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January 1, 1945
9:30 a.m.

GROUP

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

H.M.JR: Dan Bell was trying to get--I wish they wouldn't do this to me, Gamble and Coyne--there was nobody there, but if he would--

MR. D. W. BELL: Coyne is gone, too.

H.M.JR: Yes, they just shouldn't do that.

MR. D. W. BELL: I agree; I thought they were going to be here. I thought they were in touch--

H.M.JR: We have something that can't go ahead.

MR. D. W. BELL: I suppose he stopped on the way over.

H.M.JR: They say Gamble stopped, too.

Well, anyway, if you would make a note and tell Coyne I want to know what preparations they are making to celebrate the tenth anniversary of the baby bond issue--

MR. D. W. BELL: Yes, we ought to talk to you some day soon about what we are going to do to refund them. That is the question we have, as to whether we will pay off the first couple hundred million of them or whether we

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would offer the holder some new security. There is some thought that if we pay them off we would encourage the other holders and stop the rumor that they are never going to be paid off. It might be a good thing to pay off this first small amount.

H.M.JR: Gamble said he wanted to be consulted on what we do. When Coyne gets back, will you and Harry take it up with him?

What is our active status toward the French Government funds which are frozen, and the French nationals?

MR. WHITE: The French Government funds which are frozen have not been wholly released, but they did release some money for them to pay their current debts, and the decision we have agreed to is to release them as soon as the question of legal difficulties which the French funds are in--that is a matter which you fellows--

MR. O'CONNELL: That is quite reasonable, but I think the attachment suit between the Belgians and French has been settled, and at the present time the French Government funds are available to the French, subject to a very general licensing provision from us. All they have, I think, is something in the nature of reporting requirements with respect to amounts over twenty-five thousand dollars.

MR. WHITE: Have the legal requirements been eliminated?

MR. O'CONNELL: Oh, yes. There were several technical difficulties last week, but I think they are all straightened out now.

One difficulty the Federal Reserve Bank had with the State Department is that the French Government--rather, our Government is in a position to draw on funds, and that, I think, has been squared away, and the other is that all of the French Government funds have been attached by the Belgians as a result of the deal involving the Belgian gold which the French turned over to the Germans. But the lawsuit has been settled, too, so for all practical

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purposes the French Government funds are available to the French Government as of today with a sort of reporting requirement that they let us know the purpose for which they have used or are using substantial sums, but pretty generally private funds--

H.M.JR: Why don't we do this: Why don't--what about French citizens?

MR. O'CONNELL: They are just about where they were before, frozen and subject to release on specific license, and we have not substantially relaxed our licensing requirements. In other words, it is the same with the Belgians, Dutch, and others.

H.M.JR: Let's take a French citizen here who has one million dollars and wants to get his money. Why shouldn't he have his money?

MR. WHITE: It assumes that there would have to be some proof that he is not a collaborationist and is not using it in ways to defeat either French exchange laws or our own.

H.M.JR: Who passes on that?

MR. WHITE: We do, but what we could do is take the French Government's word for it. In other words, that is what we would do in the case of China. When China approves a particular payment we say it is all right.

MR. O'CONNELL: We have not reached that stage with the French Government as yet. The whole purpose of freezing was to prevent collaborationists or German sympathizers, or Germans themselves from getting control and use of funds the French had over here.

H.M.JR: I think we ought to make it clear, not only to our own public, but to the French public, where we stand. I would like it made clear to me. Even you two men are--

MR. WHITE: This is the kind of case they call up about where people--Americans that own French balances want

to be able to sell them freely, and that is contrary to prevailing French exchange laws.

H.M.JR: Supposing you men get together with Orvis Schmidt. I would like to see you. Are you interested in it?

MR. D. W. BELL: I don't know anything about it, but I will be glad to sit in on it.

H.M.JR: If you want to, you are always invited, but get it together in a couple of days and give me a roundup on it with Orvis Schmidt. And as for a meeting, I would like to give you something in writing, because I don't want to wait to have my hand forced on this thing.

In this mail report of December 22--do you get the weekly mail report? On the first page is mentioned six requests for tax refunds. Well, that's--no, this isn't you. The point I don't quite understand, Dan, is you pick it up--it is the second paragraph on the first page. "There are 6 reports from families of Service men whose bonds have not been received. Loss of interest on the securities that have been called continues to be a sore spot, and there were a number of protests this week." What I don't understand from this thing is whether they lost their interest or lost the bonds.

MR. D. W. BELL: What happens is that a check goes out and is cashed by some member of the family, or maybe it is forgery. That is for G bonds. That check goes to the General Accounting Office, and we can't get any reply out of GAO. I have taken it up with Mr. Yates, and he took three or four cases last week and said he would like to run them down to see what he could do to work up a procedure to facilitate answering. They don't even reply to them in the Claims Division, but in a good many of those cases, it is the fault of the people. Here is a lady, a wife of a Naval officer who moved two or three times, and her check follows her around and misses her. She hasn't gotten the last two interest checks on G bonds, and she is sore. I don't blame her. I don't think they

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appreciate that they have to get the change of address in time before the interest period is up in order to get the new address on the card.

H.M.JR: Will you handle it?

MR. D. W. BELL: Yes, it is a sore spot with us.

H.M.JR: Is there anything we can do about it?

MR. D. W. BELL: Nothing, except what we have done.

(The Secretary holds a telephone conversation with Mr. Courtney Brown.)

MR. D. W. BELL: I have had it out with the General Accounting Office, and we ought to get something this week. We do follow those complaints very carefully.

H.M.JR: Those little things can irritate an awful lot of people.

MR. D. W. BELL: And when you have three million people involved, you are bound to get some complaints on it. There are mixups.

(Mr. Luxford enters the conference.)

H.M.JR: Why are you so serious?

MR. LUXFORD: I got up pretty early this morning.

H.M.JR: Happy New Year. What did you do with DuBois?

MR. LUXFORD: Isn't he around? I saw his sister outside.

H.M.JR: What is his sister doing?

MR. LUXFORD: She is down from New York for the holidays.

H.M.JR: You didn't see him around anywhere?

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H.M.JR: Mrs. Klotz, the next one on page two is a telegram from William Cerrato of Schenectady--the American Locomotive Company. I want to write a letter to Mr. Patterson simply saying that I have this letter from Mr. Cerrato, and what is the answer? Why has the American Locomotive Company no contracts?

And the other thing, Herbert, is on page five of this thing. Mr. Towne of Des Moines enclosed a clipping from the Register of Des Moines, Iowa, and says that Roosevelt is planning to do something to make all these bonds worthless, and then says that F.D.R. and Eleanor are not buying any either. He also questions my sincerity in not buying bonds, you see. Would you look it up?

MR. GASTON: Yes.

H.M.JR: I don't know what the Des Moines Register said, but I would like to know.

MR. D. W. BELL: We had something like that in Nebraska, and we got in touch with the State Chairman and he got in touch with the newspaperman, and they came out with a very nice editorial on this side.

H.M.JR: Charlie?

MR. C. S. BELL: I have a deferment which I think is a pretty good case, another one of our plate printers from the Bureau of Engraving and Printing. He is twenty-nine years old, on the key list, and has two children. We can't get plate printers. The name is Milton Harrison.

H.M.JR: Do this: The thing that burns me is that Mr. Bell's printers are stopping and only printing so many bonds a day.

MR. D. W. BELL: I agree. They don't buy bonds, either.

(Secretary signs deferment request for Milton Harrison.)

(Mr. DuBois enters the conference.)

MR. DuBOIS: I have set a good precedent for the new year.

H.M.JR: What did you say?

MR. DuBOIS: I have set a good precedent for the new year.

H.M.JR: For whom?

MR. DuBOIS: I am setting a new one.

H.M.JR: I almost asked your sister to attend.

Happy New Year!

MR. C. S. BELL: With John Sullivan leaving, I wondered if you wanted to designate someone else to represent you at the National Gallery of Art.

H.M.JR: Yes, if she can, I would like Mrs. Morgenthau to represent me. Find out before--give me a little note on it. I will ask her at lunch today.

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

MR. D. W. BELL: I am not sure, but I think it has to be an Acting Secretary.

H.M.JR: Before I ask, you had better find out. Dan, you are designated as Acting Secretary of the Treasury.

MR. C. S. BELL: John was never designated on paper.

H.M.JR: Call up the man who used to represent me, and ask him off the record.

MR. C. S. BELL: Yes, sir.

MR. D. W. BELL: I can sign the papers as Acting Secretary, and she can attend informally.

H.M.JR: Ask before I put it up to her.

What else?

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MR. C. S. BELL: That is all, sir.

H.M.JR: Dan?

MR. D. W. BELL: I hesitated to call you at home, but we got eighty-two million in E bonds, making two billion, five hundred and thirty-four.

H.M.JR: How many E bonds?

MR. D. W. BELL: Eighty-two, making two billion, five hundred and thirty-four. That is two million over the quota, and we have another day to go. The total is twenty-one billion, seventy-six million.

MR. GASTON: It is exactly fifty percent over the quota, isn't it?

H.M.JR: That is what I said the other night. It is a good thing to use. When are you going to be ready with that release?

MR. GASTON: I am waiting for them to bring me some dope over from--

MR. D. W. BELL: That won't be ready until tomorrow. The figures won't be in until tomorrow morning. We allowed them to go over Sunday and take in those figures--send separate reports in. Many banks are closed today, so it will be tomorrow morning.

MR. GASTON: We can have it sometime tomorrow?

MR. D. W. BELL: I sent over to Sam Rosenman late Saturday Harry's drafted statement on Bretton Woods and told him I was doing the thing and thought that possibly he would want to work with the President over the weekend on the State of the Union Message, but that you had not seen it, and I thought you might want to make some changes on it today, and he would be notified immediately.

MR. WHITE: I thought it would make it pretty long on the possibility he might want it to go in. Otherwise, cut it down. I don't know how much time I want to spend on it.

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MR. D. W. BELL: I don't know how urgent that is, but I assume the State of the Union Message will have to be ready today or tomorrow.

H.M.JR: He said last night he had seen a couple drafts and didn't like any of them on the whole message. I doubt if--well, he may do something today. I don't think he did anything over the week-end.

MR. WHITE: He doesn't like this draft?

H.M.JR: No, no, no, on the whole message. He didn't mention this.

MR. D. W. BELL: What they put in the State of the Union Message ought to guide us a great deal on what we do with the Budget Message, I should think. Maybe we can cut the paragraph down on the Budget Message if the full statement on it goes in the State of the Union Message.

H.M.JR: I wouldn't. As I said over the phone, I wouldn't worry too much if it is in both places.

MR. D. W. BELL: I think you might want to change one or the other.

H.M.JR: Let me ask you this. Well, the information is, the President is not going to deliver the message in person --the State of the Union Message, but--

MR. D. W. BELL: I see.

H.M.JR: But I think it would get much wider publicity if we would send him the message.

MR. D. W. BELL: I think so.

I would like to bring up again the Seaboard Airline Railway. I am sorry to have to bother you so much about it.

H.M.JR: Tell the boys this story, and see what they think. Let's get a sympathetic hearing here.

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MR. D. W. BELL: We have fourteen million dollars in the Seaboard Airline Railway--had it since 1920-- and in addition to that, they owe us several million dollars of interest, I don't know just how many.

MR. BLOUGH: Who are the "we" in this case?

MR. D. W. BELL: The Treasury.

MR. O'CONNELL: The United States, acting through the Secretary of the Treasury.

H.M.JR: You and me.

MR. BLOUGH: That is a new one; I didn't know we held property.

MR. D. W. BELL: We made three hundred million on loans since 1920. Well, anyway, we have as collateral about sixteen million dollars in first mortgage bonds, the best bonds of Seaboard. They have gone through a re-organization, under which we get some other types of securities, including common stocks. They have set up--

MR. GASTON: Will you hold those other securities as additional collateral?

MR. D. W. BELL: No. We hold about sixteen million dollars on the first mortgage bonds, series A, which are the prime securities of the road. That road has now gone through a re-organization under which those bonds will be cancelled and other types of securities given in their place.

MR. GASTON: To holders in general of those securities?

MR. D. W. BELL: The first four and one-half some preferred stock and some common stock which will get--Mr. Wright, who represents Mr. Jones on a number of railroad re-organizations in which the RFC is interested, has been following the Seaboard very closely, and he is the one from whom we got our advice on the re-organization, and he follows

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the outside interests very closely. They are in this re-organization. There is sort of a voting trust created over and above the board of directors, and he tried to get us to be represented on that voting trust because he was afraid that if we weren't and we had a large bulk of the bonds, that other interests will get in there and control the whole setup and manipulate the stocks and bonds to their advantage.

I think maybe his fears are well founded, and Tri-Continental owns the greater share, I think. I talked to the Secretary about it, and he did not want to be represented on the board or on the voting trust. I told Mr. Wright, and three weeks later--last week, as a matter of fact, he called me up and said, "You will, I think, get an offer for the securities in the very near future, and I hope that you won't accept it, because I think the securities are worth a good deal more than indicated by the market. The bonds are selling today on the market at fifty-four, and last Friday I did get an offer from Merrill Lynch, or at least a suggestion that they would make an offer early in the year at about one and three-quarters less than the market at a certain day, say, any day that they chose. We would get about fifty-two and one-quarter for those securities, which makes our debt worth about eight million dollars.

Now, as near as we can tell from the market of the new securities that were issued under the re-organization, there were close to ten million dollars, although they haven't told us that.

Now, I think that the United States would be much better off if we had somebody that was watching this very closely, and I don't think we can do it. So I am again going to bring up the question as to whether we shouldn't transfer all of these railroad subscriptions by executive order to the RFC to be handled by them.

H.M.JR: That is the first time you have said that, Mr. Bell.

MR. D. W. BELL: I said, "What would you think about it?" And I said, "I think it would be better--"

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the outside interests very closely. They are in this re-organization. There is sort of a voting trust created over and above the board of directors, and he tried to get us to be represented on that voting trust because he was afraid that if we weren't and we had a large bulk of the bonds, that other interests will get in there and control the whole setup and manipulate the stocks and bonds to their advantage.

I think maybe his fears are well founded, and Tri-Continental owns the greater share, I think. I talked to the Secretary about it, and he did not want to be represented on the board or on the voting trust. I told Mr. Wright, and three weeks later--last week, as a matter of fact, he called me up and said, "You will, I think, get an offer for the securities in the very near future, and I hope that you won't accept it, because I think the securities are worth a good deal more than indicated by the market. The bonds are selling today on the market at fifty-four, and last Friday I did get an offer from Merrill Lynch, or at least a suggestion that they would make an offer early in the year at about one and three-quarters less than the market at a certain day, say, any day that they chose. We would get about fifty-two and one-quarter for those securities, which makes our debt worth about eight million dollars.

Now, as near as we can tell from the market of the new securities that were issued under the re-organization, there were close to ten million dollars, although they haven't told us that.

Now, I think that the United States would be much better off if we had somebody that was watching this very closely, and I don't think we can do it. So I am again going to bring up the question as to whether we shouldn't transfer all of these railroad subscriptions by executive order to the RFC to be handled by them.

H.M.JR: That is the first time you have said that, Mr. Bell.

MR. D. W. BELL: I said, "What would you think about it?" And I said, "I think it would be better--"

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H.M.JR: I am sure you never said that to me before.

MR. D. W. BELL: I thought I did, but maybe I didn't.

H.M.JR: No, no, what you told me--and I can't remember where it was--I remember you rode down in a car with me and you said they were declaring a dividend.

MR. D. W. BELL: No, I said they had a lot of money and might declare a dividend--they might.

H.M.JR: Have they?

MR. D. W. BELL: No, the re-organization hasn't yet gone through, and new securities have not yet been delivered.

H.M.JR: I don't remember your--I can very easily be wrong, but I don't remember your suggesting we transfer this. But I think the point you were trying to get me to agree to is to have the Treasury--the Government represented by a Government director on this board because we would know more if we were a Government director, and my point was that if we had a Government director and became a part of it, whatever they did, we would be a party to the crime. I said I would much rather sit back and let them, the board of directors, vote whatever they wanted to do, and then we were in a position to say that it was good or bad and that we thought it was bad. I claim we can go in the courts and fight it if we thought the Government wants to get in a good deal, and I thought we were in a much better position as a Government of the United States to be on the outside, rather than being on the inside. Now, that is the difference, isn't it?

MR. D. W. BELL: Except, I don't think I advocated a person on the board; I agreed with you one hundred percent that the Treasury should not be on the board.

H.M.JR: Dan, you are wrong. Two different times you wanted me to appoint somebody as a director of the board.

MR. D. W. BELL: I am sorry, you got me wrong. I merely raised it as a question of policy.

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H.M.JR: No, no, you definitely wanted me to appoint a man. You said, "We must have a man on the inside in order to know what is going on."

MR. D. W. BELL: I am sorry you got that. I have been with you all along that Treasury should not be on these boards.

H.M.JR: You definitely wanted me to appoint somebody as a director; that was the whole argument.

MR. D. W. BELL: I was just trying to get a decision as to policy. That was the purpose of raising it.

H.M.JR: (To Mrs. Klotz) This discussion between Mr. Bell and myself took place, but the whole argument was to get me to recommend--appoint somebody as a Government director.

MR. D. W. BELL: Well, I am sorry if I left that impression, because I don't think I ever advocated that.

H.M.JR: That is the impression I got. And as far as the Government having a representative on the board of directors, I have absolutely no recollection of your making that suggestion.

MR. D. W. BELL: I am making the suggestion now if you think it is important. Nothing has happened in which we needed to--

H.M.JR: Let's go back. What about this thought which I have carried right along?

(Mr. Pehle enters the conference.)

H.M.JR: Good afternoon. You look a little pale. I suppose it is the blood.

MR. PEHLE: Yes, sir. You said to drink lots of liquids.

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H.M.JR: Lots of hot toddies.

You have just been preceded by two minutes by Mr. DuBois, and three minutes by Mr. Luxford.

Go ahead.

MR. D. W. BELL: You said, "Let's go back."

H.M.RJ: Where do you stand on the Government having a director on the board?

R. D. W. BELL: I don't think the Treasury should be represented. I think it should be some agency who can watch the setup, and if Jesse Jones wants to put somebody on the board of trustees and directors, I would say O.K. if he wants to do it, but I think somebody ought to watch it, and I don't think we are in a position to watch it. We are not close enough to it. Certainly you shouldn't be represented on the board; I agree with that, Treasury should not.

H.M.JR: In all due respect, I thought quite the opposite.

MR. D. W. BELL: I am sorry. That has been a policy of the Treasury for twenty-five years.

H.M.JR: What?

MR. D. W. BELL: Of not being represented on the board, and we have gone along with that right along. But Mr. Jones follows a different policy, and he follows the whole setup with these railroads more closely than we have ever followed them.

H.M.JR: Excuse me, the question this morning is, should we turn these railroad securities over to Jones?

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

H.M.JR: That is something quite different.

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MR. D. W. BELL: And I understand from Mr. O'Connell that it can be done by executive order.

MR. O'CONNELL: There is no question about that. It seems to me, therefore, there are three possibilities, one is the Treasury could keep the securities and do nothing, in accordance with our usual policy. That seems to be the worst of the possibilities, because if we have ten or twenty percent interest in the railroad, there is no way of protecting our interest by sitting back and waiting for the board of directors to do something, and then theoretically try to stop them; it has been done. We are in no position to do that. We are a stockholder, and if we do not take our interest seriously enough to be represented on the board, there is nothing effective we can do about it afterwards.

H.M.JR: Certainly if tomorrow Merrill Lynch offers fifty-two, I don't have to take it.

MR. D. W. BELL: I don't think you should take it.

MR. O'CONNELL: We can either keep the securities and do nothing about it, about seeing to it our interest is made effective by representation, or we can sell the securities to Maryland Insurance or someone else. Or we can turn the securities over to Jesse Jones who has a different concept of how to protect the Government interest with respect to these securities.

MR. WHITE: There must be a large number of securities in a similar position held by the Government.

MR. O'CONNELL: You mean the Government? Oh, sure; Jesse Jones has.

MR. WHITE: The problem the Secretary is raising--

H.M.JR: Which Mr. Bell is raising.

MR. WHITE: ...or Mr. Bell is raising--the view relates to Treasury position, and it seems to me we ought to keep out of it and give it to somebody whose business is to

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follow it, and who has a lot of the others, and if you are considering it from the point of view of the Government, it is a much broader problem and one that doesn't concern you as directly, whether or not you want to raise the question as to whether the Government should be represented on the board of directors of any institution where it has securities--I take it you are not raising the latter question, but specifically the Treasury--

MR. D. W. BELL: The only one that can be represented at the present time is the Treasury.

MR. WHITE: You are not raising the question as to whether the Government should be, because you already have a lot of--

MR. D. W. BELL: I think that policy has gone forward pretty well; the last ten years RFC has been represented on the board.

H.M.JR: Isn't this a question of securities, and then fixing the policy, and if you have any other securities, should we continue to hold them or turn them over to some other agency?

MR. WHITE: It seems to be highly desirable to turn them over to an agency who has most of them and--

MR. D. W. BELL: That certainly should be the position of the railroad securities. We have the other securities of a miscellaneous character that we have taken in a compromise of tax claims. We may not want to turn them over because they still involve tax claims in some cases. But the railroad securities--I should think we might well get rid of those.

H.M.JR: Let's leave it this way: I don't want this to get outside this room. I would like to watch and see what happens to the Secretary of Commerce in the next ten days. See, I don't want to do something which would frankly seem I was doing something that belonged to Jones. I think anything might happen in the next ten days. Handle

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this as a special case, you see. I don't want a lot of publicity and have him say, "Look, the Secretary of the Treasury has been given this additional authority-- additional confidence." I don't know too much, but I think--I would just like to wait and see what happens between now and the 20th.

MR. D.W. BELL: All right. Nothing is going to happen here.

