 billions in 1946 under the assumed income payment levels of \$120 and \$140 billions, respectively. In 1947 the estimated expenditures drop to \$46, \$43, or \$40 billions under assumed income payment levels of \$100, \$120, and \$140 billions, respectively.

The principal conclusion to be drawn from these figures is that expenditures in 1947 even under the most optimistic war assumption, cannot be expected to fall below \$33 billions and are likely to be at least \$40 billions under the somewhat less optimistic assumption in regard to the war. This conclusion could only be changed if a fundamental alteration in the outlook for war expenditures in the immediate years following the defeat of Japan seemed reasonable.

It should be reiterated that the minimum estimates of about \$33 billions and \$40 billions for 1947 refer to a transition year—under certain assumptions—and not to what is commonly considered as a "normal" post-war year. It can reasonably be expected that in such a year budgetary expenditures would be much less as war expenditures are reduced.

TABLE I
ACTUAL AND ESTIMATED EXPENDITURES OF THE FEDERAL GOVERNMENT, CALENDAR YEARS 1940-47
ASSUMPTION A—WAR IN EUROPE ENDS DECEMBER 1944; JAPANESE WAR ENDS DECEMBER 1945
Estimates based on assumed levels of income payments as indicated ¹
(in billions of dollars)

Expenditure categories	1940		1941		1942		1943		1944		1945		1946		1947			
	Actual income payments						Estimated income payments						Assumed income payments ²					
	\$70 bil- lions	\$80 bil- lions	\$117 bil- lions	\$149 bil- lions	\$154 bil- lions	\$146-149 billions	\$100 bil- lions	\$140 bil- lions	\$100 bil- lions	\$140 bil- lions	\$100 bil- lions	\$120 bil- lions	\$140 bil- lions	\$100 bil- lions	\$120 bil- lions	\$140 bil- lions		
1. War: ³																		
Munitions.....																		
Nominations.....																		
Pay and subsistence.....	2.9	13.8	32.7	53.2			59	39	10	10	4	4	4	4	4			
Other.....							21	22	14	14	7	7	7	7	7			
Total, war.....	2.9	13.8	32.7	53.2	91	71	33	33	15	15	15	15	15	15	15			
2. "Aftermath of war." ⁴																		
Interim pensions and benefits.....	.5	.6	.6	.6	1.0	2.5	4.4	3.7	5.5	4.5	4.5	3.8						
Interest on war bonds.....	1.1	1.1	1.5	2.2	3.1	4.3	5.0	5.0	5.1	5.1	5.1	5.1						
Cash refunds of taxes.....	.1	.1	.1	.1	.4	1.3	1.6	1.6	1.6	1.9	1.8	1.7						
Excess profits tax bonds.....					.3	.8	.9	.9	.1	.2	.4	.4						
Total, "aftermath of war" ⁴	1.7	1.8	2.2	2.9	5.0	8.8	11.9	11.2	12.8	11.6	11.6	11.0						
3. AID programs:																		
Aids to agriculture.....	1.3	1.1	1.2	.8	1.0	1.2	1.2	1.2	1.6	1.6	2.5	2.0						
Aid to the unemployed.....	2.0	1.6	.7	.1	1.0	.8	.8	.8	1.0	1.0	1.0	1.0						
Social security assistance.....	.4	.5	.5	.5	.5	.6	.6	.6	.6	.6	.6	.6						
Total, aid programs.....	3.7	3.1	2.9	1.4	1.5	2.6	2.6	2.6	3.2	3.2	4.0	3.9						
4. "Other Government activities:" ⁵																		
Continuing public works.....	.6	.6	.6	.5	.4	.4	.4	.4	.6	.6	.9	.9						
Continuing administrative expenses, etc.....	1.1	1.1	1.2	1.3	1.3	1.5	1.4	1.4	1.4	1.4	1.4	1.4						
Other outlays of Government corporations.....	-.1	-.2	-.3	-.2	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1						
Total, "other Government activities" ⁵	1.6	1.5	1.5	1.6	1.6	1.8	1.7	1.7	1.9	1.9	1.9	1.9						

5. Total expenditures, budgetary and corporations.....	9.8	25.6	57.8	90.1	98	85	52	49	37	34	22
6. Less net outlays of Government corporations included above.....	.2	1.5	1.8	2.0	1	-1	-1	-1	-1	-1	-1
7. Total budgetary expenditures.....	9.6	24.1	56.0	88.1	97	84	53	50	38	35	23

¹ See text for assumptions and interrelations of existing laws.
² Possible effect of Federal expenditures on income level has not been considered.
³ Includes war activities of Reconstruction Finance Corporation and subsidiaries.
⁴ Includes net outlays of Commodity Credit Corporation.

NOTE.—Figures are rounded and will not necessarily add to totals.

TABLE 2
ACTUAL AND ESTIMATED EXPENDITURES OF THE FEDERAL GOVERNMENT, CALENDAR YEARS 1940-47
ASSUMPTION B—WAR IN EUROPE ENDS MARCH 1945; JAPANESE WAR ENDS JUNE 1946
Estimates based on assumed levels of income payments as indicated¹
[In billions of dollars]

	1940		1941	1942	1943	1944		1945	1946				1947
	Actual income payments		Estimated income payments		Estimated income payments		Estimated income payments		Assumed income payments ²				
	\$70 bil- lions	\$83 bil- lions	\$117 bil- lions	\$142 bil- lions	\$154 bil- lions	\$140-100 billions	\$120 bil- lions	\$140 bil- lions	\$100 bil- lions	\$120 bil- lions	\$140 bil- lions	\$140 bil- lions	
1. War: ³													
Munitions.....													
Nonmunitions.....													
War and subsistence, etc.....	2.9	13.8	52.7	85.2		59	23	23	5	5	5	5	5
Other.....						11	9	9	10	10	10	10	10
Total, war.....	2.9	13.8	52.7	85.2		70	32	32	15	15	15	15	15
2. "Aftermath of war": ⁴													
Veterans' pensions and benefits.....	.5	.6	.6	.6		1.0	2.4	4.2	3.4	4.9	4.2	3.5	3.5
Interest.....	1.1	1.1	1.5	2.2		3.1	4.2	5.1	5.1	5.4	5.4	5.4	5.4
Cash refunds of taxes.....	.1	.1	.1	.1		.4	1.3	1.3	1.3	1.9	1.8	1.7	1.7
Excess profits tax bonds.....						.5	.8	.9	.9	.2	.4	.6	.6
Total, "aftermath of war".....	1.7	1.8	2.2	2.9		5.0	8.7	11.5	10.7	12.4	11.8	11.2	11.2
3. Aid programs: ⁵													
Aid to agriculture.....	1.3	1.1	1.3	.8		1.0	1.2	2.0	1.4	3.5	3.0	2.0	2.0
Aid to industry.....	2.0	1.5	.1	.1		.9	.6	1.8	.6	2.4	1.4	1.4	1.4
Social security assistance.....	.4	.5	.5	.5		.5	.6	.6	.6	.6	.6	.6	.6
Total, aid programs.....	3.7	3.1	2.5	1.4		1.5	2.4	4.4	2.6	7.5	5.0	2.9	2.9
4. "Other Government activities": ⁶													
Continuing public works.....	.6	.6	.6	.5		.4	.4	.5	.6	.9	.9	.9	.9
Departmental administrative expenses, etc.....	1.1	1.1	1.2	1.3		1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Other outlays of Government corporations.....	-1.1	-1.2	-1.3	-1.2		-1.5	-1.0	-1.0	-.2	-.4	-.4	-.4	-.4
Total, "other Government activities".....	1.6	1.0	.5	.6		.4	.9	2.2	2.2	2.7	2.7	2.7	2.7

5. Total expenditures, budgetary and corporations.....	9.5	20.6	52.8	90.1	95	57	68	66	45	43	39	39
6. Less net outlays of Government corporations included above.....	.2	1.5	1.8	2.0	1	-1	-1	-1	-1	-1	-1	-1
7. Total budgetary expenditures.....	9.6	19.1	54.0	88.1	97	68	69	67	46	43	40	40

¹ See text for assumptions and interpretations of existing laws.

² Possible effect of Federal expenditures on income level has not been considered.

³ Includes war activities of Reconstruction Finance Corporation and subsidiaries.

⁴ Includes net outlays of Commodity Credit Corporation.

Note.—Figures are rounded and will not necessarily add to totals.

APPENDIXES

APPENDIX A

PRICE CHANGES ASSOCIATED WITH CHANGES IN LEVELS OF INCOME PAYMENTS

In the present report on outlook for Federal expenditures a number of assumed levels of income payments to individuals have been used to illustrate the variation in Federal expenditures occurring with changes in economic conditions. These assumed income payment levels are in terms of changing prices. Thus, a given figure for income payments may mean a higher real standard of prosperity if prices are low than if they are high, and vice versa. Accordingly, some effort has been made to examine price behavior in the past to determine the price levels which might be expected with the assumed income payment levels. A major difficulty in making precise price estimates consistent with each income payment figure is that prices tend to lag behind shifts in income. Thus, when income payments are falling, prices also tend to fall but at a slower rate; and the reverse is true in the case of rising income payments. The prices associated with a given set of income payments therefore tend to vary depending on whether income payments in the prior years were higher or lower. For the present report, it has been assumed that prices will vary with income payments as shown in the following table on the basis of the Bureau of Labor Statistics index of wholesale prices:

Estimated wholesale price index (1926=100)

Calendar year	Assumed income payments				
	\$100 billions	\$120 billions	\$140 billions	\$140-\$150 billions	\$154 billions
1944.....					104
1945.....				101	
1946.....		88	96		
1947.....	86	90	94		

The index of 104 for the calendar year 1944 under income payments of \$154 billions is the present level. The estimate for 1945 under income payments of \$140-\$150 billions reflects the reduction which would be expected with the drop in income payments and with some improvement in the civilian supply situation. For 1946 the estimates are consistent with the implied reduction in income payments from the 1945 estimate in each case. The figures shown for 1947 assume

no change in income payments from 1946. Further price assumptions could be developed for 1947 on the basis of various changes in income payments from the preceding year, either up or down, but it did not seem practical to work out these alternatives in view of the negligible effect on the estimates of Federal expenditures.

APPENDIX B

PROCEDURES USED IN ESTIMATING FEDERAL EXPENDITURES FOR AID TO THE UNEMPLOYED

Estimated Federal expenditures for aid to the unemployed in the calendar years 1945-47 were derived by following a series of steps which may be explained as follows:

Step 1.—The number of unemployed under the various income payment assumptions was estimated as follows: (1) Compute the gross national product corresponding to the assumed level of income payments, and adjust it to exclude interest on the public debt and pay and subsistence of the armed forces, (2) estimate the average product per civilian worker, (3) divide the adjusted gross national product by the average product per worker to obtain the number of employed persons, (4) estimate the expected labor force, (5) subtract the number of employed workers and the number of persons in the armed forces from the total labor force to obtain the number of unemployed persons.

Step 2.—Determine an average figure for expenditures per unemployed person. It was decided arbitrarily to use \$500 for this figure although a number of other figures might have been used instead. During the fiscal years 1936-1940, Federal expenditures by the Federal Emergency Relief Administration, Civilian Conservation Corps, Public Works Administration, and Works Progress Administration, plus State withdrawals from the unemployment trust fund, ranged from a low of \$550 in 1936 to a high of \$950 in 1937 per person receiving benefits. The average for the 5 years was \$750 per case. There are undoubtedly some duplications in the number of people receiving aid, as for example, a person who first received unemployment compensation under the State compensation programs and then took a Works Progress Administration job. For this reason the \$750 figure understates the average amount paid per unemployed person under these programs. There is no available information to correct for this understatement. On the other hand, not all persons who were unemployed received assistance under these programs. It is therefore almost impossible to develop a precise figure for unemployment aid per person (whether receiving benefits or not) as a guide for the present purpose. On balance, the arbitrary figure of \$500 is probably not unreasonable in the light of past experience, especially if allowance is made for the fact that prices may be higher in the years under consideration than in some of the years studied in the past. It should be noted that the \$500 assumption (and the historical figures cited) cover not only the amounts received by the unemployed but also the cost of administration and of materials in the case of works programs.

Step 3.—Compute total payments to the unemployed by multiplying the number of unemployed by the \$500 figure representing

average expenditures per person. Part of this total will be covered by State withdrawals for unemployment compensation from the unemployment trust fund, and the veterans' readjustment allowances under the Servicemen's Readjustment Act. Deducting estimates for these programs, the remaining payments represent the estimates for aid to the unemployed to be provided under this budgetary category. The following table summarizes these calculations for assumptions A and B.

Estimated unemployment and expenditures for aid to the unemployed

Calendar year	Assumed income payments (billions)	Estimated unemployment (millions of persons)	Expenditures for aid to unemployed (billions)		
			Total at \$500 per person	Expenditures through unemployment trust fund and for veterans' readjustment allowances	Budgetary aid to unemployed
Assumption A					
1945.....	\$140-\$150	3½	\$1.8	\$1.0	\$0.8
1946.....	140 120	2½ 8½	1.3 4.3	.7 2.7	.6 1.6
1947.....	140 120 100	1½ 7 14	.8 3.5 7.0	.5 2.5 4.2	.3 1.0 2.8
Assumption B					
1945.....	\$140-\$150	3	\$1.5	\$0.9	\$0.6
1946.....	140 120	2½ 9	1.3 4.5	.7 2.7	.6 1.8
1947.....	140 120 100	1½ 7½ 14½	.8 3.8 7.3	.5 2.4 3.9	.3 1.4 3.4

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STUDIES IN POST-WAR TAXATION

Pursuant to resolution of the
**JOINT COMMITTEE ON INTERNAL REVENUE
TAXATION**

By the Technical Staffs of the
**JOINT COMMITTEE ON INTERNAL REVENUE TAXATION
AND TREASURY DEPARTMENT**

PART 2



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PART 2. OUTLOOK FOR FEDERAL REVENUES

INTRODUCTION

This part of the report presents estimates of Federal revenues and receipts in the transitional and post-war years assuming continuance of the present tax structure. The assumption of the continuance of present tax law was adopted not because it is anticipated that Federal taxes will remain unchanged, but because the estimated yield of present taxes serves as a standard against which to measure the revenue effect of changes in the law.

Estimates of aggregate yield for all sources of revenue combined and estimates by principal revenue sources are shown. These estimates refer to tax liabilities and not to tax collections. Moreover, they are not to be interpreted as forecasts of actual tax liabilities, but merely as indications of their magnitudes under certain specified assumptions. The estimates assume that the war in Europe will end early in 1945 and that the war with Japan will end early in 1946. Prolongation of hostilities on either front would affect the revenue estimates somewhat, at any given level of income, by changing the composition of income payments and by extending the date of termination of the war excise-tax rates. However, these effects are not sufficient to justify a second assumption regarding the length of the war as was used in the report on expenditures.

AGGREGATE FEDERAL REVENUES

Table 1 presents revenue estimates indicating the probable magnitude of Federal tax liabilities for the years 1944-50 under various assumptions with regard to income payments. The estimates are on a net basis after deducting the appropriation to the Federal old-age and survivors insurance trust fund.

For the calendar year 1945, it is assumed that income payments will range from \$140 billions to \$150 billions. At these levels, net revenue yield under existing law (on a liabilities basis) is estimated at \$33.7 billions and \$38.6 billions, respectively.

For calendar year 1946, levels of income payments ranging from \$100 billions to \$160 billions are assumed, together with the implied changes from the \$140 billion level of the preceding year.

For calendar year 1947, estimates are presented for levels of income payments ranging from \$80 billions through \$160 billions, assuming no change from the preceding year.

Revenue estimates are also shown for a more distant post-war year—say 1948 or 1950. If income payments in such a post-war year attained a level of \$140 billions, in a stable period, net revenue yield under present law would amount to approximately \$38.9 billions. With assumed stable income payments of \$120 billions, net yield would amount to \$31.4 billions.

TABLE 1.—Estimated Federal revenue under present law¹ with varying assumptions as to income payments,² calendar years 1944-50

[In billions of dollars]

Calendar year	Estimated revenue at assumed level of income payments of—						
	\$100	\$153.5	\$150	\$140	\$130	\$100	\$80
1944 ³		45.9					
1945.....			38.6	33.7			
1946.....	40.4			38.7	28.9	19.9	
1947.....	45.3			39.0	31.6	23.9	16.8
1948-50 (average).....	46.3			38.9	31.4	23.4	16.3

Nov. 21, 1944.

¹ Net liabilities, general and special accounts, after deducting the net appropriation to the Federal old-age and survivors insurance trust fund.

² The repricing of war contracts is scheduled to terminate with respect to any contract made after the end of the war. The renegotiation of war contracts is scheduled to be terminated on June 30, 1946.

The Federal Insurance Contributions Act tax rate is scheduled to increase from 2 percent (1 percent by the employee and 1 percent by the employer) to 4 percent on Jan. 1, 1945, to 5 percent on Jan. 1, 1946, and to 6 percent on Jan. 1, 1949, and after. The tax rate on carriers and their employees is scheduled to increase from 6 1/4 percent (3 1/4 percent by employee and 3 1/4 percent by employer) to 7 percent on Jan. 1, 1946, and to 7 1/2 percent on Jan. 1, 1949, and after.

The Revenue Act of 1943 provides for the termination approximately 6 months after the end of the war of (1) certain war taxes and war tax rates (title III, sec. 302), (2) certain governmental excise tax exemptions (title III, sec. 307), and (3) certain wartime increases of postal rates (title IV, sec. 410).

The present estimates of corporation income and excess-profits-tax liabilities are all net after deduction of the post-war credit of 10 percent of the excess-profits tax. No increase of tax liability is shown on account of the scheduled termination of the post-war credit at the end of the war.

³ The estimates for 1944, 1945, and 1946 take into account the level of income payments in the preceding year. The estimates for 1946 assume income payments of \$140 billions in 1945. The estimates for 1947 and 1948-50 assume no change from the level of income payments of the preceding year.

⁴ Tentative.

Charts 1, 2, and 3 show the probable magnitude of Federal revenues for the calendar years 1946, 1947, and 1948-50, respectively.

In order to read the estimated revenues from chart 1, 2, or 3, one has to assume only the level of income payments in the year under discussion. For purposes of illustration, assume that it is desired to determine the estimated revenues in one of the years 1948-50 if income payments have been assumed to be \$130 billions. Locate on the horizontal scale at the bottom of chart 3 the figure which represents \$130 billions of income payments; then follow the vertical guide line upward until it intersects the diagonal line representing estimated revenues. From this point of intersection, follow the horizontal guide line to the left and read estimated net revenues of \$35 billions.

CHART 1—1946

FEDERAL REVENUES

Estimated Net Liabilities, General and Special Accounts, in Respect of the Calendar Year 1946
Incomes Under Present Law but With Automatic Changes in Tax, Assuming Various Levels
of Income Payments in 1946 and Income Payments of \$140 Billions in 1945

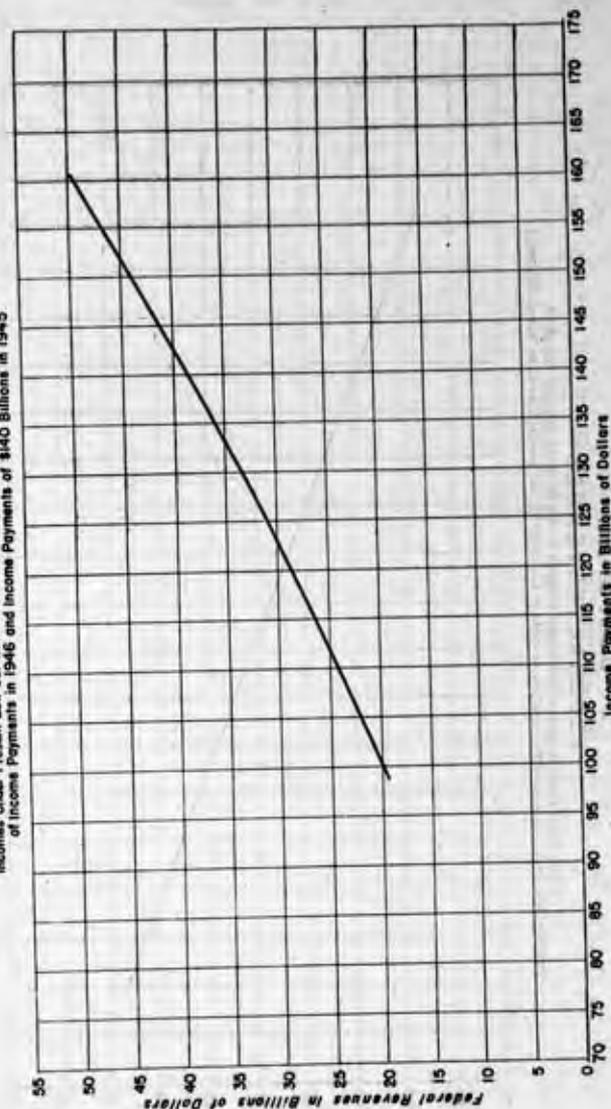


CHART 2—1947
FEDERAL REVENUES
 Estimated Net Liabilities, General and Special Accounts, in Respect of the Calendar Year 1947
 Incomes Under Present Law but With Automatic Changes in Tax, Under Various Assumptions as to Income Payments

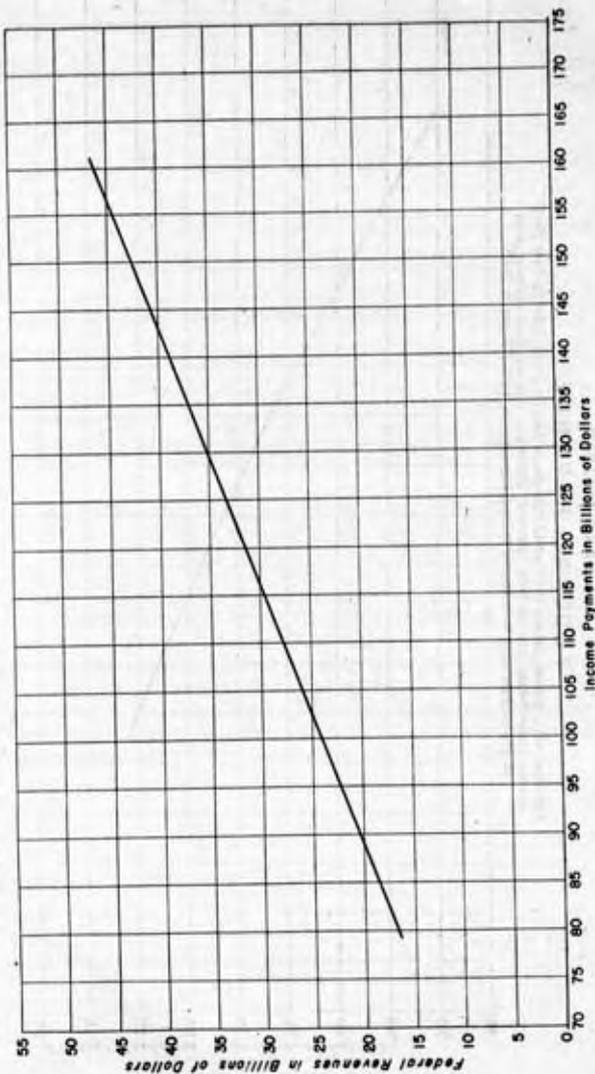
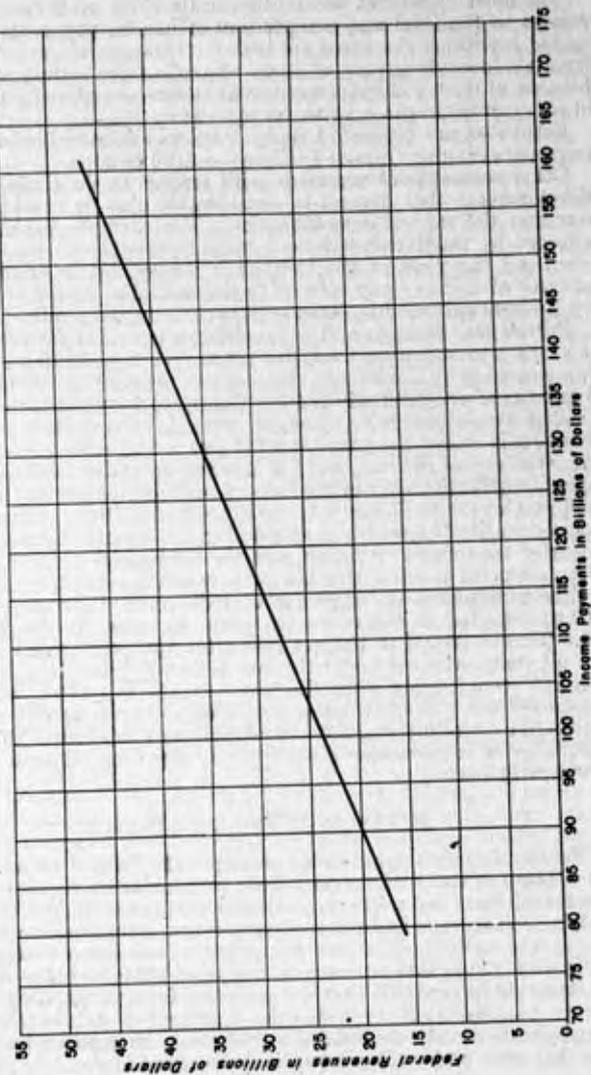


CHART 3—1948-50
FEDERAL REVENUES
 Estimated Net Liabilities, General and Special Accounts, in Respect of the Income in an Average
 Postwar Calendar Year, 1948-1950, Under Present Law but With Automatic Changes in Tax,
 Under Various Assumptions as to Income Payments



ASSUMPTIONS

The most important assumption in its effect on revenue estimates relates to the level and composition of income payments during the period for which the taxes are levied. Changes of income payments from the preceding year or years also affect the estimates, primarily because of the lag in business costs as income changes and the presence of carry-overs in the present tax structure.

Estimates are presented under various assumed levels of income payments ranging from \$80 billions to \$160 billions.

Other assumptions are made with respect to the timing of certain developments that depend in considerable part on the length of the war and the rate of demobilization. For example, excise yields are affected by wartime restrictions upon the supply of goods and services, and the yield of the individual income tax is affected by the amount of military pay subject to the special exclusion of \$1,500 and by the upward trend in interest payments on the public debt.

Future rate changes and other changes provided for under present law are also considered. Chief among such statutory changes are (a) reversion of certain of the excises to their pre-1944 tax rates 6 months after termination of hostilities, (b) termination of renegotiation of war contracts on June 30, 1945, (c) termination of the post-war credit under the excess-profits tax for taxable years beginning after the end of the war, and (d) the step-up under the Federal Insurance Contributions Act of the rates of contributions for both employers and employees on January 1, 1945, 1946, and 1949. The changes in social-security tax rates are reflected in gross tax liabilities for social-security tax-receipt estimates, but the 1944 social-security rates have been assumed in estimating the corporation tax liabilities.

The termination of the post-war credit under the excess-profits tax is not reflected in the estimates, since an excess-profits tax rate of 85.5 percent (equal to the net rate after post-war credit) is assumed for all years, whereas under the law as now written the full rate of 95 percent would apply after the war. In the estimates, allowance is made for carry-over of losses and unused excess profits credits resulting in tax reduction, but the estimates do not reflect the ultimate liabilities of corporations after reductions arising because of refunds from carry-backs.

REVENUES BY PRINCIPAL SOURCES

To supplement the estimates on aggregate Federal revenues, corresponding estimates of revenue from each main source are presented for transitional and post-war years assuming continuance of the present tax structure. Estimates of corporation income and excess-profits taxes, the individual income tax, excises, and other components of estimated aggregate revenues for the years 1944-50 appear in table 2.

It should be repeated that the estimates for a particular year do not represent collections nor constitute a forecast of actual tax liabilities but indicate merely the liabilities that would be incurred by taxpayers for that year under the assumptions discussed above.

Corporation income and excess-profits taxes.

The estimates of corporation tax liability depend primarily on the assumed level of income payments. Chiefly because of the lag in business costs as income changes, they are also influenced, more than

the estimates for other tax sources, by the changes in income payments from the preceding year. The figures are also affected by carry-over and carry-back provisions and the ending of renegotiation of war contracts on June 30, 1945. The corporation estimates in table 2 are after allowance for carry-over of losses and unused excess-profits credits resulting in a tax reduction ranging up to a maximum of about \$1 billion for any one year. The estimates do not make allowance for ultimate reduction in liabilities due to refunds resulting from carry-back of losses and unused excess-profits credits. Such carry-backs are expected to result in refunds (or tax credits or abatements) for 1943-48 of from \$2 billions to \$4.5 billions for the entire period depending on the sequence of income payments during 1945-50.¹

Estimates of corporation tax liabilities for the year 1945 are based upon assumed levels of income payments of \$140 billions and \$150 billions. At these levels corporate liabilities are estimated at \$10.4 billions and \$13.6 billions, respectively.

If the level of \$140 billions of income payments were maintained through 1946, estimated corporation tax liabilities for that year would amount to \$12.6 billions. Estimated liabilities at different levels of income payments in 1946, when it is assumed that income payments in 1945 will be \$140 billions, are shown in table 2. Chart 4 shows for 1946 and 1947, and table 2 shows for 1947, the estimated corporation tax liabilities at various levels of income payments each of which are assumed unchanged from the previous year.

For the more distant post-war years 1948-50, the corporate estimates are unchanged from 1947, because in each of these years the amount of carry-over of corporate losses and unused excess-profits credit is arbitrarily assumed to be the same as for 1947. As noted above, it is assumed that a net excess-profits tax rate of 85.5 percent (equivalent to the present 95-percent rate after post-war credit) will continue to apply, even though under present law the post-war credit of 10 percent terminates at the end of the war.

Individual income tax.

Estimates of individual income-tax liabilities are determined primarily by the assumed level and composition of income payments.

Estimates at any given level of income payments are somewhat lower for the transition years than for more distant post-war years because of differences in the composition of income. These differences result in variations of tax liability because of (a) relatively large exclusions from the tax base in the earlier years, reflecting chiefly the exclusion of \$1,500 of base pay of military personnel, and (b) a smaller proportion of income subject to the higher surtax bracket rates in the earlier years. Government interest payments to bond owners are smaller and a greater proportion of relatively large salary and wage payments is concentrated in the lower brackets of income in the earlier years. Thus, assuming income payments of \$140 billions throughout 1945-50, the estimates are: 1945, \$14.9 billions; 1946, \$16.5 billions; 1947, \$17.5 billions; and 1948-50, \$18.3 billions.

The relation between the estimated individual income-tax liabilities and any assumed level of income payments in the years 1946-50 is shown in chart 5.

¹ The estimates of cash refunds contained in part 1, page 10, of the report comprise not only the refunds arising from carry-back of losses and unused excess-profits credits, but all other cash refunds such as refunds arising from overpayment of individual income tax liability.

TABLE 2.—Estimated Federal revenue, with automatic changes in tax provided for under present law,¹ by sources, with varying assumptions as to income payments, calendar years 1944-50

(In billions of dollars)

Calendar year	Miscellaneous internal revenue, customs, and other miscellaneous liabilities										Revenues effect of automatic changes provided for under present law ¹						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
	As- sumed divid- end pay- ments to in- come tax payers ²	In- divid- end in- come tax	Corpo- rate in- come and profits taxes ³	Em- ploy- ment taxes ⁴	Revo- lution of war contracts and disposal of sur- plus prop- erty ⁵	Capital stock tax	Estate and gift taxes	Other ⁶ (ex- cludes miscel- laneous)	Total	Total miscel- laneous and special counts	Deduct not ap- pro- pri- ate, Federal old-age and sur- vivor insurance trust fund	Net miscel- laneous and special counts	Em- ploy- ment taxes ⁴	Miscel- laneous and other miscel- laneous liabilities ⁷	Total miscel- laneous and special counts	Deduct net ap- propri- ate, Federal old-age and sur- vivor special counts, ⁸ trust fund	Net miscel- laneous and special counts
1944 ¹	123.5	17.0	14.1	1.8	2.1	0.4	0.6	6.2	7.3	42.2	1.3	40.9	1.3
1945	130.0	16.5	15.6	2.9	1.0	0.3	0.5	6.3	7.1	41.1	2.9	38.2	1.3
1946	140.0	16.5	16.5	4.1	2.2	0.4	0.4	6.4	7.4	43.0	3.6	39.4	2.2	-0.5	1.7	2.2	-0.5
1947	150.0	12.6	7.3	2.8	2.2	0.3	0.5	5.7	6.8	41.8	3.1	38.7	1.5	-0.5	1.0	1.0	-0.5
1948	160.0	8.5	3.2	1.9	2.2	0.3	0.5	5.8	2.6	31.4	2.9	28.5	1.5	-0.5	1.0	1.0	-0.5
1949	160.0	21.2	15.5	4.2	2.0	0.4	0.6	6.1	7.1	50.0	3.7	46.3	2.0	-1.2	0.9	2.2	-1.2
1950	140.0	17.5	12.6	3.7	2.0	0.3	0.5	5.7	6.5	42.3	3.3	39.0	2.0	-1.1	0.9	2.0	-1.1
1945-50 (average)	150.0	9.7	6.5	2.3	2.0	0.2	0.5	4.7	5.4	38.2	2.6	35.6	1.6	-1.0	0.6	1.6	-1.0
	80.0	3.7	4.1	1.2	2.0	0.1	0.5	4.2	4.8	17.8	1.0	16.8	0.6	-0.7	0.4	1.2	-0.7
	160.0	22.2	15.5	5.0	1.0	0.4	0.6	6.1	7.1	50.8	4.5	46.3	3.0	-1.3	1.7	3.0	-1.3
	140.0	15.3	12.6	4.4	1.0	0.3	0.5	5.2	6.0	42.8	3.9	38.9	2.6	-1.1	1.5	2.6	-1.1
	100.0	10.2	6.5	2.6	1.0	0.2	0.5	4.7	5.0	34.6	3.2	31.4	2.1	-1.0	1.1	2.1	-1.0
	80.0	6.2	4.1	1.4	1.0	0.1	0.5	4.2	4.8	17.3	1.2	16.1	0.9	-0.7	0.4	1.2	-0.7

¹ The present estimates of corporation income and excess profits tax liabilities are all net after deduction of the post-war credit of 10 percent of the excess-profits tax so that no in-crease of tax liability is shown on account of the scheduled termination of the post-war credit at the end of the war.

² The estimates for 1947 and 1948-50 assume no change from the level of income payments in the preceding year. The estimates for 1946 assume income payments of \$140 billions in 1945. The estimates for 1947 and 1948-50 assume no change from the level of income payments in the preceding year. The estimates for the 1947 assumption presume that income pay-ments will be \$140 billions, and that income payments in 1946 will be the same as is assumed for 1947. The estimates for a post-war calendar year, 1948 through 1950, are identical with the estimates for 1947.

³ Contributions Act tax rate is scheduled to increase from 2 percent (1 percent by the employer and 1 percent by the employee) to 4 percent on Jan. 1, 1945, to 3 Federal income tax rate on Jan. 1, 1946, and to 1 1/2 percent on Jan. 1, 1949, and after.

⁴ The Revenue Act of 1944 provides for the termination approximately 6 months after the end of the war of (1) certain war-taxes and war-tax rates (title III, sec. 309), (2) certain governmental excise tax exemptions (title III, sec. 307), and (3) certain wartime increases of postal rates (title IV, sec. 410). All excise estimates assume the war will be ended early in 1945.

⁵ Assumes the employment tax rates scheduled for the calendar year 1940.

Employment taxes.

Estimates of employment-tax liabilities at any given level of income payments are affected by assumptions as to whether or not the rate increases provided for under present law automatically become effective and by the varying importance in different years of Government salaries and wages, which are not covered by the employment taxes.

Without the automatic increases in the Federal Insurance Contributions Act rates, employment-tax liabilities are expected to range between \$0.6 billion and \$2.0 billions, depending upon the assumed level of income payments. The portion entering into net liabilities, general and special accounts (mainly the Federal Unemployment Tax Act and the taxes on carriers and their employees), is expected to range between \$0.2 billion and \$0.6 billion.

On the contrary assumption that the automatic increases provided for by law become effective on January 1, 1945, 1946, and 1949, employment-tax liabilities are expected to range between \$1.2 billions and \$5.0 billions. Net liabilities, however, after appropriations to the Federal old-age and survivors insurance trust fund are substantially the same as stated above.

Estimates of net liabilities at any given level of income payments for an average year 1946-50 appear in chart 6.

Excises.

The estimates of excise-tax liabilities at any given level of income payments are affected by (a) restriction on supply during the transition years and (b) automatic reduction of rates and removal of certain governmental excise-tax exemptions 6 months after the termination of the war. These two factors are, however, expected to be approximately compensatory, so that no large change from the wartime yield of excise taxes (at a high level of income payments) is expected. For example, comparing 1944 with 1948-50 at an assumed \$160 billion level of income payments, it appears that additional receipts of \$1.2 billions on account of improved supply in a post-war year are offset by a reduction of \$1.3 billions because of termination of the war excise tax rates and removal of governmental exemptions.

In the years 1945-50, excise taxes (including certain miscellaneous revenues¹) are estimated to range between \$4.2 billions and \$6.4 billions, taking into account different assumed levels of income payments and the automatic changes provided for by present law.

The estimated excise tax yields at any level of income payments in the years 1946-50 are depicted in the separate sections of chart 7, assuming first that the automatic changes provided for by law become effective and, secondly, that they do not become effective.

¹ The group of "other" revenue in table 2 includes liquor and tobacco taxes, stamp taxes, manufacturers' excises, retailers' excises, customs, miscellaneous taxes, and receipts. It does not include receipts arising from the renegotiation of war contracts or from the disposal of surplus war property.

CHART 4
REVENUES FROM CORPORATION INCOME AND EXCESS PROFITS TAXES
Estimated Liabilities¹ for Varying Assumptions as to Income Payments, Calendar Years 1946 and 1947-50

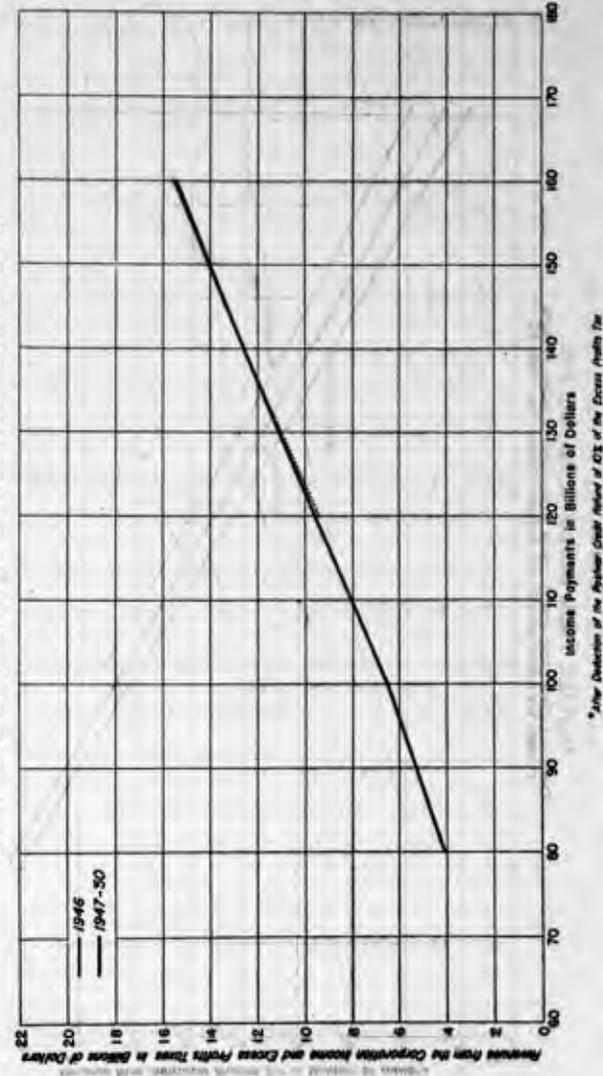


CHART 5
REVENUE FROM INDIVIDUAL INCOME TAX
 Estimated Liabilities Under Present Law for Varying Levels of Income Payments,
 Calendar Years 1946 and 1947, and an Average Postwar Year 1946-50

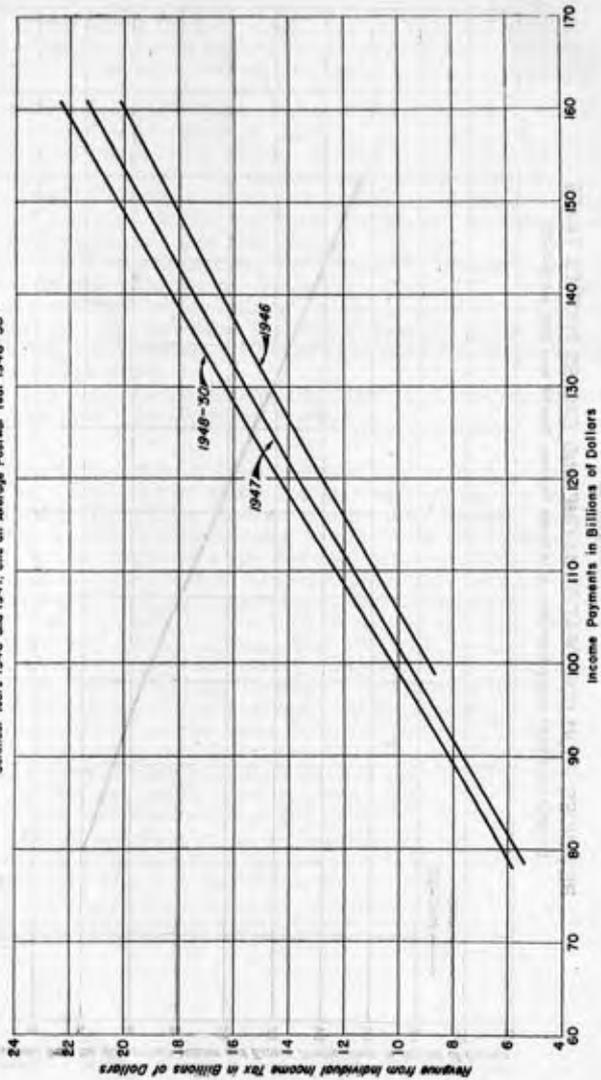


CHART 6
REVENUES FROM EMPLOYMENT TAXES
 Estimated Net* Liabilities Under Present Law for Varying Levels of Income Payments, Calendar Year 1946-1950

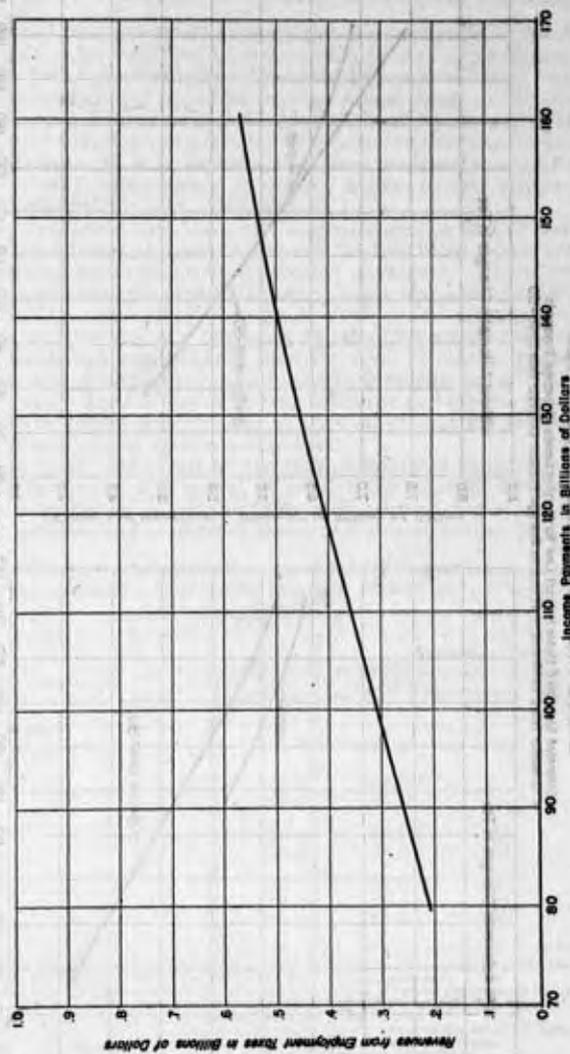
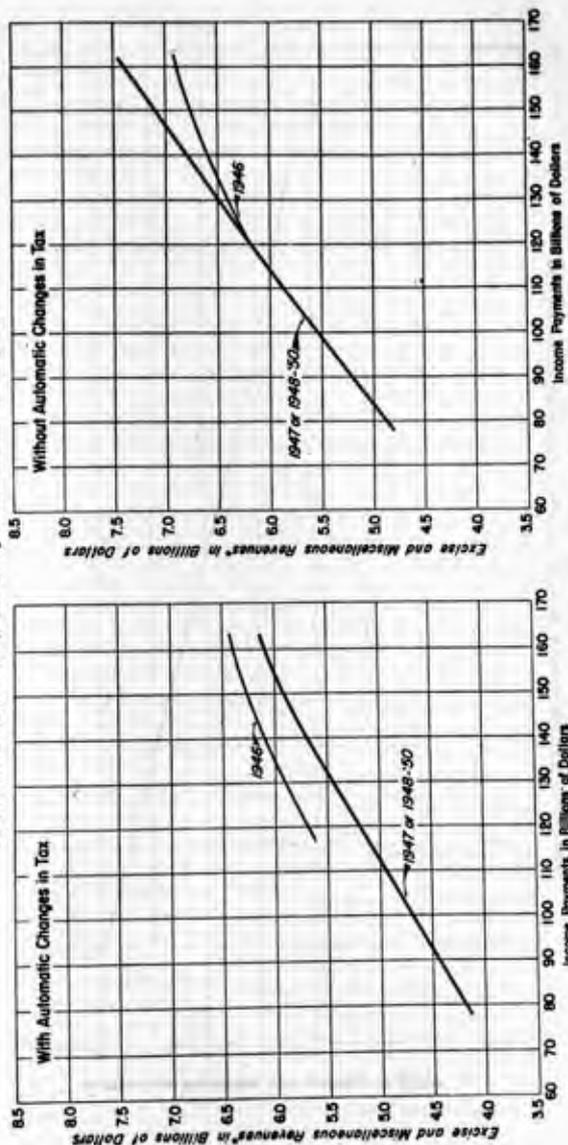


CHART 7
EXCISE AND MISCELLANEOUS REVENUES

Estimated Liabilities* Under Present Law for Varying Levels of Income Payments in Calendar Years 1946 and 1947, and an Average Forwar Calendar Year 1948-50



COMPARISON OF ESTIMATED TAX LIABILITIES AND FEDERAL EXPENDITURES (UNDER VARIOUS ASSUMPTIONS AS TO INCOME PAYMENTS)

In this section are compared the estimates of tax liabilities developed in this part of the report and the estimates of cash expenditures presented in part 1 (see table 3). It should be noted that the expenditure estimates are for the most part on a cash basis, while the tax figures are on a liability basis. This is not the comparison that would be used for budgetary purposes, but it is useful in the consideration of tax legislation. If it is desired to prepare budgetary estimates of cash receipts, it is necessary to assume a year-to-year sequence of income payments for 1945, 1946, and 1947.

It may be argued that there are inconsistencies in table 3 between the estimated levels of expenditures and tax liabilities shown and the corresponding assumed levels of income payments. There will be differing views as to the probability of any particular combination. In appraising the consistency of a given combination of expenditures, revenues, and income, it is necessary to take into account the effects of both taxes and expenditures upon the level of income payments, as well as the effect of the level of income payments upon taxes and expenditures. The levels of taxes, expenditures, and income payments are mutually interdependent and in turn affect and are affected by various governmental actions and policies.

Despite these limitations on the comparability of expenditure and tax liability figures, it is useful to bring them together to show the relative magnitudes of expenditures and accrued taxes under the existing tax laws and at various assumed levels of income payments.

TABLE 3.—Comparison of estimated tax liabilities and Federal expenditures under various assumptions as to income payments, calendar years 1944-1947

(In billions of dollars)

Calendar year	Assumed level of income payments	Tax liabilities accrued under existing law ¹	Estimated total expenditures ²	
			Assumption A ³	Assumption B ⁴
1944 ⁵	153.5	40.9	98	98
1945	150.0	38.6	84	88
	140.0	33.7		
1946	140.0	38.7	49	66
	120.0	28.9	52	68
1947	140.0	39.0	32	39
	120.0	31.6	34	42
	100.0	23.9	37	45

¹ Assumes the war with Germany will end early in 1945 and with Japan early in 1946. The duration of the war affects tax liabilities primarily by altering the level of income payments.

The estimates for 1944, 1945, and 1946 take into account the level of income payments in the preceding year. The estimates for 1946 assume income payments of \$140 billions in 1945. The estimates for 1947 assume no change from the level of income payments of the preceding year.

² Tax liabilities comprise the net receipts (after deducting the net appropriation for the Federal old-age and survivors insurance trust funds) which will enter into general and special accounts.

³ Comprises budgetary expenditures and net outlays of Government corporations.

⁴ Assumes the war with Germany will end in December 1944 and with Japan in December 1945.

⁵ Assumes the war with Germany will end in March 1945 and with Japan in June 1946.

⁶ Tentative.

December 12, 1944
2:31 p.m.

Harry S. Truman: Hello. Harry Truman.

HMJr: How do you do?

T: How are you today?

HMJr: Fine.

T: I saw the pictures we had taken the other day out in Missouri and they looked pretty good.

HMJr: The movies?

T: Yes.

HMJr: Yes. And you know there has been more favorable comment on that picture than almost anything in the War Bonds.

T: Well, it was very favorably received out home.

HMJr: Yeah.

T: But that wasn't what I called you about. I was talking to Hatch and Connally and Dennis Chavez....

HMJr: Yes.

T: about a situation in which there is some argument between Texas and New Mexico.

HMJr: Yeah. (Laughs)

T: I don't -- have no business monkeying with it but you know Hatch and Chavez are very close personal friends of mine, and so is Connally.

HMJr: Yeah.

T: You can make two mighty good friends, and I don't think Connally will be an enemy, if New Mexico can be -- can be considered on that.

HMJr: Well, look, this is the situation: Connally put it up to me in no uncertain terms.

T: I know. I heard him yesterday. We had lunch together.

HMJr: And....

T: They had quite an argument, but I don't think he'll be -- I don't think he'll be as mad as he pretends that he will.

HMJr: Well, God, he's just -- he's been after me on this for six months and, God, he's damned Hannegan up and down the lot.

T: I know and Hannegan didn't have anything to do with it.

HMJr: Oh, that's -- that's -- uh - excuse me.

T: Well, the facts of the case are that it's Hatch and Chavez who are

HMJr: But I came to Hannegan's defense. I was at some reception that Hull gave.

T: Yes.

HMJr: And Connally just damned him up and down. You could hear him all over the room.

T: Well, he did that to me the other day.

HMJr: And I came to Hannegan's defense and he put it up to me and, of course, the history is the last man was a Texan.

T: That's right.

HMJr: And El Paso is in Texas.

T: That's true.

HMJr: And he put the heat on me so that I said, "All right." And I sent it over to the White House. Now, that's about two weeks ago.

T: Oh, I see. Then it's too late to do anything about it.

HMJr: Well, that I don't know, but it was about two weeks ago.

T: Well, I was just thinking about two fellows like Hatch and

- 3 -

HMJr: Well, of course, what I do here is: all of these appointments

T: Yes.

HMJr: ninety-nine percent of them go through the Democratic Committee.

T: Oh, sure, I know.

HMJr: I mean, I do like to appoint an Assistant Secretary or something like that

T: I think you're right on that.

HMJr: But the others -- all of those things -- I play with the organization.

T: Well, sure.

HMJr: Now, the organization wouldn't help me out any on this.

T: They wouldn't?

HMJr: Well, now, I didn't handle that end of it. Gaston did, but if you want me to -- if you had the time -- hello?

T: Yes.

HMJr: I'd like to let Herbert Gaston come up and call on you and give you the whole background.

T: All right. That will be just fine. What I'm trying to do

HMJr: He -- he's Assistant

T: is to patch up any ill feeling that might

HMJr: Well, I'm

T: All I want to be is helpful. I've got no particular interest in it only I am very fond of all three of those fellows.

HMJr: Well

T: Connally and Hatch are both on that Special Committee that I had so much trouble with as you know.

HMJr: Well, I -- this has been a running fight for at least six months.

T: I understand.

HMJr: Gaston handled it for me here and then Connally put the heat on me in no uncertain terms, and I really had no leg to stand on.

T: I see. Well, of course, I understand.

HMJr: But let Gaston -- what time in the morning is a good time for you?

T: Oh, about ten o'clock would be fine.

HMJr: Well, Herbert Gaston, Assistant Secretary of the Treasury, will call on you tomorrow at ten o'clock.

T: All right, Henry. Fine.

HMJr: And give you the whole background.

T: That will be fine. And you understand that all I want to be is just helpful to keep good feeling between as many Senators as possible, and you and the Administration.

HMJr: Well

T: You know what I'm after.

HMJr: I'd like to echo that.

T: Well, all right. That's all I want to do and now don't consider that I'm butting in on anything.

HMJr: No, no, no, no.

T: Well, I appreciate that.

HMJr: I welcome it.

T: Well, thank you.

HMJr: Right.
T: I'll be glad to talk to him.
HMJr: Thank you.
T: You're welcome.

December 12, 1944
2:35 p.m.

HMJr: A man by the name of Truman just called me up.

Herbert
Gaston: What's his name?

HMJr: Truman.

G: Truman?

HMJr: Yeah. I think he comes from Missouri.

G: I believe so.

HMJr: And he wanted -- says that he was satisfied that Connally would be willing to give way to Hatch and

G: Uh huh.

HMJr: Chavez.

G: Uh huh.

HMJr: So I said, well, I didn't think so. Well, to make a long story short, he's trying to get the people together. So I told him we sent the name over two weeks ago.

G: Yes.

HMJr: So he wants sort of the background and I said that you'd be glad to call on him tomorrow at ten o'clock at his office.

G: Yes.

HMJr: Harry Truman.

G: Harry Truman.

HMJr: Yeah.

G: Down at the Senate.

HMJr: And give him the whole background.

G: I'll give him the whole story.

HMJr: Would you mind?

G: Oh, I'll be glad to.

HMJr: Thank you.

G: All right.

December 12, 1944
3:21 p.m.

HMJr: Hello.

Ted
Gamble: Hello, Mr. Secretary.

HMJr: Theodore.

G: Yes, sir.

HMJr: Yesterday Forrestal called me up and wanted to know what we did in the way of awards for civilians. You know?

G: Yes.

HMJr: I told him that we had very handsome ones like we gave to Admiral King and -- I thought we'd given one to him -- I don't know.

G: Yes.

HMJr: Well, it seems that the President has been riding the Navy Department for the awards that they have been giving, you see?

G: Yes.

HMJr: He wants the story of what we do.

G: Yes.

HMJr: The kind of people we give -- now, I know you have these very beautiful leather embossed ones, you know?

G: That's right.

HMJr: So I said I would send him a sample of the kind that we send

G: Yes.

HMJr: and to whom.

G: Yes.

HMJr: And then a letter sort of explaining the plan.

G: Yes, sir.

HMJr: And I thought if you brought that over tomorrow morning I could send it to him.

G: Fine. I'll get it ready for you.

HMJr: We don't -- we're rather choosy aren't we to whom we give these special awards?

G: We're choosy on the special but we're not so choosy on another kind that we have.

HMJr: Well, let's just give him on the special. Huh?

G: All right, sir.

HMJr: What?

G: We've -- we've used altogether some twenty different awards and we've used them in about every classification.

HMJr: Well, we'd better give him the whole plan, hadn't we?

G: I should think it would be better to give him everything we've had.

HMJr: Why not give him the whole plan?

G: I think that's better.

HMJr: See, what they've been doing is simply -- been writing some kind of a letter of commendation to civilians who have been working for them.

G: Yes.

HMJr: And the President criticized them for some reason.

G: Yes.

HMJr: So I think we'll send him ours.

G: Fine. We'll show him the whole works.

HMJr: What?

- 3 -

G: We'll show him the whole thing.

HMJr: Then I thought this: that when you come over tomorrow at 9:15 -- you got a message?

G: Yes.

HMJr: I phoned Barth.

G: Yes.

HMJr: And he'll be here and then what I want you to do is to sell Barth on me, why I should go on the air and what I should say.

G: Wonderful.

HMJr: Hello?

G: Yes, sir. That's fine.

HMJr: Is that fair enough?

G: That's fair enough.

HMJr: Do you want to bring anybody with you?

G: No, that's tantamount to an approval.

HMJr: Pardon?

G: That's tantamount to an approval.

HMJr: You conceited cuss!

G: (Laughs) Say, I have these front pages for you and they look swell.

HMJr: Which ones?

G: Well, we took a cross-section of some twenty-odd leading papers.

HMJr: Well, you can bring those over too.

G: All right, sir. And then I have all this other material when you're ready for it.

HMJr: Right.

G: Fine.
HMJr: Thank you.
G: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr.

December 12, 1944

For your files

I spoke to Speaker Rayburn this afternoon about the legislation implementing our Bretton Woods proposals, and he stated very definitely that the legislation, when introduced, would be referred to the House Banking and Currency Committee. He said that he would not for a moment entertain the idea of sending it to Foreign Affairs.

I then called on Congressman Spence and advised him that his fears are apparently groundless. He was quite pleased and wished me to express to you his gratification at your interest and assistance in heading off what might have been an effective move to have the legislation taken away from his Committee.

J. J. O'Connell

DEC 12 1944

Dear Mr. Brand:

Thank you for your letter of November 22, 1944. I am pleased to be formally advised of the action taken by your Government and of its intention to cooperate with this Government in implementing Resolution VI of the Bretton Woods Conference.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. R. H. Brand,
United Kingdom Treasury Delegation,
Box 680,
Benjamin Franklin Station,
Washington, D. C.