MR. WHITE: No, if they offer fifty-two and one-half, chances are just as good a week from now.

H.M.JR: I think from what everybody says here, after it is settled one way or another by the 20th who is going to be Secretary of Commerce, the railroad securities--

MR. D.W. BELL: If we turn them over to RFC after the 20th--

H.M.JR: But not saying anything, not let it get out. Is that all right with you?

MR. D.W. BELL: That is all right with me.

MR. WHITE: Has the Treasury been derelict up to now? Should the Treasury have done anything in the fifteen years that it had those bonds which it did not do?

MR. D.W. BELL: The only thing we could have done if we had had the authority back in 1920--we had two loans, one under Section 210 under the Transportation Act, and the Federal Control Act, which is the Director General, who had much broader authority than the Secretary. We sold five million dollars in notes which were secured by identically the same bonds in March 1922 or 1923, and we could have sold fourteen million dollars to ten if we had authorized, but when the Attorney General said we didn't have authority to sell, the only thing we could do under the circumstances was watch the receiverships since 1923 or 1924.

H.M.JR: In the case of bonds?

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MR. D. W. BELL: They were way down, but they have come up. We are in a better position today than we have been in since 1923.

H.M.JR: We have gotten rich by doing nothing.

MR. D. W. BELL: And I have a suspicion that the whole setup is going to get much better marketwise. I think the group that is in there is going to see that securities get much better, but I am afraid that we are not close enough to get out when we should get out.

MR. GASTON: What other railroad holding business is back of Seaboard? Does some other railroad hold a big block of it?

MR. D. W. BELL: The Atlantic Coast Line, I think. I think Tri-Continental has its big block of bonds.

MR. O'CONNELL: There isn't any bigger interest than ours?

MR. D. W. BELL: Not as big. I think they have other interests to go in with them.

MR. O'CONNELL: One reason it seems to me RFC or some Government agency that has the facilities for making its power felt ought to hold securities if the Government is going to hold them is, we are the biggest single stock interest.

MR. GASTON: That would cause us to get control.

MR. O'CONNELL: We have got control if we want it on ten or twenty percent.

MR. WHITE: It would be quite properly in Jones' hands, because it probably is--that degree is probably controlling.

MR. O'CONNELL: But in our hands--

H.M.JR: I know, but I want to wait until the 20th. I want to sit until the 20th. Well, I may be all wrong

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on this thing, but wait until the 20th. It may be nothing, but I have hopes.

MR. D. W. BELL: I have one other item. Senator Wheeler--

H.M.JR: It would be a nice thing if somebody took a vote of confidence if the Treasury wants to do this, see?

MR. D. W. BELL: Senator Wheeler has introduced a bill which has one very important section. It puts the authority in the Director of the Bureau of the Budget to submit to Congress through the Bureau of the Budget a national budget along with the Federal Budget, and ties up with the policy of the Federal Government of assuring full employment. We had quite a discussion Saturday on the draft of a bill in which the Treasury said it was in complete accord with the objectives of the bill, and we think you should take a look at that before it goes up. The deadline is today. The deadline was Friday, but they have extended it over to today. He wants to perfect a bill and get it introduced and have hearings on it very shortly.

H.M.JR: How long will it take?

MR. D. W. BELL: I think it would take at least a half hour.

MR. WHITE: It is the general opinion that it is a very important subject.

MR. O'CONNELL: Did you see Wheeler? You mean Senator Murray, don't you?

MR. D. W. BELL: I meant Senator Murray, excuse me.

H.M.JR: Incidentally, what is Jay Franklin Carter doing today?

MR. WHITE: He called me up last week and said the White House asked him to call. I questioned him a little further, and he mentioned the President, but I couldn't quite pin him down, so I suspect the line of direction was a little

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bit vague in his own mind. But I thought we had better treat him nice anyhow.

MR. GASTON: What did he want, Harry?

MR. WHITE: We had a conference with the boys on some provision for loans--long term loans to small businesses who can't afford to float them, so we called George Haas' Legal Division and SEC, and they had a preliminary exploratory conference, and if it amounts to anything it will go to Mr. Bell.

H.M.JR: If it doesn't, it will come to me?

MR. WHITE: No, if it doesn't, you won't hear about it.

MR. GASTON: I had a conversation with a couple of George's boys.

MR. WHITE: So I called him up after and said--

H.M.JR: Is Jay Franklin Carter still writing a column?

MR. GASTON: I haven't seen anything by him in a long time. Jay Franklin is the name under which he writes.

MR. WHITE: I asked him what his official position was, and he said he didn't have any, but he said he takes care of the Hill frequently for the White House, whatever that may be, I don't know.

H.M.JR: Well, I am putting him down for three forty-five if anybody is interested in the subject.

MR. D. W. BELL: Everybody here is interested in it, plus George Haas' group.

MR. WHITE: I called him up subsequently to find out whether a subject--

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

MR. BLOUGH: Three forty-five on the Murray Bill.

(The Secretary and Mrs. Klotz leave the conference temporarily.)

(Discussion off the record.)

H.M.JR: How far did we get?

MR. D. W. BELL: I just finished.

H.M.JR: I think there are some people who want to give and can't. I don't know whether it would be a good or bad thing. Talk about it to Gaston.

Are you finished?

MR. D. W. BELL: Yes.

H.M.JR: White?

MR. WHITE: I have a redraft of that memo to the President on China (hands to Secretary).

H.M.JR: All right.

Now, the other thing--one of your men showed up yesterday.

MR. WHITE: I am awfully sorry, but we just couldn't reach him. He had moved the day before; we tried every way, but couldn't reach him.

We have a letter from the Polish Government requesting silver and coinage through Lend-Lease in preparation for the liberation of Poland. This letter is dated October 19, and we have been sitting on it, and we will continue to sit on it. I just wanted to let you know what we are doing.

H.M.JR: I tell you what I would do. I would draft a letter to Mr. Stettinius for my signature and say this matter is here and we have been sitting on it. Ask if he has any suggestion.

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MR. O'CONNELL: Did the letter come to us from him--from State--FEA, or from--

MR. WHITE: From the National Consulate.

MR. GASTON: That is the exile government, of course. The Lublin people announced yesterday they were the provisional government of Poland.

MR. WHITE: This is the exile government, and I don't think they want the silver so much--

MR. O'CONNELL: It isn't up to us to decide, if it is under Lend-Lease. We can't sell it to them. If it is a Lend-Lease arrangement, it would come under FEA.

MR. WHITE: We would make recommendations.

MR. O'CONNELL: We don't do it. My point was, it seems to me the same request must have been made to the State Department or FEA.

MR. WHITE: It may have been, but I suspect it wasn't. All their dealings on these matters are taken up with us. We can contact FEA.

H.M.JR: If it has been kicking around since the 19th, we can perfectly well ask Stettinius.

MR. WHITE: We have had a number of discussions on it. We have studied the matter, and we have had a number of oral discussions on it.

There are a number of problems in connection with the British. Do you want to take them up now?

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H.M.JR: No.

MR. WHITE: It should be done within the next couple of days, anyway.

H.M.JR: It will be.

MR. WHITE: We should be having a meeting.

H.M.JR: I have a lot of stuff here that should be done today, more than I can do, the Murray Bill, the President's Message--I have more than I can do right now.

MR. WHITE: When are you planning to have the first meeting to consider Bretton Woods.

H.M.JR: Now.

MR. WHITE: That is just for Treasury people.

H.M.JR: People are coming down from nine-thirty to twelve on Wednesday, and all day Thursday.

MR. WHITE: That hasn't been--Wednesday hasn't been changed? I just wanted to make sure.

H.M.JR: We run our office very well here. You may not--incidentally, for those that are going to lunch with me, I don't know whether you were notified it was changed from Tuesday to Thursday.

MR. GASTON: At the State Department? I got that word.

H.M.JR: You did?

MR. GASTON: Yes.

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MR. D. W. BELL: Thursday is right.

H.M.JR: Mr. White?

MR. WHITE: There has been no letter from--no, I didn't get it, the message, but I suppose it is in the office.

H.M.JR: You did get it.

MRS. KLOTZ: You can not count on what he hears and what he doesn't.

MR. WHITE: There is a letter from General Stimson coming to you requesting--

MRS. KLOTZ: General Stimson?

MR. WHITE: Secretary Stimson.

H.M.JR: You and Stimson get together. I hope you are good in the afternoon.

MR. WHITE: I am never good where this thing is concerned--to the effect he would like you to continue negotiations with the Chinese to cover the last quarter. I don't know whether the letter has come, but in any case--

H.M.JR: How do you know about it?

MR. WHITE: It was told us by Colonel Pforzheimer-- I think that is the way it is pronounced--Pforzheimer, who wanted us to know that.

H.M.JR: No, there is no letter here, but you might check on it (to Mrs. Klotz).

MR. WHITE: Joe asked for this discussion on war criminals. I don't know whether you want to make Stenotype notes of that or not.

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H.M.JR: No, but keep after that with me.

MR. WHITE: Mr. Glendinning is coming in from Cairo.

H.M.JR: That is a new name. I don't think I ever met him.

MR. WHITE: I think you met him before he went. He hasn't been with us long, about two years. He spent a year in London. And Bill Taylor is on his way back from Greece. He is on his way to London, but he will stop on his way.

H.M.JR: Will you stop behind a minute? I want to talk to you about Taylor alone, please.

MR. WHITE: Yes. That is all. Oh, one further thing-- the Italian Mission is waiting for its reply from you on its request, so that if you can set aside fifteen minutes in which we can go over the Italian situation with you.

H.M.JR: Go back to your office and write me a little memorandum of the things you think should be done this week by me in connection with you. Will you do that, please?

MR. WHITE: Yes.

H.M.JR: And see that it gets directly to Mrs. Klotz. Have your secretary walk in to her, please.

MR. WHITE: I shall see that that is done. That is all.

H.M.JR: I had a very interesting two hours with Colonel Bernstein yesterday. He had lunch with us. I suppose you have seen him. They did what I thought was a very silly thing. A cable went to General Eisenhower stating that the Secretary of the Treasury requested that Colonel Bernstein be sent over unless it would interfere with the war, but it was stated as Secretary of the Treasury. Those cables are shown to everybody. It happens also on the English side. They see all the cables. And when it

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went to Bedell Smith and he sent it on--then he got to thinking about it and told somebody, "Why the hell was the Secretary of the Treasury interfering with the war by asking for Colonel Bernstein," but he is here, anyway.

MR. WHITE: I suspect he had the suspicion. That is why he said, "Why the hell."

H.M.JR: But I again say for McCloy, subject to be proven otherwise, he has played straight with me, and I have asked Bernstein to write up a particular thing which General Hilldring told him yesterday about his own attitude after the discussion with McCloy of the treatment of the Germans, and I certainly couldn't ask for anything more powerful than what Hilldring said yesterday. I asked Bernstein to write it out so I would have it. But the best thing he brought--he was very considerate, he really was, was this fellow Fisher. They got in touch last Wednesday night with Henry, and it was the first time in five weeks we had word from him. He is right up there somewhere in Luxembourg. So it was good news for us. He also said he was very well thought of, particularly by his men, and officers as well. This Fisher must be quite a fellow. I keep hearing about him all the time. I should like to take the time to write him myself. Mrs. Klotz, to Captain Fisher--he went to a lot of pain, trouble. You have to go through four, five different headquarters.

MR. D. W. BELL: Do you mean the Navy man?

MR. O'CONNELL: Coast Guard. A young fellow who used to work with us.

H.M.JR: Is there something else?

MR. WHITE: Your statement with regard to McCloy is completely borne out in the carrying through of that 1067, because the discussions took place at the State Department, and Treasury was not present. The Treasury position was strongly defended, and any departure from that position was opposed with very considerable persistence in that it was a departure from Treasury position.

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H.M.JR: To boil down my conversation--Joe was there last night--I think the most important thing he brought back as far as I am concerned is that somehow or other what Hilldring said yesterday, if in some way that could be gotten over to the people who are responsible for dealing with the civilian population, because they just don't know, and while they don't know there is a sneering attitude, and criticism of myself up and down the line. Nobody knows just what the Morgenthau plan is that they are getting, and he said that certainly the English show no sign of in any way wanting to cooperate.

He said that if only what Hilldring said in some way could be gotten over, I don't know. I think this also, and I told Bernstein this, that at the proper time I was going to ask McCloy and Hilldring and Bernstein to come--and I think we ought to be very careful in view of the telegram which was sent that we don't get Bernstein thrown up and out.

MR. WHITE: They won't throw him out I don't think. They may corner him off.

H.M.JR: I think we have all got to watch to do the thing through proper channels for his sake and for what he stands.

MR. WHITE: There is no question of that. I have something additional. I don't know whether he discussed this with you. It seemed to me to be equally important and probably of greater importance than the entire front, and that was his conviction that all the top people, all the generals, don't want a weak Germany now. They want a strong Germany.

H.M.JR: That is what I say--if what Hilldring said could be gotten over. We agree. Is that all, Harry?

MR. WHITE: That is all.

MR. BLOUGH: Before your next press conference--if you hold press conferences these days--I think it might be desirable to talk over what tax questions you are likely

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to get from reporters at this time.

H.M.JR: I agree with you. I tell you, Roy-- incidentally, I read today's editorial in the Post. Senator George has a lot of unfavorable criticism on his statement.

Herbert, will you do this for me? You know I am not having any press conferences. Shaeffer says there is no request which seems peculiar, but he does have a sort of press conference every morning at ten o'clock, I understand. Just have a look at that whole situation. It seems peculiar that these men assigned to Treasury never ask to see me, that they are satisfied. Have a talk with, not only with Shaeffer. Why not bring down the people who have the status of presspeople?

MR. GASTON: Yes. Yes, I would talk to them. Yes. There are one or two of those I could talk to.

H.M.JR: And you might send for Perlmeter, too.

MR. GASTON: Yes, Irving can find out some things.

H.M.JR: The point I am making is, what does this man tell them every morning?

MR. O'CONNELL: He doesn't get anything from me. I don't know if Danny Bell feeds some stuff to tell him.

MR. D. W. BELL: No, very rarely. I don't give him anything that would justify a press conference every morning.

H.M.JR: He has a press conference every morning at ten o'clock.

MR. GASTON: I can find out about it.

H.M.JR: And you know, of course, about the arrangements with DuBois and Luxford?

MR. GASTON: No.

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H.M.JR: I think I told you, didn't I, that when questions came up that he couldn't answer, out of the ordinary questions, that he was to contact them and try to find out, and if they--it is up to them to tell him. I think now it is a matter of two or three weeks, and I think they have had one instance only where they have been called. One instance in three weeks doesn't sound right, see? So if you work it out, and keep after it.

MR. GASTON: Shaeffer has been sick for at least ten days.

H.M.JR: I didn't know that.

MR. GASTON: He was not here at all last week.

MR. D.W.BELL: He came in this morning.

H.M.JR: Anyway, Luxford and DuBois are interested in this. I explained all that to you, didn't I, Herbert? That they would try to do the sort of thing Ferdinand Kuhn did when he was here, handle unusual, out of the ordinary things, I mean so when the press is bothered he doesn't send them away with, "I don't know."

MR. GASTON: Yes, yes.

H.M.JR: I would like to talk to you after you have talked to them.

MR. LUXFORD: It is a most amazing thing that the press wouldn't want to talk to you, Mr. Secretary.

H.M.JR: I don't say they don't, but it seems peculiar to me. Their livelihood depends upon getting stories out of me, and there are no requests to see me. I am satisfied. But I mean I have done a lot of things. There have been a lot of changes, and I just wonder, what does that man tell them?

MR. GASTON: Well, I suppose he is doing his best to give them any information when they ask for it.

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H.M.JR: But Herbert, he never sees me from one end of the week to another. He doesn't know what I am doing.

MR. GASTON: Probably they are routine matters that do not relate to anything you are doing.

H.M.JR: Have a look at it, will you?

MR. GASTON: Yes.

MR. WHITE: Before you go on, I don't know whether it is appropriate to bring it up here, but some of the men are interested in it. What chance do we have of putting a couple of new Congressmen that I can suggest-- maybe others can, too--on some of the committees that we want, who will help us?

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

MR. WHITE: How is that done?

H.M.JR: It is not done from this end of the Avenue. It is the most ticklish thing in the world. If I went up and said something to Sam Rayburn, he would tell me where to get off.

MR. GASTON: A committee on committees.

MR. O'CONNELL: You can pray, but I think that is about all you can do.

H.M.JR: There is nothing that they are more sensitive about.

MR. BLOUGH: I have nothing further.

MR. PEHLE: I have nothing this morning.

H.M.JR: You know, John, I would be glad to take more interest in Procurement if you will tell me more about what is happening over there. It is just that I know very little more now than--

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MR. PEHLE: You read the reports I send you.

M.H.JR: Yes, but that is very dull, if you don't mind my saying so, I mean, like any written word. You buy so many feet of wire or so many thumbtacks, or so much of this, but what is going on over there?

If you and Charlie Bell--I take it that Charlie is still in on the reorganization--I should like to be much closer to it.

MR. PEHLE: If you would set a time, I should like to bring the whole situation--

H.M.JR: I am just lost. I do not have the feel of the thing at all. I don't know what is going on. I really would like to know.

MR. Pehle: All right.

MRS. KLOTZ: Give him a time?

H.M.JR: No, not--no, no. He doesn't want time today.

MR. PEHLE: I would be glad to take it up.

H.M.JR: I don't have the feel of it. This whole group here--if you would bring us the material so the whole group would know what is going on.

MR. PEHLE: I would be delighted to.

H.M.JR: If I may just say this. You have taken the position--this is just a little constructive criticism--that I was wrong in asking a question, but you have never told me why. You just tell me I am wrong.

MR. PEHLE: I thought I made it clear why I thought you were wrong. Well, I should like to go into that at length with this group if you want.

H.M.JR: I think you should. I don't know how many

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of you agree with me, but I know there is one particular incident, going way back, where I took a very strong position and forced it through, that it was important that if we had one hundred automobiles, it was more important that those one hundred automobiles go in the high priority list of OPA factory workers than that we sell these one hundred automobiles to the government, and I still think so. I don't know how many other people in the office agree with me, but if there are one hundred automobiles--

MR. PEHLE: I don't see the connection between the automobile case and this.

H.M.JR: The whole thing--your whole statement on the thing, so to speak, is that the government is so important--sell the surplus to the government, you see?

MR. PEHLE: That is right.

H.M.JR: And units of the government.

MR. PEHLE: That is right.

H.M.JR: I want you to know I am not sold on it. My mind is open. I shall be glad to listen. I don't know where the people in this room stand, but I think that you should ask for an opportunity at a nine-thirty meeting to take a half-hour and state your position.

MR. PEHLE: I should like to.

H.M.JR: They may all be with you. I don't know.

MR. O'CONNELL: On the bill--I think there are certainly some people in the room partly responsible for the fact the department recommended a veto. You talked with Mr. Lynch and Dan and some of the rest of us, and I should like to claim part of the credit or the blame for the decision you made to recommend a veto of your surplus property bill. It is largely on the basis of a statement Tom Lynch prepared.

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MR. D.W.BELL: Not on this point, no.

MR. O'CONNELL: There are two points involved.

H.M.JR: The point I am making--it is no criticism of John--I am simply pointing out to John that he is taking the position that this is all right. He arrived at this decision himself, and then gave this testimony.

Now, I am simply saying that I am not yet too warm, and I don't know where the rest of you stand. I have given him this important task, and I might perfectly well say something where I would be cutting the ground out from under him unknowingly.

MR. PEHLE: I appreciate your telling me, and I shall report on it fully at a nine-thirty meeting.

H.M.JR: Say you want this, and say people like Lynch and other people from the Office of the Secretary--I don't know where Charlie Bell stands, for instance, on this--

MR. CHARLES BELL: On the procedure I am one hundred percent with your viewpoint, and still stand with you, but I think it is bad that the government agencies have the first claim on this material, the automobiles, for instance, but I think they ought to sell their requirements to Congress first and get money for automobiles. It would be foolish not to give it to them. We are building requirements based on what we have, and that was always bad.

MR. WHITE: You merely mean, any question of principle, involving any possible principle, you would like to have brought up here for discussion.

H.M.JR: That is the point. I asked Pehle to take this job, which he did. Now, he has arrived at a certain position, and I am simply saying that let us thrash this thing out so we are all doing--

MR. WHITE: That doesn't apply only to this thing, but any problems of principle.

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H.M.JR: Correct.

MR. PEHLE: The only public position--

H.M.JR: Now, John, John, don't be sensitive.

MR. PEHLE: I am not being sensitive. I agree fully.

H.M.JR: Don't you think it is very important?

MR. PEHLE: I certainly do.

H.M.JR: The only criticism I make of you is that you have not asked for an opportunity to thrash this thing out with all of us.

MR. PEHLE: The only position I have taken is the testimony which was cleared with Mr. Lynch, Mr. O'Connell, and yourself.

MR. O'CONNELL: There is no unnecessary inconsistency between the position we took between vetoing the bill and John Pehle took with respect to the amendments to the bill.

H.M.JR: John is feeding me memoranda on his position, and I haven't had a chance to go over them, and as Harry says, the purpose of this thing is to arrive at a policy, and then we sink or swim together.

MR. WHITE: I know John favors that. He is glad to raise those questions.

H.M.JR: All right, John?

MR. PEHLE: Yes.

H.M.JR: When you are ready you tell me. We will set aside a nine-thirty morning.

MR. LUXFORD: I have nothing.

H.M.JR: This certainly is not to be repeated. It

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was terribly funny. I walked into the White House-- Drew Pearson would like this one--and as I came in there was a blare of Drew Pearson from the ushers' room, and the usher rushed out and confronted us with, "Mr. Morgenthau, have you heard Drew Pearson on the air?" I don't know what he said. Just about two or three minutes passed. Flash, exclusive! I have been the longest Secretary of the Treasury of any Secretary of the Treasury, which is, of course, true.