UNITED KINGDOM TREASURY DELEGATION

BOX 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D.C.

File No: 5-60-1

SECRET

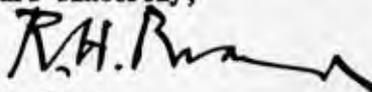
177
Photostat to Mr
White - 11/23/44
v p o r g -
White to Lt. Gen
TELEPHONE EXECUTIVE 8820
November 22, 1944.
Signatures what to do -

Dear Mr. Secretary,

You might be interested to know that it has recently been decided by the British War Cabinet to accept formally Resolution VI of the Bretton Woods Conference dealing with enemy assets and looted property, and to take parallel action with the U.S. Government in making representations to neutral governments on this subject. It was decided that it would be unwise to attempt to compel neutral governments to undertake specific measures of the kind set out in the Resolution but that it should be left to the neutral governments themselves to decide how the task can best be carried out.

His Majesty's representatives in Berne, Stockholm, Madrid, Lisbon, and Dublin, are accordingly being instructed to present notes to the governments to which they are accredited quoting the Bretton Woods Resolution VI, and stating that, "considering the Bretton Woods Resolution to be directed to the same purpose as was the Declaration of London of the 5th January, 1943, regarding looted property and the Declaration which was published by His Majesty's Treasury on the 22nd February, 1944, concerning gold" His Majesty's Government "fully support the Resolution quoted ... and now call upon your Government to institute such measures as will fulfil the aims of the United Nations as expressed in the Resolution". A similar approach is also being made to the Turkish Government.

Yours sincerely,



R.H. Brand.

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

PREPARED BY: MR. TURNER
MR. TICKTON
MR. LINDOW
MR. MURPHY
MR. HAAS

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 12,
1944

TO The Secretary
FROM Mr. Haas *[Signature]*

The first two pages of this memorandum discuss the problem of the Government security market and its relation to the Federal Reserve, which I mentioned in the staff meeting yesterday. We discussed this matter with Mr. Bell again this afternoon and he agrees that some action should be taken.

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE DEC 12 1944

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Weakness in Certificate Market and Other Recent Developments in the High-grade Security Markets

I. Recent Weakness in Certificate Market

Yields of Treasury certificates of indebtedness have risen sharply since September (see attached chart). This weakness in the certificate market has resulted in a material change in the short end of the Pattern of Rates. It is clear that this change could not have taken place without the acquiescence of the Federal Reserve authorities, for they could have prevented it by following a more aggressive buying policy.

The weakness in the certificate market has been associated with a sharp increase in member bank borrowing from the Federal Reserve Banks. This borrowing increased from \$85 millions on August 30, to a peak of \$593 millions on November 29, at which level it was the highest it had been since early 1933. (The report for December 6 shows a reduction of \$210 millions from this high -- due, of course, to the War Loan.)

In view of the previously expressed desire of some of the Federal Reserve authorities that member banks use the borrowing device, at least in part, as a means of replenishing their reserves, it is a reasonable inference that the weakening in the certificate market has occurred as a result of planned Federal Reserve policy. In our opinion, this policy of encouraging borrowing by member banks is unwise, and tends to weaken the tone of the market generally.

The rise in the yields of short certificates tends, of course, to isolate the bill rate and so to cut off the short end of the Pattern of Rates at 1/2 of 1 percent, in the face of the present small volume of bills in the hands of commercial banks. On a number of occasions in the past, the Federal Reserve authorities have proposed that the Pattern of Rates be cut off directly by increasing the posted rate on bills

Secretary Morgenthau - 2

from $3/8$ to $1/2$ of 1 percent. This proposal -- which you have repeatedly rejected -- has been quiescent for the past six months, but it is significant that it has just been renewed by Chairman Eccles as a means of realigning the Pattern of Rates in the light of the weakness in the certificate market.

As has previously been suggested, the yields of short certificates of indebtedness could be brought back into line with the Pattern of Rates by a more aggressive buying policy on the part of the Open Market Committee. We believe that the Committee should be requested to bring back certificate yields to their September 1 level, as shown on the attached chart. The pressure on short certificate yields could also be materially lessened by increasing the Treasury bill volume, for as long as the banks have a sufficient supply of bills to sell when they need to replenish their reserves, they have no occasion to sell certificates or to borrow on them.

II. Prices of Treasury Bonds and Notes Fluctuate Narrowly

Although the marked weakness in certificates has not spread to other sectors of the market, there is some indication of a tendency in that direction. Average prices of Treasury notes have declined slightly since September 1. Taxable Treasury bonds have fluctuated within a very narrow price range and are currently about $4/32$ below the price levels which prevailed at the beginning of September.

Partially tax-exempt bonds declined on the average about one-half point during September, but their trend since then has been generally upward. At the present time, prices of intermediate partially tax-exempts range from about one-half point below to about one-half point above their levels at the beginning of September. The longest partially tax-exempt issue is $8/32$ above its September 1 level.

III. Excess Reserves, Money in Circulation, and Federal Reserve Ratio

During November, excess reserves of member banks averaged about \$1,032 millions; on December 6, the most recent report date, they stood at \$1,364 millions. The average level for November is about \$150 millions higher than the average for the preceding two months. This is due in large part to the transfer of funds from private deposits, against

Secretary Morgenthau - 3

which reserves must be held, to war loan deposits of the Government, against which no reserves are required, in connection with the Sixth War Loan. Last Wednesday's figure of \$1,364 millions may well prove to be the peak for this war loan inasmuch as the great bulk of the transactions has already occurred. As war loan accounts are drawn down in coming weeks, the tendency will be to increase required reserves and to reduce excess reserves.

The principal other factor tending to reduce member bank excess reserves has been the increase of money in circulation. Since December 31, 1943, the volume of money in circulation has increased by \$4.7 billions. It seems likely that the increase for the calendar year will exceed the record increase of \$5.0 billions during calendar 1943. The increase is the more striking in that income payments, which constitute the basic determinant of the volume of circulating currency, have increased much more slowly this year than at any time during the preceding three years.

The increase of money in circulation has also been a major cause of the more or less steady decline in the ratio of the reserves of Federal Reserve Banks to their combined deposit and note liabilities. This ratio has declined about 15 percentage points during the past year and now stands at 49.9 percent. Its legal minimum is between 37 and 38 percent, but its practical minimum, if undue apprehension is to be avoided in the high-grade security markets, is somewhat higher -- perhaps 40 or 42 percent. Like the excess reserves of member banks, the Federal Reserve ratio is at present enjoying a temporary respite from the downward pressure exerted by the necessity of providing additional member bank reserves. Like excess reserves, however, it can be expected to resume its downward movement quite soon.

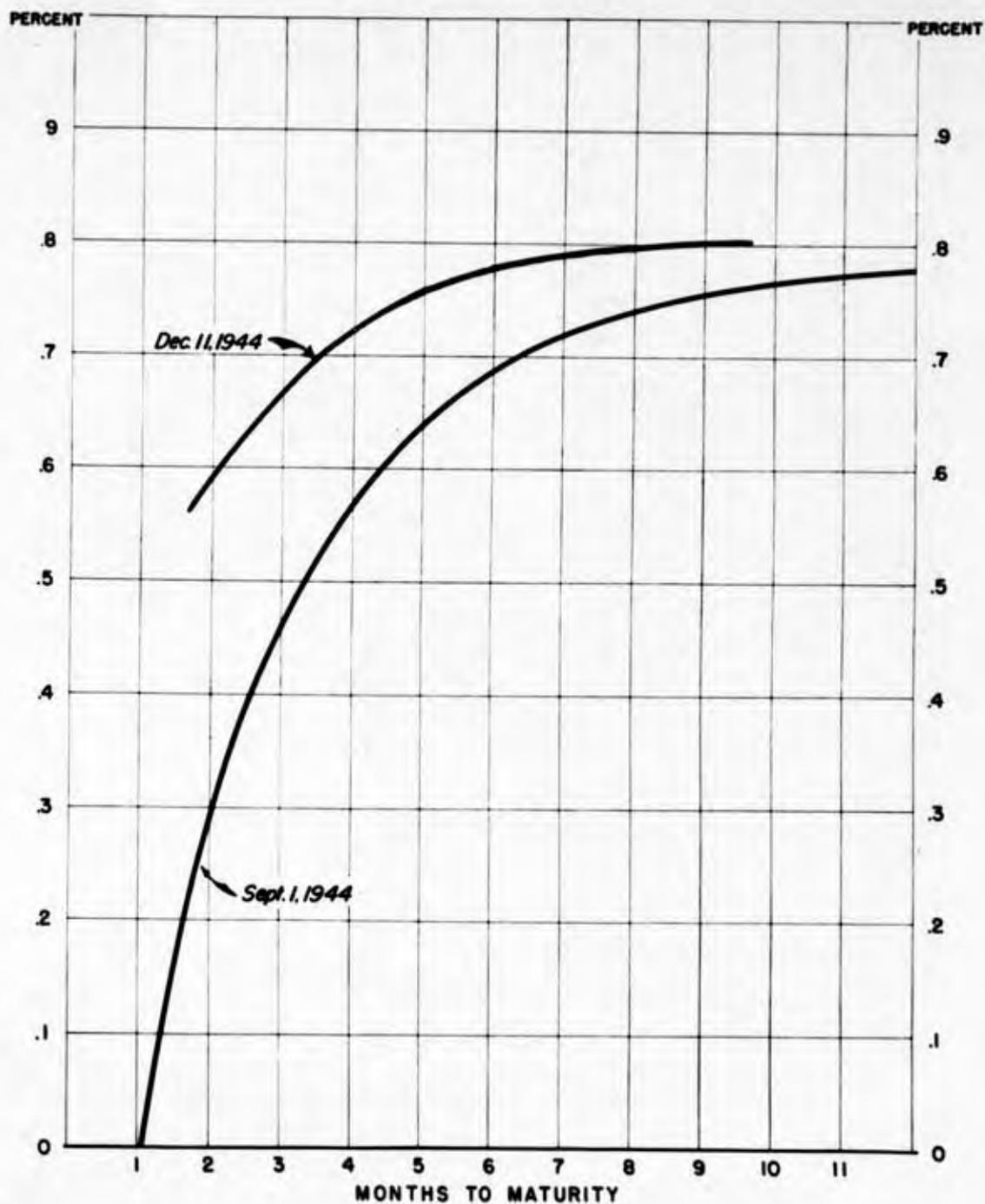
IV. Moderate Strength in Corporates and Municipals

High-grade corporate and municipal bonds, which declined moderately in price in the latter part of October, have regained, in recent weeks, the greater part of the October losses.

Attachment

YIELDS OF CERTIFICATES OF INDEBTEDNESS ON SELECTED DATES

Based on Mean of Closing Bid and Asked Quotations



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TREASURY DEPARTMENT

Commissioner of Accounts

To *The Secretary*
Mr. D. W. Peck

*They're still
working on the
P.O.D. Last
time they put
us off because
of the election.*

*Hope it
goes through
this time*
E. J.

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Mr. Bartelt

DEC 12 1944

My dear Mr. Postmaster General:

The Chairman of the Interdepartmental War Savings Bond Committee advises me that the Post Office Department has decided to install the Voluntary Pay-roll Savings System in all first and second class post offices, effective as of the first of next March or April.

This is gratifying to me and I want you to know of my appreciation of your cooperation.

I understand that your Baltimore, Maryland, and Washington, D. C., post offices have been operating the system for more than a year with notable success.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Frank C. Walker
Postmaster General
Washington 25, D. C.

EFBartelt:hv 12/9/44

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DEC 12 1944

Sir:

Your office has requested the views of this Department on enrolled enactment of H.R. 5564, "To fix the rate of tax under the Federal Insurance Contributions Act on employer and employees for the calendar year 1945."

It is recommended that the enrolled enactment be approved by the President. It is further recommended that a statement be issued by the President to accompany his approval of the measure. A suggested draft of statement for that purpose is enclosed.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Director,

Bureau of the Budget.

DJS:rgs
12/11/44

*1/12 by A. Justice & Blough
Spink took file.*

I have today signed H. R. 5564, a bill "To fix the rate of tax under the Federal Insurance Contributions Act on employer and employees for the calendar year 1945."

This bill provides for continuing for 1945 the present contribution rate of 1 percent on employers and employees under the old-age and survivors' insurance system, instead of permitting the scheduled increase to 2 percent to become effective January 1, 1945.

In my opinion the scheduled increases should have been permitted to go into effect. I defer to the opinion of the Congress only as a temporary disposition of the matter pending a thorough study both of contributions and of benefits under the Act.

The contributions now being paid by employer and employee are not sufficient to finance the benefits provided. Successive postponements have increased the deficit and appear to make inevitable substantial future contributions from the General Fund.

The provisions of this bill are concerned solely with the rate of contributions and in no way modify the benefits provided by present law. I have consistently

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urged a substantial broadening of the social security program to the Congress, and have been pleased to note that in the Congressional debates on this bill the necessity for such action was generally recognized.

The consideration of the benefits to be provided under a revised and expanded social security program, as well as the apparent necessity for future General Fund contributions, requires a thorough review of the methods of financing. In view of the prospect of early consideration of these matters I do not at this time press further for an increase in the present rate of contributions.

December 12, 1944

Dan Bell
Secretary Morgenthau

Grace Tully said the President said to go ahead with the medallion for the inauguration but he would like to have the design submitted to him for his approval. *file -*

December 12, 1944.

Memorandum

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Office of War Mobilization and Reconversion

The President announced at a press conference at the White House on October 3 that he had reluctantly signed the industrial reconversion and surplus war property disposal bills, at the same time pointing out the defects in both of them, and he announced that Byrnes had agreed to accept "temporarily" the position of Director of the new Office of War Mobilization and Reconversion set up by the new act. Last Saturday, December 9, Byrnes put out his work or fight order for the drafting of additional men in the age bracket 26-37, inclusive, and the A.P. said that this "signalized his assumption of full control in the home front war effort."

On Wednesday of last week, December 6, Byrnes had announced the names of those who would fill the positions under him set up by the act and also the personnel of the War Mobilization and Reconversion Advisory Board, which the act creates. The division appointments are:

Major General Lucius D. Clay, Deputy Director of War Programs and General Administration. General Clay has been in charge of the Army forces procurement program and has just returned to duty in Europe. His job is apparently to expedite the production expeditors.

J. B. Hutson, President of the Commodity Credit Corporation, was named Deputy Director for Agriculture and is to be responsible for the transition of agriculture from war to peace.

William Haber, Assistant Director of the War Manpower Commission, was appointed Adviser on Manpower Problems.

Fred Searles of New York, formerly in Byrnes office, will return to assist General Clay in the stimulation of war production.

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The members of the Advisory Board are: O. Max Gardner, Chairman, William H. Davis, Mrs. Anna Rosenberg, William Green, Philip Murray, T. C. Cashen, Edward A. O'Neal, James G. Patton, Albert H. Goss, Eric A. Johnston, George H. Mead and Nathaniel Dyke, Jr. This Board held a meeting yesterday and announced that it would meet again January 9.

In an announcement on December 6 Byrnes said that the immediate purpose of his organization was to "coordinate the problems of manpower supply, production and transportation to assure a maximum flow of needed munitions from the factory assembly line to the front line as long as may be necessary to bring about final victory." He added that this would be done without overlooking "for a moment the planning which must be done for the transition from war to peace."

The Reconversion Act puts under Byrnes these new offices: Contract Settlement; Surplus War Property Board; Retraining and Re-employment Administration.

CABLE TO AMERICAN LEGATION, CAIRO, FROM WAR REFUGEE BOARD.

Please deliver following message to Charles Passman from M. A. Leavitt
of American Jewish Joint Distribution Committee:

QUOTE SCHWARTZ JUST LEFT PARIS FOR SWITZERLAND WHERE EXPECTS
SPEND SEVERAL WEEKS AND THEREAFTER HE PLANS RETURN PARIS FOR
STAY AND POSSIBLE FLYING VISIT BELGIUM BEFORE RETURNING LONDON
WHICH MAY THEREFORE BE FROM SIX TO EIGHT WEEKS FROM TODAY. IN VIEW
ABOVE QUESTION WHETHER ADVISABLE YOU GO LONDON TO AWAIT SCHWARTZ'S
RETURN SINCE WE PRESSING CONTINUOUSLY YOUR ENTRANCE RUMANIA AND
EXPECT TO GET CLEARANCE ANY DAY. GLAD ADVISE YOU ICA BOARD APPROVED
LEAVE OF ABSENCE FOR YOU TO END JUNE 1945. UNQUOTE

10:15 a.m.
December 12, 1944

RDrury 12/11/44

DCG-1732

PLAIN

Lisbon

Dated December 12, 1944

Rec'd 10:22 p.m.

Secretary of State,
Washington.

4197, Twelfth

WRB 275 JDC 137 FOR LEAVITT FROM PILPEL.

Further our 121 and your WRB 120 wish advise
Saly Mayer able secure food parcels Switzerland
and believe advisable ship ex-Switzerland addition
ex-Sweden therefore reiterate request transfer
Saly Mayer twenty-four thousand dollars.

NORWEB

MRM

MF-1786

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

Ankara

Dated December 12, 1944

Rec'd 2:45 a.m., 13th

Secretary of State

Washington

2348, December 12, midnight.

FOR THE WAR REFUGEE BOARD FROM THE AMBASSADOR
ANKARA NUMBER 204.

Between November 15 and December 7 approximately 1200 refugees principally from Bulgaria and Rumania have been granted visas and transported by rail by the Turk authorities from Istanbul to Palestine. As this large unexpected movement has severely taxed the capacity of the single track railroad on which only two passenger trains are operated weekly in each direction I recommend that wide and favorable publicity now be given in the United States to the efforts of the Turk Government to cooperate in the movement of refugees from the Balkans to Palestine. I am all the more anxious that the Turk Government should receive credit in the American press at this time for its cooperative attitude in connection with the rescue of refugees as its desire to be helpful is now definitely established.

STEINHARDT

JMS

SECRETOPTEL No. 402

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

1. NAVAL

One of H.M. Destroyers torpedoed north of Murmansk yesterday morning. Bow blown off, but ship returning to port. One of our motor minesweepers mined and sunk in Scheldt yesterday. 2 casualties. On 10th U.S. Destroyers in Gulf of Genoa seriously damaged an M.T.B. and took the crew prisoner. One of H.M. Canadian Infantry Landing Ships damaged by mine off Piraeus.

2. MILITARY

WESTERN FRONT. Troops of 7th U.S. Army are encircling Reichshoven 25 miles north Strasbourg. East of Saareguemines right flank 3rd U.S. Army has advanced up to 5 miles on broad front against light opposition. Left flank 1st U.S. Army has advanced N.W. of Duren up to 2 miles towards Roer. German resistance stiffening. No marked increase floods Nijmegen salient.

ITALY. Canadian Corps have attacked across Lamone in sector between Ravenna and Faenza. Attack has had considerable success and wide and deep bridgeheads secured.

GREECE. 10th. Athens area. Early morning and during day ELAS made resolute attacks throughout area supported by mortars and some field guns. All attacks driven off and our troops made further progress in clearing parts of city. No change Patras.

EASTERN FRONT. Russians have advanced 10 miles north of Miskolc and are within 8 miles of Budapest suburbs. They have also captured places 40 miles due north Budapest.

BURMA. British troops have entered Indaw and Katha without meeting opposition.

3. AIR

WESTERN FRONT. 11th. 179 Bomber Command aircraft (1 missing) dropped 1066 tons on dam River Urft, about 14 miles south Duren. Direct hits believed, but no evidence of serious damage. 148 other R.A.F. escorted heavy bombers (1 missing) bombed Osterfeld railway centre - 502 tons and Benzol Plant - 277. 75 Mosquitoes dropped 98 tons on 2 Benzol Plants Duisburg. All these attacks through cloud. 1467 U.S. heavy bombers escorted by 811 fighters attacked railway centres Frankfurt - 804 tons, Hanover - 703, Giessen - 757, and Coblenz - 401, 2 road and railway bridges Mannheim - 452 and Maximiliansau near Karlsruhe - 354. All bombing by Pathfinder technique. 14 bombers, 7 fighters missing, but 3 of latter believed landed Allied territory. Bad weather restricted tactical bombing but 21 medium bombers attacked canal lock gates Zutphen. 890 aircraft (9 missing) flew sweeps and provided support over battle area. Spitfires successfully attacked rocket sites, Holland.

11th/12th. 90 Mosquitoes sent out:- Hanover - 38, Hamburg 28 (1 missing), other targets - 24.

MEDITERRANEAN. 10th. Bad weather restricted operations. Of 559 heavy bombers despatched only 6 (1 missing) attacked Klagenfurt Railway Centre. 127 escorting fighters (1 missing) effectively attacked railways southern Germany, while 253 medium bombers (3 missing) attacked defences Faenza and Brenner Pass areas with excellent results. 1078 light and fighter bombers operated successfully Northern Italy. Enemy casualties 5, 1, 2. Ours 8 aircraft missing.

4. HOME SECURITY

To 7 a.m. 12th. Shortly before midnight 9 flying bombs plotted, six of which came overland. Two rockets, one of which burst in air.

December 13, 1944
10:15 a.m.

HMJr: Hello.

Operator: The Vice President will be right on.

Henry
Wallace: Hello, Henry.

HMJr: Hello.

W: Oh, Henry, I just wanted to let you know I tremendously appreciate the very prompt and whole-souled way you went to work.

HMJr: Well, I thought that the letter

W: I

HMJr: while it was short, I thought it was to the point.

W: It was much -- it was just the very best possible way.

HMJr: What?

W: It was the very best possible way to do it.

HMJr: Yeah.

W: Well, I'm going to do everything I can to go straight down the line on saving the very great values that exist there for the things which you and I believe in.

HMJr: Fine.

W: And I'm

HMJr: You have had no word from the President?

W: Absolutely none.

HMJr: I saw Mrs. Roosevelt the same afternoon.

W: Yeah.

HMJr: But -- oh, I'm sure you'll hear from him.

W: Oh, yes, I'm sure of that.

HMJr: What?

W: I'm sure of that.

HMJr: Sure. Well, it's terribly nice of you to call me up and

W: Well, it's just one of the

HMJr: And if you

W: It's just one of the finest things that's happened to me in the last four years. I want you to know I appreciated it.

HMJr: Well, that's terribly nice of you but, as I say, it's a fight that you've waged and I think it's of the utmost importance that you be part of Mr. Roosevelt's family the next four years -- in the interest of the common man, that's the thing.

W: The -- well, I'm going to do all I can to go down the line.

HMJr: I know you will.

W: Of course, I -- hello?

HMJr: Yes.

W: I'm fully aware of what some fellows and the "H.H." boys are up to.

HMJr: "H.H."? What's that?

W: Shall we call it the Hannegan-Hopkins act -- the Hannegan-Hopkins action.

HMJr: Oh, yes.

W: (Laughs) I'm fully aware of what they -- I call them the "H.H." boys.

HMJr: I -- I didn't get it -- I'm a little dull.

W: Huh?

HMJr: A little dull, but that's a good name for them.

W: Yeah.

HMJr: I'm having my own troubles with Hannegan right now.

- 3 -

W: Yeah.

HMJr: And I've made up my mind we might just as well fight it out now.

W: Yep.

HMJr: And -- because I won't be plagued with it for four years.

W: Right.

HMJr: Henry, how well do you know Morris Rosenthal?

W: Oh, I know him pretty well.

HMJr: Some of our boys are trying to interest him in surplus property here in the Treasury.

W: He's a very capable fellow.

HMJr: Yeah. Any drawbacks?

W: Well, the only drawback I see is -- you see, he's a very rabid actor.

EMJr: Yes.

W: He's a liberal.

HMJr: Yes.

W: Definitely, fully, completely. He was the chap that tried to sit down and out-wait Will Clayton.

HMJr: Yes.

W: For

HMJr: Yes.

W: And he did a good job on it. He may have been a little -- he might have been a little over-aggressive perhaps but, you see, he had come straight from business into the Government.

HMJr: Yes.

W: And was more used to business methods.

HMJr: Yes.

W: But I don't see any particular drawbacks except the possible -- possibly a little tendency to over-aggressivness.

HMJr: Well, that can be useful if it's on the liberal side.

W: Oh, he's definitely on the liberal side.

HMJr: Fine. Well, I'm seeing him this afternoon. Well, thank you.

W: You'll find him a very intelligent person.

HMJr: Yeah.

W: All right.

HMJr: Thank you for calling, Henry.

W: Fine.

HMJr: Bye.

December 13, 1944
10:45 a.m.

UNIFICATION OF FISCAL POLICY

Present: Mr. D. W. Bell
Mr. White
Mr. O'Connell
Mr. Luxford
Mr. DuBois
Miss Chauncey
Mrs. McHugh

MR. BELL: (Reading memorandum entitled "Unification of Fiscal Policy) "Treasury control through policy committees. The needed element of influence by the Secretary of the Treasury over the fiscal policies of corporations and agencies in the fields of industrial, agricultural, housing, maritime, and foreign affairs financing should 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.

"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 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 as liaison--" and so forth.

Then there is a committee for each one of them. The one I mentioned was on the foreign financing field.

H.M.JR: My thought is this--I am just thinking out loud--supposing we prepared today a memorandum for me stating what

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it is like, and I think we could give the secretariat of this committee to State because of the fact it has a chairman.

MR. WHITE: I think it would be a mistake, but if that is the compromise you have to make--the secretariat is important--it is all right. It sets up the agenda, it calls the meetings, it works with the chairman very closely. It really becomes the functioning group. That is what has happened to every one of the organizations there.

MR. LUXFORD: That is right.

MR. WHITE: They have a secretariat which is a very large organization. They prepare the memoranda, and they do the liaison work. All that the chairman--I wouldn't say all, but what he chiefly does is preside at the meeting.

H.M.JR: Your first statement is correct.

MR. BELL: How about letting him have the vice-chairmanship?

H.M.JR: Your first statement is right, that is about all he does.

MR. LUXFORD: I am sure we want to get a secretariat here under Treasury supervision. What we can propose is that there be a liaison--that there be a secretariat to the financial committee, and as far as paper work is concerned, let them have it.

H.M.JR: You people are confusing what I meant by the secretariat; I mean a secretary of the committee.

MR. WHITE: The secretariat of the committee as these committees are set up now in State means a secretary. He has a secretariat under him. That is the continuing organization.

H.M.JR: What can we suggest to Stettinius that would make him feel that anything that would be done would be done within the framework of foreign policy as set by the State Department?

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MR. O'CONNELL: Mr. Luxford's suggestion is one possibility. The committee we are talking about would operate, not exactly under, but certainly in connection with a larger committee, would it not, under State supervision on foreign policy?

MR. LUXFORD: What they had proposed, Mr. Secretary, was two coordinate branches of that committee, one on finance, and one on economics generally. That would be so that they would both be integrated into this matter so that they would each have a voice as equals. Then you would have a joint secretariat that would serve us both. I wouldn't mind having coordination in the secretariat, but you don't want to put the secretariat under the State Department staff.

MR. DuBOIS: There is a possibility we can go back to the original plan we sent over. This is by no means as good, Mr. Secretary, as what you sent to the President.

MR. WHITE: Incidentally, that memorandum which you sent to the President which he O.K.'d--they have it mimeographed here and say that the President approved it.

H.M.JR: That would be within their rights. The President simply said, "For your information and return to my files."

MR. BELL: It wasn't held up at all.

MR. WHITE: Not as far as the State Department is concerned, no.

H.M.JR: .I never knew--you see, I never had any answer between October 6 and December 9.

MR. WHITE: That is why we stalled on this, because we didn't feel at liberty to take action on it.

H.M.JR: What was this thing called the Foreign Financial Policy Committee? How was that set up?

MR. WHITE: They say, "As a result of the Secretary of State's memorandum to the President," although they don't say it is in response to what the President sent them, and, "A

- 4 -

copy of the President's memorandum and the Secretary's reply are attached." They say to carry that out they are recommending the setting up of a financial section of the Executive Committee, and then they described what it should be, who the membership shall be.

H.M.JR: You mean, that is what you have done, or they have done?

MR. WHITE: The Foreign Economic Committee. .

MR. BELL: Has this been approved?

MR. WHITE: No, they are proposing it.

H.M.JR: Excuse me. What I am asking you to do--I say I propose the consideration of a foreign financial committee--what did I propose? What was my proposal? That is what I want.

MR. WHITE: I will get that.

(The Secretary and Mr. White leave the conference temporarily.)

MR. DuBOIS: The important difference between what they propose, Mr. Bell, and what we propose, to me, is rather fundamental. In other words, our committee was on a much higher level; it was a Cabinet committee. What they propose to set up here is on the scale of an executive committee; it is on a much lower level. I don't think by any means it is satisfactory.

(Miss Chauncey and Mrs. McHugh enter the conference temporarily.)

MR. WHITE: Dan, the recommendation you made here has a much broader scope; it is much more powerful.

MR. BELL: You mean this organization?

MR. WHITE: Yes. This covers domestic and everything.

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MR. BELL: We are putting the fiscal thing in the whole over-all picture.

MR. WHITE: I say that separate committee seems to have more scope--include more matters--than I think this committee does.