Then I go in the Blue Room off the dining room, and from the kitchen comes a blare. I couldn't hear what either one said, and I didn't want to have it said. Well, I had to rush into the kitchen to hear Drew Pearson, so I didn't hear him, but certainly he has a listening audience at the White House.

MR. LUXFORD: He is building up the largest radio audience of anybody.

H.M.JR: I don't know what he did say, but it was very tantalizing to hear his voice but not to be able to hear what he was saying. Did he say anything of interest?

MR. GASTON: That is all he said, that after today you had served longer than any other Secretary of the Treasury.

MRS. KLOTZ: Didn't he say something about Mellon?

MR. LUXFORD: That he has served longer than Mellon or anybody else.

H.M.JR: That's this gentleman here, behind me.

MR. LUXFORD: He served eleven years and three months.

MR. D.W.BELL: Just one month less than twelve years.

H.M.JR: Somebody--Charlie, will you look it up? I think if I live until February, I think, or March,

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I would outlive the eternal Mr. Mellon.

MRS. KLOTZ: That's what Drew Pearson meant. He was thinking of the next four years.

MR. GASTON: That cannot be right, can it?

H.M.JR: I think if I serve until February or March, somebody told me, I would have served longer than anyone else.

MR. WHITE: I thought it was eleven years, three months.

MR. D.W.BELL: That is eleven years and ten months.

MR. GASTON: This is practically twelve years.

MRS. KLOTZ: Didn't he mention refugees?

H.M.JR: Did he use that?

MR. DuBOIS: He mentioned refugees being turned back by the British and not being allowed to go by Palestine.

H.M.JR: How did that come about?

MR. LUXFORD: That he used the story?

H.M.JR: How did he put it? Whom was it for?

MR. LUXFORD: He said he had just received word that several hundred refugees from, I think, Bulgaria, had been turned back at the Turkish borders and were being shipped back into Bulgaria as a result of the British reversing their position and not allowing them to have visas into Palestine, and that Steinhardt was up in the air about it and angry about it, but so far we wouldn't know what was happening.

MR. WHITE: How did Secretary Morgenthau's name get in that?

MR. LUXFORD: That was a separate announcement of Secretary Morgenthau.

MRS. KLOTZ: The Secretary asked what else did Drew Pearson say?

H.M.JR: That was of interest to the Treasury, and they seemed to think this refugee story was of interest.

MR. D.W.BELL: This fellow was inactive a number of months. He might have meant that.

H.M.JR: I got the notion it's February or March of this year. I am taking very good care of my health until then. How far did I get?

MR. LUXFORD: To me. You passed me.

MR. DuBOIS: I haven't anything.

MR. O'CONNELL: I haven't anything.

H.M.JR: Mr. Gaston?

MR. GASTON: I think not.

H.M.JR: I will let you all catch your breath a little bit, and I have this meeting which was supposed to take place yesterday. Could we get it organized say about five minutes past eleven? Fifteen minutes from now?

MR. WHITE: Yes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 1, 1945

TO Secretary Morgenthau
FROM Charles Bell *CBM*

I find that your alternate on the Board of the National Gallery of Art should have the title of Under Secretary, Assistant Secretary, or Assistant to the Secretary and be able to sign as an Acting Secretary in your stead. This is essential in order to make the minutes of meetings legal. There would be no difficulty, however, in having Mrs. Morgenthau designated as an observer, and as such she could attend all meetings and participate in the business of the Gallery generally.

Mr. Finley, as well as Huntington Cairns, expressed keen interest in Mrs. Morgenthau's designation as an observer because of her interest in art. Nevertheless, we would have to name an alternate for you replacing Mr. Sullivan, which alternate must have authority to sign as an Acting Secretary.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 1, 1945

TO Secretary Morgenthau
FROM Charles Bell

Secretary Albert Gallatin served under the Jefferson and Madison administrations for a total consecutive period of 11 years, 11 months, and 4 days, which represents the longest period served by any Secretary of the Treasury.

You are next in length of service as Secretary with 11 years as of yesterday, December 31, 1944, having received a recess appointment on January 1, 1934. Confirmation by the Senate followed on January 8, 1934, and you were given the final oath of office on January 15, 1934.

You passed Secretary Mellon's record of 10 years, 11 months, and 9 days on December 10, 1944. Until November 5, 1945, when you will pass the Gallatin record, your only claim to a record is that you have served longest under one President.

Treasury Department
Division of Monetary Research

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Date January 8 19 45

Mrs. McHugh

I discussed these matters
orally with the Secretary on the
train to Baltimore (January 2nd).

H.D.W.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 1, 1945

TO Secretary Morgenthau

FROM Mr. White

Subject: Some matters that need your attention this week.

1. There remain several items to be cleared up from the U. K. negotiations on Lend-Lease for Phase 2. Two letters await your signature which you will probably want discussed with you before signing.

2. There are a number of decisions that need to be made with reference to Bretton Woods. You set aside Wednesday, 9:30. A list of the matters to be taken up at that meeting is appended.

3. Meeting with the Italian Mission to wind up their stay here. This meeting should be postponed to the early part of next week since we have not yet received a reply from State Department.

4. Discussion on the War Department recommendations for treatment of war criminals (memorandum sent to you by Mr. McCloy).

5. You may want to set aside some time this week or next to see (1) Mr. Glendinning, who just returned from London; (2) Mr. Olsen, who returned several weeks ago from Sweden, (3) Mr. Gunter, who returned some time ago from Cairo, Iran, etc. and (4) Mr. Taylor, who should be back from Greece any day.

6. You will probably want to set aside a half hour for discussion on the German "book" prior to Mr. Canfield's visit.

7. We should like to discuss with you the question you raised about reopening the mines in the occupied German territory.

List of Matters to be taken up at Meeting
Wednesday, January 3, 9:30 a.m.

1. Legislation on the Fund and Bank.
2. Meeting with Chairmen of the Congressional Committees that will handle the legislation.
3. Discussion with representatives of banking groups on Thursday, January 4.
4. A meeting of the U.S. Delegation to the Bretton Woods Conference to inform them of the legislation.
5. Requests for speakers on the Bretton Woods Conference. Will you be able to make any addresses?
6. Publication of material prepared in the Treasury on the Bretton Woods program.
7. Should we hold a one-day meeting of representatives of various organizations cooperating with us on Bretton Woods to explain the program to them?
8. Program for additional publicity.

January 1, 1945
9:44 a.m.

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HMJr: Hello.

Operator: Mr. Stettinius won't be in until about noon. Mr. Brown is on the wire.

HMJr: All right.

J. E. Brown: Hello.

HMJr: Mr. Brown

B: Good morning, sir.

HMJr: Good morning. Oh, a week or ten days ago, Mr. Stettinius said that he would assign somebody who would look after me on requested information that I wanted. He mentioned somebody who is also going to look after the White House -- if you'll mention the name I -- I'd remember it.

B: Bohlen?

HMJr: Bohlen.

B: Uh huh.

HMJr: Now, there are two things that I want and I don't know whether he wants to send Bohlen over -- I would like to have it today if possible.

B: Uh huh. Uh huh.

HMJr: Now, the first thing is this: If there are any communications from Mr. Harriman in regard to General DeGaulle's visit in Russia

B: Uh huh.

HMJr: I -- I would like to see those dispatches.

B: Yes. That's any messages from Harriman re DeGaulle's visit to Russia.

HMJr: Right. That's one. And two: I'd like to be brought up to date on where we stand vis-a-vis the Argentine.

B: Uh huh. Uh huh.

HMJr: Those two things.

B: All right, sir.

HMJr: Will you tell Mr. Stettinius when he comes?

B: Yes, I'll be -- I'll be very glad to do that.

HMJr: And then however he's going to handle it, I just wanted to remind him that he mentioned Bohlen. But however he's going to handle it, if you can let me know, I'll set time aside.

B: Yes. All right, sir. Fine.

HMJr: Thank you.

B: I'll pass that message along, sir.

HMJr: Thank you.

B: Thank you, sir.

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January 1, 1945
11:14 a.m.

Secretary
Stettinius: Hello.

HMJr: Hello.

S: Henry.

HMJr: Happy New Year!

S: Happy New Year to you, sir. The young gentleman who is to keep you informed is Mr. Charles Yost.

HMJr: Yost?

S: Y-o-s-t. And Mr. Charles Yost knows all the answers.

HMJr: Smart boy.

S: He's one -- he's one squarely next to me and -- and is -- sits in our Staff Committee.

HMJr: I see.

S: And is one of the best informed young men that I know of in Washington on matters pertaining to foreign affairs. He'll be over any time that you would like to have him come today on the Argentine and the Franco-Russian relation thing.

HMJr: Well, I think I'll ask him, unless that interferes with something you have, at nine-thirty tomorrow morning.

S: Tomorrow morning, what time?

HMJr: Nine-thirty?

S: Nine-thirty tomorrow morning he'll be in your office and, Henry

HMJr: Yes.

S: you just set a time -- any time about once a -- any time you want him -- every week or so, to come on over and then if you could have anybody give him some advance information as to -- as to the particular items that you'd like to know about

HMJr: Well, now, for instance, next time I want to him do -- will I contact him direct or shall I do it through your office?

S: You just have your secretary phone Yost and tell Yost when you'd like to have him and he'll come. You don't have to do it -- from now on it's a direct relationship between you and him.

HMJr: All right. Is he a foreign -- is he a regular....

S: He's a foreign service officer -- one of our best trusted and you'll be tremendously pleased with this boy from the standpoint of his -- his grasp and the -- he's an excellent reporter and puts things up in a very crisp way and he takes -- you'll -- he'll talk for about three minutes and you'll have the whole story.

HMJr: I see.

S: Sometimes what people take twenty-five minutes to say.

HMJr: Right. Right. I'm very much obliged.

S: Right, Henry.

HMJr: I'll be seeing you.

S: Thank you.

January 1, 1945⁴⁷
3:47 p.m.

Dorothy
Brady:

Mr. Secretary, Happy New Year!

HMJr:

Same to you. Have you got a headache?

B:

No, sir. (Laughs)

HMJr:

Good.

B:

Everything was very quiet. How's everything with you?

HMJr:

Fine.

B:

Did you have a nice Christmas?

HMJr:

Very nice.

B:

And was your boy home?

HMJr:

No, no. We've got one boy with Patton and one boy out in the Pacific.

B:

Oh.

HMJr:

So they're pretty far away.

B:

Oh, dear. Well, is Mrs. Morgenthau all right?

HMJr:

Pretty good.

B:

Oh.

HMJr:

Pretty good.

B:

That's good.

HMJr:

Dorothy, do you know anything about this J. Franklin Carter?

B:

Yes, sir.

HMJr:

For God's sake, what is that, another appendage you have over there?

B:

Oh, I'll tell you, he, for all of last year -- or two -- he's been making these reports for the President on various and sundry things.

HMJr:

Yes.

B: And the President reads them and when he sees that it says Treasury or Air Corps or whatever it is, he has us call him up and say, "Well, take it up with them." You see?

HMJr: I see.

B: He does give the President these reports and there is some kind of a small appropriation for him to do this work.

HMJr: Well, the point is if you'd tell Grace or whoever it is -- and he comes over now and tries to tell me -- see? -- that this pilfering that the soldiers have been doing in France in some way or other is our responsibility. See?

B: Uh huh.

HMJr: Well, hell, I'm not going to take that.

B: Oh, I know.

HMJr: And I told him to go -- it was up to Mr. Stimson.

B: Yeah.

HMJr: If Mr. Stimson wasn't satisfied, he should get in touch with me.

B: Uh huh.

HMJr: But, after all, that's a pretty wide order, you know.

B: I know. I know, and

HMJr: I just wanted you girls to know.

B: I know. We've been getting various and sundry complaints like that. He must go and say, "The President ordered me to do thus and so."

HMJr: Well, he wouldn't tell what it was and that the President ordered him to come and see me.

B: Yes, Well, I know -- well, I'll tell Grace about it, Mr. Secretary, and see what she can do.

HMJr: It's a silly piece of business if you don't mind my saying so.

B: I know it. You're perfectly right; I know it.

HMJr: Because the man doesn't even know that this thing is a matter -- it's Mr. Stimson's responsibility.

B: I know. Well, it seems that he gets into an awful lot of things.

HMJr: Well, I know you girls well enough, so I thought I'd call you up.

B: Well, thank you, sir.

HMJr: Thank you.

B: I'll pass it on.

HMJr: Right.

January 1, 1945
4:00 p.m.

MURRAY BILL

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

H.M.JR: Now, don't you people have anything to do? I thought Pehle was busy moaning and groaning.

MR. D.W. BELL: I might tell you we just this minute finished with the draft of the Budget Message, and the last three or four pages--five pages of the proposed message contains a national budget which takes in the whole economy of the American people. Why the President should want to submit that at this time, I don't know, but anyway as I told you this morning, Senator Murray has introduced a bill, the title of which is "To establish a national policy and program for assuring continuing full employment," and he wanted a report on that bill today so that he could--when he calls--perfect it and introduce it into Congress tomorrow and begin hearings on it as soon as possible.

We say in the draft of the report which we had Saturday, "The Treasury Department is in complete accord with the principles upon which the proposed bill is premised", and then it goes and enumerates the various principles.

H.M.JR: I would like to know what they are.

MR. D.W. BELL: I want you to read the letter, it is a little over two pages, and there is an alternate letter--Mr. Blough has drafted a paragraph.

H.M.JR: Let somebody else read the two pages. Somebody with a nice voice.

MR. D.W. BELL: Would you like to read it or have me read it out loud?

MR. C.S. BELL: My voice is no good.

MR. D.W. BELL: Go ahead and read it.

H.M.JR: What do you think an Administrative Assistant is for? (Laughter)

MR. D.W. BELL: Clerk in a court.

(Mr. C. S. Bell reads draft of letter to Senator Murray)

"Further reference is made to your letter of December 16, requesting the views of the Treasury Department on a draft of proposed bill 'To establish a national policy and program for assuring continuing full employment.'

"This proposal would direct the President to submit annually to the Congress a National Production and Employment Budget for the ensuing fiscal year or years, to be known as the 'National Budget', in which would be included data concerning the number of jobs needed to assure continuing full employment, the estimated dollar volume of the gross national product required to provide such jobs, the estimated volume of public and private investment and other expenditures necessary to assure a full employment volume of the gross national product, and the estimated prospective of public and private investment and expenditure. To the extent that prospective public and private

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investment and expenditure were found to be less than that necessary to assure full employment, the President would be required to set forth a general program for encouraging increased non-Federal investment and other expenditure, particularly such investment and expenditure as may produce increased employment in private enterprises, together with any necessary legislative recommendations. Such a program might include, but need not be limited to, the presentation of current and projected Federal policies and activities with reference to banking and currency, monopoly and competition, wages and working conditions, foreign trade and investment, agriculture, taxation, social security, the development of natural resources, and such other topics as may directly or indirectly affect the level of non-Federal investment and other expenditure. To the extent that increased non-Federal investment and expenditure resulting from that program should be expected to prove insufficient to provide a full employment volume of the gross national product, the President would be required to submit a special public investment and expenditure program designed to bring the aggregate volume of public and private investment and expenditure up to the level required to assure such full employment.

"The proposal would charge the Bureau of the Budget with the responsibility of preparing for the President, with the cooperation and assistance of the several departments and agencies, the information, estimates and programs called for in the National Budget. It would also establish a Congressional Joint Committee on the Budget which would be directed to study the information and estimates transmitted by the President to the Congress in both the regular budget and the National Budget and to submit its recommendations as to a general policy on the total volume of Federal expenditures

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and other investments, the total receipts collected from taxes and other revenue, and the volume of borrowings or debt retirement for the purpose of serving as a guide to the individual committees of Congress dealing with such subjects.

"You have indicated that the proposed bill, in perfected form, is expected to be introduced at the beginning of the next session of the Congress, and have requested our views and comments on the approach set forth herein. The Treasury Department is in complete accord with the principles upon which the proposed bill is premised. These principles are (1) that every American able and willing to work has the right to a useful and remunerative job; (2) that it is the responsibility of the Federal Government to guarantee that right by assuring continuing full employment; and (3) that in assuring continuing full employment, the Federal Government should first endeavor to encourage the highest feasible levels of employment by private enterprise and, to the extent that such measures may not be adequate, to provide whatever volume of Federal investment and other expenditure that may be needed to assure continuing full employment.--"

H.M.JR: Isn't that so-called pump-priming?

MR. D.W. BELL: That is what I think it will be called before long.

MR. O'CONNELL: It includes that.

MR. C.S. BELL: It has the pump-priming elements in the bill. It is not called WPA but it is there. FWA . It is not called PWA.

MR. O'CONNELL: One of the editorials took that position. I think the Washington Post.

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H.M.JR: Am I for pump-priming?

MR. LUXFORD: Sure.

H.M.JR: Who says so?

MR. LUXFORD: The President and you.

MR. D.W. BELL: We are here to find out.

H.M.JR: When White brings Bernstein in I should worry.

MR. BERNSTEIN: I sit on his left, Mr. Secretary.

H.M.JR: Bernstein in the center and White a little to the right, the way I look at it. All right. I am worried.

(Mr. C. S. Bell continues reading draft of letter to Senator Murray)

"We believe, however, that much more study than has been possible in a limited time is desirable before commenting upon the adequacy of the machinery which would be established by the bill to implement these basic principles.

"In view of your desire that our comments reach you before the next session of the Congress, it has not been possible to submit this report to the Bureau of the Budget, and therefore no commitment can be made as to the relationship of the proposal to the program of the President."

MR. D.W. BELL: In that paragraph--I think we said, "We are in full accord with the principles." Is that right?

MR. C.S. BELL: That is right.

MR. D.W. BELL: In complete accord with the principles instigated in the bill. In discussing it, the question was raised--and I raised it--as to whether this would not be labeled by our enemies as a pump-priming bill and whether you should at this time, with War Financing ahead of you, be in favor of a pump-priming bill and I questioned whether you ought to say that you are "In complete accord with the principles" and then enumerate those principles.

Roy Blough has undertaken to write a substitute paragraph for that one, and said you have indicated that the proposed bill in effective form is expected to be introduced at the beginning of the next session of Congress and have requested our views and comments on the approach set forth therein. The Treasury Department is in full accord with him on the basic ideas of the bill. He said they are in complete accord with the principles.

Among these are the objective of achieving a continuing high level of employment in the post-war years. It's recognized that if that objective is to be achieved, Federal economic and fiscal policy must make a vital contribution through encouragement of private expenditure and investment and at times through direct governmental action, and its emphasis on advancing, planning and the coordination of economic and fiscal policies among executive departments and agencies and among the committees of Congress. We believe, however, that much more study than has been possible in the limited time is desirable before commenting further on methods and machinery which would be established by the bill. I think that is probably better. I am not sure you should even go that far, but--

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H.M.JR: Has everybody in the room made up their minds as to whether we should support the bill and no arguments are going to have any effect?

MR. O'CONNELL: Are you ready for the poll?

MR. LUXFORD: The issue not being whether you are going to support the bill, but whether you are going to support the objectives of the bill.

H.M.JR: Why don't we say, "The President in the Budget Message is going to be for the President's Budget Message?"

MR. D.W. BELL: You are supporting the Murray Bill in the Message.

MR. GASTON: Is Murray asking us to comment on a bill he is about to introduce? This is a bill attempting to create an extremely important domestic policy. It is certainly not anything on which any individual department should go out on a limb and express its views. It has to be a matter of Cabinet determination and I don't think any letter ought to be written which is not passed on as to whether it checks or not with government policy.

H.M.JR: Herbert, this is the Roosevelt Administration!

MR. GASTON: I am in favor of a little coordination. I am for the general policy. I would express myself much the same way as Roy has in this substitute paragraph, but I just don't think that it is a thing on which we ought to express ourselves at the request of an individual Senator who is introducing the bill.

MR. O'CONNELL: He is chairman of a committee and we haven't expressed ourselves with respect to the predecessor of this bill.

MR. GASTON: Don't you think the President has

some function to perform as coordinator of a policy?
I think so.

H.M.JR: You are so radical, Herb. The idea is
we should talk things over.

MR. D.W. BELL: That's the bunk--function of the
Budget. (Laughter)

MR. GASTON: It is the function of the Budget--
I wouldn't say on this level--it is their function to
ascertain and then to correlate, but here is something
on which you might expect the President to concentrate
and he never has and he might, as you know, even ask
some of his Cabinet.

H.M.JR: I think Herb is right, I am just kidding.
But why do we say we are going out on the end of a
limb and at the end say we haven't had time to consult
the Budget, so we are shooting this thing right up?
The last thing seems too out of place.

MR. D.W. BELL: He set a deadline of today. He
set a deadline last Friday and I suppose most departments
did not meet it and then he extended it to today, and
what he is after is enough information to perfect the
bill so that he can reintroduce it and start hearings
on it early this session. We are merely trying to
meet that deadline with some sort of report.

H.M.JR: Before the election I was for sixty
million jobs, see? After all, election is over and
we must take a fresh look at these things, and well,
a fellow couldn't know where he is--

MR. WHITE: Couldn't we draw a distinction between
two things? One is the propriety of writing a comment
on this bill--and I think Herbert is right on that, but
I should feel very badly if that obscured the much
larger and much more important issue, or if it seemed
to constitute a sort of offhand disapproval of what
this bill contains. If we can separate those

-9-

two problems, I think we can come to an agreement much more quickly. We don't want to do anything to prejudice our attitude on problems raised by this bill. It is one of the most important bills ever presented; although it may not be either desirable or necessary for us to comment on it, I don't think we ought to assume--we don't want to give Murray the idea we are disapproving of the principles.

MR. D.W. BELL: I don't want to give the idea the Secretary is disapproving, but I don't think at this stage of the game you want to let a lot of newspapers accuse the Secretary of coming out here, at this stage of the war, with a spending program, and I am afraid that is what he will get.

MR. GASTON: It is like a man proposing to introduce a bill saying, "Congress declares we shall follow in principle in the final peace settlement with Germany and Japan," and then he sends that up here and says, "Treasury, what do you think about it," and, "Department of Commerce, what do you think?" Obviously we are not going to reply to that kind of a thing or to this. The most we should do is send the letter over to the Bureau of the Budget and say, "What about it? Do you want to send this to Murray?"

MR. DuBOIS: That depends on whether we want to reply. Of course, we don't have to.

MR. GASTON: The point is we ought not to reply.

MR. LUXFORD: I would like to stop at that point for a moment. You can pick out fifteen complete reasons why you should take no action here, and against all those I suggest that there is only one good reason why you should and that is, do you want to help this movement? It is not going to have an easy time in Congress. There are going to be many people that are going to be opposed to it. The question is whether you want to throw your weight as Secretary of the Treasury on the side of getting this bill rolling.

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H.M.JR: Following Harry White's Bretton Woods thing, I move from the chair to the floor that after all, before I can comment, I want to know where a man like Will Clayton stands on a thing like this.

MR. LUXFORD: If I can guarantee he is opposed to it, would you be in favor of it? (Laughter)

MR. BERNSTEIN: He will say we ought not to commit ourselves. See what our future cycle will be five years from now.

MR. GASTON: The President has made up his mind on the thing and put it in the Budget Message.

MR. D.W. BELL: No, no, that is Holmes' draft. It hasn't yet gone to the President.

H.M.JR: May I just say this? I am kidding, I can't be serious all day long, even on a serious subject like this. I think that this matter involves a lot of money and I think that the Treasury Department, without really knowing what the Budget thinks or what the President thinks officially on a matter that I have always taken the attitude, certainly with the Treasury's own report, if we don't do anything before the President's Budget Message and before the President's message on the state of the Nation --what is really happening is that Murray is trying to get the jump on the President. Particularly since the President-- now if Murray gets this thing and takes credence away from the President--

MR. GASTON: Murray introduced it at the last session, didn't he?

H.M.JR: He gives this thing to me and gives out to the President tomorrow and it takes the bloom off the President's recommendation.

MR. GASTON: It is worse than that.

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MR. LUXFORD: I don't believe that, Mr. Secretary I think it means he has it rolling--especially with the Treasury whose record on this kind of issue isn't good.

H.M.JR: Sir!

MR. LUXFORD: Yes, sir, I am saying that.

MR. GASTON: If the President gives us permission, then we can do this. Otherwise, it is absurd.

MR. PEHLE: That is the thing we always raised.

MR. WHITE: Lux, I don't quite see how the Treasury is called upon to come out for any bill. I don't care what.

MR. LUXFORD: We don't come out for this.

MR. PEHLE: It says we are in accord with the principles.

MR. WHITE: Here is a Senator, chairman of a committee, asking the Treasury Department what it thinks of a very poor bill, an extremely poor bill, and the Treasury is replying without knowing what the Administration line is going to be and what the President wants. I think we ought to fight for something close to this bill. There are some things in here I personally don't like. We ought to fight for it but the place to fight is not through that way but within the Government.

H.M.JR: I am sorry Luxford wants to advocate something that would take the bloom off something we think the President is going to do a couple of days later.

MR. LUXFORD: I don't see that to be the situation at all, Mr. Secretary.

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H.M.JR: I am surprised!

MR. PEHLE: It not only won't take the bloom off the President, it will show that the President is not only talking but meaning what he says, because he has a department working in the same direction.

MR. LUXFORD: The President got the bloom in the campaign. What are you saying in this report? I am in favor of sixty million jobs.

H.M.JR: But you don't say that.

MR. LUXFORD: That is what you are saying.

H.M.JR: I can't tell which side Harry is on.

MR. WHITE: I want to separate the question.

H.M.JR: Which side of Bernstein is he on?

MR. PEHLE: Way to the right of Bernstein.

H.M.JR: Do you--

MR. WHITE: I can state very clearly I am for a bill very close to this but I don't think that the way we ought to fight for this bill and the contents is to answer at this time Murray's letter in that way.

MR. GASTON: I agree completely.

MR. WHITE: I spent months on this in fighting for it, both within the Government and outside of it, and within the Treasury, but I don't think this is the time.

MR. D.W. BELL: We are going to have plenty of opportunity to comment on the new bill.

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MR. PEHLE: It seems to me you are with this in principle only.

MR. LUXFORD: You can always find excuses why this isn't the time to come out for it.

H.M.JR: That's why I picked Harry to contact the State Department.

MR. WHITE: I don't like to be accused of being diplomatic in this. I think there is a clear assignment issue here. In fact, I think that if you, the Treasury, were to come out for this bill now--

MR. PEHLE: The Treasury does not come out for this bill.

MR. WHITE: I heard it.

MR. PEHLE: We would be for the principles, but I don't know whether this is the machinery to carry it out.

MR. WHITE: Why does he want to know whether the Treasury is for it? The push in the right direction is for somebody to call up and say, "This is a splendid bill", and the Secretary could do that over the phone.

MR. PEHLE: That is an alternative--to get Murray down here and give Murray encouragement in the direction he is going. No, I am serious.

H.M.JR: You mean I would listen?

MR. WHITE: That would be all right, too. (Laughter) I don't think you would say what we would be likely to say, but I do think it might be handled orally and I think he needs encouragement and I think that this bill represents what you have been fighting for.

MR. D.W. BELL: Supposing we just ignored it and didn't get around to answering it before week after next, say, after the Budget Message goes up?

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MR. LUXFORD: And I suspect if that happens, it is going to come out that the Secretary was again asked, and he didn't report.

MR. WHITE: That is not the alternative. The alternative--if I thought for a moment the Secretary was to call Senator Murray--that is much better than writing him.

H.M.JR: When was the time before--

MR. LUXFORD: Yes.

H.M.JR: That the Secretary didn't--

MR. LUXFORD: I just take this stand--and it is a thing I am not alone in taking. I just read last week Laski's comment and for him to identify you with Jones and Crowley in his Cabinet!

H.M.JR: You are not answering my question. Just because he is ignorant!

MR. LUXFORD: There are a lot of people that feel the same way.

H.M.JR: You are not answering my question. You said the Secretary again doesn't state his position on a bill. What is the other bill?

MR. LUXFORD: If I said that then let me correct my statement. What I would like to say is that you should take an alternative action here and failure to take that action will be construed as hostility.

H.M.JR: That is different.

MR. D.W. BELL: I don't think that.

MR. O'CONNELL: May I make a suggestion on the mechanical side? If you don't want to send either

- 15 -

type of letter, I thought we could agree we would be within our rights to send a letter in the usual way to the Bureau of the Budget and ask for advice as to whether it is in accord with the program of the President. The thing that has been added to what I knew Saturday is what you said at the beginning of the conference. You said something to the effect that there is something on the same subject in the Budget Message, some indication was made here that we might be blanketing the President. In the absence of something in the Budget Message I don't know why we should not agree on one of these drafts of letters and send it to Senator Murray. With the Budget Message coming out, the mere thought we might blanket it would be a persuasive reason for not sending him a letter, but we could adopt Herbert's suggestion about substituting a paragraph, sending a form of a letter we agree upon to the Bureau of the Budget and get a clearance from it which would take us until after the Budget Message and then let the Secretary talk to Senator Murray if he wishes.

MR. D.W.BELL: The Budget Bureau got one of these letters, and as well as Jones knew, it had not gone out-- the reply, I mean.

H.M.JR: Do you want to say something?

MR. BLOUGH: I would like to say two things. First, the draft of the Budget Message, which has not yet cleared the President, does not really commit the President to the two basic things in this bill, one of which is a guarantee, not of social security, not of a minimum subsistence, not any of those, but a guarantee of jobs, and the second thing is a promise to use deficit spending to pay for those jobs.

Now, there is nothing in the Budget Message which supports either of those two ideas. That is the first point. The second point is that Mr. Jones indicated what kind of a letter had gone out of his Division in response to the Murray letter, and his Division contains Gerhardt Colm, who has a lot to do with this bill, in favor of it, if I am not badly mistaken; and he told me he could talk with them, and his letter is apparently going to be

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a very innocuous one to the effect that this is certainly a subject that ought to be talked about, studied and discussed at length, and not taking a position in favor of it.

H.M.JR: This is what I think. You people, being influenced by White's conservative views in this matter, I think that I will call up Senator Murray and say we of the Treasury are very much interested in this bill and would like to have an opportunity to discuss it with him, but we don't feel we should write a report in advance of the release of the President's Budget Message on a matter which is so much involved in expenditures.

MR. WHITE: I wonder whether you have to make the last part of the statement. Why couldn't you say you are interested and would like to talk it over with him at your earliest convenience, and that wouldn't be until after the Budget Message?

MR. BLOUGH: I would leave out the Budget Message.

H.M.JR: Shall I call him? Lux, you have to be involved in these.

MR. WHITE: I think it is terribly important that somebody take the leadership in attempting to carry out the main principle of the President's promises and as you run down it, there could be no choice but yourself to take the leadership and that is not enforcing Senate, but pushing, as you can probably do.

H.M.JR: Are you running down the Cabinet?

MR. WHITE: I didn't run them down.

MRS. KLOTZ: They run themselves down.

H.M.JR: The way these boys kid me they must be thinking "Shades of Jerome Frank." It is all right. You boys have a good time.

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MR. WHITE: "Shades of Jerome Frank?"

H.M.JR: When I made a speech in November something of 1937, I think, when the Budget was actually balanced, Jerome Frank said somebody in the room with him said it made him so sick to his stomach to listen to me that he had to turn the thing off, just the idea that the Budget had to be balanced.

(The Secretary places a call to Senator Murray)

Why don't we have Professor Hansen join us, getting the thing right from the horse's mouth?

MR. WHITE: We are not going to be satisfied with having the thing damaged, either with names or with illustrations. We are going to fight for something like this, Mr. Secretary.

H.M.JR: We are going to fight for this, something like this.

MR. WHITE: There are a few things in here I don't like.

MR. PEHLE: I must say!

H.M.JR: I am a little worried about Harry.

MR. PEHLE: I am too. Let's see him outside.

H.M.JR: I am worried because Joe DuBois has been quiet.

MR. DuBOIS: I was so disappointed in Harry, I couldn't talk. (Laughter)

MR. WHITE: I must be getting good.

H.M.JR: Bernstein, we haven't heard from North Carolina.

MR. BERNSTEIN: I think it would be a good policy to let Senator Murray know we approve of what he is trying

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to do and wish him well. I think it would be nice when he comes down if you offered one of our lawyers to help him draft the bill.

H.M.JR: That is strong meat.

MR. LUXFORD: We had lunch today with Wagner's Secretary, Delman, and there was a good deal of talk going on about making this the focal point for a real campaign for full employment, Wagner's Committee, Kilgore's Committee and Murray's Committee, and that I don't think anybody is thinking in terms of the machinery here being perfect. The idea--

H.M.JR: Send him (Senator Murray) a telegram so he knows tonight. I will just dictate a telegram.

MR. D.W. BELL: He will be here tomorrow.

H.M.JR: I don't know, there isn't anybody in his office, see? It is four thirty-seven.

MR. D.W. BELL: They don't work overtime do they?

H.M.JR: Will one of you gentlemen put a chair up here for Mrs. McHugh, please?

We have been so busy worrying about the internal situation in China, France, Greece, England and Russia that we haven't had time to worry about our own.

(The Secretary dictates telegram to Mrs. McHugh)

All right, anybody object to that?

MR. PEHLE: I don't see how anybody could.

H.M.JR: White, do you object?

MR. WHITE: You should say "stop."

MR. PEHLE: Can't you say in which I am very interested?

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H.M.JR: Oh well, the fact I am sending him a telegram--in fact I signed my name to it.

MR. WHITE: Not as well as you would have if you said I was very interested.

STANDARD FORM No. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

SENATOR JAMES E. MURRAY,
UNITED STATES SENATE OFFICE BUILDING
WASHINGTON, D.C.

TRIED UNSUCCESSFULLY TO REACH YOU ON THE TELEPHONE THIS AFTERNOON.
AT YOUR CONVENIENCE, WOULD LIKE TO DISCUSS WITH YOU YOUR PROPOSED
BILL TO ESTABLISH A NATIONAL POLICY AND PROGRAM FOR ASSURING
CONTINUED FULL EMPLOYMENT.

HENRY MORGENTHAU, JR.

TREASURY DEPARTMENT
WASHINGTON

69

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

JANUARY 1, 1945

January 1, 1945

My dear Mr. Stettinius:

I would appreciate it if you would send the following cable to The Right Honorable Winston Churchill and Mrs. Churchill for me:

"Deeply appreciate your thinking of us at this time. We wish you a happier and victorious New Year.

Henry and Elinor Morgenthau."

(Signed) Henry Morgenthau, Jr.

Yours sincerely,

Honorable Edward R. Stettinius, Jr.,
Secretary of State,
Washington, D. C.

Treasury Department

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TELEGRAPH OFFICE

Q WN FN 20 RCA

TREASURY OGGS 1328 30

MR HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY
TREASURY DEPT
WASHINGTON

1945 JAN 1 AM 11 24

ALL GOOD WISHES FOR THE NEWYEAR

WINSTON CLEMENTINE CHURCHILL

1122AM JAN1

January 1, 1945.

Dear Ted:

I had a very warm and comfortable feeling today at finding not only that the total of the Sixth loan had gone to 21 billions but that we had made good both on the E's and the total of individuals.

You will remember that as to these I went out slightly on a limb in my last speech.

I took your word for it and again your word was as good as your bond - salesmanship.

You really deserve a row of ribbons and medals to hang on your coat. But this is the best I can do.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. Theodore R. Gamble
Director, War Finance Division
Treasury Department
Washington 25, D.C.

HEG/mah



January 1, 1945.

Dear Mr. Gamble:

I am delighted to have the opportunity to congratulate you and those who work with you on the smashing success of another war loan.

The figures that I have today show that the E-bond sales have topped the quota of two and a half billions by a good margin and that the sales to individuals are well over the five billion mark that we set.

I am particularly delighted by these results as well as by the more spectacular fact that, whereas we set out to raise 14 billions, we have actually raised over 21 billions, more than half again as much as our quota.

Your workers, especially the army of volunteers which is doing the big end of the job, deserve again not merely thanks but unstinted praise for their effectiveness.

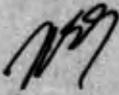
I salute them, the members of your full-time staff and you for another great and inspiring success.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. Theodore R. Gamble
Director, War Finance Division
Treasury Department
Washington 25, D.C.

HEG/may



JAN 1 1945

Dear Mr. Hutchinson:

I wish to thank you for your interesting letter of December 23rd. I appreciate what you have to say about Ted Gamble.

All of us in the Treasury enjoyed the relationship with the boys of the three wire services assigned to cover the Sixth War Loan drive, and, after having watched this operation throughout the campaign, I can quite agree with you that it was the most efficient handling of any of our important War Loans from the point of view of the press.

Our War Loan drives, by necessity, are so far-reaching that without the good help of the press services, I am sure we would not be able to generate sufficient knowledge of what these operations are all about to do the job. For the very good help you have given us in making this possible, I want to thank you.

With all good wishes for the coming year, I am

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. W. K. Hutchinson
Washington Editor
International News Service
602 Times-Herald Building
Washington 5, D. C.

TRG:rfp:shh
12/30/44

INTERNATIONAL NEWS SERVICE
235 EAST 45TH STREET
NEW YORK 17, N. Y.

*Photostat of memo
& carbons of
reply to Mr. Gamble*

THE WASHINGTON BUREAU
602 TIMES-HERALD BUILDING

December 23, 1944.
WASHINGTON 5, D. C.

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

Dear Mr. Secretary:

As a veteran newspaperman who has watched news come and go in this capital for about 23 years, may I extend my personal congratulations to you on the handling of publicity for the Sixth War Loan Drive. Your choice of Mr. Ted R. Gamble as National Director of the Treasury Department's War Finance Division was a masterstroke and his choice of assistants excellent.

You have hit the jackpot in the War Loan Drive even to going over the top eventually in E-bond sales and all this in the pre-Christmas season. At the outset, I wondered whether you would win in competition with Santa Claus but you did.

I think I can honestly say that the war loan publicity drive was handled more intelligently, more efficiently and with far more color than any other government press drive in all my time in Washington. So congratulations again to you and all other Treasury men who participated in it.

My Seasons greetings to you.

Sincerely,
W. K. Hutchinson
W. K. Hutchinson
Washington editor.

*Rec'd 12/29/44
SPM-*

JAN 1 1945

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Dear Jim:

While I have written you several letters concerning the help that we have had from many Bureaus within the Navy Department in support of our War Loan drives, I wish to officially record our thanks and appreciation for the services of Lt. Commander Frank J. Courtney.

You were kind enough to assign Courtney as liaison between the Treasury and Navy for the War Loan drive in answer to our request that he be given this assignment because of his experience in a previous War Loan drive. From our point of view, he has more than justified this assignment. He was a tireless, courteous and efficient helper throughout the entire period of the Loan, and I thought that I should let you know that he had turned in this kind of a job.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable James V. Forrestal
Secretary of the Navy
Washington, D. C.

TRG:RFP:hah
12/30/44

JAN 1 1945

Dear Mr. White:

I am sorry that you are leaving the War Finance Program. I want you to know that the Treasury appreciates very greatly your services as Vice Chairman of the New York War Finance Committee.

Our War Finance Program is important work and though your own affairs take you back to your position, I trust we shall have the benefit of your services, if your time will permit, in our future program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William R. White
Guaranty Trust Company
140 Broadway
New York, New York

CC: Mr. Gehle
New York, N. Y.

Typed 12/29/44
JMM:TRG:ag

JAN 1 1945

Dear Mr. Reid:

I want you to know how very much we here at the Treasury appreciate the editorial "Home Front Victory" which appeared in the Herald Tribune, December 18.

Frank Tripp, Chairman of the Allied Newspaper Council, thought so much of the editorial that he had it reprinted and mailed to other newspapers throughout the Nation. I would like to have the name of the editor who wrote it so that I may express my appreciation to him also.

I want to take this opportunity to express our most sincere thanks to you and your associates for the splendid cooperation your newspaper is giving the war financing program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ogden Reid
President and Editor
New York Herald Tribune
New York, New York

SGL:CB *JH*

JAN 1 1945

Dear Mr. Saxon:

I am happy to inform you that I have, with the unanimous agreement of my staff, approved a meritorious increase of two hundred and fifty dollars in your salary. This action has been based not only upon the distinction with which you discharged your recent assignments, but also the outstanding manner in which you have consistently served the Treasury Department.

The record shows that you have demonstrated in your various assignments an exceptional degree of initiative, resourcefulness, and judgment and have not hesitated to expose yourself to personal physical danger in the fulfillment of your duties. As the Chief of the Philippine Office of Foreign Funds Control, in December 1941, you initiated a financial scorched earth program in connection with which some of your operations were carried out under enemy gunfire. In North Africa you served in territory which was subject to enemy bombardment and en route to the United States from your recent assignment your plane was shot down while crossing the Channel.

May I personally express my appreciation of your achievements and express the conviction that the measure of your future contribution will be of the same ample proportions.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. James J. Saxon,
Foreign Funds Control,
Treasury Department.

Suggested letter from the Secretary to
Mr. Saxon

I am happy to inform you that I have, with the unanimous agreement of my staff, approved a meritorious increase ^{of \$250} in your salary. This action has been based not only upon the distinction with which you discharged your recent assignments, but also the outstanding manner in which you have consistently served the Treasury Department. ^RThe record shows that you have demonstrated in your various assignments an exceptional degree of initiative, resourcefulness, and judgment and have not hesitated to expose yourself to personal physical danger in the fulfillment of your duties. As the Chief of the Philippine Office of Foreign Funds Control, in December 1941, you initiated a financial scorched earth program in connection with which some of your operations were carried out under enemy gunfire. (In North Africa you served in territory which was subject to enemy bombardment and en route to the United States from your recent assignment your plane was shot down while crossing the Channel.)

May I personally express my appreciation of your achievements and express the conviction that the measure of your future contribution will be of the same ample proportions.

JAN 1 1945

Hon. Clarence Cannon,
Chairman,
Committee on Appropriations,
The Capitol.

Dear Mr. Cannon:

I am in receipt of your letter of December 21st, announcing the designation of Mr. George Y. Harvey as First Assistant Secretary to the House Committee on Appropriations. It is also noted that Mr. Harvey will serve as Executive Secretary of the Subcommittee having jurisdiction over the Treasury Department's appropriations.

Mr. Harvey's previous association with the Treasury Subcommittee has already furnished ample opportunity for officials of this Department to recognize his capabilities and appreciate his cooperation. We are pleased, therefore, to learn that he is to serve again in this capacity. You may be assured that he will be extended every available facility for further acquainting himself with the operations and requirements of this Department.

May I take this opportunity to express the Treasury's regret at the resignation of Mr. Sheild. Like all other agencies of the Government, this Department is deeply appreciative of the splendid cooperation and unflinching assistance contributed by Mr. Sheild during his many years of illustrious service.

With best wishes, I remain

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

CRS/jm
12/28/44

4-50 71
January 1, 1945

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

(For your information; no action required.)

Word has been received from the State Department that ratifications of the treaty with France to eliminate double taxation were exchanged December 30, 1944, putting the terms of the treaty into effect as of January 1, 1945. This treaty was negotiated before the fall of France but was withheld during the German occupation and only recently submitted to the United States Senate for ratification. It is understood that the French Minister of Finance opposed the treaty but was over-ruled by De Gaulle.

A proclamation and press release will be issued by the State Department within a day or two.

Roy Blough

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 1, 1945

TO Secretary Morgenthau
FROM Mr. Hass
Subject: The Business Situation,
Week ending December 30, 1944.