MR. BELL: This was not an order, just general discussion, you know. It was contemplated that whenever any of these organizations--any matter before the committee involved any of these organizations they would be called in.

MR. WHITE: Was this Foreign Policy Financial Committee a part of a larger--it was one of a number of committees?

MR. BELL: We tried to do this whole thing on a Cabinet level, and anything that involved fiscal problems, the Secretary would be chairman of that Cabinet committee.

MR. WHITE: Why isn't that committee analogous?

MR. BELL: It is.

MR. WHITE: I think that is what we are to strive for.

MR. LUXFORD: If you lose that, you can fall back on the other.

MR. WHITE: That is right, you can fall back on this with your own secretariat. I am not convinced of this business of a coordinate secretariat.

MR. LUXFORD: We are not proposing a coordinate secretariat; we have our own secretariat, and in order to have coordination between the two, we can have a liaison. Our secretariat should inform the economic secretariat what is going on.

MR. BELL: I think they have to be in on it. When you were out of the room I told the Secretary that it seems to me there are two branches involved here in making these arrangements with foreign governments. You can make very important foreign policy in financial dealings, and it is quite essential that the Secretary of State be in on it one way or the other.

- 6 -

MR. WHITE: We never thought anything other than that.

MR. DuBOIS: You can have another one of these committees over there if you want. I have been on a number of these committees. It is one thing to have a committee--

(Miss Chauncey hands the Secretary summary of Secretary's conversation with Mr. Hull, dated July 9, 1943.)

H.M.JR: There must be another meeting. I know this was a meeting where I was alone. This is July 9, 1943, which I dictated, and if you will all listen--I said, "Then after we got all through, I said, 'Look, Cordell, it is just this kind of thing that you are complaining about that I don't want to happen between your Department and mine. That's why I came over rather than write you a letter. I'm sure you don't know that I, personally, have been chairman of just this same kind of committee you outlined in your letter.' I said, 'Berle, Pasvolsky, and Acheson at different times have represented you; Will Clayton has represented Jones; and Lauch Currie has been present, and the Federal Reserve and BEW.'

"He said, 'That's the same crowd,' showing he knew what was in the letter. I put him on notice. I said, 'I take it from my conversations with you that where we are dealing with foreign exchange, World Bank, and such matters, and other Treasuries, you would like me to continue to handle it. He said, 'Absolutely.' He said, 'Give me that letter. I want to look into it. I can't keep track of all these things.' I said, 'For whatever it's worth, I understand this is something that Berle has stimulated. He's ambitious.' Hull did not like that. He said, 'I can't keep track of all these back-scene intrigues.' He said, 'Let me have that letter back,' which I did.

"Certainly, after giving me this diatribe on how the President can't keep things straightened out, when I told him I have been Chairman of a Committee like this for a year and reminded him how he wants me to deal with foreign financial matters, I don't see how he could do anything but withdraw the letter. As a matter of fact, he asked me for the letter back, and it will be interesting to see what happened."

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This is not what I referred to; it is a more recent one. When I asked him again if he wanted it, he turned to Acheson--

MR. WHITE: I think I was present.

H.M.JR: I guess so. Acheson got scarlet.

It is the result of a message he sent subsequently to Stettinius.

MR. WHITE: Stettinius was going over to England. It was on Lend-Lease. It is the message which Stettinius was upset about.

MISS CHAUNCEY: It was this spring, approximately.

H.M.JR: This is something--

MISS CHAUNCEY: I will get that letter if you would like it.

MR. WHITE: I think that related to dollar balances, Mr. Secretary. I thought it was less recent than that.

MISS CHAUNCEY: Do you want it?

H.M.JR: I would also like to know the letter which was due--

MR. WHITE: This was July of '43.

H.M.JR: Oh, yes.

MR. WHITE: It was later than that.

H.M.JR: Why don't you people do this, you see, because this is all fairly important--spend a little time on this now if you can--I don't know what you are doing--and I would like to talk with you people about this again. I would like to meet again at three-thirty; I would like to hit it again at three-thirty.

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MR. BELL: This isn't a bad committee.

MR. O'CONNELL: I have difficulty in seeing how much there is to fight about. Joe feels differently--

MR. DuBOIS: I agree we should take the other.

MR. BELL: I think this group is senior--the executive committee that you proposed to the President, because they are setting up a committee along the same lines as the Foreign Economic Committee. You can go to the President if necessary; you will be the chairman of the financial section, and representative of the Treasury Department.

MR. LUXFORD: What actually happened was that the President took the Secretary's memorandum, as I recall it, and from that paraphrased it, setting forth the ideas we had and transmitted it to this group, who drafted it in those terms.

MR. BELL: I think if this is just a proposal here, you might start from this and strengthen it along the lines you want and get it in the manner you recommended to the President.

MR. WHITE: This is an inter-departmental form of an executive committee, and they are making the committee coordinate with Dean Acheson's committee.

MR. BELL: On the same level?

MR. WHITE: Coordinate with, and with their own secretariate, but with the chairmanship in the Treasury.

H.M.JR: I would start from the beginning.

MR. BELL: Tell him about Dean Acheson's committee.

MR. WHITE: It is quite long.

H.M.JR: I don't understand it.

MR. LUXFORD: Could we give you a summary of what happened?

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H.M.JR: I wish you would.

MR. LUXFORD: You recall, we drafted an executive order that was taken to the President on the executive committee.

MR. WHITE: That is the document you have there that you sent to the President.

MR. DuBOIS: That was on a Cabinet level.

MR. LUXFORD: This is the one we wanted, and we told in this memorandum about France and others.

H.M.JR: What is the date?

MR. LUXFORD: It was right after we came back from Bretton Woods.

MR. BELL: August 19.

MR. LUXFORD: Now, you took it over, and the President was interested in it, and he then said, "I don't want to send this over to them, but let me dictate, in effect, a memorandum that would contain what you suggested, and I will shoot that forward so they won't know it comes from you."

H.M.JR: And I asked Grace Tully to get the answer.

MR. LUXFORD: They sent this memorandum over to Hull, and this Foreign Economic Policy group, which is something that had been established much earlier to cover all foreign economic policy, took on the job, apparently, of trying to work out something that would meet what the President had in mind and still be consistent with the maintenance of a Foreign Economic Committee. You remember, they replied to the President and said, "We have a Foreign Economic Policy Committee, and what you are doing is cutting the heart out of it on the financial side."

H.M.JR: In answer to my letter of the 19th, isn't this Hull's?

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MR. LUXFORD: That is right. Then they sat down to try to work out something that would give some position to foreign economic policy, and a specialized policy group. And that is when this last document he mentioned, a State Department draft that would set up the foreign financial policy, grew, but with the Secretary of the Treasury chairman as a co-equal.

MR. O'CONNELL: The only thing you have to fight about is, should it be at the Cabinet level.

MR. WHITE: With the secretariat at the Cabinet level-- that is the Secretary's first recommendation.

MR. LUXFORD: That is right; those are the only things.

H.M.JR: If it was at the Cabinet level and the secretariat was in the Treasury, how would you coordinate it in State?

MR. WHITE: They would be a member of that committee, and the secretariat or secretary of the committee would inform this foreign economic policy group of anything that dealt with any of their problems. As a matter of fact, the State Department is on the committee.

H.M.JR: Could I make a suggestion on this thing? Couldn't we follow the pattern that I did on this Lend-Lease where I picked the Secretary General, Frank Coe, but picked him from FEA? If they will let me, I will pick a career State Department man to be Secretary General.

MR. LUXFORD: I think with the backing you have at this point you can get the secretariat without any trouble.

MR. WHITE: Again that would mean that the secretariat would be over there.

H.M.JR: No, no, no, he would work here, but I would pick a State Department career man. He would be over here.

MR. LUXFORD: I don't think you would want that.

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MR. WHITE: That would mean we haven't men competent enough for that.

MR. LUXFORD: We can meet their point a different way. What they really want is to let the Economic Policy Committee know what is happening in the financial committee, and vice versa, and we can do that by letting out people exchange papers with that committee.

H.M.JR: Who would be chairman of the economic secretariat?

MR. WHITE: Dean Acheson is chairman of that Committee.

MR. BELL: And Mr. Clayton would probably take that on.

MR. WHITE: They have a very large secretariat. I think they have one hundred and fifty people in their secretariat.

(Miss Chauncey enters the conference and hands the Secretary a diary book.)

H.M.JR: This is March 13, 1944, "Secretary Hull asked: 'Well, how is that responsibility divided as between you and Mr. Crowley?': Secretary Morgenthau said that 'Mr. Crowley looks to the Treasury on the matter of dollar balances,' that the responsibility ought to be the Treasury's and asked Dean Acheson what he thought. Dean Acheson said that he thought it should be the Treasury's. Dean Acheson appeared slightly embarrassed and seemed hesitant in making the response, and Secretary Morgenthau urged Mr. Acheson to speak frankly and say just how he felt on the point but Dean Acheson replied, 'I think that is all right. I think it should be the Treasury's responsibility.'"

Here are two times, once in March and once a year before, that Hull said this thing should be with us.

MR. WHITE: They relate to two different things, which strengthens your case, one relates to foreign exchange, and this one relates to dollar balances.

H.M.JR: Miss Chauncey says you didn't keep a copy of that letter from Hull.

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MISS CHAUNCEY: It was addressed to you and Doctor White.

H.M.JR: White is slipping.

Those records are marvelous when you want to go into a thing like that.

MR. LUXFORD: I don't believe anyone else has that.

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

MISS CHAUNCEY: You say here we don't have a copy of that letter in our files.

MR. WHITE: I am not questioning you; you are questioning me. "The Secretary stated he would take the matter up with Mr. Hull personally. Secretary Hull asked him to leave the letter. We, therefore, do not have a copy in our files." That is right. We also never let a letter go out without a copy.

MR. LUXFORD: Hull asked you to name the committee.

MR. WHITE: When we have an original we make copies.

H.M.JR: I am just ribbing you.

Well, look, boys, why don't you get together. I don't want to be unreasonable, you see. I would much rather be reasonable on the first thing, have something he could accept readily, you see. I still think that if this is going to be on a Cabinet level and I am going to be chairman and he is Secretary of State and responsible for foreign affairs, that he ought to be able to feel that he is knowing every minute what is going on and he can guide this thing as far as foreign policy goes.

MR. WHITE: That is what he gets by being a member.

MR. BELL: Would this be possible? You are setting up this as a proposal to set up another committee along the lines of the other one. I suggest that Stettinius become

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chairman of that one, and that you become chairman of this one, which puts them on an equal basis at the Cabinet level, and that the Foreign Economic Policy Committee be staffed by a secretariat at the State Department and the financial one be staffed by a secretariat in the Treasury Department.

(The Secretary holds a telephone conversation with Secretary Patterson, as follows:)

December 13, 1944
11:10 a.m.

Operator: Go ahead.

HMJr: Hello.

Robert
Patterson: Henry.

HMJr: Yes.

P: This is Bob Patterson.

HMJr: Hello, Bob.

P: I wanted to come over and see you about a matter, not of immediate importance but I've been wanting to see you for some time.....

HMJr: Fine.

P: that we discussed, oh, a couple of months ago.

HMJr: Oh, yeah.

P: On this Germany business.

HMJr: Yeah.

P: And if you were free some time around four-thirty or four this afternoon, or somewhere, I'd like to make it then if convenient to you.

HMJr: Four o'clock would be perfect.

P: I'll be over.

HMJr: Fine.

P: Thank you. Bye.

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MR. BELL: The secretary of the State Department committee would sit in as an observer on all of your committee meetings, and the secretary of your committee would sit in on the Foreign Economic Policy Committee meetings as an observer.

MR. WHITE: You would have the advantage of having higher level people attend the meetings.

H.M.JR: I am going to have to stop now. I think he has a good suggestion. Why don't you boys think about it and make it--just let me say this--this is the first time I am going up against him. He is new, and he doesn't want to go back and have the people say, "The first time he went over to the Treasury Morgenthau put something over on him." Make it palatable and reasonable.

MR. BELL: Cooperative. That is what he is trying to do, apparently.

H.M.JR: Yes.

December 13, 1944
11:15 a.m.

Ted
Gamble: Yes, sir. I didn't come back to my office right away. We went into another office over in the Treasury, Alan and I

HMJr: Oh.

G: and had this meeting.

HMJr: Oh. Well, I sent you that clipping from the Baltimore Sun.

G: Yes.

HMJr: And I thought in this speech if you could get that to Alan, if you thought well of it; if we're going to make this address to the soldiers, I think we should pay them a nice compliment on what the soldiers overseas have done in the way of buying bonds.

G: Yes.

HMJr: And I'd like to get that into the broadcast.

G: Fine.

HMJr: See?

G: Fine.

HMJr: What the soldiers and sailors in the armed forces overseas have done.

G: Yes.

HMJr: And if you think well of that, you might prepare the figures and send Alan a memo on it.

G: Fine. We're sending him a memo during the day and we'll incorporate that in the memo.

HMJr: And send him the clipping from the Baltimore Sun.

G: Right.

HMJr: Thank you.

G: All right, sir.

Meeting in the Secretary's Office
December 13, 1944
3:00 p.m.

Present: Secretary Morgenthau
Mr. Robert Brand
Mr. White

Mr. Brand called at his request. He said he had just returned from Canada and Lord Keynes had wanted him to call on the Secretary to tell him how much he appreciated the splendid help he (Keynes) had received from the Secretary. Mr. Brand also informed the Secretary that they were unable to complete their business in Canada owing to the political crisis, which kept Prime Minister King completely occupied, but they had made a good deal of progress.

The Secretary spoke to Mr. Brand about Baruch's attitude toward Lend-Lease to England and suggested that Halifax might talk with Baruch about it.

H. D. White

December 13, 1944
3:30 p. m.

ESTABLISHMENT OF A FOREIGN FINANCIAL POLICY BOARD

Present: Dr. White
Mr. Luxford
Mr. DuBois
Mr. D. W. Bell
Mr. O'Connell

H.M.JR: O. K., gentlemen.

MR. LUXFORD: Joe has a memo here that summarizes it pretty well. (Mr. Luxford hands the Secretary attached memorandum.)

H.M.JR: The Executive Committee on Economic Foreign Policy -- that is in State, I take it.

MR. LUXFORD: That is chaired by State, presently.

MR. O'CONNELL: It is Acheson.

MR. LUXFORD: Acheson is Chairman.

MR. WHITE: State Department runs it.

H.M.JR: That is simple enough, isn't it? If he said to me, "Which agencies would you have on your Committee," which ones would be on this Committee?

MR. WHITE: I suppose, State, Commerce, FEA and SEC.

MR. D. W. BELL: Also Federal Reserve Board?

MR. LUXFORD: Treasury, State, RFC, FEA, and Export-Import Bank; and an observer from Budget. Then you would have representatives from the Board of Governors, the Office of Economic Stabilization, Surplus Property Board, and SEC, and other agencies may be invited to participate when subjects of interest to them come up.

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H.M.JR: I tell you what you do. I need a copy of this, one for him and one for me. Give me two copies of this saying, "The suggestion made by State as to who should be on this is as follows, which is acceptable to me."

MR. LUXFORD: On your copy or both copies?

H.M.JR: Both copies. You could have room here (indicates end of memorandum) just to put that down. "Suggested membership for the Finance Committee would be the following."

MR. BELL: "State suggests the following membership which is agreeable to the Treasury."

H.M.JR: I think Federal Reserve should have full membership. Let's say, "State Department's suggestion for membership is the following. This is acceptable to me"--Then I could say the rest of this verbally. That would be two pages. Get it into Mrs. Klotz' hands, and I could have it tomorrow for lunch.

MR. LUXFORD: It would not taste very good!

H.M.JR: Why not?

DR. WHITE: You add some salt, Lux. That will be all right!

The one point that we wanted to make to you, in the event that Stettinius says, "Well, I am too busy to head my Committee, and Clayton is going to be in charge"--If he wants to have at a lower level than his Committee this other committee, that is all right. But we thought in this other Committee the advantage of having it at Cabinet level and having it specified as the Secretary of the Treasury is that it is important to strengthen that status and role of financial affairs by stating that the Secretary of the Treasury is the Chairman of this Committee.

H.M.JR: Mr. White, are you talking of his capacity as Chairman of this Committee or are you leaving your rostrum to address from the floor?

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That is what he did at Bretton Woods. One minute he would be Chairman of the Committee and the next minute he would be addressing them from the floor, but he never would leave this position.

DR. WHITE: I didn't dare!

H.M.JR: He would stand right where he was. You never knew which foot he was on.

DR. WHITE: I should have had a hat I could turn around!

I am merely mentioning that. Though it may seem a slight thing, if he asks, "Why don't we have the arrangement we have got in which Clayton will be in charge and you can have a comparable committee?" We felt it would mean a good deal to have a formal, official status of the Secretary of the Treasury being in charge of these financial matters, and we would lose a good deal of that if it were put lower down the line even though the Treasury had it.

H.M.JR: I have a good argument for him. I can say, "Well, Ed, I think this is so important, if you don't mind I think you should head this Committee, yourself. Now if you can't always go, you can have your alternate, but I think this should be on the full Cabinet level."

MR. LUXFORD: In view of what Clayton has created already on the Hill it wouldn't be wise to have him publicly the head of that Committee. It would be better to have Stettinius.

H.M.JR: Another thing I can say, "Ed, you said so many things happen in State and Treasury that you and I don't know about; now if you are Chairman you get these things, and, after all, you and I will be made or broken as to the success of these two Committees. These are the two most important Committees in Washington."

MR. LUXFORD: I think it ought to be an Executive Order, too, so it would be public.

H.M.JR: Yes.

DR. WHITE: Then I think you could use the device,

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Mr. Secretary --

H.M.JR: That carries out the policy I have laid down for myself -- that I would not do these things any more unless they are public.

MR. LUXFORD: Do you want draft of order attached?

H.M.JR: Yes. I wish you gentlemen would remember, I am not going to take on these things any more unless they are public. Mr. Churchill thanks Lord Keynes for what he did, and all I get is the kiss of death from Krock! I am just an also-ran.

How did they ever get Crowley's name up at the top of the list there on that release?

DR. WHITE: I don't know.

H.M.JR: You remember, they came in here and they apologized for it.

DR. WHITE: The way it went, from the OWI it was the same way.

H.M.JR: Did you ever have a talk with Frank Coe or Lauch Currie since then?

DR. WHITE: Not on that point.

H.M.JR: On the whole thing, what happened the last couple of days? You said once you were going to meet them at some dinner and talk to them, just when I was leaving.

DR. WHITE: Yes, we did talk about it and what I learned was no different from what Coe told Dan.

MR. BELL: He didn't tell me anything. I have not seen him for months.

DR. WHITE: I have forgotten who it was. It was distant enough so there were some areas there that were not adequately explained.

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H.M.JR: Now, I am awfully glad you brought up that Executive Order thing, because please, gentlemen, keep reminding me, I don't want to take on any job for the President of this scope unless it is official and out in the open.

MR. LUXFORD: That is right.

H.M.JR: No more. I am not going to do any of this hush-hush stuff.

DR. WHITE: One argument he may raise is about the fact that this Economic Committee has to meet very frequently, which it does. So will this Finance Committee. Now, I think you can point to the technique you used in Lend-Lease, of turning over problems to be prepared and discussed at a lower level in the Technical Committee, and then the important issues and decisions would come before the larger Committee so they would not have to meet as often as they have been meeting, for example, on the Economic Committee -- that is, the Cabinet.

MR. BELL: I thought that was the purpose of the subcommittee.

MR. LUXFORD: It is the same as what you did on the Stabilization Fund. You had the Cabinet Committee and Technical Committee.

H.M.JR: Well I am not worrying. I have the arguments of how to sell it. I think out of this should come frequent meetings between Stettinius and myself. Then if he is Chairman of his Committee and I am Chairman of mine, we can talk about the thing first hand. And I am going to still try to urge him, if it is not too late, to let Acheson continue to do this kind of thing.

MR. WHITE: If Clayton is coming in for that --

H.M.JR: I don't think they are going to confirm Clayton.

MR. BELL: I would assume they would.

MR. O'CONNELL: I don't know what happened this morning.

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MR. LUXFORD: It wasn't so good for Clayton this morning.

MR. WHITE: Why should you get in on that fight over there as to who should run that Committee?

MR. BELL: That has been made public. Wouldn't it be pretty hard to undo? Someone told me Acheson was going to get out early in the spring.

H.M.JR: Well, is everybody happy about this thing?

DR. WHITE: Yes.

H.M.JR: Executive Order will be attached?

MR. LUXFORD: Yes.

H.M.JR: I don't want to hear afterwards -- That is the neatest piece of work in the least time I have gotten out of you fellows in a long time.

MR. O'CONNELL: We have had a rest for the last ten days!

DR. WHITE: It has been culminating for about eight months.

MEMORANDUM RE: ESTABLISHMENT OF A FOREIGN
FINANCIAL POLICY BOARD

1. The President suggested to the Secretary of State, on August 21, the possibility of establishing a Foreign Financial Policy Board. The Secretary of State, on September 26, raised certain doubts with respect to this proposal, stressing the functions of the Executive Committee on Economic Foreign Policy. The Secretary of State indicated, however, that there might be a need for an interdepartmental committee to coordinate, within the general framework of foreign economic policy, foreign financial activities and indicated that he would be glad to ask the Executive Committee on Economic Foreign Policy to explore the matter and prepare a plan for coordination of our foreign financial operations.

2. The Executive Committee on Economic Foreign Policy has now submitted a plan proposing the creation of a Financial Section of that Committee which would be on an equal level with the General Section of the Committee, both Sections having the power to make recommendations to responsible agencies concerned and in appropriate cases to the President. It is provided that the Executive Secretary of the Executive Committee should be the secretary of the Financial Section as well as the General Section, and the Executive Committee Secretariat should serve the Financial Section as well as the General Section.

3. This proposal submitted by the Executive Committee on Foreign Economic Policy has a great deal of merit. In view of the fundamental importance of the issues with which both the economic and financial committees will be dealing and in order that those committees may carry as much weight with governmental authorities as possible, it is suggested that both committees be formally established at a Cabinet level. The Secretary of State would chairman the committee on foreign economic matters and the Secretary of the Treasury would chairman the committee on foreign financial matters. Both Cabinet committees would, of course, have appropriate technical sub-committees.

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It is also suggested that both committees have separate secretariats although close liaison could be maintained between the two secretariats. Both secretariats would exchange documents and each could have a representative at all of the meetings of the other's committee.

The Secretary of State, through his chairmanship of the foreign economic committee and his representation on the foreign financial committee, would be in position to coordinate the activities of both committees as well as to see to it that the decisions of both committees conform to the foreign policy of the United States as formulated by the State Department.

December 13, 1944

I talked on the telephone to Stettinius about 6:15 Tuesday evening and told him that I had this memorandum from the President, which Hull had sent him three months ago, about setting up a committee to handle international finance, and I wanted to discuss that with him when we have lunch and settle it as to which Department is going to do it. He said we'd have no trouble about it. I also said that I'd like to have him tell me what these two memoranda are that Winant prepared, according to the paper, and delivered to the European Advisory Council, and any other moves that have been taken recently in regard to the future treatment of Germany. He said he'd be glad to furnish me with all of that.

THE SECRETARY OF STATE
WASHINGTON

December 13, 1944

Dear Henry,

I am greatly disappointed I could not accept your invitation to lunch but I have been called back to testify before the Foreign Relations Committee again tomorrow.

Just as soon as I finish on the Hill you may be sure one of the first things I will do is telephone you so that we can have a good talk on matters of mutual interest.

With best wishes,

Sincerely yours,



The Honorable
Henry Morgenthau
Secretary of the Treasury

December 13, 1944
3:34 p.m.

HMJr: Hello.

Operator: Mr. Sarazan.

HMJr: All right. Hello.

Bert
Sarazan: Yes, sir.

HMJr: Henry Morgenthau.

S: How are you, Mr. Morgenthau.

HMJr: Fine. Have you got any good ads you've got underway?

S: Well, we haven't had a good ad in years, I guess.

HMJr: Oh, you had one with those ash trays.

S: Yeah?

HMJr: Mr. Roosevelt's cigarette and

S: That wasn't bad, was it?

HMJr: Mr. Churchill's cigar.

S: You see, we have an interesting one on the V-Mail Bond Certificate tomorrow morning.

HMJr: Well, I want -- I've been pushing

S: I think you'll be interested in that.

HMJr: Well, I'm the man who has been pushing Gamble on that.

S: Well, you're going to have it -- a full page on it on the back page of tomorrow morning's Post. "Buy a V-Mail Bond for that boy in service".

HMJr: Wonderful.

S: It's a whole -- there's a full page on it. Also in tonight's Times we have an interesting one. It ties in with our historical Christmas series. I'm sure you've seen some of them.

HMJr: No, I'll look for it.

- 2 -

S: But I wish you'd look at it on the back of tonight's Times.

HMJr: Right.

S: It's quite good.

HMJr: Now, the reason I'm calling you is this: what I'd like to find out -- we're houseless -- we have no house -- we're on the street.

S: Huh?

HMJr: And if we wanted to buy a house and furnish it, would it be possible through your organization to buy -- to get furniture within thirty days -- beds and all that sort of thing?

S: Sure it would.

HMJr: Are you sure?

S: Sure it would. That's for you?

HMJr: For me personally.

S: Yes, indeed.

HMJr: I mean, could you get together beds and rugs and all that sort of thing?

S: Well, it would depend on your requirements. I mean, if they were

HMJr: Well, it would be

S: out of reach in price

HMJr: No, no.

S: and that sort of thing, of course

HMJr: No, no, we'd be very much on the simple side.

S: If they were moderately priced and within our ability to supply, of course.

HMJr: I mean, you could put some of your buyers on it for us?

S: It's as good as done.

HMJr: I mean, have you got a decorator -- interior decorator?
S: Indeed! Four of them.
HMJr: Four of them?
S: They're pretty good, too.
HMJr: Pretty good?
S: Pretty good.
HMJr: Uh
S: And I'd be very glad to be of help.
HMJr: Well, that's
S: And I'm sure the girls would.
HMJr: Well, we didn't know whether we could or couldn't and a house has been offered to us. It looks very nice and
S: How big -- how many rooms will you -- will be
HMJr: Five bedrooms in the house.
S: Five bedrooms?
HMJr: Yeah. And then a proportionate downstairs.
S: Yeah.
HMJr: But I just wanted
S: I don't think there will be any difficulty on it at all.
HMJr: You don't?
S: No, I'm sure we -- well, we'll make an effort -- we'll make a special effort to have it done, and that means that we'll get it done.
HMJr: Wonderful. Well, I'll tell
S: We'll have some of our resources to help us on it and we'll tell them who it's for.
HMJr: Right.

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S: And I'm sure they will help us. They do not want to see the Secretary out on the street.

HMJr: Well, that's what it amounts to.

S: Well, I promise you that you won't be out on the street. Now

HMJr: I mean, you have somebody that's experienced enough, who could go up there if we bought this house and look at it and make suggestions, and so forth?

S: I'll send our head decorator and her assistant.

HMJr: Wonderful.

S: And they'll be at your service at any time you want them.

HMJr: Thank you so much.

S: If you'll just call me, I'll go right through with it and

HMJr: You see, Mrs. Morgenthau has been sick and she's just out of the hospital.

S: I understand so. Is she

HMJr: She's better, but the question is of trying to do this thing with the least worry for her.

S: Well, I think maybe we can take a lot of that worry off your hands.

HMJr: Well

S: And we shall if you just say the word and tell us when and where to get in touch with you.

HMJr: Thank you.

S: It's as good as done.

HMJr: Thank you.

S: Okay, Mr. Morgenthau. Thank you for calling.

HMJr: Good bye.

December 13, 1944.

Memorandum

TO: Secretary Morgenthau
FROM: Mr. Gaston

I talked to Senator Truman in his office this morning about the El Paso appointment. His concern of course is to smooth out difficulties and protect his majority for the need that will arise in the new Congress. It is his belief that on account of the crucial matters the Foreign Relations Committee will have on its hands Tom Connally ought not to alienate, or run the risk of alienating, a single vote on the floor. For that reason he thought Connally ought to make a generous gesture and yield this appointment to Chavez. I thought this reasoning entirely correct and said so. Truman will talk to Hatch and perhaps try to get him to act as peace-maker.

He wanted to know if the fact that the nomination had already gone to the White House would not create a difficulty. I told him it would not if Connally agreed to its withdrawal. I made it plain, however, that we were not to be quoted as taking the position that Connally ought to yield. Truman readily agreed to that.

WAG



TREASURY DEPARTMENT

WASHINGTON

December 13, 1944

To: Secretary Morgenthau

From: J. W. Pehle

The following is a summary of significant developments in the Procurement and Surplus Property offices for the week ending December 9, 1944:

Administration:

Prior to this time, management and staff services reported officially to the Director of the Office of Surplus Property and to the Director of Procurement, while actually the loyalties of most of the employees were naturally to the Director of Procurement. This condition was the primary cause for the origination and continual growth of competing services in the Office of Surplus Property. The organizational position of these services has now been clarified, and it will be possible to consolidate administrative services effectively.

Preliminary steps have been taken to arrange for the transfer of the War Department Toledo Medical Depot to the Treasury Department, Procurement Division, including detailed directions for a complete survey of the present War Department operation at that location.