Summary

Industrial production: The recent German drive has greatly intensified the pressure for increased output of war materials. The WPB is now operating on the theory that the war will go on indefinitely, and some additional war facilities are being built on that basis. The FRB adjusted index of industrial production in November was unchanged from the previous month at 232.

Civilian supplies: A widespread tightening of civilian goods supplies, and increased rationing restrictions, are now in prospect as a result of rising military requirements and shortages of manpower and materials. These shortages are likely to be accentuated by the current heavy volume of consumer buying. Department store sales in the Christmas season attained the highest level on record. Despite large earlier gains, sales in the week ended December 23 were 34 percent above year-earlier levels.

Stock market: Stock prices strengthened considerably near the end of last week. At the close on Saturday the Dow-Jones average of 65 stocks stood at the highest level of the year, and 20 percent higher than a year earlier.

Prices: Commodity prices have risen somewhat in recent weeks. In the two weeks ended December 23 the BLS general index of wholesale prices rose noticeably to a new wartime high. The index of prices received by farmers was 2 percent higher in December, reaching the highest level since September 1920.

Cost of living: A slight increase in living costs in November, due largely to higher food prices, raised the BLS cost-of-living index to the peak reached in September. The index is 1.9 percent above a year ago and is 28.3 percent above the pre-war level of June 1939.

- - - -

War requirements dominate industrial outlook

The powerful counteroffensive launched by the Germans in Western Europe has intensified the pressure for increased output of critical war materials, which had already been found necessary before the German drive began. For some time past, leading WPB officials have been complaining of lags in certain critical war production programs, and heavy expenditure of equipment and supplies in the recent furious fighting has magnified the war production problems now confronting the country. In sharp contrast to the optimistic expectations of last summer, the new year gets under way with emphasis on war production rising rather than diminishing, and reconversion and cutback problems have been relegated to the background.

Last week the Chairman of the WPB indicated that the Board was operating on the theory that the war would go on indefinitely, and some additional war facilities are to be built even though production from them will not be forthcoming for many months. New factories costing approximately \$200,000,000 are to be provided for the output of trench mortars despite the fact that they will not be able to operate before August 1945. In addition to strenuous efforts to expand output of ammunition, tires, and numerous other critical items, production schedules for such items as aircraft and merchant ships will be higher than was thought likely a short time ago.

War requirements recently necessitated an upward revision of more than 2,600 planes in the 1945 aircraft production schedule, and further increases may be necessary. Contrary to earlier expectations, the present level of merchant ship construction seems likely to be maintained in the first half of 1945, and within the past week authorization was granted for the construction of an additional 186 merchant vessels to be delivered in the last half of 1945. The machine tool industry, which earlier was concerned over the sharp drop in business from the wartime high, now is hard pressed to meet urgent demand for machine tools for the ammunition and other critical war programs.

Industrial output steady in November

Industrial activity in November, after allowance for seasonal factors, was unchanged from the previous month, with the FRB adjusted index of industrial production standing at 232. Reference to Chart 1 will show that

manufacturing output declined very slightly from October levels, but the small decrease was within the usual seasonal proportions. Although production of steel, machinery, transportation equipment and some other items declined, offsetting gains occurred in the output of explosives, small arms ammunition, gasoline, rubber, textiles and various other products.

Manpower shortages continued to be a hampering factor in production in November, particularly in the durable goods industries. Total factory employment in that month showed a further decline of 91,000 and was nearly 1.5 millions, or 10 percent, less than a year earlier, when the wartime peak in factory employment was reached. (Refer to Chart 1.) The decline in factory employment in the 12-month period, however, was about 250,000 less than the expansion in the armed services during the same time.

In contrast to the decline in factory employment in November, a greater than seasonal expansion occurred in employment in trade, reflecting heavy pre-Christmas buying, and as a consequence total non-agricultural employment was only slightly below month-earlier levels.

Severe pinch in civilian supplies impending

With industrial operations hampered by shortages of manpower and materials, and military requirements rising in many lines, civilian consumers face the prospect of more severe shortages of goods. Recent allocation orders of the WPB and rationing schedules of the OPA have shown an unmistakable trend toward tightening up in civilian goods supplies, and further restrictions are impending. Thus despite the serious civilian transportation problem, increased military requirements have made it necessary to cut tire allocations to civilians in the early part of 1945. Similarly, the expanding ammunition program is cutting into the supply of various metals available for civilians, with the WPB last week announcing that civilian lead consumption in 1945 will have to be cut to 60 percent of the 1944 level. Allotments of brass mill products for the first quarter of 1945 are being reviewed in order to cut civilian demands to a minimum.

Textile supplies for civilians are expected to become tighter as a result of heavier demands of the armed services. Following up earlier action in prohibiting all production of wool tops except to fill rated orders during the period

between December 31, 1944 and May 12, 1945, the WPB last week froze all deliveries of carded cotton yarns from January 15 until March 31, 1945. This step was taken in order to increase supplies of cotton duck, tire cord and other textiles for the armed forces.

Another order issued recently by the WPB directed the larger clothing manufacturers to produce in the first 4 months of 1945 at least as many Army overcoats as they had made in the third quarter of 1944, or 25 percent of their output of all coats, whichever is greater. As a result of increased procurement requirements for military footwear, the WPB has also ordered tanners of military quality cattle hides to produce leather for delivery to the armed services before meeting civilian demands. A probable tightening up in shoe rationing in 1945 was announced by the OPA over the week-end, and some scare buying of shoes is reported to have occurred already.

Christmas buying unusually heavy

With most signs pointing toward a tighter civilian supply situation in coming months, shortages are likely to be accentuated by the current high level of consumer purchasing. Evidence of the public's ability and willingness to spend is seen in the record dollar volume of department store sales during the past Christmas shopping season. Despite this year's very early start in Christmas buying and the attainment of a record high in the FRB adjusted index of department store sales in November, sales continued at an unusually fast pace to the very end of the shopping season. During the week ended December 23, department store sales were 34 percent above the 1943 level. (See Chart 2.) Moreover, in the 4 weeks ended December 23 the margin of sales over year-earlier levels widened to 21 percent as compared to 14 percent in November.

As a result of the heavy buying in November, seasonally-adjusted department store stocks at the end of the month were down to the lowest level of the year. (See Chart 3.) In view of the unusually heavy buying which occurred in December, a further decline undoubtedly will be shown in stocks at the end of the month. Moreover, as a result of the relative scarcity of lower-priced goods and a trend toward luxury buying and upgrading, it is believed that stocks of many staple items are at a lower level than the over-all stock figures (in dollar value) would appear to indicate.

Stock prices rise to new high at year-end

After selling off in the early part of last week under the impact of adverse war news from Europe, stock prices subsequently strengthened noticeably, and on the average showed a net gain of about 1 percent for the period. As a result of the rise in the latter part of the week, the Dow-Jones averages of railroad and utility stocks at the close on Saturday stood at the highest level of the year, while the industrial stock average was only fractionally below the 1944 peak attained in mid-December. (See Chart 4.) At the end of the year stock prices averaged a little over 20 percent higher than at the end of 1943, with railroad stocks pacing the rise with a gain of more than 44 percent. The changes in the Dow-Jones stock averages in 1944 were as follows:

	Dec. 31, 1943	Dec. 30, 1944	Percent change
Industrials	135.89	152.32	+12.1
Railroads	33.56	48.40	+44.2
Utilities	21.87	26.37	+20.6
65 stocks	47.07	56.55	+20.1

Price indexes show large degree of stability
in 1944

The large degree of stability in the various price indexes which followed the President's hold-the-line order of April 1943 continued during 1944, with retail, wholesale, and farm price indexes all showing increases of 2 percent or less. Nevertheless, inflationary pressure has continued, and the slight rise in the price indexes during the latter part of the year has been causing some concern. Prices of farm products have strengthened in recent months, and on a number of industrial products, particularly textiles and building materials, ceiling prices have had to be revised upward.

Certain price factors which are not measured by the indexes, such as deterioration in quality, upgrading, and the disappearance of lower-priced goods, appear to have become more important during 1944, since pre-war stocks have largely disappeared from the market. While the OPA is attempting to combat these hidden price increases, the prospective tightening in the civilian supply situation, combined with a continued high level of consumer incomes in the first part of 1945, are likely to increase the difficulty of stabilizing prices.

Commodity price trends irregular

Commodity prices have moved irregularly during the past two weeks. The Dow-Jones futures index showed little change until last Saturday, when a firming of grain futures resulted in a moderate rise in the index. A decline last week in the BLS spot index of 28 basic commodities partially offset the moderate advance of the preceding week, with the index showing a net gain for the two-week period of only 0.1 percent. (See Chart 5.) This index has risen 1.9 percent during the past year.

Although hog marketings continue to be seasonally heavy, a strong demand recently has caused a marked rise in hog prices, which last week were at ceiling levels for the first time since late October. Steer prices have risen 2.5 percent since the sharp decline of three weeks ago. In connection with steer prices, OPA officials met with cattle industry representatives last week to discuss the imposition of firm ceiling prices on live cattle.

Cotton prices continued to rise gradually under the influence of the Government's parity purchase and loan programs. Corn prices, however, showed a net loss of 1.4 percent, despite the announcement that distillers would be permitted to use all grades of corn in an amount up to 50 percent of their total grain requirements during the January whisky holiday. Wheat prices were also moderately lower. The first official estimate of the 1945 winter wheat crop indicated a crop of 762 million bushels, only 2 million bushels smaller than the near-record crop of 1944.

In the two weeks ended December 23 the BLS general index of wholesale prices showed a marked increase of 0.4 percent. (Refer to Chart 5.) The index reached a new wartime high at 104.6 percent of the 1926 average, which was 1.7 percent higher than a year ago and 39.5 percent above the pre-war level of August 1939. Higher prices for farm products were largely responsible for the latest rise.

Farm prices reach new high

The farm price index, breaking out of its narrow range of the past year and a half, rose noticeably last month and reached the highest level since September 1920. At 200 percent of the 1910-14 average, the index is 4 points above that of November and is also 4 points above that of December a year ago. (See Chart 6.) A greater-than-seasonal rise in truck crop prices, together with increases in potato and sweet potato prices, was a material factor in the rise in

the farm price index. Fruit prices, contrary to the usual seasonal decline, rose 5.6 percent, with orange prices up almost 8 percent; lemons, almost 10 percent; and apples, 11 percent. Egg prices showed a moderate contra-seasonal rise.

Despite an upturn in clothing prices, the index of prices paid by farmers (including interest and taxes) was unchanged in December. Consequently, farm prices now average 117 percent of parity, up 2 points from November but the same as a year ago. While prices of most farm products are above parity, prices of corn, wheat, cotton, hay, and peanuts are below parity.

Living costs increase slightly

Due largely to a slight rise in food prices, living costs were a trifle higher in November. The 0.1 percent rise in the BLS cost-of-living index offset the slight decline of October, and the index again stands at the war-time peak level previously reached in September. The index is 1.9 percent higher than a year ago and is 28.3 percent above the pre-war level of June 1939. (See Chart 7.)

Seasonal increases in the prices for eggs, apples, and green beans, together with higher prices for fresh and frozen fish, accounted for the slight rise in food costs in November. While clothing prices continued to advance, showing a 0.1 percent increase, this was the smallest increase in the past seventeen months. Prices of household furnishings continued their gradual rise, and an increase in coke prices raised fuel costs slightly.

Lengthening of war in Europe forces tightening of food rationing

The continuation of the war in Europe into 1945 has made necessary a tightening of food rationing, which the OPA announced last week, since the relaxation of rationing last summer had been predicated on an early end of the war in Europe and a consequent release of some food stocks set aside for military requirements. By anticipating the end of the war, it had been hoped that surpluses of foods developing from cut-backs in military requirements could be reduced.

The OPA apparently took some risk in suspending the rationing of canned vegetables last summer, since the military and other non-civilian requirements for the 1944-45 pack were actually larger than they had been for the previous year's

pack, when rationing was fully in effect. In fact, the Department of Agriculture forecast in September that, due to the increased military requirements, the civilian supply of canned vegetables and vegetable juices during the 1944-45 season might be 10 to 15 percent less than in the previous season.

With rationing suspended during the past several months, the supplies of commercially canned vegetables available for civilians on December 1, 1944, according to Price Administrator Bowles, were reduced to only 56 percent of the quantity available at the same time last year. Moreover, supplies of fresh vegetables this winter will be somewhat smaller than last winter, due to a smaller acreage planted and to some recent damaging frosts in Florida and Texas. Under these circumstances, the change in the war outlook made a resumption of rationing inevitable.

The broadened meat rationing reflects largely the sharp reduction in the 1944 pig crop, together with continued heavy non-civilian requirements. The 1944 spring pig crop, which is now coming to market, was 25 percent smaller than the 1943 crop, and the fall pig crop is 34 percent smaller. Total civilian meat supplies in the first quarter of 1945 are expected to be 15 percent less than during the last three months of 1944.

Due to the heavy consumption of sugar for home canning this summer and fall, stocks of sugar in this country have been severely reduced. A tight shipping situation is hindering imports from Cuba, and manpower shortages at the refineries have handicapped the replenishing of stocks. Consequently, the low level of stocks has necessitated the tightening of sugar rations to restaurants, hotels and institutions, and to industrial users.

Meanwhile, with butter production substantially below a year ago and with civilian stocks declining to the lowest point since the war began, an increase in the ration value of butter was necessary to obtain a fairer distribution of that product. Some further decline in butter production is expected in 1945.

Cold storage holdings generally lower

Cold storage holdings declined during November, causing a further easing in freezer space and a reduction in cooler space occupancy. Freezer occupancy on December 1 was 83 percent of capacity, down 3 points from November 1 and 6 points below

the high levels of the three preceding months. A year ago, freezer occupancy was 89 percent of capacity. The space occupied in coolers, 76 percent of capacity, showed a moderate decline from a month earlier but was somewhat larger than on December 1, 1943.

Stocks of dairy products declined substantially during November, and at the end of the month were considerably below the levels of a year ago. Butter holdings totaled about 91 million pounds as compared with 124 millions a month earlier and 179 million pounds on December 1, 1943. Total egg stocks declined about 14 percent, and holdings of shell eggs are now sharply lower than a year ago. Stocks of frozen and dried eggs, however, are considerably larger than at this time last year. Due largely to moderate increases in pork holdings, total meat stocks increased slightly in November but they are 26 percent lower than a year ago.

Apple stocks in cold storage at high levels

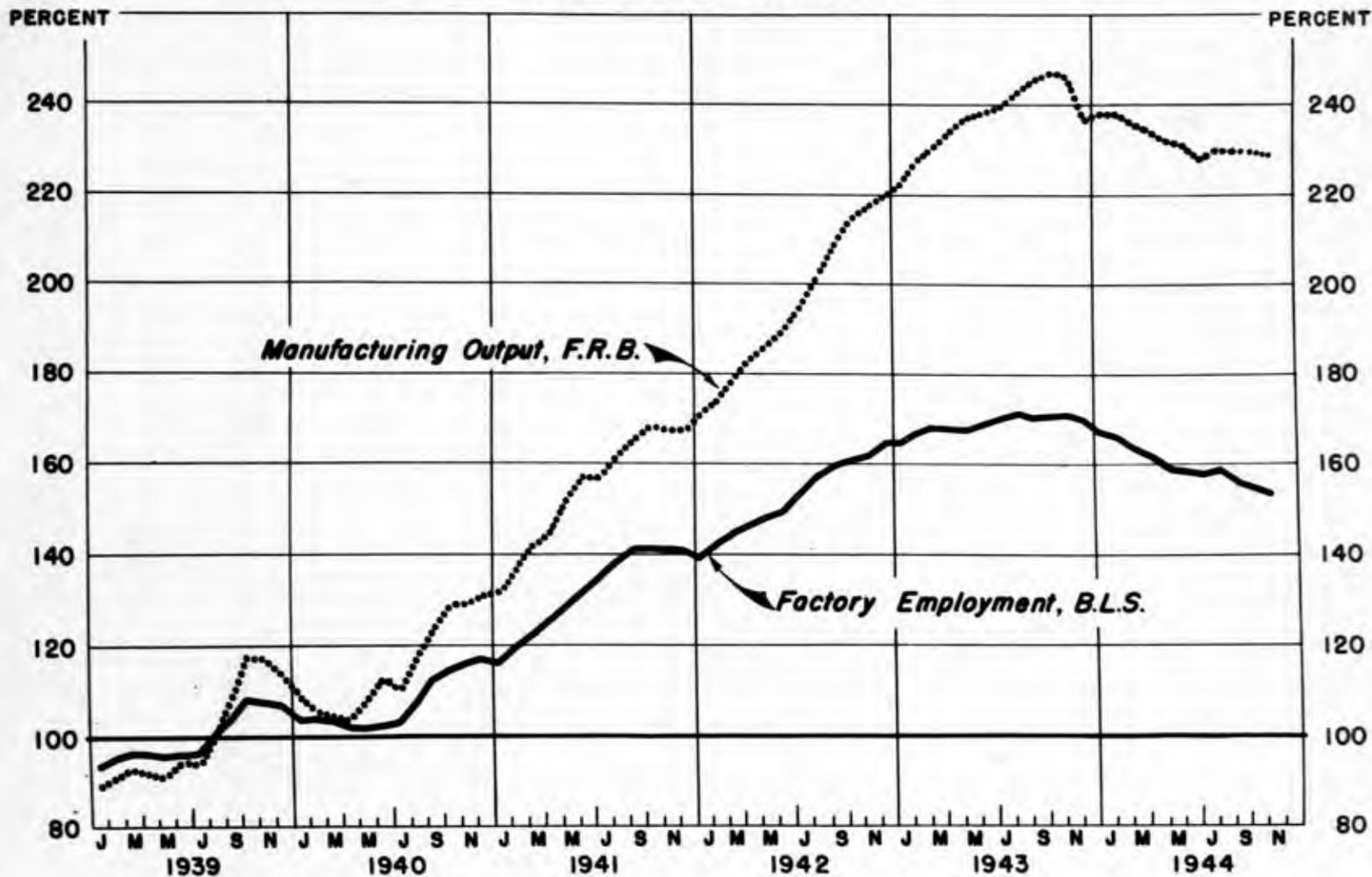
Stocks of apples in cold storage on December 1 were near the highest level in the past fifteen years, totaling 35,726 thousand bushels as compared with the high for this date of 36,054 thousand in 1937. Moreover, in only one other year since the war began, 1942, were stocks as large as this year. The following table shows total cold storage holdings and the holdings in the three leading producing states on December 1 for the past six years:

December 1	Virginia	New York	Washington	Total
1939	3,338	6,541	9,763	30,988
1940	4,419	4,875	11,795	33,838
1941	3,640	4,764	12,196	31,235
1942	4,242	5,946	11,432	35,761
1943	1,969	4,247	10,148	25,475
1944	4,082	5,940	12,001	35,726

Space in apple house coolers was 89 percent occupied on December 1, the highest degree of utilization on record. In the three most important regions, Washington, New York, and the Delaware-Maryland-Virginia area, the percentage of space occupied in apple house coolers amounted to 93, 88, and 95 percent, respectively.

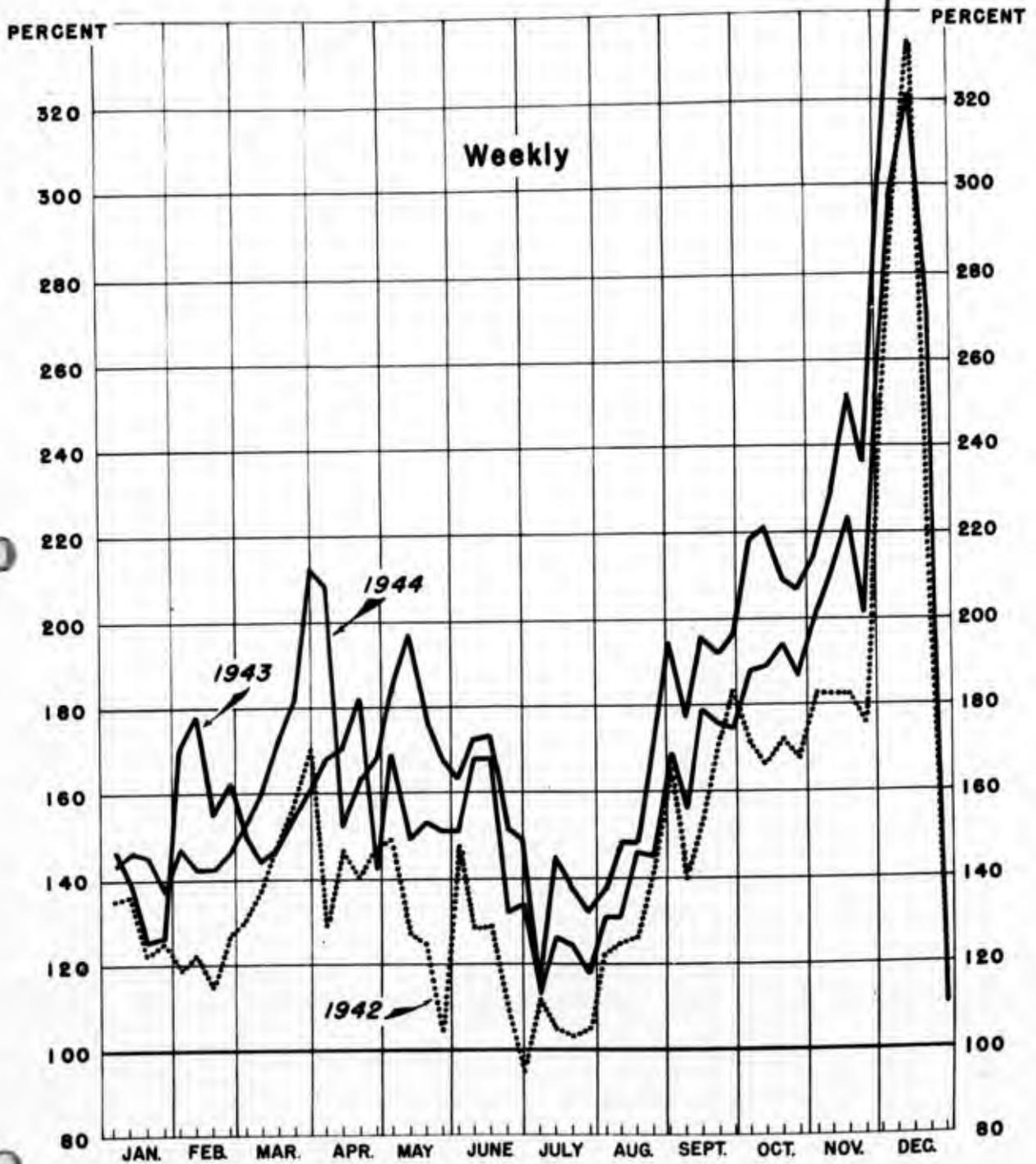
FACTORY EMPLOYMENT AND OUTPUT

1939 = 100, Unadjusted



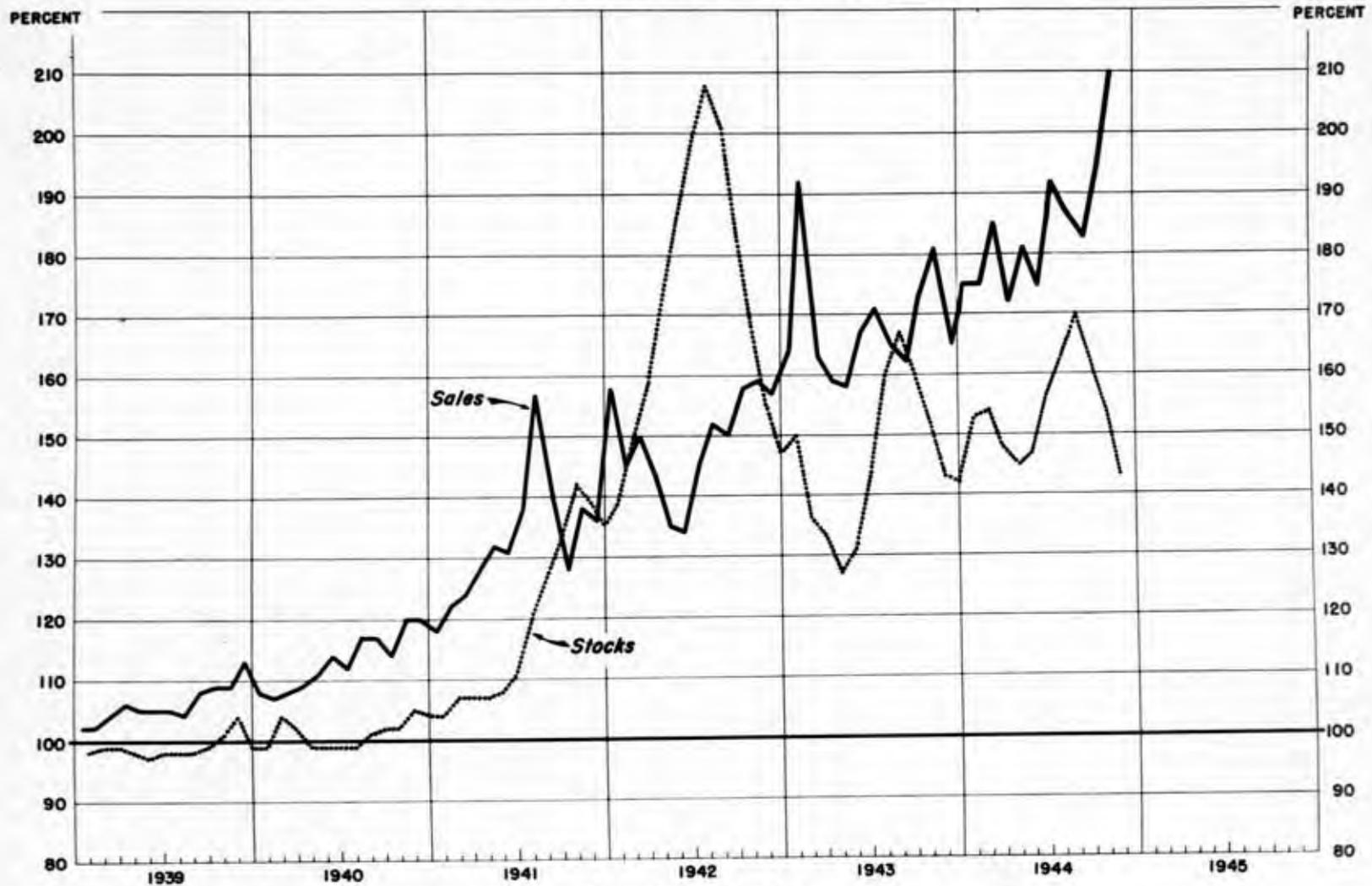
DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted



DEPARTMENT STORE SALES AND STOCKS

Dollar Values, 1935-'39=100, Adjusted

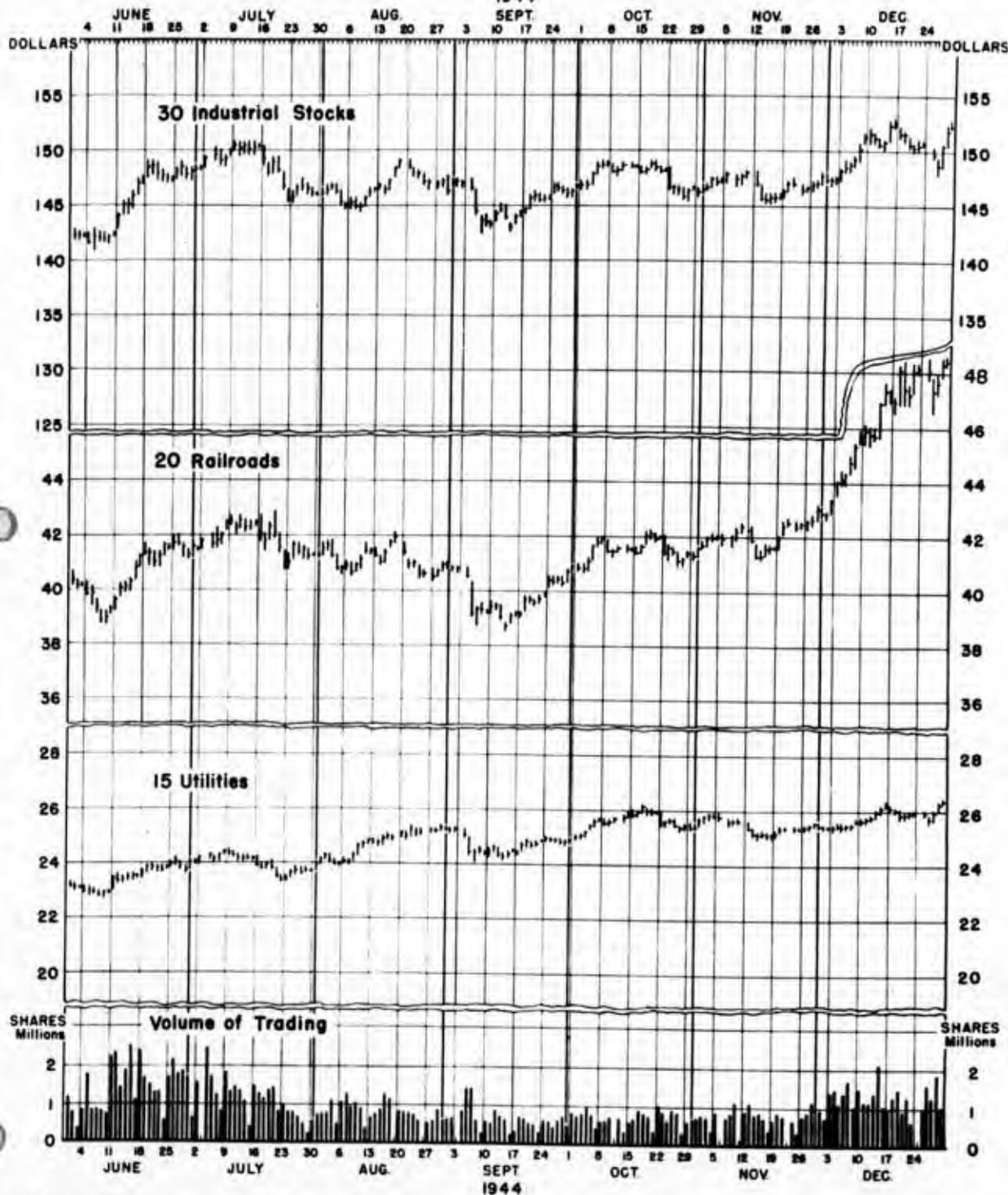


Source: Federal Reserve Board

STOCK PRICES, DOW-JONES AVERAGES

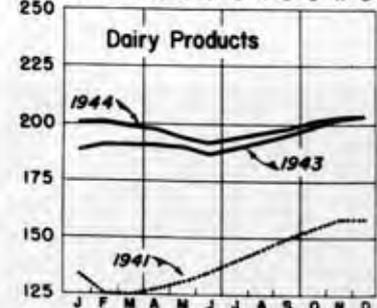
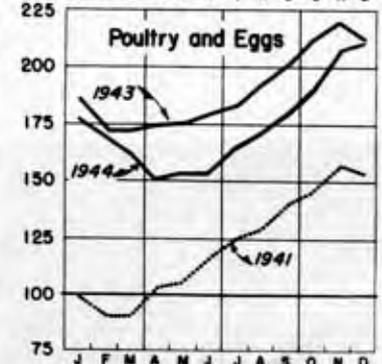
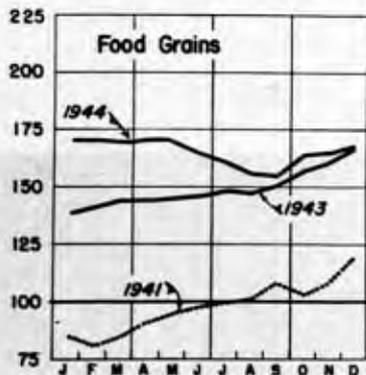
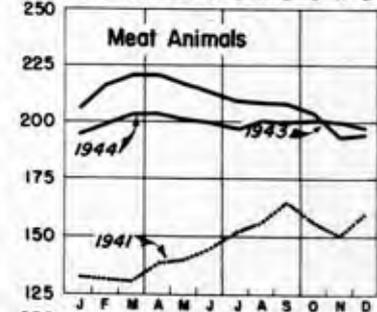
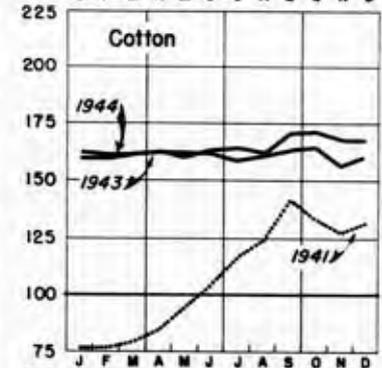
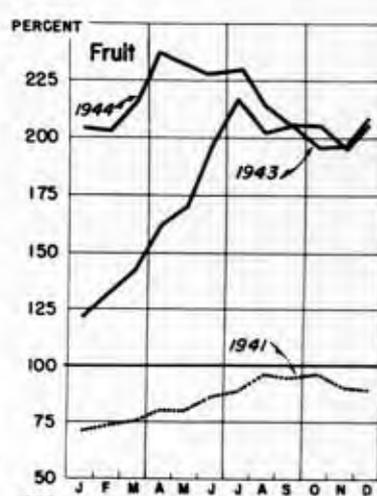
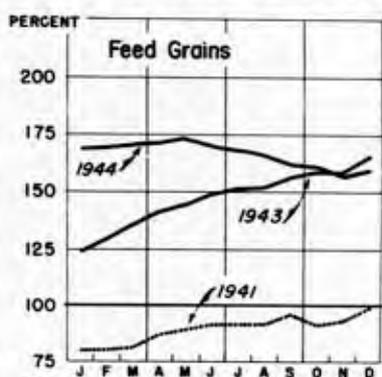
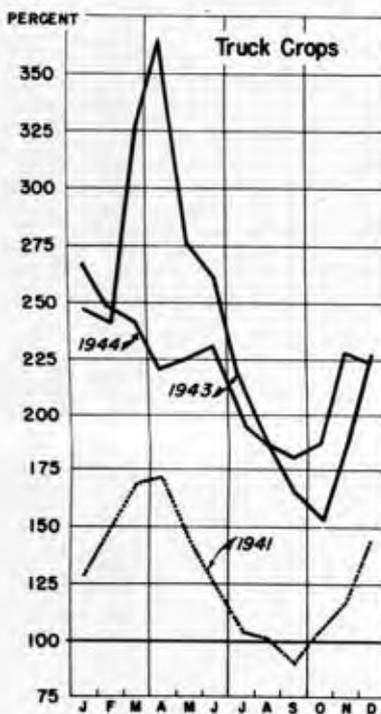
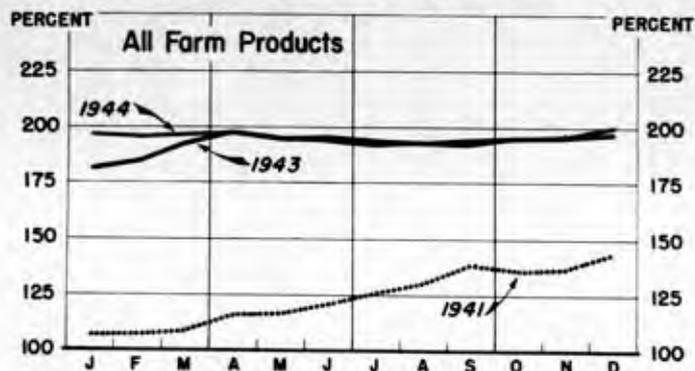
Daily

1944



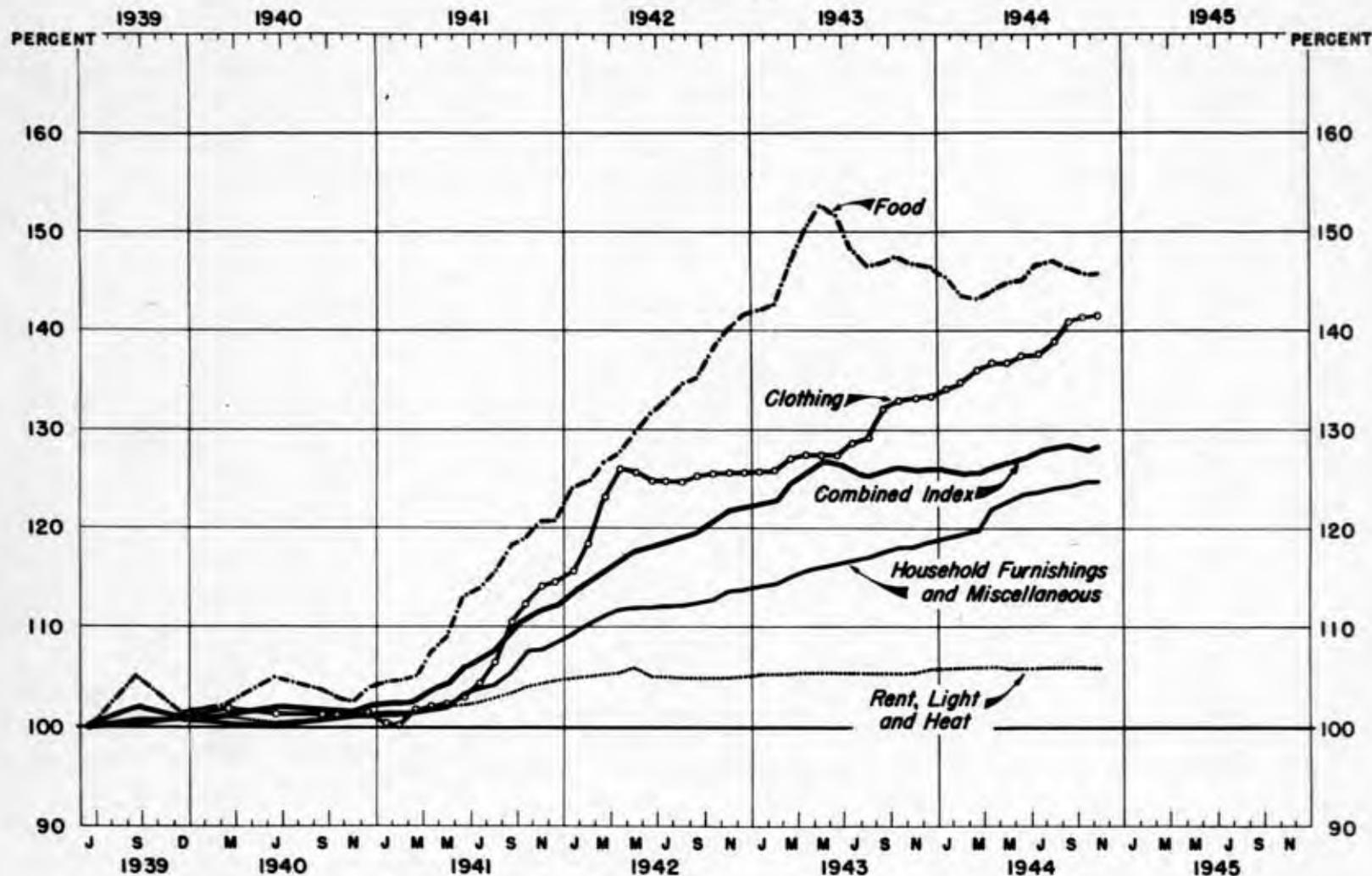
AVERAGE PRICES RECEIVED BY FARMERS

Indexes, August 1909-July 1914=100



COST OF LIVING AND SELECTED ITEMS

June 1939=100



JANUARY 1, 1945. 38

CAUTION: The following statement and report by Director of War Mobilization and Reconversion James F. Byrnes is for release in all regular editions of Tuesday morning (January 2) newspapers. Release for radio is at 6 p. m. EWT today.

Director of War Mobilization and Reconversion James F. Byrnes today filed with the President and the Congress his first report on war mobilization and reconversion as required by the War Mobilization and Reconversion act of 1944.

The report reviews and summarizes the accomplishments of war mobilization thus far and points up the problems which lie ahead, not only in the field of war production but in preparing for reconversion.

In his letter of transmittal, Director Byrnes calls attention to the need for additional legislation to tighten up the war production machine, especially in the light of changing battle needs. He also makes, to the President and Congress, certain suggestions as to the reconversion policies which he believes will be helpful.

One section of the report is devoted to summarizing what has been done to mobilize American resources for war and what steps have already been taken looking toward an orderly transition from a war economy to a peace economy.

Other sections of the report deal especially with Economic Stabilization, Manpower, Agriculture, Foreign Economic Operations, Transportation, Shipping, Housing, Industrial Facilities, Surplus Property, Contract Termination, and Tax Relief.

The report is submitted in response to a section of the war mobilization and reconversion act which directs the director to

"submit reports to the President, the Senate, and the House of Representatives on the first days of January, April, July, and October, on the activities undertaken or contemplated by him under this act. Such reports shall summarize and appraise the activities of the various executive agencies in the field of demobilization and post-war adjustment, and may include such legislative proposals as he may deem necessary or desirable."

PROBLEMS OF MOBILIZATION AND RECONVERSION

F I R S T
R E P O R T

TO THE PRESIDENT, THE SENATE,
AND THE HOUSE OF REPRESENTATIVES

BY THE
DIRECTOR OF

WAR MOBILIZATION
AND RECONVERSION

JANUARY 1, 1945

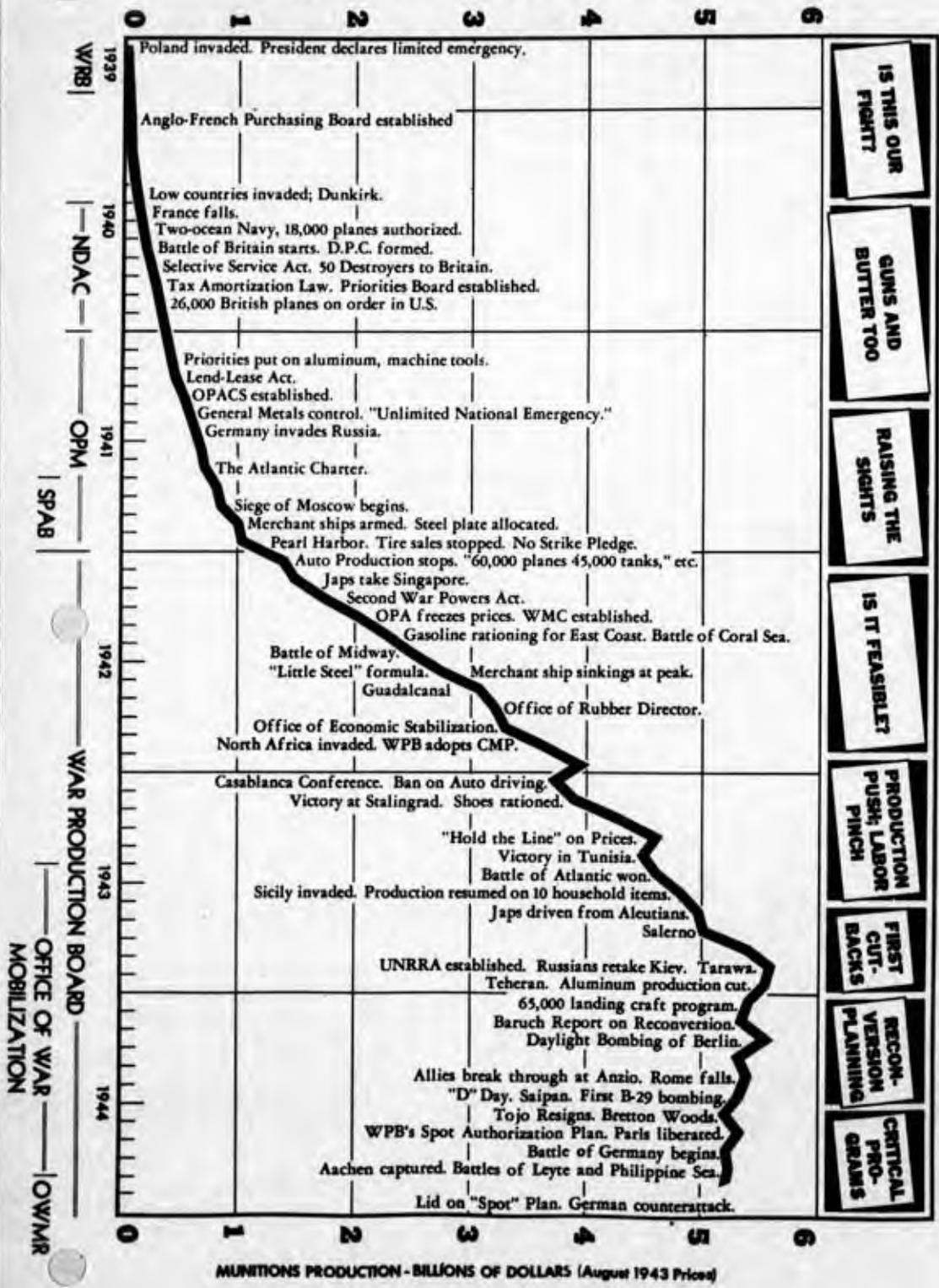
ARMS AND AMERICA

WAITING WAR

THE DEFENSIVE WAR

ON THE OFFENSIVE

MUNITIONS PRODUCTION - BILLIONS OF DOLLARS (August 1943 Prices)



IS THIS OUR FIGHT

GUNS AND BUTTER TOO

RAISING THE SIGHTS

IS IT FEASIBLE?