A survey was started of the present organization of the section assigned to the stockpiling of strategic and critical materials with a view to minimizing administrative requirements.

- 2 -

Our field problems can be lightened by consistent, systematic management procedures, including the preparation and maintenance of a complete manual of instructions of all phases of management operations for both the Departmental and field services. The unified management service, referred to above, will aid extensively in coordinating the work of the Departmental and field offices. Personnel for all salary levels is needed both in the Department and in the field.

Procurement:

During this week, we have purchased material valued at \$37,328,518.14. This figure covers \$36,826,153.18 for Lend Lease and \$502,364.96 for regular purchases.

We have completed contracts for 27,200,000 pounds of special waterproof container board for the manufacture of containers to be used by the English Navy. There was also purchased for the English Navy 6,500,000 square yards of various types of laminated waterproofing for airplane parts and ordnance wrapping at a cost of \$2,792,510.

It was reported that 50,000 tarpaulins bought for use on houses in England were damaged by robot bombs.

SURPLUS PROPERTY:

During the week we have completed plans for the disposal of two million flashlight batteries, disposal to be made only to dealers who have purchased batteries directly from the producer and allotments will be made based upon their 1942 purchases.

- 3 -

We have entered into contracts with several tire manufacturers to take tires unfit for military use but repairable for civilians. Basis of contract is \$30 per ton F.O.B. point of shipment; sales will be made by them to tire repair men on the basis of \$40 delivered.

We have renewed the contract with S. Schapiro & Sons, Inc., Baltimore, for the disposal of 250,000 mattresses.

An agreement has been drawn up between the Office of Surplus Property and the Foreign Economic Administration whereby FEA will be responsible for the disposal of all aircraft and parts peculiar thereto in the Pacific Ocean Area.

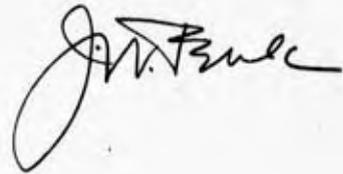
Sales agreements have been made for the disposal of approximately 100 carloads of 10-ton roller type hydraulic jacks to the producers (Weaver and Walker).

We have received a major complaint from the Photo Developing, Inc. of Cincinnati on our method of disposing of outdated film which at the present time is going back to the producers on a contract basis. The value of this film is considerable, amounting to several million dollars. We will have to determine whether or not outdated film should be sold other than to producers, especially at this time when film is badly needed. The Photo Developing, Inc., claim interest in film dated back to and including 1943. We are checking into this problem.

We received numerous complaints because speculators were circularizing trade endeavoring to secure the interest of prospective purchasers in materials which were to be sold by Treasury. A check of the products involved shows that we have had no dealings with these speculators and that they have taken for granted the fact that we would sell merchandise to them or their customers.

- 4 -

The Surplus Reporter, a printed tabulation of commodities, amounts and locations, now covers all divisions with the exception of Machinery and Textiles, and Wearing Apparel, which will be taken care of this week. Our field organization and the trade comment very favorably on this means of informing prospective purchasers.



Given to the Secretary by Mr. White
on 12/13/44

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Memorandum for the Files

Subject: Conversation with Mr. Robert D. Murphy, October 19, 1944.

1. At the request of Mr. Murphy that I drop in for an informal chat, I went to his office the afternoon of October 19th. Mr. Murphy said that he had just returned from France and that his observations on the situation there had convinced him that conditions were very bad. De Gaulle's position as head of the state was precarious and uncertain in view of the political and social chaos. He said that the government in Paris was out of touch with South and Western France. In some instances it had had no communications with large areas of France. Some attempts on the part of De Gaulle to set up representatives in other parts of France had been either resisted or the localities concerned had refused to accept the authority of De Gaulle representatives. It was difficult in view of the destruction caused to communications and transportation lines to reestablish law and order in these areas. Mr. Murphy said that these sections of France were either controlled by the Maquis, the FFI, Spanish Republicans or, in some cases, thoroughly irresponsible elements. In Mr. Murphy's view, early recognition of De Gaulle by the U.K. and the U.S. would help to establish his authority in France.

2. I asked Mr. Murphy if under the conditions prevailing in France he felt that we should take De Gaulle's statements seriously when he had asserted on several occasions that the German problem could not be settled without taking into account French Government views in respect to Germany. Mr. Murphy replied that it was evident that the German problem could not be settled without reference to France and that General Eisenhower had indicated that he was taking French troops with him into Germany among the occupation forces. He added that the U.S. and the U.K. had indicated their willingness to consider taking France in on the discussions with regard to the future of Germany, but that the U.S.S.R. was absolutely opposed to the inclusion of French representatives and had thus far been successful. Asked the reason for the Russian opposition to French representation, Mr. Murphy said that he was unable to give any official views but that it seemed to him difficult enough in coming to decisions with only three governments participating through EAC.

3. Mr. Murphy stated in regard to the treatment of Germany that he had been very discouraged as a result of his recent visit to Washington. In Washington he had been unable to discover any concrete formulation of an American Government policy towards Germany and had observed only fighting and bickering on the major issues involved. He said that while such debate might have been healthy as indicative of interest in the subject a year ago, that such was not the case today.

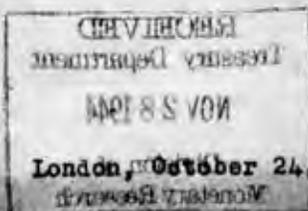
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- 2 -

The time had come when the U.S. had to make clear its attitude on the subject and to state its views without reservation or equivocation. Asked whether he did not view the scores of papers that had been written by the State Department's Working Security Committee on various aspects of the German problem as indicative of government policy, Mr. Murphy said that these papers were being written by people quite far down the line and that anyone could write papers on Germany but that it was a different thing to have it agreed to as government policy. I asked Mr. Murphy whether he did not consider the September 22 directive on Germany from the Joint Chiefs of Staff as indicative of American Government policy in respect to Germany. Mr. Murphy replied that the September 22 directive was only a short-term document which would have very limited application and was meant to bridge the gap only between the defeat and/or surrender of Germany and the establishment of the Tripartite Control Commission in Berlin. Furthermore, this document which was intended to be binding upon the military had not yet received British approval and could not therefore be considered as an instruction to SHAEF. He said that the document also avoided any reference to the bigger questions that had to be settled in respect to Germany, such as reparations, our control over the German economy, and our views on what was to happen to Germany in the post-war years. I asked him if, in this connection, he did not consider the Quebec decision as indicative of American and British Government agreed policy. Mr. Murphy said that he presumed that I was referring to the document on the "pastoralization" of Germany. I replied that though I was not aware of the details of the Quebec decision that I had heard many references by military and civilian officials here to the effect that the Prime Minister and the President had reached agreement in respect to certain aspects of the German problem in Quebec. Mr. Murphy said that this was true and then asked me if I had heard that when the President had been requested to review the Quebec decision recently he had expressed amazement at ever having signed such a document. Asked for the source of his information, Mr. Murphy said that it came "straight from the horse's mouth". No questions were asked as to the identity of the horse involved. He added further that he had been making inquiries in London amongst official British circles and that it could be said that the Prime Minister would not have much support in this proposition.

4. Mr. Murphy asked what part Treasury expected to play in occupation work in Germany. I told him that as far as I was aware no definitive arrangements had been made. I asked him for his views on the matter and Mr. Murphy took a long while to reply that he was most anxious to work closely with us.

WHS
 Wm. H. Taylor
 U.S. Treasury Representative



AA



America's Leading Independent Station

WMCA BUILDING, 1657 BROADWAY, NEW YORK 19, N.Y. CIRCLE 6-2200

NATHAN STRAUS
PRESIDENT

December 13, 1944

Dear Mrs. Klotz:

Mr. Straus thought that
Mr. Morgenthau ought to know of this.
Obviously there is more to the story
than appears in the release.

Very truly yours,

Am Cogan

Secretary

Mrs. Henrietta S. Klotz
c/o Hon. Henry Morgenthau, Jr.
U. S. Treasury Department
15th St. and Pennsylvania Ave. NW
Washington, D.C.

FROM: WMCA PRESS DEPARTMENT
1657 BROADWAY, N Y C 19

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Circle 6 - 2200

JOHANNES STEEL RESIGNS AS COMMENTATOR OF STATION WMCA:

Johannes Steel, WMCA commentator for the past eight years, resigns from WMCA effective with the termination of his present agreement on January 2nd, 1945, he announced today (Wednesday, December 13th), Reason for the resignation, it was stated, was increased activities in both radio and newspaper work which will take him on a tour of liberated countries throughout Europe early next year.

Mr. Steel's commentaries which have been heard nightly at 7:30 PM over WMCA will be continued at the same time on a network basis over another station after January 3rd, thus maintaining unbroken continuity of the broadcasts, it was explained. Steel is also scheduled to do a series of books on "The Future of Europe" to be published by Henry Holt and Company, the first of which is listed for March publication.

Author of many books on contemporary affairs, Steel has always been known as an uncompromising foe of reaction. He is a member of the Overseas Press Club, member of the Town Hall Club, the Circumnavigators' Club, Association of Radio News Analysts and the American Academy of Political and Social Science. Former foreign editor of the New York Post and war correspondent on special assignment for Liberty Magazine, his column "Steel Filings" is widely syndicated in American newspapers.

* * *

12/12/44

Dec. 13, 1944

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To: Mr. D. W. Bell
Mr. White
Mr. Blough

From: Secretary Morgenthau

Please read and return with your
comments.

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THE WHITE HOUSE
WASHINGTON

December 9, 1944.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY
TO READ AND PLEASE RETURN
FOR MY FILES.

F. D. R.

C
O
P
Y

November 14, 1944.

Your statement that the English said they were bankrupt and required \$7,000,000,000 provoked the following thoughts:

Germany in preparation for the first World War and Germany and Japan together in preparation for the second World War through sweated labor and subsidized exports, flooded the export markets of the world everywhere, reducing prices and profits and causing reduction in scales of wages and standards of living.

During that time they were enabled to keep up a certain standard of living uncomplainingly, to obtain through their enforced exports stockpiles of necessary materials and make unhappy the populations of the rest of the world.

The removal of the sweated labor and subsidized exports of these two countries will enable the rest of the world to increase employment, profits and standards of living. The cartelized system fathered by Germany will disappear.

November 14, 1944.

Even before World War I the Germans were conquering the world industrially. Competition was getting keener. Not alone were they taking export markets but they were underselling us here. As always, the result was the cutting of wages and the lowering of the standards of living.

After the war, Germany soon got into her stride, followed by Japan, in taking the competitive markets from England and America, and dumping stuff here at ridiculous prices. We tried to meet this situation with lower wage scales, lengthening hours and share the work. Unemployment resulted. The competition could not be met.

Whatever the action regarding Japan and Germany, it must certainly include the restriction of their industrial activities so as to prevent them from competing in the markets of the world with the English, French, Dutch, Belgian, other exporters and ourselves. This would mean the lifting of the volume of business by all with increased profits, thereby increasing the asset values of our various economies. What this will be, it is now difficult to say, but it will be tremendous.

The Germans and the Japanese can be given opportunities and standards of living certainly as good as they were when they prepared for war, when their hours were lengthened and their wage scales cut, but the excess efforts that made them prepare for war will be cut off. If reparation in kind is given, it should not be for export, for at least years.

In dealing with the German question, consideration must be given the surrounding countries, and the most important is Russia which must have a Cordon Sanitaire of defense. What that shall be and what its effect will be on the Baltic countries, Poland, Czechoslovakia and the Balkans, I am not able to say, until we see what the demands upon the German economy by Russia will be. If they want German labor, there is no reason why they should not get it in certain circumstances and under proper conditions. They must get a certain amount of materials from Germany for their economy. All of the countries which dealt with Germany must be considered, particularly as regards the coal which they received. But there is plenty of that for them and the Germans. A study of the German economy ought to be made, especially of their ersatz and substitute materials, chemicals and steel.

English economy must be studied for the purpose of seeing how far behind in their methods of production and distribution they are. There is no reason why the Ruhr and Saar with their manufacturing resources should not be put under English or joint control. This would give coal, coke and iron, and chemical products of vast amounts to be divided as determined.

With the increased productive capacity that will come to other countries, with Germany and Japan restricted to their own needs and the necessities of the countries that they have destroyed, increased work and profits will come to other countries, particularly the democracies. This will give plenty of jobs for all, for many, many years to come, and increased wage standards.

In discussing the English rehabilitation, consideration will have to be given to the position that England has always taken about foreign or alien investments. They have not indulged in free enterprise or competition, but have demanded it in other countries.

With this should also go a determination to establish within Africa a country where refugees can go from all countries and seek homes where they can develop along lines other than those prevailing in their home countries - a New United States of Africa. New methods of transportation, communications and hygiene will open up vast areas capable of supporting life.

Of prime importance to us and the whole world is the American economy. We have a huge debt which must be retired. Particular attention will have to be given to the first few years after the war when large amounts of bonds will be offered for sale. The only way I know that this can be handled wisely is by taxation, which will take up in the first ten years all the bonds that will be offered for sale. It is useless to have the banks or the Treasury buy them because that would only mean increased inflation.

In order to meet this situation and to give an impetus to free enterprise, I suggest that instead of going into a new tax program, we should back off from what we have done.

Here is what I suggest -

For the first year after the war there should be no change.

The next year the last taxes should be removed.

Two years after that, 25% of the previous tax program, which was the largest one, should be taken off, and each succeeding two years another 25% should be taken off so that at the end of nine years you

- 4 -

will get back to the tax program of In
the meantime, there will have been collected enough to retire over
\$100,000,000,000 of the debt. The balance of the debt the insurance
companies and banks should be glad to keep and would sell at considerable
premium. Indeed, the government would be able to refund at lower
interest rates than the long-time bonds bear.

The following results would flow -

This would take care of the bonds and the tax program
and enable people to plan for the years to come.

None of this of which I have spoken can be of any avail
unless it is worked as a part of the general plan.

PHYSICAL DISPOSITION OF GERMANY-AUSTRIA AND SATELLITES

Surrounding countries entitled to Cordons Sanitaires.

Russia -- What becomes of Baltic States? (Finland, Poland, Czechoslovakia, Balkans and Greece)

What part or parts should surrounding countries obtain and can they maintain the new possessions?

Option of inhabitants.

Shall balance be subdivided or remain as whole?

How shall it be governed?

- a. Military for X years?
- b. Then civilian for X years?
- c. Gradually by Germany?

What damages shall Germany pay? How? To whom? With labor or materials?

All German private property abroad must be liquidated for Reparations.

German industry must be carefully watched, so as not to permit War preparations, either in manpower or industry. In no circumstances must Germany pay in kind to any country, except for repair and rebuilding -- not for export. (Except after X years)

Russia, England, France, Norway, Belgium, Holland -- all United Nations -- even the United States have to repair damages to economy and meet unemployment problems.

This breathing spell against "sweated labor" and subsidized export for ten years will permit Germans to live as well as they did while preparing for War.

All exports and imports must be carefully watched.

Restriction of German (and Jap) exports will raise prices, profits and volume of production of the United Nations.

For America, Russia, England, France, Holland, Norway, Denmark, and Belgium this will mean full employment at good prices.

At the end of the decade, not less than 100,000,000 and, perhaps, 150,000,000 of Government bonds may be retired with resulting benefits.

America can restore and extend her ability to help the world by example and precept.

COPY

BERNARD M. BARUCH
597 Madison Avenue
New York 22, N. Y.

December 13, 1944.

Mr. John W. Pehle,
Executive Office of the President,
War Refugee Board,
Washington, D.C.

My dear John Pehle:

That was a fine job you did
on German Extermination Camps. It is
quite necessary that that be kept in
mind when the Germans have to be taken
in hand.

Sincerely yours,

/s/ B. M. Baruch

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD
WASHINGTON 25, D. C.



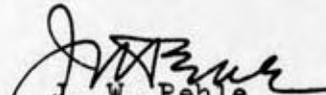
OFFICE OF THE
EXECUTIVE DIRECTOR

DEC 13 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 November 27 to December 2, 1944.

Very truly yours,


J. W. Pehle
Executive Director

The Honorable,

The Secretary of the Treasury.

Enclosure.

Report of the War Refugee Board
for the Week of November 27 to December 2, 1944

SITUATION IN HUNGARY

Representative McClelland cabled us that the Swiss Minister to Budapest had brought to Bern a report that some 7,000 persons composed of family groups holding Palestine certificates are ready to leave for Switzerland. According to this report, they have all the necessary papers, including German transit visas, and, while lack of transportation prevents their departure, they are relatively unmolested and are exempted from forced labor service, as are all persons in possession of Swiss "protective" documents. It was pointed out that, although, in view of the military situation, the Germans are not likely to decide to allot rolling stock for their transportation, at least they are not being deported. In a later cable, McClelland advised us of a wire dated November 27 which the Swiss Political Department received from Hungary reporting that the Swiss Legation in Budapest is assembling a first trainload of 700 Hungarian Jews in possession of Swiss entry visas and Palestine certificates. It was indicated that these persons are close relatives of persons in Switzerland and the Swiss are now negotiating with the Wehrmacht with a view to obtaining the necessary rolling stock.

It was also reported that some 4,500 persons with Swedish protective documents have not as yet been granted German transit visas, so that their departure from Hungary is even more doubtful than that of those with Swiss documents.

In connection with the possible emigration of 8,000 Jews from Hungary to Switzerland and our request for information as to the total number of Jewish refugees now in Switzerland and the numbers holding Palestine certificates, valid visas to any other countries, or valid passports of countries to which they can safely return, McClelland reported that there are in Switzerland approximately 42,000 "civilian emigrants" (those who entered prior to August 1, 1942) and refugees (those who entered after that date, mainly illegally). This number is exclusive of some 40,000 military internees and about 13,000 French and Italian refugee children recently admitted from the Belfort and Val Dossola regions and is composed of repatriables and unrepatriables, as follows:

Repatriables:

Italians	9,800
French, including Alsatians	5,332
Dutch	1,295
Yugoslavs	1,200

- 2 -

Belgians	580	
Hungarians	480	
Czechoslovaks	500	
Others of various nationalities	<u>5,000</u>	24,187

Unrepatriables:

Former Germans and Austrians, almost all stateless, 85% Jews	9,720	
Poles, majority stateless, 85% Jews	6,700	
Former Czechs, all stateless Jews	500	
Former Hungarians, all stateless Jews	200	
Others of various former nationalities, now stateless	<u>500</u>	17,620

Apparently, 80% of the first four groups of repatriables are Jewish, but the number of Jews included in the last four such groups was not indicated. The majority of the last group of unrepatriables are presumably Jewish. About 230 persons presently in Switzerland hold valid Palestine certificates, and in a negligible number of isolated cases valid visas for overseas emigration are held, mainly for South American countries.

With respect to the matter of arranging for their prompt evacuation elsewhere to relieve the problems with which the Swiss would be faced in the event of the entry of a group of 8,000 Hungarian Jewish refugees into Switzerland, Assistant Secretary of War McCloy advised us that appropriate military authorities in the Theater have been informed that the United Nations Relief and Rehabilitation Administration has agreed in principle to the reception and care of the group in an appropriate UNRRA camp and that arrangements consistent with military exigencies should be made to provide transit for the group through France and across water to bring them to their destination. Incident to the possibility of a request by the Board that the refugees involved be housed at Philippeville, the Acting Director General of UNRRA wrote us that he is undertaking an inquiry into the situation which will arise in such an eventuality.

A cable from Ambassador Hayes in Madrid contained the information that the Spanish Legation at Budapest was successful in extending the protection of Spain to 300 Jews in Budapest. Moreover, it was stated, the Legation has issued to other Jews 2,000 letters of protection which so far have made it possible for the holders successfully to avoid deportation or internment. These persons were reported by the Legation to be concentrated in "determined" houses in Budapest pending possibilities for their transfer to a foreign country. Ambassador Hayes pointed out that it was not clear in the communication from the Spanish Legation to the Spanish Foreign Office in Madrid whether the numbers of Jews referred to in this report included the 700 persons to be given visas for Spanish Morocco.

- 3 -

Representative Katzki cabled us the substance of reports reaching the Jewish Agency representative in Istanbul from Geneva, according to which the position of the remainder of Hungarian Jewry has reached a climax and deportations to Germany have been proceeding very actively during recent days, the deportees being forced to travel on foot. The project for the emigration of 8,000 Palestine certificate holders was said to have again been stopped. A report received from a private source through our Legation in Lisbon stated that 80,000 men and women have been deported from Budapest since the end of October and are being marched about thirty kilometers per day in the direction of Vienna. The Joint Distribution Committee representative in Switzerland is attempting to supply them with food.

SITUATION IN SLOVAKIA

A report which we received from a private organization through our representative in Bern indicated that the number of Jews with American and Latin-American documents who were originally housed at Marianka was about 1,000. It was stated that the deportation trains which removed all but some 300 persons from the camp at Sered about the middle of October departed northwards, probably to Auschwitz. According to a report which reached Switzerland on November 15, the rest of the Jews at Sered and Marianka have all been deported in the meantime and legally no Jews remain in German-occupied Slovakia.

Our Legation in Bern cabled us that an official Bratislava communique dated November 21 directed all Jews residing in the Slovak capital to prepare for transfer to Sered, and declared that the complete elimination of Jews from Bratislava was ordered to meet the demands of Slovak nationalists.

SITUATION IN RUMANIA

Representative Katzki forwarded to us information which he received concerning the visit of a delegation of the International Red Cross, led by Dr. Ernst Marton, to North Transylvania. According to the report of the delegation, 142,000 of the 150,000 Jews who formerly lived in North Transylvania have been deported to Germany and Poland. Only 6,000 Jews were found by the delegates, including 1,200 in Arad, 1,050 in Cluj, and smaller numbers elsewhere. The Jewish Communities in these cities formerly numbered thousands of persons. It was said that the greater part of the Jews still alive escaped from forced labor battalions to the Soviet troops. Those who were able to return to their places of abode found neither their families nor their homes, and Jewish communal institutions have been destroyed. The delegation has taken measures for the protection of the assets of deportees, and the visit of the delegation has given the remaining Jews encouragement to make efforts to reorganize

and reconstitute their communities. It was indicated that a new delegation of Intercross will proceed to liberated areas of Hungary and Czechoslovakia.

EVACUATIONS THROUGH TURKEY

Since it is believed desirable that rescue possibilities from occupied territories through Bulgaria and Rumania be explored as soon as possible, Representative Katzki has been authorized to proceed to those countries as soon as the Department of State arranges the necessary travel permits.

Palestine Certificates

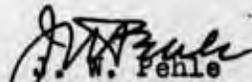
We advised Representative Katzki that, while we have not been able to obtain a full clarification of the policy to be expected with the new quotas for Jewish immigration to Palestine, it is our impression that the new allocations will not prevent the granting of Palestine certificates to persons in enemy-controlled territory.

EVACUATION OF SEPHARDIC JEWS

Ambassador Hayes informed us that the Embassy has received from the Spanish Foreign Office official confirmation that appropriate instructions have been sent to the Spanish Legation in Bern to seek the collaboration of the Swiss Government in the efforts of the Spanish Embassy in Berlin to obtain the release and transfer to Swiss territory of the group of 155 Sephardic Jews at Camp Bergen Belsen.

RELEASE OF EYE-WITNESS REPORTS ON GERMAN EXTERMINATION CAMPS

The eye-witness accounts of Auschwitz and Birkenau which the Board received through Representative McClelland in Bern were released to the public on November 26. News dispatches on the release were carried in 83 newspapers throughout the United States. Editorials appeared in 24 newspapers. Special articles, including syndicated columns and Sunday supplement articles, are continuing to appear and several radio programs have been devoted to discussions of the reports. The Russian Press carried a prominent release on the accounts and press reports from Moscow indicate that our release was introduced into the record in the recent Lublin trial of war criminals. War Refugee Board Representative Mann in London reports that the British press has given the account wide coverage. Copies of the reports were sent by O.W.I. to its outposts all over the world and, through the Coordinator of Inter-American Affairs, copies were sent to all South American countries. The Board continues to receive numerous requests from the public for copies of the release.


J. W. Fehle
Executive Director

CABLE TO AMEMBASSY, QUITO, ECUADOR

The following is the substance of a cable from Amembassy London, dated December 9.

QUOTE The Chief Rabbis Religious Emergency Council has received from Stockholm a cable stating Ecuadorian passports validity expires in January and asking Ecuadorian President be asked to authorize Consul Stockholm renew validity of passports and instruct the protecting power to protect interned holders of such passports. Inter-governmental committee made inquiry of Ecuadorian Minister here who stated that steps have been taken to prevent use in France of such passports legally invalid. Minister is going there soon to discuss matter with French Government. He says no steps have been taken to invalidate passports held by people in enemy or enemy occupied territory, but all passports valid only for one year unless prolonged. IGC has asked Minister to ask his government to prolong all Ecuadorian passports held by Jews in German or German occupied territory. Board and Department may want to consider taking up matter with Ecuadorian Government and requesting that all passports though irregularly issued be prolonged and none invalidated not even in liberated areas since this if known to Germans might prejudice any protection now accorded to holders by Germans. UNQUOTE

Department and Board would appreciate your approaching Ecuadoran officials with a view to ensuring that Ecuadoran consuls in Stockholm and any other appropriate places be instructed to renew validity of all passports issued in the name of Ecuador to any prospective victims of enemy persecution who were last known to be in enemy-controlled territory, and that protecting power of Ecuador be informed thereof and instructed to protect holders of such passports interned or otherwise held by the enemy. In view of possible effect on Germany, please also request Ecuadoran officials to postpone invalidation of such passports in liberated areas, even if they were irregularly issued, until such time as this could be done without jeopardizing safety of holders of similar documents under enemy control.

10:20 a.m.
December 13, 1944

BAkzin:tmh 12-12-44

CABLE TO AMERICAN LEGATION, CAIRO, FROM WAR REFUGEE BOARD.

Reference our 3461 of November 29 and your 3666 of December 5,
please deliver following message to Ovadia Salem, Societe d'Avances,
91 Sharia El Malika Farida, Cairo, from M. A. Leavitt of American Jewish
Joint Distribution Committee:

QUOTE GRATEFUL YOUR AND BARON GEORGES BENASCE CABLE WHICH
WE RELAYED TO JOSEPH SCHWARTZ IN LONDON FOR IMMEDIATE ACTION.
YOU WILL HEAR FROM HIM SOONEST. WE ANXIOUS BE OF UTMOST
HELP THIS EMERGENCY. HAPPY KNOW EGYPTIAN JEWS PREPARED
PARTICIPATE. UNQUOTE

1:45 p.m.
December 13, 1944

RDrury 12/12/44

CORRECTION

December 12, 1944

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

In telegram from London numbered 10881 dated December 8, 9 p.m., page 1 line 7 insert "not (repeat not)" so as to read "it is not (repeated not) necessary to designate".

DIVISION OF COMMUNICATIONS AND RECORDS

Correction from the Embassy

CABLE TO AMERICAN CONSULATE, JERUSALEM, FROM WAR REFUGEE BOARD.

Please deliver following message to Judah Magnes from M. A. Leavitt
of American Jewish Joint Distribution Committee:

QUOTE PLEASE CABLE IF POSSIBLE BEFORE DECEMBER 18 TOTAL ESTIMATED
AMOUNTS STILL DUE FROM US FOR SEA, RAIL TRANSPORTATION TO ISTANBUL
MAINTENANCE ISTANBUL, RAIL TRANSPORTATION ISTANBUL TO PALESTINE
ALSO ADDITIONAL ESTIMATED TOTAL REQUIREMENTS REMAINDER THIS YEAR
OVER AND ABOVE 200,000 POUNDS YOUR DECEMBER 2 FOR SEA TRANSPORTATION
FOR 3350 MIGRANTS. UNQUOTE

10:20 a.m.
December 13, 1944

RDrury 12/12/44

CABLE TO AMERICAN LEGATION, BERN, FOR MC CLELLAND, FROM WAR REFUGEE BOARD.

Please deliver following message to Isaac Sternbuch, St. Gall, from Rabbis Aron Kotler and Abraham Kalmanowitz of Vaad Hahatzala Emergency Committee:

QUOTE PLEASE CABLE TO US ONLY LIST OF PROMINENT PERSONS INCLUDED IN 1355 PERSONS AND SEND US COMPLETE LIST OF ALL VIA AIRMAIL. RECEIVED YOURS OF DECEMBER 7 CANNOT UNDERSTAND WHY OUR INSTRUCTIVE MESSAGE NOT SENT TO SZMULEWICZ WITH 106,836 SWISS FRANCS SINCE DISTRIBUTION SCHEME GIVEN WITH FUNDS INQUIRE IN POLISH EMBASSY IF NECESSARY WILL REPEAT. GRIFFEL ADVISES US THAT EXPEDITION OF SALVADOR DOCUMENTS DELAYED CANNOT UNDERSTAND REASON PLEASE INVESTIGATE ADVISE US. UNQUOTE

THIS IS WRB BERN CABLE NO. 324.