PRODUCTION PUSH; LABOR PINCH

FIRST CUT-BACKS

RECONVERSION PLANNING

CRITICAL PROBLEMS

MUNITIONS PRODUCTION - BILLIONS OF DOLLARS (August 1943 Prices)

OFFICE OF WAR MOBILIZATION AND RECONVERSION

WASHINGTON, D. C.

December 30, 1944

The President.
The Honorable President of the Senate.
The Honorable Speaker of the House of Representatives.

Sirs:

As Director of War Mobilization and Reconversion, I hereby submit my first report, required under the War Mobilization and Reconversion Act of 1944, as of January 1, 1945.

It is essential to an understanding of the problems confronting this country in all-out mobilization for war and in the later transition from war to peace to review the major accomplishments of our war effort in comparison with our achievements in normal times. Therefore, in this report I have tried to sum up these accomplishments and in this summing up, compare the accomplishments with our peacetime attainments. I believe that in this way we can see clearly the problems which still lie ahead.

I think also that such a summary might clear up some of our present doubts and uncertainties. Much has been said about confusing and conflicting war statements. This is inevitable in the pressure of accomplishment. Victories lead to optimism. Setbacks, which apparently prolong the war, lead to fear, anxiety over loved ones, and pessimism.

The truth is that our soldiers at the front today are not short of ammunition and supplies as a result of any production failures. However, they may be short a few weeks hence if we fail. If they are to freely use what they now have in order to save human lives, they must know that more, in abundance, is on the way.

This nation can be proud of what it has accomplished to date with the cooperation of industry, labor and agriculture--of all the people--under vigorous Government leadership.

We have reached a rate of munitions production in excess of \$64,000,000,000 per year while maintaining a standard of living higher than that which we enjoyed in 1929. We have attained this rate of war production without any over-all reduction in the consumer supplies available to our public at large. To accomplish this, we have invested more than \$20,000,000,000 in new or expanded industrial plants.

We have added 18,000,000 persons to war activities. We have armed and equipped the most powerful naval and air forces in the world. We have armed and equipped one of the largest and one of the best armies that the world has ever seen.

We have exported to our allies goods and services valued in excess of \$24,000,000,000. This aid consisted not only of munitions but of materials and equipment to increase their industrial output and food to replace their losses in production or in other food sources.

We have had two years of almost unparalleled success in our military operations against strong and powerful adversaries. These adversaries are still dangerous. And thus, in spite of all that we have accomplished to date, we still have more to do. Our forces in the field need more guns, more ammunition, more trucks, more tires, more ships, more airplanes, more rockets, and more men to finish the job which they have done so well to date.

We cannot be complacent yet. We must man our war plants to the fullest extent necessary to meet the requirements of our military leaders. We must do this in the face of a further withdrawal from our available manpower supply to provide replacements for the army and to build the navy up to the strength which it requires to man its ships.

Recently, therefore, I have taken action to tighten Selective Service regulations, to deny priority and allocation rights when necessary to maintain manpower ceilings established by the War Manpower Commission for nonwar plants in order to fill the demands for manpower in war plants.

The War Production Board has deferred for a period of 90 days new spot authorizations in critical labor areas and has frozen civilian production at not to exceed the fourth quarter levels of 1944.

I have requested racing management to suspend all race meets, thus reducing that drain on manpower, transportation, communication facilities and other services.

I hope that these actions will suffice. However, it may be necessary for Congress to consider legislation to strengthen the authority of the War Manpower Commission.

I am convinced that consideration should be given by Congress to some control over those found physically disqualified for military service, so that they may render their war service in essential war activities.

Although labor and management have in most cases complied voluntarily with the orders of the War Labor Board, the authority of the Board should be strengthened to enable it to enforce its decisions in the courts without resort to seizure.

I will not predict how long the war will continue. However, as Director of War Mobilization and Reconversion, I must direct the Government effort at home to the maintenance of all-out war production. When one of our enemies is defeated, then and only then can we lessen our effort.

Even then we must remember that our primary goal is the defeat of the other enemy: We will still have millions of American boys living day in and day out under enemy fire, sleeping in rain and mud, eating out of tin cans, and never enjoying the comfort of home.

I am convinced that even with the defeat of one of our enemies we will still require a tremendous national effort to bring full victory at an early date.

Until this task is completed and those fortunate enough to survive return home, we must continue our war effort as our primary national objective.

It is true that with the defeat of one of our enemies there will be many disruptions of local economy with some local unemployment. These conditions will be temporary. They cannot be neglected, but they do not require the detailed attention we must give other long range problems which will develop with peace.

The Government has, on the whole, been successful in maintaining a stabilized economy throughout the war period. Stabilization will be more difficult with victory. The Congress should give serious thought to a further extension of the Renegotiation Act which has been a successful factor in our fight for stabilization. I believe also that it is not too early for the Congress to consider the extension of the Stabilization Act.

I am not apprehensive over the ability of the Government to handle the mechanical problems involved in transition from war to peace. Congress has provided the tools in the act establishing this office. It has established an Office of Contract Settlement which has already accomplished much in coordinating and directing the procurement agencies in the establishment of a contract termination procedure which I am sure will be able to settle contracts promptly and satisfactorily when peace arrives. Congress has established the policies to govern the disposal of surplus property under a Surplus Property Board. While there may be some administrative difficulties under this legislation, it provides the machinery for disposal. Much has already been accomplished under the Surplus War Property Administrator appointed prior to the passage of the act in assigning responsibility to disposal agencies, in developing sales policies, and in arranging for the prompt removal and storage of surplus property.

Congress has likewise provided machinery to assist in the reemployment and retraining of returned veterans. It has enacted the "G. I. bill of rights", which has made it possible for our returned veterans to plan ahead. Hospitalization for returned veterans is also receiving active consideration.

Congress has made a start in providing unemployment compensation for those workers who may be temporarily out of employment when the war ends. At that time I did not think the benefits provided were sufficient, and I now urge that Congress give further consideration to liberalizing the provisions of the Unemployment Compensation Law.

Congress has also provided for the continuance of support prices for farm products for a period of two years from the first day of the next year after the end of the war. This will do much to encourage farm production during the war and prevent a disastrous curtailment in farm income with the end of the war.

Congress has approved public roads, flood control and reclamation programs which provide a construction backlog. Further legislation of this type merits consideration so that authorized projects will be available to provide employment.

The foundation of American enterprise has always rested in small business. While adequate provision has been made for the prompt payment of claims to those small business enterprises engaged in the war effort, no adequate provision has been made to assist financially in the reestablishment of small business enterprises discontinued as a result of the war or for the establishment of new enterprises of this type. I urge the Congress to give consideration to legislation of this type.

We have built as a war measure a great merchant fleet. I believe that the Congress will consider at an early date legislative measures which will assure its continued operation when the war ends.

No general tax revision is possible until the end of the war, but I urge that Congress give consideration now to several proposals outlined elsewhere in this report which will not materially reduce revenues but will greatly encourage new enterprises and the expansion of existing enterprises. Such proposals could be considered and drafted now in order to make possible immediate enactment at the end of the war in Europe.

We face the end of the war with a housing shortage, the relief of which should assist materially in providing immediate employment. I am sure that Congress will want to consider the extension and liberalization of the several measures in existence when war was declared to assist home builders in financing such construction.

I think reconsideration might well be given to the provisions of the Lanham Act prohibiting the sale of temporary housing for residential purposes at low cost, as it may be that such housing could well be used to greatly improve present conditions in city slum areas and in certain farm areas.

Our lend-lease activities have given us in wartime a record volume of export trade. Our demand for critical war materials, combined with preclusive buying of materials desired by our enemies, has also resulted in developing a high volume of imports. This increase in our foreign trade has played an important part in our war economy. It must play an important part in our peace economy.

We must export goods if we are to provide jobs for all of our workers. We cannot export goods unless others have the dollars required to pay. These dollars can be secured only through credit arrangements and through the import of goods into this country. When we raise barriers against imports we restrict our outlets and reduce job opportunities at home.

I am sure that Congress will desire to consider at an early date the extension of the Trade Agreements Act. I am equally sure that it will desire to consider the problems of international finance which must be solved before our own position in post-war trade can be determined. These problems were discussed at the International Conference held last year at Bretton Woods. They will undoubtedly be placed before the Congress at an early date. Our national policy should be developed now.

We have heard much of conflicting views and opinions during these war years. Minority interests have voiced continuing criticisms of each war and peace measure. We could not have accomplished so much in so little time if we had not had an over all plan and purpose into which each of these measures fitted.

Respectfully submitted.

James F. Byrnes
Director.

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CONTRACT TERMINATION
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Wartime Peaks in Agriculture

The United States has built the world's largest Navy, the world's largest merchant fleet, and one of the world's largest and best-equipped armies. It has become in the real sense of the term the world's arsenal of democracy. Although all of that has been accomplished in less than five years, starting almost from scratch with the fall of France in June 1940, nevertheless the mobilization of this country's resources--its materials, its machinery and, above all, its manpower--is not complete. The war is yet to be won.

Today American troops are engaged in what could prove to be the decisive battles of the war in Europe and the Pacific. They need particular types of equipment urgently; these are our critical war programs. The task immediately facing the country is to mobilize our resources to give the field commanders--the troops in the field--what they consider necessary for victory.

Comprehensive steps have been taken to utilize our resources efficiently, so as to increase our war production, particularly in critical items. As I point out in the section on "Manpower," ceilings have been placed on civilian production, Selective Service rules tightened, and manpower controls implemented. As a further step, the War Production Board has adapted its Controlled Materials Plan to the urgency of the times. Through the application of its controls, steel production will be held to a pre-determined amount to prevent the draining away of industrial energy, manufacturing facilities, and manpower from war production.

GAINS IN CRITICAL OUTPUT

Further, the War Production Board, the War Manpower Commission, the Army, the Navy and other Government agencies have set up committees of top personnel to review the monthly progress in each of the critical programs: to find out what is holding up production and provide the remedy. The results of these meetings, begun three months ago, have already become evident. In November, critical production was up 11 percent over October, and October had been up 6 percent over September. I expect another increase during the month of December.

However, these gains, though encouraging, are not enough. Serious deficits in schedules still exist. Even the meeting of present schedules is not enough. Critical production no longer feeds pipelines or goes into strategic reserves--it is going right into battle. Current requirements in these critical items are virtually unlimited. As soon as a war plant meets its schedule, it is a signal for an increase in that schedule.

We need more tanks, more Superfortresses, more heavy artillery ammunition, more mortars, more tents, more trucks, more communication wire, more ship repairs than we can possibly turn out in the immediate future.

These urgent demands will continue so long as the war lasts. When field commanders learn that light tanks are not powerful enough to blast through enemy lines, they demand heavier tanks. When truck tires are ripped to bits by muddy roads, pockmarked with flak, requirements for tires soar. When scientists and inventors develop new weapons--such as new types of radar or jet planes--we must quickly translate these developments into battlefield equipment. It is all part of winning the war more quickly--of saving lives. It is our job on the home front.

"ARMS AND AMERICA"

Production has come a long way since Germany invaded Poland in September 1939. Then, except for a few experimental orders, the United States had hardly started to prepare for war. What has been done since is a dramatic tribute to industry, labor, and agriculture. It is depicted in the chart, "Arms and America," which shows how war production climbed month by month from virtually nothing to a rate of more than \$64,000,000,000 a year. No nation can touch this rate of production. It is almost equal to the total war production of the rest of the world.

Behind that dramatic upsurge in war production is the story of men and machines, of organization and training, of hard work and the will to win. We must not forget that this country did not buckle down in earnest to war production until the Germans and the Japanese had built up war machines over many years and were coiled to strike. Yet today we have overcome their early advantage.

It might be well to review with the Congress the many ramifications of our war effort, how it extended into every corner of our economic, social, and political life. To reach the point of mobilization we have achieved today, the United States had to do many things.

We had to build new plants and expand old ones, pass a special tax amortization law, extend Federal financing to war contractors.

We had to find contractors to take war work, teach them to produce new products, develop new forms of contracts, draw both big and small business into war production.

We had to curtail civilian production, convert industry from peacetime to wartime production.

We had to draw 7,000,000 extra youths, women, and older men into employment, pass and administer a Selective Service law, train workers for new jobs, provide housing for war workers.

We had to increase domestic sources and develop foreign sources of supply of critical materials.

We had to expand farm output to feed ourselves and our allies.

We had to develop a war program, determine the size of the Army and Navy, and spell out requirements in terms of men and equipment.

COMBINED OPERATIONS

We had to integrate, so far as possible, United States procurement with that of our allies on raw materials, semi-processed goods, and munitions. That was done through the Combined Boards and Combined Chiefs of Staff.

We had to encourage research and develop new weapons.

We had to direct the flow, first of materials, then of critical components, and, finally, of manpower.

We had to control prices and wages, ration scarce necessities--shoes, gasoline, fuel, some foods.

We had to settle differences between labor and management and do away with

We had to construct and man a merchant fleet to deliver our production of tanks, planes, guns, and ammunition to our own and allied forces on the fighting fronts.

We had to maintain the essential civilian economy.

Out of that tremendous mobilization of resources, energy, imagination, and work have come tangible results.

In 1944, we produced \$64,000,000,000 of munitions--twice the production of 1942 (chart, "Munitions Production").

The 1944 total included 95,000 airplanes weighing 950,000,000 pounds, double the number and more than three times the weight of 1942's output. Among these planes were over 15,000 heavy bombers, six times the 1942 number, including a great many Superfortresses, which were produced only experimentally in 1942 (chart, "Airplane Production").

It also included ship construction and maintenance and repair--to the value of \$14,000,000,000--about double the 1942 total (chart, "Ship Construction").

The major increases were in transports and landing vessels for carrying our armed strength to the enemy.

Production of guns and motor vehicles declined somewhat from the 1943 levels, but important items in these groups were pushed to new highs--heavy artillery, rocket launchers, heavy trucks, tractors, among others (chart, "Guns, Ammunition, Vehicles").

The \$6,500,000,000 of ammunition produced in 1944 was more than double the 1942 output--with bombs and large caliber ammunition more than tripling 1942 production (chart, as above).

Today we have an Army at peak strength of 8,000,000 men, 5,000,000 of whom are overseas. In 1940, the Army consisted of some 300,000. We have a Navy of 3,800,000 men, of whom 2,200,000 are afloat or on foreign duty. In 1940, the Navy consisted of some 210,000.

TANGIBLE RESULTS ON THE BATTLEFRONTS

And there is a day-and-night contrast between American's military position today and on December 7, 1941, when the Japanese struck Pearl Harbor. Then our enemies dominated all of Europe, all of North Africa, much of Asia, and islands and bases of great strategic value in every corner of the world. The Axis nations were at the peak of their power, full of self-confidence. Their production was increasing, their cities were whole, the morale of their people was high.

Now Africa is ours. Sicily and Sardinia are won. Most of Italy has been occupied. France has been liberated. American troops are on German soil. We have captured New Guinea and the Solomons, Saipan, the Marianas, Guam, and gained powerful footholds in the Philippines. We have taken hundreds of thousands of prisoners and inflicted heavy casualties on both Germany and Japan. We have destroyed or captured vast amounts of their equipment and we have hit their vital centers of production from the air.

A great contribution to these achievements has been American production. Just as we have the greatest machine economy in the world, so have we planned and developed the greatest mechanized, the most powerfully equipped Army and Navy. We have traded steel, copper, and aluminum for human lives.

From the very beginning, the program called for a vast array of munitions. During 1942 and 1943, our chief task was to provide the armed services with the capital equipment necessary to place our armies in the field. Those initial guns, ammunition, tanks, trucks, planes, etc., correspond to the machinery that goes into an industrial plant. The next stage was to maintain that equipment--to see that the troops had sufficient replacements.

In addition, it is necessary to constantly improve equipment. War is not static. All equipment tends to become obsolete. Our own record of design changes indicates that. Today our battleships and carriers are far more powerful than at the beginning of the war. We have developed special transport and cargo ships for amphibious operations far superior to ordinary troop and cargo vessels.

Our new tanks are faster, more mobile, and manned with heavier guns than our old ones. The Superfortress is bigger, more powerful, and faster than either the Liberator and the Flying Fortress, and the Liberator and Flying Fortress are two of the best heavy bomber planes in the world. Our A-26 Invader attack bomber has supplanted the A-20 Boston. New and previously unknown weapons have been brought into production and used effectively in battle.

ORGANIZING FOR THE JOB

In mobilizing our economy for war, we have had to make many changes in our normal procedures. Almost overnight industry had a new customer. It had to learn to do business with Government on a scale previously unknown. The Government also had many new problems. The Army and Navy had to build up quickly a staff of procurement offices. The Office of Production Management and later the War Production Board had to develop a system of priorities.

At the same time the Office of Price Administration had to establish controlled prices. We could not afford to permit machine tools or materials to flow to the highest bidder. We had to see that steel, aluminum, copper, lead, zinc, rubber, tin, wool, lumber, nylon, rayon were channeled into war production.

Later, it became equally important to see that components--valves, fractional horsepower motors, antifriction bearings--went into the most urgent programs. In effect, the entire economy was put on a rating system--in order of importance to the conduct of the war.

Simultaneous with the organization of controls, the country had to tool up--build new plant. In all, construction of new plants, including equipment, rose to the record high level of some \$800,000,000 per month. All types of facilities had to be brought to the task: Steel, aluminum, synthetic rubber, artillery, ammunition, shell-loading, small arms, aircraft and accessories, high octane gasoline, chemical, and many others. New shipyards were built. Iron ore shipments from the Mesabi range reached new peaks. Subsidies were paid to increase copper, lead, and zinc mining, and agricultural output.

Some of the increases are striking: Steel production increased 50 percent over the 1929 level; aluminum 600 percent; petroleum 60 percent, and a negligible peacetime production of magnesium has been expanded many times, as the chart, "Materials for War," shows. But now, with the maturity of the war program, and with changing requirements peak output is not always required. Aluminum and magnesium production has declined from the peak.

MATURITY IN WAR PRODUCTION

The maturity of the war program is indicated by the schedules. No longer are the requirements for all types of weapons increasing. This is in decided contrast to 1942 and 1943 when the Army and the Navy had too little of everything. About 55 percent of our war programs are not rising; a few are declining. The net result is that the forecast for munitions production as a whole does not indicate any great increase in the first six months of 1945. But a good part of that production--45 percent of it in fact--is in the expanding, critical items; the items which are in direct demand by troops in the field, the items in which production bottlenecks have developed. For that reason we must continue to press for production.

The development of industrial knowhow on the part of management and labor has made it possible to increase output per worker. As a consequence, we have been able to maintain production on a plateau, even though the number of workers in munitions industries has declined (chart, "Munitions Production vs. Employment"). Increase in productivity will probably continue but at a slower rate bringing with it some further reductions in employment in certain types of munitions plants.

That is a natural economic phenomenon. We can use it to our purposes; but we can also misuse it. That is a danger that I must lay before the Congress. Whenever workers are laid off because they are not needed in this shipyard or that aircraft plant, demands immediately spring up to provide them with peacetime employment, to permit manufacture of civilian goods. These demands are hard to resist. Yet until we get the critical programs under control, until we can assure General Eisenhower, General MacArthur, Admiral Nimitz, and Admiral Halsey of the critical supplies they need, I feel we must resist these demands, reasonable as they appear on the surface.

We must direct our efforts to channeling this released manpower into critical war programs and to industries and services needed to support them. It is not as if the civilian economy has been starved. Some items are short. But on the whole the volume of consumption has risen. The chart, "War and the Civilian Economy," indicates our level of living is higher than in 1929.

We have already made one too early start toward reconversion. During the spring and summer, a wave of optimism swept not only the United States but our allies. We had hopes on an early victory--possibly in the fall. With the hope of victory in Europe this fall, we went ahead with plans to prepare the country for early reconversion of industry. At the time it seemed the prudent course. Events have proved it otherwise.