3:15 p.m.
December 13, 1944

RDrury 12/13/44

CABLE TO HUDDLE, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Please deliver the following message to Joseph Schwartz from

M. A. Leavitt, American Jewish Joint Distribution Committee:

QUOTE WE REMITTING NEXT DAYS \$250,000 FOR RELIEF NEEDS FRANCE
FOR DECEMBER AND \$200,000 FOR LOAN KASSA STOP WE CABLED
PASSMAN CAIRO NOT (REPEAT NOT) TO PROCEED LONDON SINCE YOU MAY
NOT RETURN LONDON FOR SEVERAL MONTHS AND WE STILL EXPECTING
DAILY CLEARANCE HIS ENTRY REUMANIA STOP WE HOPE OUR MESSAGE
REACHED HIM CAIRO BEFORE HIS DEPARTURE STOP CAN YOU SEND US
NAMES 1355 HUNGARIAN JEWS JUST ARRIVED SWITZERLAND STOP WE
ALL PLEASED WITH ATTENDANCE AND SPIRIT OUR ANNUAL MEETING UNQUOTE

This is Bern Cable No 325.

4:15 p.m.
December 13, 1944

FH:hd 12/13/44

ASB-260
Distribution of true
reading only by special
arrangement. (SECRET W)

Bern
Dated December 13, 1944
Rec'd 5:49 p.m.

Secretary of State,
Washington.

8114, December 13, 4 p.m.

FOR WRB FROM MCCLELLAND

Department's 4163, December 9, WRBS 311

We have asked both Swiss authorities and ICRC to kindly obtain through their respective representations in Budapest whatever information they can regarding present status of Spanish protectees and entry visa holders in Budapest, especially question of permission for their departure, from German and Hungarian authorities. Will communicate any information received promptly.

HUDDLE

WTD

EK-1952

Distribution of true Bern
reading only by special

arrangement. (SECRET W) Dated December 13, 1944

Rec'd 5:50 p.m.

Secretary of State,

Washington.

8115, December 13, 5 p.m.

FOR WRB FROM MCCLELLAND.

Legation's 7845, November 30.

According to trustworthy reports received lately from Kastner and ICRC's Budapest delegate, there is fair chance of 2 trains of emigrating Hungarian Jews each containing from 700 to 1000 persons, being able to leave Budapest at this time. As reported in our 7845, one train will come to Switzerland bringing, as main categories, Swiss visa holders (close relatives in Switzerland) and holders of Palestine emigration certificates. Other train will go to Sweden with holders Swedish entry visas and protective passports.

Would you kindly let me know whether you have received any confirming report of such departure for Sweden from board representative in Stockholm as it seems a rather long haul to me.

Meanwhile, Jewish elderly, ill, women with small children are reliably reported still unmolested in Budapest.

HUDDLE

WMB

DEC 13 1944

To: Mr. Collado

From: Mr. White

Will you please send the following cable to the
American Embassy, Chungking, China:

For General Hurley from Secretary of the Treasury:

Please accept my heartiest congratulations on your
appointment to the position of Ambassador to China. It is
indeed a compliment to be entrusted with this difficult and
important assignment at this critical stage.

Mr. Adler is leaving Washington in the very near
future to be my personal representative in Chungking and
to be of every assistance to you as Treasury Attache. I
know that you and he will find no difficulty in cooperating
on matters of mutual interest.

Wishing you best of luck.

(Initialed) *HWJ*

Charge appropriations: TI 387

ISV/efs 12/11/44

DEPARTMENT
OF
STATE

OUTGOING
TELEGRAM
DEPARTMENT OF STATE
DIVISION OF

264
DIVISION OF
COMMUNICATIONS
AND RECORDS

MB

1944 DEC 14 PM 5 03

PLAIN

December 13, 1944

COMMUNICATIONS
AND RECORDS
(LIAISON)

AMEMBASSY,

CHUNGKING, (CHINA).

1634, Thirteenth

FOR GENERAL HURLEY FROM SECRETARY OF THE TREASURY

Please accept my heartiest congratulations on your appointment to the position of Ambassador to China. It is indeed a compliment to be entrusted with this difficult and important assignment at this critical stage.

Mr. Adler is leaving Washington in the very near future to be my personal representative in Chungking and to be of every assistance to you as Treasury Attache. I know that you and he will find no difficulty in cooperating on matters of mutual interest.

Wishing you best of luck.

STETTINITE
(GL)

FHA:PHG:rak

12/13/44

NOT TO BE RE-TRANSMITTEDCOPY NO. 1SECRETOPTEL No. 403

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

1. NAVAL

NORTHERN WATERS. 12th. A Norwegian corvette damaged, probably by mine, north of Kola Inlet and abandoned by her crew. German aircraft twice attacked a convoy N.W. of Norway but no losses reported. At Piraeus 11th Allied Naval Headquarters under mortar fire. Close support provided by H.M. and Greek ships. At Kavalle ELAS Chief of Staff has surrendered and situation now quiet. During recent patrols one of H.M. Submarines sank a small schooner and junk off Burma and another of H.M. Submarines sank tug and large lighter off Western Sumatra.

2. MILITARY

WESTERN FRONT. French have cleared last enemy bridgehead over Rhine between Kembs and Swiss border. U.S. forces who occupied Haguenau and Reichshofen 11th have advanced from five to eight miles to east and northeast and are within three miles of German frontier east of Haguenau and north of Reichshofen. Further general advance two to three miles on wide front east Saareguemines; forward elements within one mile Bitché and Saareguemines occupied. In Duren sector advance of 2½ miles on two mile front has brought troops of 1st U.S. Army to within ½ mile of the Roer three miles N.W. of town.

ITALY. Canadians have deepened their bridgehead over the Lamone east of Lugo, have established bridges and passed tanks and supporting arms across the river.

GREECE. 12th. Athens and Piraeus. No improvement. Continuous fighting in centre and some withdrawals by our troops. Some ELAS forces have come back into areas previously cleared. Situation at Salonika quiet but tense with increased anti-British propaganda.

BURMA. British troops have made considerable advances east of Chindwin and have reached Lawtha.

3. AIR

WESTERN FRONT. 12th. 1197 escorted U.S. heavy bombers (10 missing) bombed Merseburg oil plant - 882 tons, and three railway centres East, Southeast and South of Frankfurt, total 1963 tons. Merseburg attacked by Pathfinder technique, all other objectives bombed visually. Of 16 fighters missing, 7 believed landed Allied territory. 123 escorted Lancasters (7 bombers, 1 fighter missing) dropped 571 tons Witten, 29 miles east Essen through complete cloud. Bombing concentrated. German casualties 6, 2, 4. 87 medium bombers dropped 108 tons on defended villages in central battle area with good results. 794 fighters and fighter bombers (5 missing) operated over battle areas and dropped 278 tons. German casualties 15, 2, 4. 12th/13th. Aircraft despatched: Essen 550, Osnabruek 49, Bomber support 79. Complete cloud over Essen. Bombing concentrated. 6 Lancasters missing. Reports of losses on other operations not yet available.

MEDITERRANEAN. 11th. 435 escorted U.S. heavy bombers (21 bombers, 1 fighter missing) bombed objectives Austria: Moosbierbaum - 360 tons, railway centres Graz - 121 and Vienna - 169, Ordnance Depot Vienna - 129, other targets - 84. Moosbierbaum hidden by smoke screen and photographs show scattered bombing over entire area. 824 aircraft successfully operated in Northern Italy.

4. HOME SECURITY

To 7 a.m. 13th. 12 flying bombs plotted. Five rockets.

Meeting in the Secretary's Office
December 14, 1944
11:00 a.m.

Present: Secretary Morgenthau
Mr. Fleming, President, Reserve City Bank
Mr. Randolph Burgess, President, American
Bankers Association
Mr. D. W. Bell)
Mr. Luxford
Mr. White

(I concluded from the Secretary's comments after the meeting that the morning conference grew out of a prior discussion between the Secretary and Mr. Burgess in which Mr. Burgess said he would like to have a talk with the Secretary personally re Bretton Woods proposals before the report of the American Bankers Association on the subject was published.)

Mr. Burgess said that the American Bankers Association had been studying the Bretton Woods proposals very thoroughly and were now prepared to issue their report. Mr. Fleming interrupted to say that the Committee had had discussions with the Treasury, State Department, Federal Reserve Board, Export-Import Bank and others and said that Mr. White and his Treasury colleagues had been most courteous in the discussions with them. Mr. Burgess said that he had always found himself in accord with the Secretary's views for eleven years, had worked closely with him, and he felt badly about coming out with something that was not in agreement with the Treasury view. He said that the report his Committee was coming out with was to favor the bank proposal and to favor the Export-Import Bank, but there were some things about the Fund that they didn't like and they were going to come out against the Fund. He said his Committee didn't feel that it wanted to publish the report at a time which would inconvenience the Treasury or before talking it over with the Treasury because their relationships had always been of the best in the past.

The Secretary said that there were some other banking groups studying the proposals, for example, the New York State banking group, of which Mr. Potter is a member, and maybe they didn't agree. Mr. Burgess said that he probably was giving information that he shouldn't but his information was that they were coming out about the same way that the American Bankers Association's report was coming out.

The Secretary then said that he hadn't had much time to go into the matter recently owing to the pressure of other duties but how would it be if he set aside a full day and asked Burgess, Fleming and Potter, Ned Brown and Treasury people to spend the day discussing it together. Mr. Burgess thought that would be an excellent idea. He said that they could then present their reasons why they weren't going along with the Fund and give us another opportunity to discuss it. Mr. Burgess thought that what he might do would be to bring along the contemplated Committee report and use that as the basis for discussion. It was agreed to have the meeting on Wednesday, January 4.

H. D. White

December 14, 1944
3:26 p.m.

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HMJr: How are you?

Clifton
Fadiman: Very well, indeed.

HMJr: Look, Mr. Fadiman, I wondered whether I couldn't see you and Rex Stout sometime here at your convenience, to discuss some work

F: Will you talk just a little louder?

HMJr: Uh

F: Did you want to see me and Rex?

HMJr: Yeah. At a time convenient for you to talk about some matters that we are mutually interested in.

F: Sure. I'll have to find out what Rex' schedule is. He's sort of alerted to go overseas.

HMJr: Oh.

F: But I don't think for quite a little while -- for a couple of weeks.

HMJr: I see.

F: I have kind of retired from the Board for a couple of months to do some writing and I'll be delighted to come down any time to suit your convenience.

HMJr: You retired from what?

F: Retired from the Board for a couple of months to do a book.

HMJr: Oh.

F: But I'd be delighted to come down.

HMJr: Oh.

F: Off hand when do you think you'd like to see us?

HMJr: Well, I was thinking in terms of either -- of either Monday or Tuesday.

F: Monday is "Information Please" day.

- 2 -

HMJr: Well, that's out.

F: Could you make it Tuesday? Next Tuesday?

HMJr: This coming -- yes.

F: Well, I'll have to call Rex and find out how he's fixed.

HMJr: Yes.

F: And we'll have the War Board call your office then.

HMJr: Yeah, I'd like to sort keep it off the record that you're coming.

F: Very good.

HMJr: I mean, so don't -- I mean, I'd like to just the two of you know it. You'll understand why after I see you.

F: Very well. I can talk to Rex directly and have him make a direct call to you.

HMJr: I'll leave word if either of you call, I'll take the call myself.

F: All right.

HMJr: Now, do you want to take my number?

F: Yeah.

HMJr: District 2-6-2-6.

F: District

HMJr: District.

F: 2-6-2-6.

HMJr: You call me collect.

F: Now let me just look at my own schedule for Tuesday and see what it looks like. That's Tuesday the 19th.

HMJr: Either Tuesday or Wednesday.

F: Wednesday is War Board meeting day.

HMJr: Oh.

F: Rex is the Chairman so he's tied up then. Could you see us very late Tuesday? I mean, very late in the afternoon at about, oh, cocktail time or after working hours.

HMJr: Yes.

F: I've got a luncheon that I'd like very much to attend but I could get a, say, a two o'clock train.....

HMJr: Yes.

F: or something like that. I'll have to call Rex and see how he's fixed.

HMJr: Well, we can -- a train would get in a little after six. We most -- we might be able to get you a plane seat.

F: Yeah, that might be better. All right. Let me see how Rex is fixed and one or the other of us will call you back....

HMJr: Yes.

F: either this afternoon or tomorrow morning. Would that be all right?

HMJr: Surely. District 2-6-2-6.

F: District 2-6-2-6.

HMJr: Call me collect.

F: Sure. All right. Very good.

HMJr: Thank you.

F: Thank you, Mr. Secretary.

December 14, 1944
3:55 p.m.

FOREIGN FINANCING

Present: Mr. White

MR. WHITE: (Dictating to reporter) The Secretary signed a letter to Secretary Jones recommending that he arrange with the proper representative of the British Ministry to pay them eleven million dollars for outstanding claims on purchased rubber. This letter is to be signed also by the Secretary of State and by Mr. Crowley.

H.M.JR: Don't you love that story?

MR. WHITE: Yes, that is very revealing.

H.M.JR: You can tell it.

MR. WHITE: Yes.

Two, the Secretary also approved of our maintaining our position with respect to the five-cent yen rate to be used when our forces go into Formosa, notwithstanding State Department's favoring a ten cent rate.

We are going to buy rupees with gold. We arranged that with Friedman when he went to Delhi, India. The British think it may mean twenty-five million a month extra profit for us, legitimate, real profit for six months, because we need so many rupees.

H.M.JR: Does that go through the Stabilization Fund?

MR. WHITE: Yes.

H.M.JR: Whoopee!

MR. WHITE: It has already substantial profit, but this will mean more. There is a curious situation in India. You have to sell your gold--they have a seasonable period, because people buy gold--what do they call it?

- 2 -

H.M.JR: It is the marriage period.

MR. WHITE: Well, apparently it is going to come in the next three months.

H.M.JR: I think there is a certain period of the year when they have marriages and they buy this gold.

MR. WHITE: Yes, I gather they keep their property in jewels.

Well, if we take advantage of that, we can get a much better price, but it means that we will have more rupees than we can use up in the three months so that we will have to build up a little reserve.

Now, we are trying to make arrangements with India that if we have any rupees left that they will take them off gradually.

H.M.JR: I don't want to wake up in the morning and find rupees--politics make strange bedfellows, but I object to waking up in bed and finding rupees.

MR. WHITE: If we can get an arrangement with the Indian Government, it will be all right with them to take them off our hands gradually. If they can't you want to re-examine it, because we will have to buy much less and pay a higher price.

H.M.JR: Yes, sir.

MR. WHITE: The Russian Ambassador telephoned the last week about the stamps, postage stamps. I am citing it because it has apparently political implications of a minor character, rather than the stamps themselves. He said, "Do the American forces intend to use the marked stamps?"

H.M.JR: Who called up?

MR. WHITE: The Russian Ambassador. We sent him a specimen of the marked stamps. He wanted to know whether the American Government expected to use these marked stamps

- 3 -

in all parts of Germany, or only in the part occupied by the American forces.

If they contemplate using it only in the part occupied by American forces, he is not interested in asking any questions. If, however, they intend to use it in the areas which are going to be occupied by the Russians, then the Russians would like to be consulted about its use, under what conditions it should be used. I think he is probably reminding us that they are to be consulted on everything that has to do with Germany.

I have drafted a letter from you to him, after we had cleared this with the Army and State, telling him that the U. S. and U.K. are using the stamps and they think the same stamps should be used, and we are notifying Moscow that if they would like to have the stamps printed there with the plates, we would supply them or, "Would they like us to supply them with whatever stamps they want?" Is that all right?

H.M.JR: Sure.

(Secretary signs attached letter to the Russian Ambassador)

MR. WHITE: Now, here are all of the items which we are trying to wind up (refers to file).

H.M.JR: May I interrupt you on something before you do that? Just let's switch a minute to China, because that bothers me.

MR. WHITE: Yes, I have that here.

H.M.JR: Would you do this next? The point in my mind is, who is going to negotiate this thing with China from October 1 on?

MR. WHITE: No decision has been made. The assumption is that you will continue to negotiate. You don't have to take it up.

- 4 -

H.M.JR: It is such a nuisance, and nobody ever says thank you. I just wondered--

MR. WHITE: Well, I don't see how you can avoid participating, and it seems to me a question as to how much that stuff is worth. I suppose primarily it is your responsibility.

H.M.JR: Do you think so?

MR. WHITE: Sure.

H.M.JR: I don't even get a thank-you out of it.

MR. WHITE: No, but I don't think--Kung wants to take it up, but I don't think you have to bother about it.

H.M.JR: Kung is going to take it up from the 1st of October on?

MR. WHITE: Yes, he has already asked that.

H.M.JR: Well, God, who is Kung?

MR. WHITE: He is supposed to be the Special Emissary. You know, we got a copy of the list of Chinese individuals who purchased the Chinese bonds--you know, they bought them at a five cent rate. They made either fifty or ninety percent profit. The way we got it--I don't know as we have a complete list, but we sent investigators into the Bank of China. They came hotfooting down here and asked us to call off the investigators, they would supply us with the list as a face-saving matter. So they gave us a list. I don't know whether it is a complete list. I don't think we have called them off. The list is certainly interesting. All of them, K. P. Chen, Soong, and the Kung family all bought very large amounts. I am compiling a list. I thought you would be interested.

Now, here is the letter that you signed to Kung which we haven't given them yet. Well, you have signed it already. (Hands the Secretary letter, to Doctor Kung, dated November 25, 1944, attached.)

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H.M.JR: What do I do with this?

MR. WHITE: I was going to say that we were holding up the memorandum to the President, waiting until we got the necessary clearance with the Army and State that Kung was entitled to sign, because they raised that question, and the Army raised that question. Now, we get those papers today.

This is a memorandum. (Indicates attached memorandum to the President.) I tried to make it simple, but we are-- you have already signed it, and I take it it will go forward. You dated it the 28th in your signature, but we have been holding it up. Now, shall we send it on?

H.M.JR: To whom, the President? Sure.

MR. WHITE: It opens by saying, "I am happy to report that our negotiations with China on our Army expenditures in China have at last been successfully terminated. The war and State Departments in consultation with the Treasury first handled these negotiations which began last year but which Secretary Stimson asked me to take over on June 26."

H.M.JR: The papers came through?

MR. WHITE: The final papers?

The Army made separate agreement with the Chinese, copy of which we had, practically restating that this is in complete settlement. The Comptroller desired it. Kung signed it, and the Army signed it. That is a separate agreement as against that.

H.M.JR: Between the Army and--

MR. WHITE: Between the Army and China, signed by the Minister of Finance and "for the War Department."

H.M.JR: Who signed for War?

MR. WHITE: Patterson. We are getting photostats of it. And they also asked him to sign a voucher, because the Comptroller insisted on that. In other words, there were a

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number of things which were settled. That is all with regard to this part of China, but China is also pressing us to let them send gold by commercial vessels.

H.M.JR: Excuse me. I think as soon as this is done we ought to send a set of these to the Ambassador, General Hurley.

MR. WHITE: We will have the essential papers?

H.M.JR: Yes, the concluding papers, and, if necessary, a little letter from me that I want to have him posted on what we have done. Send it by pouch to Hurley.

MR. WHITE: All right. And a copy should go to the State Department?

H.M.JR: Yes. Well, you could do it another way, you could send a set of papers to Stettinius and say, "Would you please forward a set of these to Ambassador Hurley and say that you are doing it at my request?"

MR. WHITE: Tell Hurley?

H.M.JR: No, tell Stettinius to please forward a set of these to Hurley and tell Hurley that he, Stettinius, is doing it at my request.

MR. WHITE: Oh, all right.

The Chinese, as you remember, have always been trying to get gold. We have found various ways of stopping it with the approval of the Army.

(Secretary speaking on White House phone:)

Hello.....

I thank you.....

H.M.JR: Go ahead.

- 7 -

MR. WHITE: We also wondered why the Chinese didn't try to send it by commercial vessel, because we used to find obstacles with the Navy. All they got last year was twenty-six million dollars. Somebody has told them, and they now have arranged with the Federal Reserve Bank of New York, and they wanted to send it by commercial vessels. That means they can send very large amounts very quickly. Of course, they say they are asking for our approval.

Now, we think it is unwise that this very uncertain state of political development for them to get out as much gold as they want to get--they will probably try to get fifty, a hundred, or one hundred and fifty million in gold, because they feel it is safer over there than here.

What we would like to do is to raise a lot of objections. They aren't too good, but we can continue to stall indefinitely. Is that all right with you?

H.M.JR: Yes, as long as we let Ambassador Hurley know what we are doing.

MR. WHITE: Then that--I think we had better go over it orally with Adler and explain it to him.

H.M.JR: That is all right. Let me see Adler before he goes.

MR. WHITE: Yes.

You remember those thirty-eight million dollars, supposedly due from Jones to the British on the plants?

H.M.JR: Yes.

MR. WHITE: We are having all kinds of trouble with them. I will bring them to you after they are rounded up, but they are never going to get much of it. The Army refuses to take over the ordnance plants. Jones, or his office, claims they are no longer interested in the airplanes, so I don't know how much we will get out of that.

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

December 14, 1944
4:03 p.m.

HMJr: Hello.

Operator: Mr. Brand.

HMJr: Hello.

Robert
Brand: Mr. Morgenthau.

HMJr: Speaking.

B: I just thought I'd like to tell you -- the simplest way to tell you -- I had a word with the Ambassador yesterday.

HMJr: Yes.

B: He said that Cherwell told him very little when he got back.

HMJr: I see.

B: And that he had absolutely no record of any kind.

HMJr: I see.

B: And he said that he really said awfully little about it.

HMJr: Well, I didn't know. I thought he

B: But he'd be glad, of course, he said if he had anything he'd have given it to you.

HMJr: Well, that's very kind of him.

B: Right.

HMJr: Thank you.

B: All right.

HMJr: Good bye.

B: Good bye.

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H.M.JR: That is simple enough.

DR. WHITE: Do you remember, there was a discussion with the Army at the end. They wanted a guarantee from the British that the British would continue to give them Lend-Lease in reverse equipment in India; that was a matter of very prolonged discussion.

H.M.JR: I threw it into State's lap.

DR. WHITE: That is right. Now, the State Department had their discussions with the Dominions, and arrived at what they thought was a quite satisfactory conclusion. They made a recommendation which they submitted to you as to what that was and it involved withdrawing from the statement of the Army that they put that as a condition. They feel they have adequate assurances. The memorandum in that recommendation which was sent to you was agreed upon by the people lower down in FEA, and we in the Treasury, I think, support it, too. Now, what we have are three letters, one to Crowley and Secretary of State, giving them that memorandum and saying, "Your opinion and comments would be appreciated. For my part I am inclined to accept it. If you and Mr. Crowley agree I will inform Under Secretary Patterson and the British that this is the recommendation of the American Committee."

H.M.JR: Well, it is not clear in my mind. If you say it is all right --

DR. WHITE: The only thought in my mind, as I read this over and think it over, I don't know why we have to say that we are going to inform the British. We can let that die. But we certainly ought to inform Patterson. Because he will come back some time in the future and say that is the condition.

H.M.JR: Are you satisfied with it, because I would have to go into it all over again.

DR. WHITE: No, I think it was everybody's position and it was Patterson's position that the Army was not concerned with making the British commit themselves to giving reverse Lend-Lease of a certain amount before they would

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agree to send them any Lend-Lease, that the reverse Lend-Lease was not the Army's affair.

H.M.JR: Well, my memory isn't clear but if you say it is all right, I am willing; otherwise I would have to go into the whole thing all over again.

DR. WHITE: Well, you will get two letters of that.

H.M.JR: You don't want me to go into it all again, do you?

DR. WHITE: No, I will tell you about it. But I thought by merely reading the letters you wouldn't remember the issues. It is pretty detailed.

H.M.JR: Terrific. Do you want me to sign something?

DR. WHITE: On second thought, we don't need to say, "Well, I shall inform the British." We can only say so.

H.M.JR: That is up to you. Where did that letter to J. P. Morgan come from?

DR. WHITE: We sent Saxon in to the bank. He got it out of those files.

H.M.JR: Did he get anything else?

DR. WHITE: Some others, but he is probably bringing the others back. There were some others on a number of items, but he is coming back.

H.M.JR: Didn't we write Stimson something about that, that a couple of his Army officers connected with J. P. Morgan--

DR. WHITE: Yes. I have a reply which I turned over to the men before it comes to you, because they say they investigated it and all that the man did was listen to some comments made by one of his former friends who came to see him and he made inquiry of the Treasury Department and acted in no way that was proper subject for any comment on anybody's part. Something like that. Now before I bring

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it to you I want to see what the facts are, because if that were so we never would have started it, I think. But I will bring it to you as soon as we check on facts.

There were a number of items which the British claimed they were owed sums for by the Army which had never been settled. We have had discussion with the Army on the various items, and we are now asking the Army to pay some of them and in other cases to give us the information as to why not. For example, one item -- they are all fairly small -- is six hundred and eighty thousand dollars. This payment was held up at the specific request of the Comptroller General on certain grounds which they now claim are settled. The next is the Tennessee Powder Company, two hundred and ninety thousand, which is a claim held up voluntarily by the War Department for minor adjustment. We understand new facts may require negotiations, etc. In other words, what we are trying to do is push every one of these little things to their logical conclusion. That is to Patterson.

(Secretary signs letter addressed to Secretary Patterson, attached.) ✓

DR. WHITE: I read that article by Joan. I thought it was very good. She would deserve a good grade on it. It shows maturity.

H.M.JR: She got highest honors in history.

DR. WHITE: I see why she would do well. She apparently writes pretty well. It is a mature document.

H.M.JR: That was in debate.

DR. WHITE: Oh, I thought it was an article. Are you sure? It is written like an essay. I am interested to see this. We sent her some stuff. But she just didn't rehash what we sent her. It is kind of an independent job. But she writes well and shows maturity.

H.M.JR: She does write well.

DR. WHITE: That is what I would call an "A" paper.

H.M.JR: Personally I would much rather see her go into history or writing, because physically I don't think she can take medicine.

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DR. WHITE: I certainly wouldn't feel that way.

H.M.JR: She can't take it physically.

DR. WHITE: What's the hurry? She can take a year longer.

H.M.JR: You don't do that. You either make the grade or they drop you.

DR. WHITE: She can't take further courses?

H.M.JR: No. I just don't think she has the physique to do it.

DR. WHITE: Is she interested in psychoanalysis?

H.M.JR: She is interested in psychiatry.

DR. WHITE: There is a tremendous field just opening up. I certainly wouldn't discourage her. She is as healthy as any of the others that go into it.

H.M.JR: I am not discouraging her, but I don't think she will be able to make it.

DR. WHITE: She should stay a year out of school.

H.M.JR: Her Freshman year she wasn't so good, but she really graduates September 15. But they have told her if she stays until spring and her marks stay the same, she will graduate with honors -- for four years.

DR. WHITE: Where?

H.M.JR: From Vassar. She is taking pre-med.

DR. WHITE: What makes you think she can't take it.

H.M.JR: If she spends three months, she will be in the infirmary two weeks. It is terrific. She has six subjects she takes.

DR. WHITE: If that is going to be the decision, might I make a suggestion? Is another suggestion -- after all, another few years more or less isn't going to make any difference. Before she goes into medical school she ought

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to take a year of graduate work in one of many subjects, whether it is chemistry or biology or something of that sort, but in graduate work, not in medical school, in which she can take as many as she wants as a graduate student. She can take two courses which gives her an excellent basis, makes it easier for her in medical school, gives a certain period of recuperation between the speed and pressure in undergraduate school now, and she will go back to school when there is a little bit less pressure and she will be better prepared physically and I think in her attitude and study.

H.M.JR: I am not going to try to correct her. But she had an offer from Yale to come to the laboratory of chemistry and she had one at Vassar.

DR. WHITE: As distinct from a medical?

H.M.JR: No, now --

DR. WHITE: Yes, but that would mean she would not be going to medical school.

H.M.JR: She can't go until next October anyway. She is going to stay at Vassar and take a couple of courses now.

DR. WHITE: By the time she gets into medical school she will have a year.

H.M.JR: But the Dean told her not to take this paid job at Vassar and to concentrate on her work and if she continued her marks she would graduate with honors.

DR. WHITE: That is all right, if she does not go right on to medical school.

H.M.JR: No class starts until next October for lack of men, so that sort of meets what you say.

DR. WHITE: The stuff which you gave me, I think is unquestionably Baruch's, but -- Now, you also gave me the letter that he sent to you. I haven't yet sent a copy of that letter to What's-his-name. I am a little bit reluctant, because I don't trust that guy.

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H.M.JR: Who is that?

DR. WHITE: To Brand. It is in the memorandum. Because he will turn around and say, "It seems to me Baruch says he sent you a memorandum criticizing the British and you turn around and give it to the British Treasury. I'd rather tell him about it. Unless he asks for it I will just forget it. And the other stuff I am pretty sure can be Baruch's. Do you want a written comment on it?"

H.M.JR: Yes.

DR. WHITE: Do you want to do anything about seeing some of these memorandums now on the Fund or the Bank program or wait until after the first of the year?

H.M.JR: I will wait.

DR. WHITE: I also spoke to Pritchard, sounded him out about the possibilities, whether he might be interested in an assistantship. He said, "Not right now." He thought there was, he said he would like to be with the Treasury, but he thought that maybe he ought to stay where he is, even if he were offered it, because he rather expected, or at least half expected that Vinson would take Byrne's place.

H.M.JR: That is what they call this.

DR. WHITE: In which he thought he would have a poor possibility, but he wanted to keep the lines open, I guess, in case he did.

H.M.JR: How much more do you have?

DR. WHITE: That is all.

Excellency:

We have just dispatched a cable to our Ambassador in Moscow requesting him to inform the Soviet Government that an Allied Military postage stamp has been printed in the United States for use in the U. S. and U. K. zones of occupation and that supplies of these stamps have already been shipped to the European Theatre. The Soviet Government will also be informed that this Government considers it desirable for similar stamps to be used throughout the occupied German areas and the Soviet Government is asked whether it would be agreeable to have these stamps used in the area under their control, and if the Soviet Government so wishes we are prepared to supply the plates so that the stamps may be printed in the Soviet Union, or to supply as large a quantity of the stamps as the Soviet Government may desire from our own printing.

Sincerely yours,

Secretary of the Treasury

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

12/14 So. Howard

November 25, 1944

Dear Dr. Kung:

I am informing the War Department that we have successfully terminated the negotiations with respect to U. S. Army yuan obligations in China. The terms of the settlement of these negotiations as agreed upon at our conference this morning are as follows:

1. The War Department shall transfer to the account of the National Government of China or the account of such agency of the National Government of China as the National Government of China designates a sum of One Hundred and Eighty-five million U. S. dollars (US\$185 million), in addition to the Twenty-five million U. S. dollars (US\$25 million) already transferred, making a total of Two Hundred and Ten million U. S. dollars (US\$210 million), in settlement of all U. S. Army obligations incurred up to September 30, 1944.
2. This settlement does not include the yuan expended by the Government of the Republic of China for board and lodging of American armed forces in China. This sum will be credited to the National Government of China as reciprocal aid under Article VI of the Mutual Aid Agreement of June 2, 1942 at the request of the National Government of China.
3. As stated in paragraph 1 above, this settlement liquidates all our obligations for U. S. Army expenditures in China up to September 30, 1944 (with the exception of paragraph 2 above) with the understanding that as the appended minutes of conversations at Bretton Woods on July 16, 1944 and in Washington on November 25, 1944 indicate this settlement is without

Out to 3434

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prejudice to the Chinese contention that the cost of the Chengtu airfields is not included in the amounts referred to in paragraph 1 but should be treated as an item of reciprocal aid under Article VI of the Mutual Aid Agreement of June 2, 1942.

I wish to take this opportunity to say how much I appreciate the cooperative attitude you have invariably displayed in your dealings with the U. S. Treasury and the contribution you have thereby made to the further cementing of the friendly relations between our two countries.

Sincerely yours,

Secretary of the Treasury.

Dr. H. H. Kung,
Minister of Finance,
National Government of China,
Washington, D. C.

Excerpt From Minute of Conversation at Bretton Woods on July 16, 1944:

"General Clay: Well, Doctor, going back to what we have been discussing, and this view which you have just stated, if we paid you a gross of one hundred and twenty-five million now - a lump sum of a hundred million with twenty-five million having been paid - that would leave remaining the food and lodging and the four billion dollars would be presented by you as a claim under Reverse Lend-lease. It would have no effect on the twenty million dollars for the next three months, which would be paid in cash, and for which you would provide us with the yuan that we need and would not prejudice that arrangement in any way; that we would pay you the lump sum of a hundred million dollars immediately, and in any Reverse Lend-Lease agreement to be effected, you could, in addition to the food and lodging which you would put forward as a claim, include also this four billion dollars.

"Dr. Kung: I wish I could do it, you know.

"H.M.Jr.: Excuse me. May I add one thing that we talked about, that in admitting this Chengtu four billion dollars, the claim, we in no way prejudice or go back on the cable of the President, which we interpret was all inclusive. I would like to make that clear.

I mean, we claim that this telegram of the President's meant twenty-five million a month, and included the construction of everything.

Now, what we are saying in view of what you have said - but not in any way going back on that - we still held to this cable. But if you wish to put that claim under Reverse Lend-Lease for four billion dollars, we would raise no objection. Do you mind my making that suggestion?

"General Clay: That is right, sir. And we would do it in the interest of harmonious relations and appreciation of the cooperation which you have given to us."

Excerpt from Minute of Conversation in
Secretary Morgenthau's office, Treasury Department
November 25, 1944

Secretary Morgenthau: Now let me see if I understand it correctly. You will accept how many U.S. dollars for how many months in payment, so we get that clear?

Dr. Kung: To the end of September, October first, 195 million.

Secretary Morgenthau: That you will take \$185 million until October first. And that is in full payment with the understanding with respect to the claim. Is that right?

Dr. Kung: Yes.

Mr. Chi: In addition to that the claim for the Chengtu air fields can be put in.

Mr. White: I want to make certain, Mr. Secretary, that you and Dr. Kung are in agreement. I presume that you are both using the word claim in the sense which we use it in the United States, namely, that the Chinese Government could advance the cost of the Chengtu air fields as a claim in mutual aid on the basis that such cost had not been included in the figures submitted to us by the Army. Whether that claim will be recognized or not is a matter to be determined by subsequent examination of the data. In other words, the word "claim" does not mean a charge but rather the right to claim that a charge should be made for credit to reciprocal aid.

Secretary Morgenthau: To go a step further so that there can be no misunderstanding - when we pay over this \$185 million we will state that that is in full payment for all obligations incurred by the United States Army from the first of March to the first of October.

Mr. Pei: I beg your pardon, Mr. Secretary. With the understanding that the Chinese Government will put in a claim.

Secretary Morgenthau: May put in a claim..... That if subsequently additional information comes to light, furnished either by our Army or the Chinese Government, the Chinese Government may submit a claim as reciprocal aid.

MEMORANDUM FOR THE PRESIDENT

Subject: Settlement of our negotiations with
China on our Army expenditures.

- I. I am happy to report that our negotiations with China on our Army expenditures in China have at last been successfully terminated. The War and State Departments in consultation with the Treasury first handled these negotiations which began last year but which Secretary Stimson asked me to take over on June 26. I finally got Dr. Kung to agree to the offer I made him on October 6 of \$185 million, in addition to the \$25 million already paid, in liquidation of our yuen obligations for U. S. Army expenditures in China. This offer of October 6 was substantially that we made to Dr. Kung at Bretton Woods on July 16 as reported in my appended cable to you of July 17, except that we added \$25 million to induce the Chinese to settle, as the American representatives at Bretton Woods had agreed among themselves we should do, should it turn out to be necessary.

II. The text of the agreement is as follows:

- (1) The War Department shall transfer to the account of the National Government of China of the amount of such agency of the National Government of China as the National Government of China designates a sum of One Hundred and Eighty-five million U. S. dollars (US\$185 million); in addition to the Twenty-five million U. S. dollars (US\$25 million) already transferred, making a total of Two Hundred and Ten million U. S. dollars (US\$210 million), in settlement of all U. S. Army obligations incurred up to September 30, 1944.
- (2) This settlement does not include the yuen expended by the Government of the Republic of China for

- 2 -

board and lodging of American armed forces in China. This sum will be credited to the National Government of China as reciprocal aid under Article VI of the Mutual Aid Agreement of June 2, 1942 at the request of the National Government of China.

- (3) As stated in paragraph (1) above, this settlement liquidates all our obligations for U. S. Army expenditures in China up to September 30, 1944 (with the exception of paragraph (2) above), with the understanding that as the appended minutes of conversations at Bretton Woods on July 16, 1944 and in Washington on November 25, 1944 indicate this settlement is without prejudice to the Chinese contention that the cost of the Chengtu airfields is not included in the amounts referred to in paragraph (1) but should be treated as an item of reciprocal aid under Article VI of the Mutual Aid Agreement of June 2, 1942.

III. We have always made it clear that our offer has included the cost of the Chengtu airfields, our commitment for which we have invariably acknowledged. The second paragraph of page 1 of Dr. Kung's letter to you of November 16, 1944, is thus an error on this issue. Our offer was in fact based on the figures supplied us by the Army, which it insists, include the cost of these airfields. But Dr. Kung stood out for a higher figure by consistently refusing to accept our position with respect to Chengtu. He based his case on your cable to the Generalissimo which was transmitted to him on January 28. Our interpretation of this cable gives Dr. Kung no ground for any additional demand except for payment for board and lodging of American troops in China - totalling about 3 billion yuan. We have stated our willingness to pay for this item in U. S. dollars but the Chinese indicated their preference for treating it as reverse lend-lease. They feel that the political advantage of having this item on the reverse lend-lease side of the ledger outweighs the gain from the dollars they would otherwise obtain. General Clay and I expressed our appreciation

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of the position the Chinese have taken on this matter at Bretton Woods, and it is no longer a point at issue.

In order to facilitate settlement we informed Dr. Kung at Bretton Woods - and I repeated it on Saturday - that we have no objection to his putting in a claim for the cost of the Chengtu airfields on reverse lend-lease, making it clear, however, that we regarded the lump sum settlement we were offering as a final settlement of our outstanding obligations. Such claim as the Chinese would choose to make for credit to Reverse Lend-Lease would presumably be based on a re-examination of the figures bringing additional information to light showing, or purporting to show, that part or all of the cost of the Chengtu airfields had not been included in the figures submitted to us by the Army.

There are, in fact, some discrepancies between our Army figures and the Chinese figures. These are not substantial enough to have justified any revision in our offer. We asked the Army to check on the Chinese figures. They report back that they stick to their own figures, including their figures on the cost of the Chengtu airfields, adding that there is no satisfactory way of checking on the Chinese figures, as the Chinese have failed to fulfill their agreement to submit itemized lists of their expenditures for the Army's account.

TELEGRAM TO THE PRESIDENT

(1) We held lengthy discussions Sunday with Dr. Kung in an endeavor to reach agreement regarding payment for expenditures in China by and on behalf of U. S. Army. State was represented by Vincent, Chief of Division of Chinese Affairs, who accompanied Wallace on his recent trip to China, and Luthringer of the Financial Affairs Division, and War was represented by Major General Clay, Director of Materials, Army Service Forces, and Major General Carter, Fiscal Director.

(2) Clay offered cash settlement of US\$125 million (25 million of which has already been paid) for five-month period February-June covering outlay for that period of approximately 12-1/2 billion yuan. Clay also offered to pay for maintenance and housing construction costs of U.S. troops but Kung stated that Chinese Government would prefer to bear this cost because U. S. troops were "guests" in China.

(3) The figure of US\$25 million a month for 5 months (total \$125 million) is based upon your telegram of January 26 to Generalissimo Chiang in which you stated that "our Army expenditures in China during the next few months can be expected to be somewhere in the neighborhood of 25 million U. S. dollars each month." Without reference to the artificial rate of 20 to 1 and without endeavor to suggest a realistic rate of exchange, Clay argued that US\$125 million had a close

relation to what it would have cost our Army in the United States to obtain services and construction similar to those obtained in China.

(4) Disagreement arose over whether the figure of US\$25 million a month mentioned by you in your telegram to Chiang was intended to include construction costs of airfields (in particular those in the Chengtu area). We maintained that it did. Kung maintained that it did not, arguing that the 25 million mentioned by you was for "ordinary" Army expenditures. He mentioned your conversation with Chiang at Cairo in support of his position but presented no written evidence. We pointed out that we were not informed regarding those conversations but that your telegram to Chiang in January was subsequent to the Cairo meeting.

(5) Clay in conclusion, with my concurrence, suggested that Kung might wish to make a claim for airfield construction (Kung had mentioned the figure of Chinese 4 billion yuan) under reverse lend-lease if and when a reverse lend-lease agreement is reached with China. I pointed out that this suggestion, while agreeable to me as a generous gesture, did not prejudice our position that the lump sum offer of 125 million, according to our knowledge of the matter, should be considered as full

- 3 -

payment for all expenditures by and on behalf of the U. S. Army in China for the period February-June, exclusive of troop maintenance costs.

(6) Clay repeated his offer of a lump sum payment and also requested, as he had done earlier in the conversation, that the Chinese Government agree to a payment of US\$20 million per month for the period July-September to cover all expenditures for and on behalf of the Army for that period exclusive of troop maintenance costs.

(7) Kung said he would have to refer the matter to the Generalissimo.

(8) We feel that the terms offered are more than fair, are generous in fact, and we recommend a firm stand. We do not feel that there will be political repercussions in China which would warrant material deviation from the stand we have taken.

Excerpt From Minute of Conversation at Bretton Woods on July 16, 1944:

"General Clay: Well, Doctor, going back to what we have been discussing, and this view which you have just stated, if we paid you a gross of one hundred and twenty-five million now - a lump sum of a hundred million with twenty-five million having been paid - that would leave remaining the food and lodging and the four billion dollars would be presented by you as a claim under Reverse Lend-lease. It would have no effect on the twenty million dollars for the next three months, which would be paid in cash, and for which you would provide us with the yuan that we need and would not prejudice that arrangement in any way; that we would pay you the lump sum of a hundred million dollars immediately, and in any Reverse Lend-Lease agreement to be effected, you could, in addition to the food and lodging which you would put forward as a claim, include also this four billion dollars.

"Dr. Kung: I wish I could do it, you know.

"H.M.Jr.: Excuse me. May I add one thing that we talked about, that in admitting this Chengtu four billion dollars, the claim, we in no way prejudice or go back on the cable of the President, which we interpret was all inclusive. I would like to make that clear.

I mean, we claim that this telegram of the President's meant twenty-five million a month, and included the construction of everything.

Now, what we are saying in view of what you have said - but not in any way going back on that - we still hold to this cable. But if you wish to put that claim under Reverse Lend-Lease for four billion dollars, we would raise no objection. Do you mind my making that suggestion?

"General Clay: That is right, sir. And we would do it in the interest of harmonious relations and appreciation of the cooperation which you have given to us."

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Secretary Morgenthau's office, Treasury Department
November 25, 1944

Secretary Morgenthau: Now let me see if I understand it correctly. You will accept how many U.S. dollars for how many months in payment, so we get that clear?

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Mr. Chi: In addition to that the claim for the Chengtu air fields can be put in.

Mr. White: I want to make certain, Mr. Secretary, that you and Dr. Kung are in agreement. I presume that you are both using the word claim in the sense which we use it in the United States, namely, that the Chinese Government could advance the cost of the Chengtu air fields as a claim in mutual aid on the basis that such cost had not been included in the figures submitted to us by the Army. Whether that claim will be recognized or not is a matter to be determined by subsequent examination of the data. In other words, the word "claim" does not mean a charge but rather the right to claim that a charge should be made for credit to reciprocal aid.

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Mr. Pei: I beg your pardon, Mr. Secretary. With the understanding that the Chinese Government will put in a claim.

- 2 -

Secretary Morgenthau: May put in a claim....
That if subsequently additional information comes to
light, furnished either by our Army or the Chinese
Government, the Chinese Government may submit a claim
as reciprocal aid.

Dear Judge Patterson:

Enclosed is a memorandum received from the British giving details on claims they have made for payments said to be due them on account of the transfer to the United States in 1941 and 1942 of certain British contracts with, respectively, the Savage Arms Corporation, Tennessee Powder Company and Iam Locomotive Works.

According to an informal discussion of these claims on December 7 between Mr. Cauday of our Department and Lt. Col. Carson of your Ordnance Division, the position seems to be as follows:

1. Savage Arms Corporation (\$684,000). This payment, held up at the specific request of the Comptroller General on the grounds that it would be tantamount to an advance of funds prohibited by the Johnson Act, can now be made under authority of a letter dated November 11, 1944 from the Comptroller General to the Secretary of War, which states that, at the request of the War Department, the earlier decision by the Comptroller General has been reconsidered and that credit on the appropriate vouchers will now be allowed.

2. Tennessee Powder Company (\$328,000). Payment of this claim, held up voluntarily by the War Department, pending clarification of the Comptroller General's earlier disallowance of the Savage and other payments, can now presumably be made in view of the reversal of that decision as set forth in the Comptroller General's letter referred to above. We understand that new facts in this particular case may require War Department negotiation with the British for certain minor adjustments in the amount claimed but that, in principle, there is now no obstacle in the way of final settlement.

3. Iam Locomotive Works (\$100,000 and \$337,000). The War Department officials with whom we discussed this case could discover from the terms of the contract and other available data, no reason why the British claim of \$100,000 said to be owing on the delivery of one complete set of spare parts should not be paid as soon as delivery of the same is complete. It is not entirely

- 2 -

clear, however, whether complete delivery has, in fact, been made. There appears to be no reference in the contract to the additional spare parts claimed to have been delivered and Lt. Col. Casew said that the detailed records necessary to make an accurate appraisal of this claim for a further \$237,000 are to be found only in the Office of the Chief of Ordnance, Detroit. Because of the uncertainty that appears to surround this entire transaction, I should appreciate it if you would cause an investigation to be made with a view to appraising the total claim in this case of \$337,000.

Now that the main negotiations with the British have been concluded, we are anxious to reach a settlement on the few remaining questions as promptly as possible. I shall be grateful for your continued cooperation in helping to clear up the above claims arising out of War Department transactions.

Very truly yours,

Secretary of the Treasury.

Honorable Robert Patterson,
Under Secretary of War,
Pentagon Building,
Arlington, Virginia.

Enclosure

*For signature
C. Z. TD*

December 14, 1944
4:53 p.m.

HMJr: Hello. Hello. (Pause) Hello. Hello.

Grace
Tully: Hello.

HMJr: Grace.

T: Mr. Secretary, how are you, sir?

HMJr: I'm still all right.

T: That's good.

HMJr: Look, I didn't want to put this in a telegram because I didn't want to seem to be putting too much pressure on Mr. Roosevelt

T: Yes.

HMJr: But this morning Mr. Doughton called me up

T: Yes.

HMJr: Chairman of Ways and Means

T: Yes.

HMJr: and says that the Congress is sitting up there wondering what the President is going to do on Social Security.

T: Yes. Well, now he has that bill, I think.

HMJr: Yeah, he must have it.

T: He just got it today though, I believe.

HMJr: Oh.

T: I don't know whether it came in yesterday or today, but I -- he had it on his desk and I know he was about to read it as I left there just before lunch.

HMJr: Right.

T: Now, he wanted some time to -- he said he couldn't do any -- give me any word on that because -- until he reads it and knows what's in it, he couldn't tell me what he wanted after your message from Sam.

T: About Sam Rayburn, yeah. But he said, "Well, of course, I can't do anything until I get it." And then you told me that the Budget and the rest were going to send it down. Now he has it.

HMJr: Yeah.

T: But I think he wants time to read it pretty carefully.

HMJr: Right.

T: But I rather imagine it's a possibility -- we may or may not get it in the pouch tonight.

HMJr: Well

T: I don't know whether he'll act on it today or not, but he may.

HMJr: Well, you let -- if he has a message for Rayburn and for Doughton, will you call me?

T: Yes. Now, when he acts on this, does that take care of it or does he have to -- is there something further for them?

HMJr: No, just as long as they can -- will know what's happening.

T: Well, what action he took?

HMJr: That's all.

T: Oh. All right, fine. Just as soon -- then we'll tap up and -- I'll tap you and you can let them know. Huh?

HMJr: That's right.

T: All right. Fine. And he's -- he assures me that he will take up with Bob Hannegan the Harry White thing.

HMJr: Wonderful.

T: And so we'll let you know just as soon as that's been taken up.

HMJr: Wonderful.

T: And he doesn't feel there'll be any trouble when he speaks to him about it.

HMJr: Wonderful.

T: I told him he was a career man just like those other people are and -- and like Danny Bell and the rest of them and, therefore, he wasn't quite in the same spot as some other people might be.

HMJr: Wonderful.

T: So I think we'll have some word on that for you maybe by Saturday.

HMJr: I'm ever so much obliged.

T: Fine. And then I think that was all. We had the medal and that's all we have to clear up. Wasn't it?

HMJr: Yeah. The medal business - I've run into a little trouble on that.

T: Oh, really, on account -- on account of the medal itself, you mean?

HMJr: No, on account of paying for it. You see

T: Does -- does it pay for itself? Don't people buy them?

HMJr: Well, Byrd won't do anything about it unless the President writes him a letter and asks him to do it.

T: Well, I mean, it's customary to do it, isn't it. It's traditional

HMJr: Yeah, but

T: Haven't they always done it?

HMJr: Yeah, but you know what the President did, don't you?

T: No.

HMJr: I understand at some press conference or some letter or something, publicly the President said he would show up Harry Byrd and show him how to economize, and that he'd run this inaugural for \$2,000. Hello?

T: Yes.

HMJr: Which naturally made Harry Byrd sore.

T: Well, he didn't mention him by name. He said, "I can run -- I can run this" He said, "I understand the Congress has appropriated a certain amount of money."

HMJr: Yeah.

T: But he said, "I don't need that much money. I can show you how you can run it for about \$2,000." He didn't mention anybody in particular.

HMJr: Well, he

T: Well, of course, he does -- he is on the appropriation thing.

HMJr: He's chairman of this Inaugural Committee.

T: Oh.

HMJr: See?

T: Uh huh.

HMJr: So what I told Dan Bell was this: "Go ahead and do it."

T: Yes.

HMJr: "Get the thing started."

T: Yes.

HMJr: "Get a design -- we'll gamble on it and when the President comes back, we'll fix it up between him and Harry Byrd." So I'm not waiting.

T: Yes, I see.

HMJr: You see?

T: Yeah.

HMJr: But we're just going -- taking a gamble that the thing will be cleared. But when they come back, I think the two of them are going to have to get together

T: Yes.

HMJr: in some way.

- 5 -

T: All right.

HMJr: But in the meantime, we're going ahead on it.

T: All right, fine, Mr. Secretary.

HMJr: Ever so much obliged.

R: Right, sir. Good bye.

Closing Address - 6th War Loan
Secretary Morgenthau

Draft I.

305
1316 *Wards*

12/14/44

We have come to the close of another war bond drive - the sixth special campaign for funds since we entered the war, the third in the course of this year. I want to report tonight on the results of this drive. But the report should be made, it seems to me, directly to the men for whose use this money has been raised - the men who are carrying the tough and ugly brunt of the battle for our freedom.

We at home are in the position of trustees. We have a two-fold responsibility. One part of this responsibility is to see to it that the fighting men get everything they need in the way of weapons and equipment and supplies. The other part is to see to it that the economy of this country is kept on an even keel so that this will remain a land of opportunity for them when they return.

Now the only way this second responsibility can be met is by financing a large part of our tremendous production job out of current income. To some extent, this has been done, as you know, through heavy taxation. And in part it has been done by appealing to the American people to refrain from buying things they want but do not actually need - and to lend the money they might have spent to their Government instead.

- 2 -

We set a goal in this Sixth War Loan Drive of 14 billion dollars. We set our sights high. We had to. Well, that goal has been met. But we had another objective even more important than the overall total of the drive - to raise five billion dollars through the purchase of bonds by individuals. I think I can safely report to you this evening that this objective also has been fully achieved.

No final report on the Sixth War Loan is yet possible. The tally cannot be completed before the end of this month. There is a simple reason for this. Millions of bonds were sold at more than 75,000 separate points throughout the country where official issuing agents operated in more than 3000 counties. In addition, these 75,000 points were multiplied by unofficial sales points in numbers beyond estimate.

More than 50 per cent of all E Bonds - the bonds which most individual investors buy - are sold to men and women at their places of employment. In these places more than 20 million workers who buy bonds regularly month in and month out were harnessed into the Sixth War Loan campaign for the purchase of extra bonds. Generally these extra bonds were paid for by deductions which the workers authorized their employers to take out of their weekly pay envelopes during the months of November and December. In many cases the final deduction for these bonds won't be made until the last December payday.

- 3 -

It takes time for bonds purchased in small towns and rural communities to be inscribed and channeled from the issuing agents to the Federal Reserve Banks, and thence to the United States Treasury. This is why we have provided for an accounting period of 15 days, beyond the closing date of the drive itself, during which returns will be received by the Treasury and credited to drive activity. This will enable such agencies as theaters, retail stores, banks, post offices, schools and rural sales organizations that have made up the great mosaic of sales activity to concentrate on sales up to tonight and then to catch up in their accounting and get their subscriptions in to the Government.

However, from our experience in past campaigns and on the basis of the tremendous returns that have already come in to the Treasury, I can tell you with absolute assurance that our quotas will be surpassed in every category. The record, I think, is the best testimony that Americans at home could offer as to the devotion and spirit with which they are backing up the men on the battle fronts.

There has been some silly and dangerous talk of late that American civilians are defaulting on their obligations to their fighting men. This Sixth War Loan is a concrete refutation of

- 4 -

such nonsense. I derived a good deal of amusement from a Berlin radio broadcast recorded here on December 5th. This is what it said: "Radio New York reports that during the first half of the period allotted to the Sixth American War Loan Drive, only one-fourteenth of the amount to be subscribed has been collected. One billion dollars has been subscribed during the first two weeks of the four-week drive which was to bring in at least 14 billion dollars." All right, Adolf, the other thirteen-fourteenths is now on its way and will be delivered to you in due course.

It wasn't altogether easy for the civilian public to go over the top in this Sixth War Loan. As I have already noted, this was the third special appeal this year. And it came, of course, on top of the regular bond buying made in accordance with payroll deduction and monthly purchase plans. Virtually every person in the United States had to share in the program in order to raise the five billion dollars worth of individual subscriptions.

Special praise and appreciation, I think, is due the thousands of war bond volunteers all over the country who carried on the hard, intensive work of soliciting subscriptions and collecting the cash to pay for them.

- 5 -

The whole drive has been a magnificent demonstration of home-front solidarity - of real determination on the part of American civilians to carry out in full measure their responsibilities in the war effort. It should carry to the men overseas a ringing declaration of unlimited confidence and unstinted support.

It happened that this drive coincided with the launching of the war's greatest offensive in Europe and with the beginning of a major effort to liberate the Philippine Islands from Japanese conquest. The buying of war bonds was our share in these great engagements. We at home know well that hard and bitter battles lie ahead. We know that the men who must endure those battles will not relax or lay down their arms until total victory has been achieved. They can depend upon us to meet our own home front battles in the same spirit. There will be other war loan drives after this one. We shall see them through.

And just as the fighting forces, day after day, must continue their steady pressure on the enemy, we at home need to carry on our regular monthly bond buying duties. This Christmas shopping season affords a particularly significant opportunity for Americans here to join hands directly with the men overseas. There may

- 6 -

not be much Christmas celebration for them this year. But we can help them celebrate by buying war bonds in their names. No other gift within our choice, whether to those we love in distant places or to one another here, can convey so much assurance of our faith in them and in the cause to which they are giving such high devotion.

We at home understand that this war is not yet won - that it will not be won until unconditional surrender has been wrested from desperate and stubborn enemies. We shall not fail or falter until that time has come. There need be no doubt on this score among the men in combat. The Sixth War Loan has carried to them an expression of the way we think and feel. I believe it will hearten and inspire them. I believe it will tell them, better than any words we could employ, that we recognize the magnitude and splendor of the task they are performing. I believe it will renew their certainty that all that we possess is pledged to meet their needs.

THE SECRETARY OF THE NAVY
WASHINGTON

December 14, 1944

Dear Henry:

Thank you for your letter of December 13 and the portfolio of citations accompanying it. You do a very thorough job.

Sincerely yours,

James Forrestal

James Forrestal

The Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury

DEC 13 1944

Dear Jim:

With this letter is a portfolio containing the several types of citations available for award by the Treasury's War Finance Division and State War Finance Committees. These citations provide a means of giving appropriate recognition to a wide range of volunteer services and individual and group accomplishments in the promotion and sale of war bonds and other government securities.

The Distinguished Services Citation is issued at Washington in recognition of national or interstate service, and, on recommendation of State War Finance Chairmen, in recognition of outstanding state or local service. Awards to individuals are identified by a line engraving of the Minute Man; those for organizations, employee groups and business concerns have the Treasury Building in the background. An earlier printing, with the Minute Man set within a circle of stars, is being utilized occasionally for recognition of special services, such as those rendered by competition winners in the Motion Picture Industry's Fifth War Loan Campaign. In exceptional cases (of which there have been less than a dozen) the Distinguished Services Citation is inscribed by hand on parchment or the best quality of paper procurable.

State War Finance Chairmen have two basic types of general-purpose citations - "For patriotic cooperation..." and "In appreciation of services..." - which they countersign and issue at their discretion for volunteer service and for accomplishment in payroll savings and other methods of systematic bond and stamp purchase. Selection can be made from among several different gummed insignia (war loan, payroll savings, labor, farm, schools, women's activities, etc.) to identify the nature of the services for which citations

-2-

are issued. A counterpart of the citation with text reading "For patriotic cooperation...", without space for counter signature is issued at Washington to newspapers and periodicals that contribute war bond advertising space regularly over a considerable period of time. Radio stations and outdoor advertising concerns also can qualify for this citation. On request, advertising media are furnished with acknowledgement cards for presentation to their war bond advertisers.

To meet special situations or traditions in their states, some State War Finance Chairmen have been authorized to adapt from the standard types and to develop texts that meet their requirements. Nationally, the War Finance Division has developed special citations for retail store and school promotions. Thus there is a citation available for retail store employees who meet their \$300 Series E Bond sales quota in the Sixth War Loan, for school children whose bond and stamp sales meet state objectives, for schools which successfully complete campaigns to finance the cost of selected items of war or hospital equipment, and for schools in which at least 90 percent of the students are regularly investing in war savings stamps. In the latter case, the citation is a facsimile of the original manuscript of the Bill of Rights which was printed and made available without cost to the Treasury. Award of the Bill of Rights Citation is coupled with eligibility to fly the Schools-at-War Flag which is of the same design as the Treasury Minute Man Flag, with colors reversed.

All recommendations for issuance of citations direct from Washington and proposals for creation of new awards are reviewed by a Citations Committee whose membership is drawn from key personnel of the War Finance Division. Through study of supporting data and careful attention to consistent action in

-3-

this Committee and in the offices of State War Finance Chairmen, it has been our experience that citation awards serve as an effective stimulus to sales promotion.

Sincerely yours,

[Signed] Henry

The Honorable James V. Forrestal
Secretary of the Navy
Washington, D. C.

HBMaster:dp

DEC 14 1944

My dear Senator:

I have your letter of December 12, 1944 enclosing a letter you have received from Mr. C. S. Johnson of Detroit with respect to the possible liability of the Musicians Union, headed by Mr. Petrillo, for income taxes on the royalties it is currently receiving from corporations manufacturing musical records. Mr. Johnson's letter also makes several general inquiries with respect to the tax status of income received by churches from income producing property.

Referring first to the Union matter, as you are aware Section 101 of the Internal Revenue Code exempts from income taxation "labor, agricultural, or horticultural organizations." This exemption is unqualified in character, and does not in its terms recognize any distinction between organizations in these categories on the basis of the source of their incomes.

You will also recall that the 1943 Revenue Act imposed, for the first time, certain reporting requirements on many of the organizations exempt from tax under Section 101 of the Code, including unions. The new provisions do not purport to change the tax exempt status of the organizations required to render periodic reports, but only to require them to furnish information to the Government with respect to their income, disbursements, etc. It is my understanding that one purpose of the reporting requirements was to obtain information which might possibly form a basis for legislation, should the Congress be so inclined.

To sum up, there is little doubt that under existing law an organization which is a "labor organization" within the meaning of Section 101 of the Code is not subject to income tax. I am assuming, of course, that the Musicians

- 2 -

Union is a labor organization within the meaning of the law and on that point, I take it, there can be little doubt.

The answer to Mr. Johnson's question with respect to income producing property owned by churches or other exclusively religious organizations is the same. And here our position is fortified by court decisions which have held, in the face of a contrary position urged by the Bureau of Internal Revenue, that such organizations are entirely exempt from tax regardless of the source of their incomes.

Assuming you may wish to reply direct to Mr. Johnson, I am returning his letter to you.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Arthur H. Vandenberg,
United States Senate,
Washington, D. C.

Enclosure

JJO'C:mv

WALTER F. GEORGE, SA., CHAIRMAN
DAVID I. WALSH, MASS.
ALLEN W. MARKLEY, KY.
TOM DONWALLY, TEX.
JOSHUA W. BAILEY, N. C.
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HUGH BUTLER, NEBR.
EUGENE D. MILLIKIN, COLO.
OWEN BREWSTER, MAINE

CHRISTIE B. KENNEDY, CLERK

United States Senate

COMMITTEE ON FINANCE

December 14, 1944.

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

My dear Mr. Secretary:

I enclose a self-explanatory letter from Mr. C. S. Johnson of Detroit who asks certain questions regarding the liability of the Petrillo Union for income taxes on its new royalties.

I should like to have this information myself. Therefore, I shall appreciate it if you will refer this inquiry to the proper Department with a request for whatever information is presently available.

With warm personal regards and best wishes,

Cordially and faithfully,

Arthur H. Vandenberg

Enc.
R

C. S. JOHNSON
CERTIFIED PUBLIC ACCOUNTANT

TELEPHONE NORTHLAWN 7105
12489 MENDOTA AVENUE
DETROIT, MICHIGAN

Dec. 8th, 1944.

Senator Arthur H. Vandenberg,
Senate Office Bldg.,
Washington, D. C.

My dear Senator:-

As a student of taxation I have been much interested in the recent publicity given to the musicians union, Mr. Petrillo its president and the \$4,000,000 which certain corporations manufacturing musical records are supposedly going to pay the union as a royalty.

What federal income taxes are going to be paid on this huge royalty, if any?

Section 101 of the Internal Revenue Code definitely exempts labor organizations from taxation, but Section 54 (f) provides that they file an information return.

Income Tax Regulations Sec. 29.101(1)-1, last part of final paragraph, implies that activities engaged in for profit even by an exempt organization, are taxable.

It seems to be the rule of the various Collector's offices that activities engaged in by an exempt corporation, which are usually engaged in for profit are taxable. All contributions to a church for example would be exempt. All monthly dues paid into a labor union would be exempt. Income from investments which are purely incidental to the carrying of funds from the time collected until the time used, would be exempt. However when such funds are deliberately invested to produce an income, that income becomes taxable. Funds of a Church invested in income producing real estate, produce taxable rents even though the property is owned by an exempt corporation.

The collection of a royalty by a labor union is something new. Is it an activity usually engaged in for profit? Will it be taxable?

Of course I do not wish to make any extra work for you but sometime when you are in the Commissioner's office, it might be interesting to see what his attitude is along this line.

Very truly yours,



December 14, 1944

Dear Ed:

When I spoke to you on the telephone the other night, I asked you whether you would be kind enough to let me see copies of the plans reported by the press to have been presented by Ambassador Winant to the European Advisory Council.

This afternoon's Washington News carries a story, which reads as follows:

"Allied leaders mapping the post-war control of Germany were understood today to have rejected flatly the so-called 'Morgenthau Plan'"

If you have any information on this subject, I would like to have it, and if you haven't got it I would appreciate your sending Ambassador Winant a cable to inquire whether there is anything to these newspaper stories.

If you do have any of this information on hand, I would appreciate your sending it over for my own confidential information.

Sincerely yours,

(Signed) Henry

Honorable Edward R. Stettinius, Jr.
Secretary of State,
Washington, D.C.

DEC 14 1944

'Morgenthau Plan' for Destroying Reich Industry Reported Rejected

By PHIL AULT United Press Staff Correspondent

LONDON, Dec. 14—Allied leaders mapping the post-war control of Germany were understood today to have rejected flatly the so-called "Morgenthau Plan" for the destruction of all Nazi industry and spurned all blood-thirsty proposals for a great purge of the German people.

Reliable sources said post-war Germany would be permitted to retain her non-war industries under stringent Allied control to be exercised by a "relatively small" occupation army.

But the same policy also calls for the complete demolition of Germany's economic power to make war.

According to these policy-makers feel the "Morgenthau Plan," calling for destruction and reconversion of the Reich into an agricultural nation, is unworkable on grounds it would drag the victorious nations into the unwanted task of trying to keep 20,000,000 Germans from starving.

NO PURGE SEEN

Likewise, all proposals for purging the German population have been discarded, but there has been no relaxation in demands for the full punishment of war criminals, it was learned.

Military secrecy still surrounded the exact size of the Allied occupation army, but reliable sources believed it would not be a "mammoth affair."

The men planning the Allied control policy were said to recognize that a public clamor to "bring the boys back home" will begin almost immediately after armistice day.

Russia, it was understood, also desired the smallest possible occupation army compatible with the proper enforcement of economic control.

REDS TO USE CAPTIVES

The Allied policy was said to be aimed at permitting such industries to exist in sufficient size to furnish Germany with "civilian necessities" without permitting the development of any war potential.

Current reports suggested that no plan had been approved providing exact methods for controlling German manpower.

There was wide belief that Russia would demand a large number of Germans to help rebuild Soviet cities devastated by the Nazi invasion. These, according to some sources, might be drawn in part from German war prisoners now in Russian hands—a plan almost certain of approval by other Allied powers.

Treasury Department
Division of Monetary Research
Dec. 14, 1944
Date.....19

321✓

To: Mrs. McHugh

I think the Secretary would be
interested in reading this.

H.D.W.

MR. WHITE
Branch 2056 - Room 214-1/2



TREASURY DEPARTMENT

WASHINGTON 25

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AIR MAIL

PARIS, 22 November 1944

AIR POUCH
No. 7

M

Dear Mr. White:

Yesterday Jim Saxon and I called on Ambassador Caffery to advise him that I had returned to Paris. We had a very friendly discussion for about fifteen minutes. This was the first time I had talked with the Ambassador as he had just arrived at the time I left for London.

In the course of the discussion the Ambassador commented on the developments during the visit of Prime Minister Churchill to France. He said that the question of the Western European bloc had been very much in the air at that time and that Eden had come to Paris with the intention of pushing forward on this matter. He said that his own attitude throughout had been that it was premature to be discussing the question of blocs at this time and that he had freely advised Eden, the French and the Russian representative in Paris of his views. He said that Washington had been fully advised of all his conversations and had not reacted unfavorably so that he supposed his views on the bloc question were consistent with those of the State Department. The Ambassador said that he was a little bit worried when people started talking about blocs that they might be thinking of blocs with an orientation against some other bloc. This he said seemed to him to make such talk very dangerous at a time like the present. He said that the Russian Ambassador seemed to feel the same way about the matter, and that this was also the view of Bidault, the French Foreign Minister. It seemed to be the Ambassador's impression that nobody except the British was very enthusiastic about the Western European bloc at this point. The Ambassador said that Eden told him before he left for London that the bloc idea was dead for the present.

In this general connection yesterday's debate in the Consultative Assembly on Foreign policy is of some interest. Bidault was ill and made only a short statement, but in the course of it he said that France would reject any proposed Western bloc. The communist speaker said that the main basis of French foreign policy must be an alliance with Russia, while a socialist speaker avoided these questions and cautioned against territorial annexation and spoke against partition of Germany.

Mr. White,

2,

22 November 1944

I asked the Ambassador how he felt about the general situation of the DeGaulle Government and he said that he thought that things looked rather hopeful for the strengthening of the Government by orderly process. He said that although there were certainly plenty of people in the Government not of first calibre he felt generally that no French Government in his experience had contained so many sincere and disinterested Ministers as the present DeGaulle cabinet -- men who, as he put it, were not lining their pockets. He particularly remarked that Bidault struck him as a fine man and the best French Foreign Minister he had known. He said that Eden, who had known a lot of them, was of the same view. In response to my inquiry as to whether he felt that the French in general were conscious of the fact that world shaking changes had taken place in the situation of their country and of other countries since 1939, the Ambassador said that on the whole he thought the French were aware of the difficulties which they faced. He indicated that he was rather pleased about the way in which they were setting about to overcome these difficulties.

The Ambassador expressed the view that the Consultative Assembly would not in any sense be a hot bed of opposition to the Government. When I recalled that in Algiers the Assembly had some times stirred up quite a lot of opposition to certain acts of the French Committee, the Ambassador remarked that he thought that the Assembly took itself more seriously now and felt more responsibility for its actions. He said that he thought that the mood of the Assembly would be to support the Government and to be helpful rather than difficult.

My own personal impressions on returning to Paris are that the Government is stronger principally for the following reasons:

- 1/ The National Council of Resistance chose not to make a fighting issue out of the disarmament of the patriotic militia and this incident was turned into a victory for the Government.
- 2/ Progress has been made in establishing the authority of the central government in the outlying regions of the country.
- 3/ The Assembly, as noted by the Ambassador, is apparently inclined to be cooperative.

Mr. White,

3,

22 November 1944

- 4/ Enough is being done in the field of epuration to provide plenty of material for the press to give an impression of serious activity in this field on the part of the Government.
- 5/ The French Army has been playing a more active part in the offensive of the Western Front and has achieved major successes.
- 6/ The recognition, Churchill's visit and the general high-powered British campaign to win the friendship of the French Government appear to have increased DeGaulle's stature in the eyes of his own people to some extent. The invitation to Moscow has been at least as important as all these factors combined.

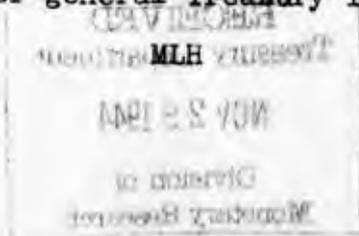
One thing that has not changed is the lack of leadership in the field of financial policy. As mentioned in some of Jim's recent communications, Mendes-France seems to be making a bid for leadership in this field and the situation has certainly not yet solidified. The demand for action against fortunes made during the occupation is now being heard even from the "right". Francois de Mauriac devoted his column in Figaro this morning to a violent denunciation of war-time fortunes, and a not very indirect criticism of the Finance Ministry for having done nothing to prevent these fortunes from being hidden in various ways.

Very truly yours,

Michael L. Hoffman
 Michael L. Hoffman,
 U. S. Treasury Representative.

Mr. Harry D. White,
 Assistant to the Secretary
 Treasury Department
 Washington, D. C.

P. S. Jim and I agree that it is important for him to press forward on the bank job as rapidly as possible. Subject to that, we will continue to work jointly on problems of general Treasury interest.



Treasury Department
Division of Monetary Research

325

December 29, 1944
Date.....19

To: Secretary Morgenthau

You may be interested in the
marked portion of this letter.

H.D.W.

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

326-22



TREASURY DEPARTMENT

WASHINGTON 25

PARIS, 14 December 1944

AIR MAIL

~~MM~~

AIR POUCH
NO. 34

Dear Mr. White:

Yesterday Ambassador Culbertson, Labouisse and Little of the State Department had a conference with Herve Alphanand to discuss an aide memoire which had been submitted to the French stressing the desire of the US Government to re-establish private trade between the US and North and West Africa at an early date. Ambassador Culbertson has come to Paris apparently for the purpose of pressing this matter, presumably along the lines of the report which he submitted as a result of his recent Mission to French North Africa. On the basis of Little's report of this conversation it is apparent that Alphanand intends to utilize the State Department's interest in reestablishing private trade as a bargaining weapon in order to get loans. Alphanand immediately raised the point that the French cannot operate on private trade basis without making allocations of dollar exchange for this purpose. He took the view that the French would need to conserve their existing dollar resources for the Government-trade program in the US unless they received financial assistance for these programs. He mentioned specifically section 3(c) of the Lend Lease Act.

I told Little, Mitchell and Labouisse that I felt they should consider very carefully before pressing the French too hard on this question of restoring private trade, and that they should certainly try to avoid placing the US in a position of discussing the matter in terms of swapping financial assistance for French concessions to private trade unless the issue is clearly passed on by all interested agencies in Washington. All of the above seemed to feel much the same way that I do about the matter and they are sending a cable to Washington indicating their concern. They are in a somewhat difficult

Mr. White,

2,

14 December 1944

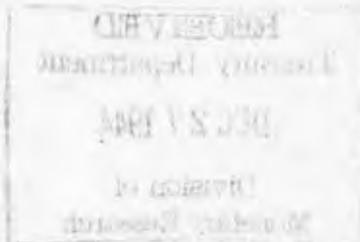
position because of Ambassador Culbertson's presence in France for this special purpose. They believe that Don Gilpatrick is primarily responsible for pressing the private trade issue in the State Department.

In view of the apparent intention of Alphanth to capitalize on the American pressure for restoration of private trade you may wish to keep an eye on the development of this matter in Washington. We will continue to obtain as much information as possible about the discussions held here.

Very truly yours,

Michael L. Hoffman
Michael L. Hoffman
U. S. Treasury Representative.

Mr. Harry D. White
Assistant to the Secretary
Treasury Department
Washington, D. C.



328 ✓
Hans

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 14, 1944

TO Secretary Morgenthau

FROM Mr. White *W.J.*

Subject: Treasury Representatives Report on Belgium

Belgian Financial Program

1. The U. S. Treasury Representatives report that there has been no dissent "with regard to the necessity...of reducing the total amount of currency in circulation and the imposition of a severe war profits tax."

2. Gutt is widely respected for his efforts to undertake a strong program. During October and early November he was actively viewed as a likely successor to Pierlot. This talk has now died down, but he is still regarded as the strongest member of the Cabinet.

3. The banking and industrial community is, for the most part, in agreement with Gutt's financial program, but feels that it should have been more fully consulted in its formulation. Higher income groups show some concern with what the Government may do with the information on individual wealth which it is now acquiring.

4. The left-wing groups offer the most severe criticisms of Gutt's financial program; there is strong evidence that the Ministry of Finance gives serious attention to their criticisms. They approve of the objectives of the financial program but censure some of the measures adopted. They believe that the financial program undertaken will actually succeed in reducing currency circulation, but in a very inequitable manner. They do not feel that the program will be successful in taxing war profits. The Communists allege that the more favorable treatment of bank accounts as compared

- 2 -

with cash holdings has hurt small merchants and artisans; workers in general have not been injured by the program since they held little cash and were able to effect, in most cases, 100 percent exchange for new notes.

5. The economic effects of the program cannot be assessed as yet. Belgian Government officials feel that the success of the program will be decided in the next six weeks. Official expectations that the program will be successful are based on hopes that a minimum amount of needed imports can be obtained by the end of this year.

Political Background

1. The political situation in Belgium is highly unstable and national unity is rapidly dissolving under pressure of current problems. The resistance groups do not challenge the authority of the government, but insist on greater recognition and participation.

2. Some 40,000 persons have been arrested for treason and collaboration, but the Communists declare that the 5,000 most important collaborators have not been touched. They claim that not a single leading personality in finance, or industry (coal and metals) has been arrested.

3. Failure to fulfill the extravagant promises, broadcast by the Allies, to bring in civilian supplies has caused acute disappointment.

330

12/15/44

Photostats to: Mr. D. Bell
Dr. White



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
CA 893.002/12-844

December 14, 1944

My dear Mr. Secretary:

The President has received from Generalissimo Chiang Kai-shek, through the medium of the Chinese Embassy, the following telegraphic message, dated December 6, 1944, defining the official status and powers of Dr. H. H. Kung:

"I beg to draw your attention to the fact that although Dr. H. H. Kung, my personal representative, has resigned from his concurrent post of Minister of Finance, he still holds the important position of Vice-President of the Executive Yuan and the Governor of the Central Bank of China. I myself and the National Government still have the fullest confidence in him and have authorized him to continue his work in the United States with which he has been instructed by the Government. In all affairs - financial, monetary and economic - which he is handling in the United States, Dr. H. H. Kung still has full power to represent the Chinese Government. You are kindly requested to take cognizance of this fact and also to inform all members of your Government concerned to the same effect in order to facilitate the close cooperation between our two countries."

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



PLAIN

Lisbon

Dated December 14, 1944

Rec'd 6:47 a.m., 15th.

Secretary of State,
Washington.

4215, Fourteenth

WRB 276 JDC 138 FOR LEAVITT FROM PILPEL

Joseph Schwartz advises following budgetary figures first quarter 1945 dollar amounts per month in thousands unless otherwise indicated. Portugal 37 Spain 80 *angier 17 France 250 subject to possible increase Belgium 100 plus onetime children's homes grant 200 Greece 75 liberated Italy 60 North Africa 15 Sweden one plus Hachsharah 3 1/2 for first half liberated Poland 500 three months Holland 100 three months Turkey 10 emigration 500 three months.

Through Switzerland refugees in Switzerland 120 including intellectuals 5 and interstudent service 7 1/2 plus onetime clothing grant 40 Hungary 100 plus onetime emergency grant 1,000,000 Bulgaria 50 Rumania 500 Yugoslavia 6 plus onetime clothing grant 5 northern Italy 10 Shanghai 80 plus onetime winter clothing grant 50 camps Theresienstadt Bergenbelsen Birkenau et cetera for food 100 Slovakia 50 miscellaneous 250 three months total for three months 7.628 plus 3 1/2 Hachsharah Sweden six months.

Schwartz requests you secure license authorizing remittance Switzerland 750 monthly for three months exclusive of emergency funds about which latter will advise. Figures for packages ex-Tehran and refugee Rabbis Palestine et cetera unincuded because you have information will advise reference alliance school Tehran for your information Saly sending Theresienstadt monthly 10,000 parcels.

NORWEB

MJF

JMM-717
Distribution of true
reading only by special
arrangement. (SECRET W)

Madrid

Dated December 14, 1944

Rec'd 4:07 a.m., 16th.

Secretary of State

Washington

4028, December 14, 6 p.m.

FOR WAR REFUGEE BOARD

In light of more recent information contained in its 3896 November 29 and 3912 December 1 Embassy fails to see pertinence of report stated in Department's 3215 December 9 from WAR REFUGEE BOARD to have been received from Budapest under date of October 23 (repeat October 23).

In addition to Foreign Office statement concerning successful Spanish protection of 2300 Jews in Hungary, reports received by Jewish community Tangier from Interpress Budapest have for several months indicated, contrary to cited reports, that 570 Jews mentioned in Embassy's 3912 have also, under Interpress direction, been enjoying effective protection of Spanish Legation.

Although Embassy has no reason to believe that Spanish representatives in Budapest will not do everything possible to accord similar protection to remaining 700 persons for whom Spanish visas have been authorized it will represent informally to Foreign Office urgent importance of such protection. Bearing in mind, however, that presence of Soviet troops within 10 miles of Budapest and reported departure of puppet government from capital have without doubt rendered situation fluid to say the least.

HAYES

JMS

GEN-362
Distribution of
true reading only by
special arrangement.
(SECRET W)

Stockholm

Dated December 14, 1944

Rec'd 11:05 p.m.

Secretary of State,
Washington.

5118, December 14, 4 p.m.

In informal discussions with appropriate Swedish authorities along lines of WRB 254 (Department's 2372, November 25, 9 p.m.) they have shown full readiness to cooperate, and Foreign Office volunteered to send us a letter in the matter. This our 112 for WRB. Subsequently a letter dated December 13 from Lundborg of the Foreign Office has been received referring to parcels now on the SAIVO destined to Jewish internees in Germany and stating that the Swedish authorities have no objection to their being for War Department to Germany from Sweden by the ICRC ships provided such parcels be handled under ICRC auspices.

JOHNSON

MJF

CABLE TO HUDDLE, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Reference your No. 8036 of December 8, 1944. It is Board's view that private messages which do not relate to the rescue and relief of oppressed people in enemy territory should be sent through normal commercial channels rather than through the special facilities of this Government. We are making exceptions to this only in rare instances.

THIS IS WRB BERN CABLE NO. 326.

11:30 a.m.
December 14, 1944

FBI
Distribution of true December 14, 1944
reading only by special
arrangement. (SECRET W) 7 p.m.

AMLEGATION

BERN

4213

The following for McClelland is WRB 326.

Reference your No. 8036 of December 8, 1944. It is Board's view that private messages which do not relate to the rescue and relief of oppressed people in enemy territory should be sent through normal commercial channels rather than through the special facilities of this Government. We are making exceptions to this only in rare instances.

STETTINIUS
(OLW)

WRB:BMV:KG
12/14/44

WE

CABLE TO AMEMBASSY ANKARA, TURKEY, FOR KATZKI.

Reference your 2287 of December 1.

Information in question was received from London correspondent, of Independent Jewish Press Service, Jacob Harendorf, 66 Woodlands, London, N.W. 11, who presumably obtained it from Istanbul correspondent, Chaim Oved.

THIS IS WRB ANKARA CABLE NO. 135.

10:30 a.m.
December 14, 1944

No. 946

Ankara, December 14, 1944.

Subject: Correspondence between the Embassy and the Turkish Ministry of Foreign Affairs relating to the granting of American visas to certain classes of persons in occupied Europe.

CONFIDENTIAL

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to the Department's confidential telegram No. 742, August 24, 8 p.m., authorizing the issuance of immigration visas to certain classes of aliens who have been in Axis-occupied areas, and who are not ineligible to receive such visas. The Department directed that this information be transmitted to the Turkish Government, with the request that the persons included in specific categories be allowed entry into Turkey for a temporary period.

- 1/ There are enclosed for the information of the Department a copy of the Embassy's note verbale addressed to the Turkish Ministry of Foreign Affairs under date of September 8, 1944,
- 2/ and a copy of the Ministry's reply dated December 6, 1944, together with a translation of the latter as prepared at the Embassy.
- 3/

Respectfully yours,

Lawrence A. Steinhardt

Inclosures:

1. Copy of note verbale to Turkish Foreign Office, September 8, 1944.
2. Copy of note verbale from Turkish Foreign Office, December 6, 1944.
3. Translation of 2.

File No. 811.1

WVH:AFH

To Department in original
and hectograph.

Enclosure No. 1 to Despatch No. 946, dated December 14, 1944
from the American Embassy at Ankara.

C O P Y

No. 1034

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs of the Republic of Turkey and, in connection with the intensive efforts which are being made to rescue persons subjected to persecution in Axis-controlled countries, has the honor to inform the Ministry as follows:

The Government of the United States has authorized its consular officers in Turkey, Switzerland, Spain, Portugal and Sweden, to issue visas for permanent residence in the United States to any person of the following categories who has been living in an area controlled by Germany or any of the countries allied to Germany, and who upon presenting himself or herself before an American consular officer is found to be not ineligible for a visa:

1. The alien wife, husband, mother, father and unmarried minor child of a citizen of the United States.

2. The wife and the unmarried minor child of an alien who is residing in the United States.

The Government of Switzerland has been requested to inform the governments of countries which are at war with the United States, particularly the governments of Germany and Hungary, that the foregoing provisions have been made for the issuance of visas by American consular officers in the countries specified.

In view of these measures the Government of the United States earnestly hopes that the Turkish Government may find it possible to inform the governments of Bulgaria, Hungary and Rumania that persons coming within the categories defined above will be permitted to enter Turkey.

The Embassy is authorized to assure the Ministry that adequate maintenance will be provided for any persons of the above mentioned categories who are admitted into Turkey, and that arrangements will be made as promptly as possible to evacuate any

such

- 2 -

such person who should be found to be ineligible to receive a visa for the United States.

Similar requests and assurances have been made by the Government of the United States to the Governments of Spain, Sweden, Portugal and Switzerland.

In order that the Government of the United States may be appropriately informed as soon as possible, the Embassy would appreciate being advised by the Ministry whether the Turkish Government is willing to lend its further and valued cooperation to the extent set forth above in connection with the problem of European refugees.

Ankara, September 8, 1944.

HLT:KM-AFH

Enclosure No. 3 to Despatch No. 946, dated December 14, 1944
from the American Embassy at Ankara.

TRANSLATION

REPUBLIC OF TURKEY
MINISTRY OF FOREIGN AFFAIRS
43905
159

In reply to the note verbale of the Embassy of the United States of American, No. 1034, dated September 8, 1944, the Ministry of Foreign Affairs has the honor to inform the Embassy as follows:

It has become impossible to carry into effect the proposal of the Government of the United States concerning the issuance of Turkish visas to certain categories of persons living in Germany, as a result of the rupture of diplomatic relations between Turkey and the latter country.

Moreover, the liberation of the Balkan countries by the Allied armies is solving the problem of the persecuted persons in these countries.

Nevertheless, in accordance with the spirit of collaboration which the Government of the Republic has always manifested in the matter of refugees, this Ministry will not fail to take into consideration the desire expressed in the Embassy's note. To this end, the Turkish Consulates in the Balkan countries have received instructions to insert, in appropriate cases, in the questionnaires to be completed by the persons applying for visas, their qualifications for obtaining an American visa.

Ankara, December 6, 1944.

To the Embassy of the United States of America,

Ankara.

NOT TO BE RE-TRANSMITTEDCOPY NO. 4SECRETOPTEL No. 404

Information received up to 10 a.m., 14th December, 1944.

1. NAVAL

On 10th/11th French Submarine Chaser sank coastal craft off Cannes and took crew prisoner.

13th. No change situation Greek ports except at Kalamata where it is easier.

2. MILITARY

WESTERN FRONT. Limited advances Saar area east of Bischweiler and north of Haguenau and Sareegumines. Further small advances by U.S. troops west of Duren. First U.S. Army launched an attack S.W. of Duren during morning 13th.

ITALY. Canadians have gained bridgehead across a canal N.W. of Russi despite intense opposition. Fierce German counter attacks so far successfully repulsed and bridgehead maintained.

GREECE. 12th. Athens and Piraeus area. Continued infiltration by rebels towards city centre during night followed by shelling during the day. Rebel activity generally increased. Some British troops arrived by air.

SALONIKA. 11th. Dockers came out on strike.

3. AIR

WESTERN FRONT. 12th/13th. Essen. 2345 tons dropped. 13th. 256 medium bombers attacked defended villages south of Duren with unobserved results. Bad weather reduced close support sorties by fighter bombers and fighters to about 200 (2 missing). Coastal Command Mosquitoes (1 Mosquito missing) attacked and left sinking a merchant vessel off S.W. Norway.

13th/14th. Bomber Command sent out 71 aircraft:- 52 against shipping Oslo Fiord and 19 sea mining. All returned safely.

MEDITERRANEAN. 12th. Bad weather prevailed. 51 heavy bombers dropped 88 tons Blechhammer Oil Refinery through cloud. 50 Liberators carried supplies to Greece.

4. HOME SECURITY

13th. One rocket reported.

13th/14th. Three rockets reported.