Some schedules were cut back; plans for increasing others were delayed to await war developments. In the meantime, the output of munitions remained level. Then it became necessary to reverse our course -- to speed up. It took time and effort to overcome the inertia. We had to undo what had been done on reconversion; we had to curtail the spot authorization plan, place ceilings on civilian production. We had to hope for a change in the national psychology. That has occurred. The German counterattack through the First Army positions has convinced us that we can win this war only by the all-out efforts of the American people.

TWO THINGS AT ONCE

That too-early trend to reconversion demonstrated moreover that we could not do two divergent things at once, that we could not pursue an all-out war

production effort while simultaneously releasing materials, facilities, and manpower for civilian production. In the first place, the mere resumption of civilian output convinced some workers and some industrialists that victory was just around the corner, that therefore they had better prepare for peacetime security.

In the second place, it affected even those who continued to feel that the war was our first and main job. They felt that if their friends or competitors were converting to civilian production, they could safely do so.

As Director of War Mobilization and Reconversion, I am convinced that we must give our undivided attention to war production until we can be absolutely confident that victory is within grasp, until our military leaders tell us that they have enough supplies and that we can afford to reduce production.

However, I am deeply conscious of the responsibility to plan an orderly, gradual transition from all-out war production to a peace-time economy. Already, much work has been done.

PROSPECTIVE DEVELOPMENTS

Today, in the middle of a two-front war, this country is much farther advanced with plans for reconversion than it was at the termination of the last war. When the Armistice came in November 1918, procurement officers had neither program nor policy guidance. Today we have a law providing for the uniform termination of contracts; the prompt clearance of government-owned equipment and inventories from our industrial plants; the interim financing of industry; the disposition of surplus property; and a program for retraining and reemploying workers. The decks have been cleared. The legal and mechanical difficulties which might have tied up manufacturers' capital and prevented the employment of workers have been anticipated and, in large part, solved.

The work on reconversion started more than a year ago. At that time, I set up a unit for War and Postwar Adjustment Policies with Mr. B. M. Baruch as director. The report of this unit defined clearly the problems of reconversion. Subsequently, Congress established the Office of Contract Settlement, the Surplus Property Board and the Retraining and Reemployment Administration. Under the act of October 3, these organizations were brought under the jurisdiction of this office. They have formulated plans, policies and procedures to cope with demobilization problems. (Steps taken on property disposal and contract termination are discussed separately in this report).

The Retraining and Reemployment Administration has established centers in 8,000 communities at which returning veterans are given rehabilitation guidance. There they are advised as to their rights under the law -- their right to their old jobs, their right to be trained for new jobs. The RRA cooperates closely with the Veterans' Administration, the Selective Service System, and the United States Employment Service to provide veterans with vocational guidance. Postwar hospitalization requirements for veterans have been determined. General Hines is prepared to report directly to the Congress on these needs.

The Servicemen's Readjustment Act of 1944, commonly referred to as the "G.I. Bill of Rights," constitutes a landmark in the field of veterans' legislation. It provides for (1) education and training, (2) loans for the purchase of homes, farms or business property; and (3) readjustment (unemployment) allowances. These benefits which have been so well earned were not available to veterans of World War I or prior wars.

*Regardless of service disability

SMALL BUSINESS FINANCING

Small business has been the backbone of American prosperity. Its future requires the establishment of a readily available source of credit. The Wagner-Spence bill has this purpose in view. In revoking the present authority of the Federal Reserve Banks to make loans direct to industry, it substitutes authority for them to guarantee the principal and interest of loans by commercial banks to business enterprise. It, or other forms of legislation to this end, deserves the immediate consideration of the Congress.

I believe that all administrative actions which pave the way to orderly transition from war to peace and which are feasible at this time have been taken. The War Production Board is prepared to release production controls--L, M, and other restrictive orders--as soon as the reductions in war production schedules permit a substantial outback. This is the so-called V-E Day plan. At the time it was developed, proposed Army cutbacks and the programmed reduction in construction of naval and merchant vessels indicated a drop of about 40 percent in the year following the defeat of Germany. Since then, a reconsideration of needs for the war against Japan indicate that the V-E Day production drop may not be so great. I have asked the War Production Board to develop an alternate plan on the new basis. This is now being done.

PREPARATIONS FOR V-E DAY

The War Production Board has analyzed the probable impacts of cutbacks, both geographically and industrially. These analyses will permit the cushioning of the shock in particular areas and the expedition of reconversion of entire industries. For this purpose, WPB has established a Program Readjustment Committee composed of representatives of the War Manpower Commission, the Army, the Navy, Army Air Forces, the Navy's Bureau of Aeronautics, the Maritime Commission, and the Smaller War Plants Corporation. I propose to keep in close touch with the work of this committee in handling cutbacks. The composition of this committee was selected in order to bring civilian as well as military considerations to bear on cutback proposals. For instance, it may prove to be desirable to reduce production in Plant A instead of Plant B to avoid the concentration of layoffs in one area; or, it may prove to be desirable to release a company from war work in a particular industry to stimulate reemployment.

In addition to the work under way in the War Production Board, the War Manpower Commission is prepared to revise its regulations on manpower controls. The Office of Price Administration has announced its reconversion pricing policy. We have progressed far in getting ready for V-E Day.

TWO-FOLD TASK

After V-E Day, the problem facing us will be two-fold: to maintain war production at scheduled levels while clearing the way for rapid resumption of civilian production. We must accelerate the reemployment of released munitions workers and returning servicemen. We are in a position to move quickly. We are ready to put into effect the policies, procedures and plans that have already been formulated.

During the period of a one-front war, the drop in war production will be offset after a brief interval, by the reestablishment of peacetime manufacturing. In addition, the transportation, retail trade, public utilities, and other industries, which are today suffering from a shortage of labor, will absorb many released workers.

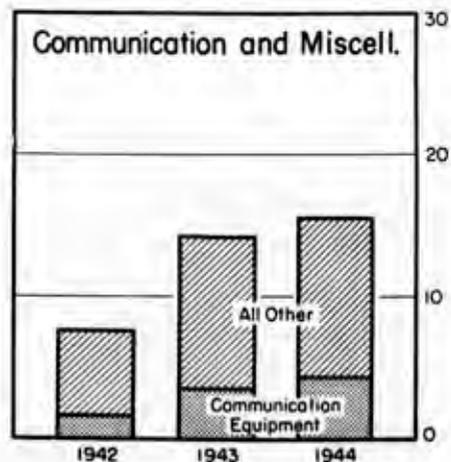
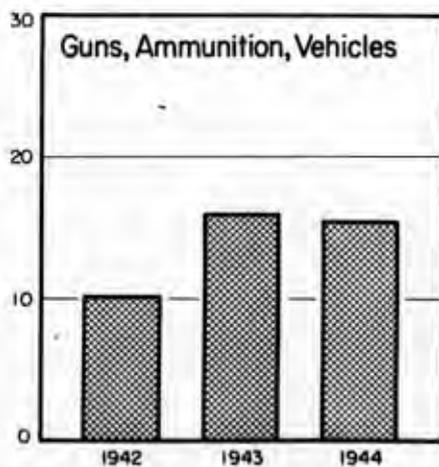
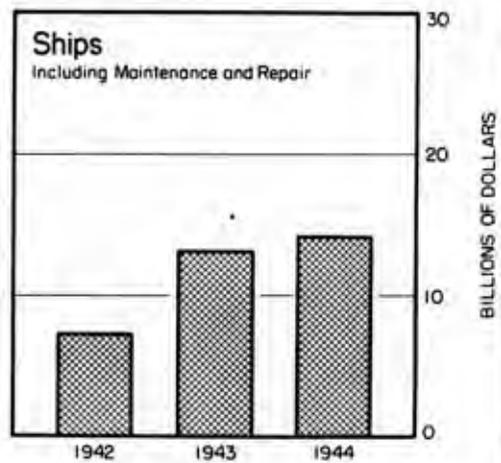
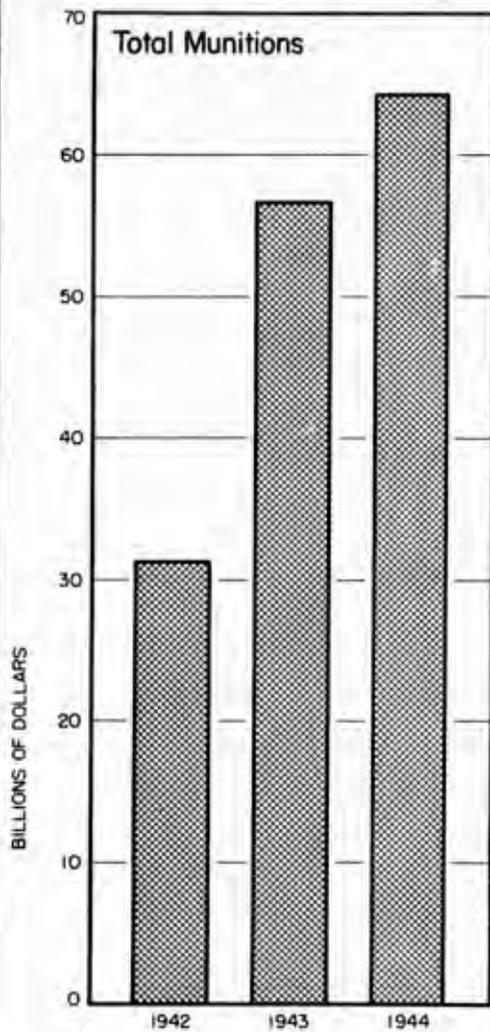
Conversion to war work developed a new major customer for business. Reconversion requires a return to the old customer. Civilians--employers and employees alike--must take up where the government's purchasing drops.

We must be prepared for the day when the government, as the purchaser of a record volume of munitions and military supplies, leaves the market. We must build up during the transition period a sufficient demand for civilian production to fill the gap.

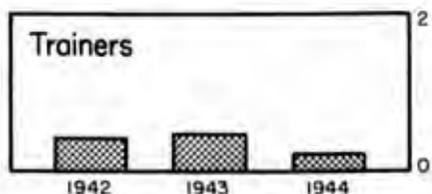
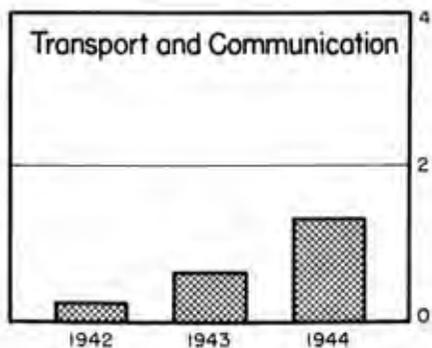
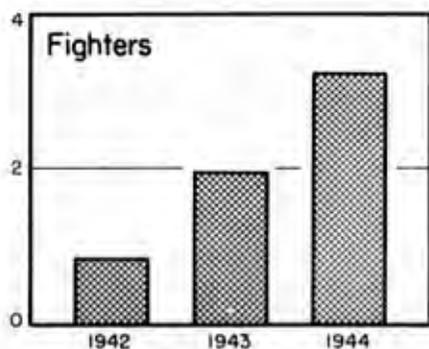
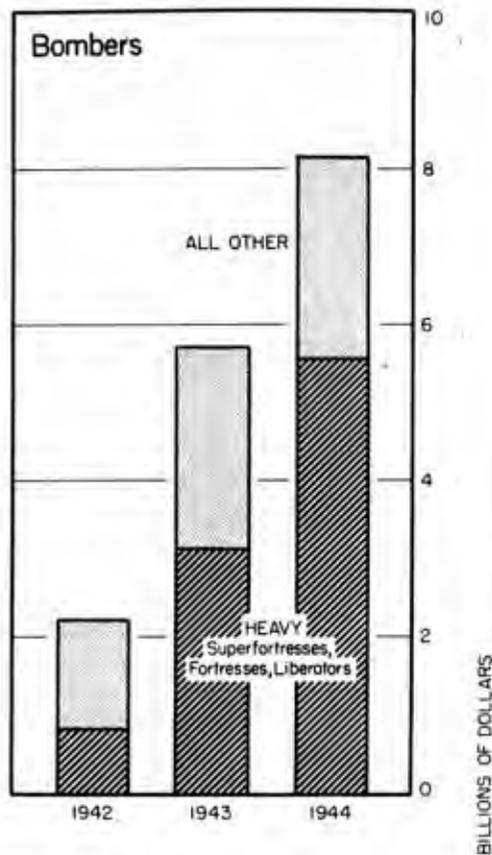
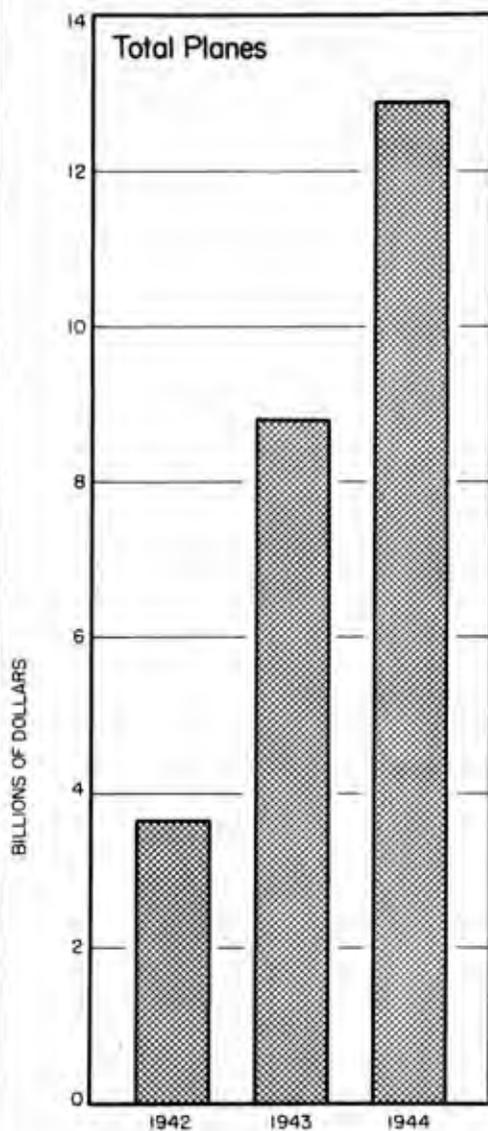
That is the reconversion task as I see it. It is discussed in some detail in subsequent sections of this report. It will be discussed at greater detail in future reports. It is a big task but not one beyond our capacity.

In the meantime, our immediate task is to meet war requirements.

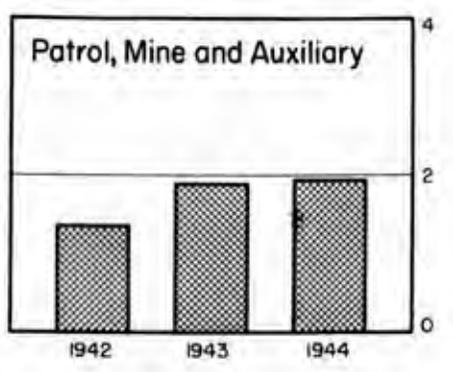
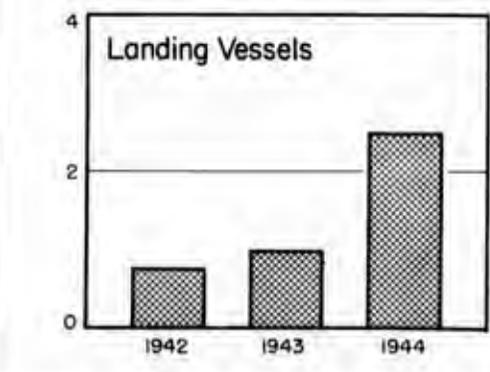
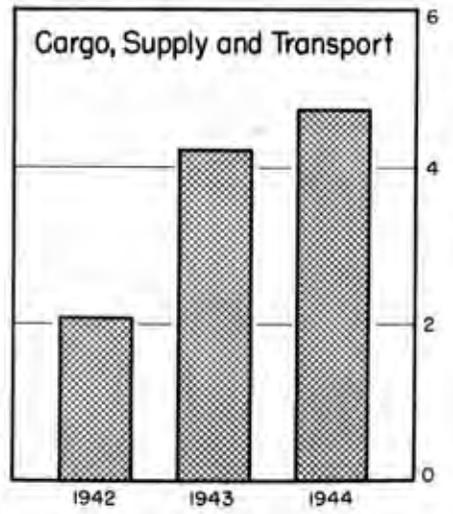
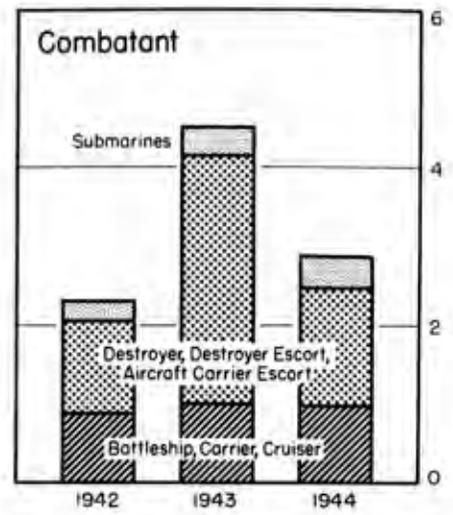
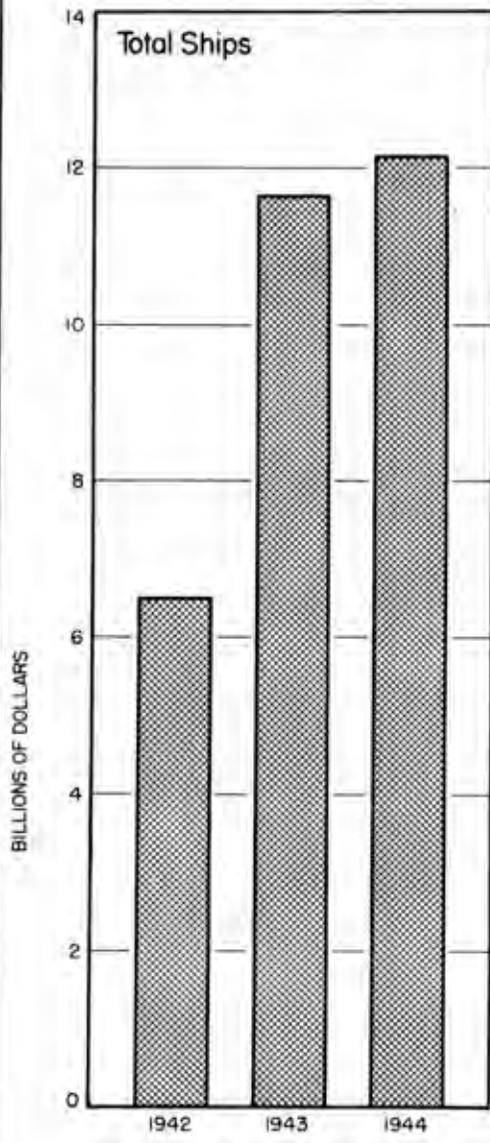
MUNITIONS PRODUCTION—Total and Major Groups



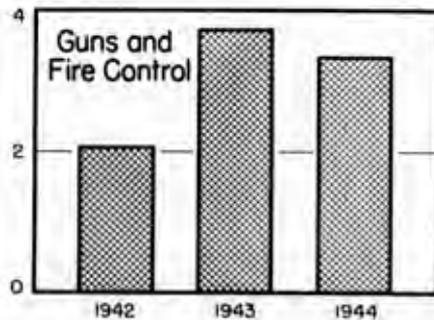
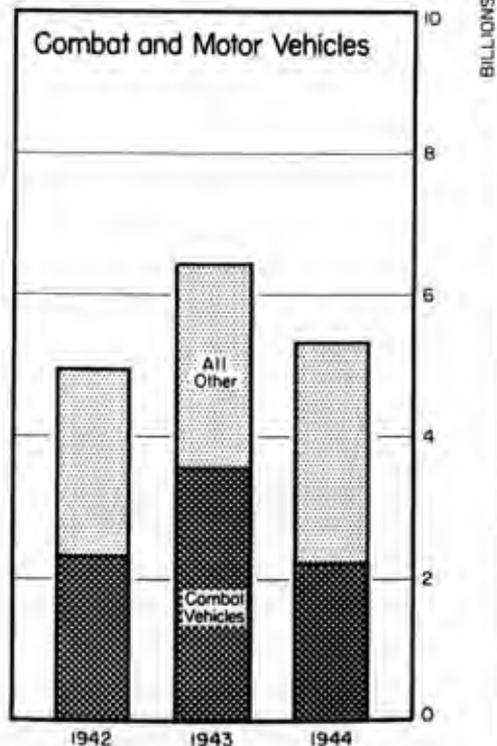
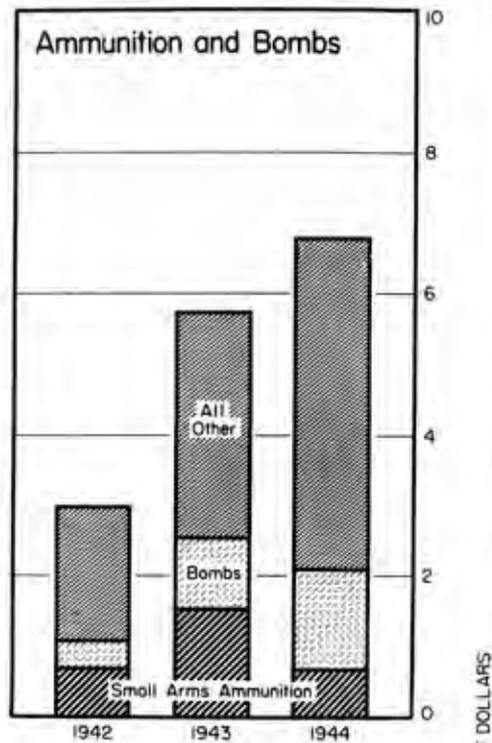
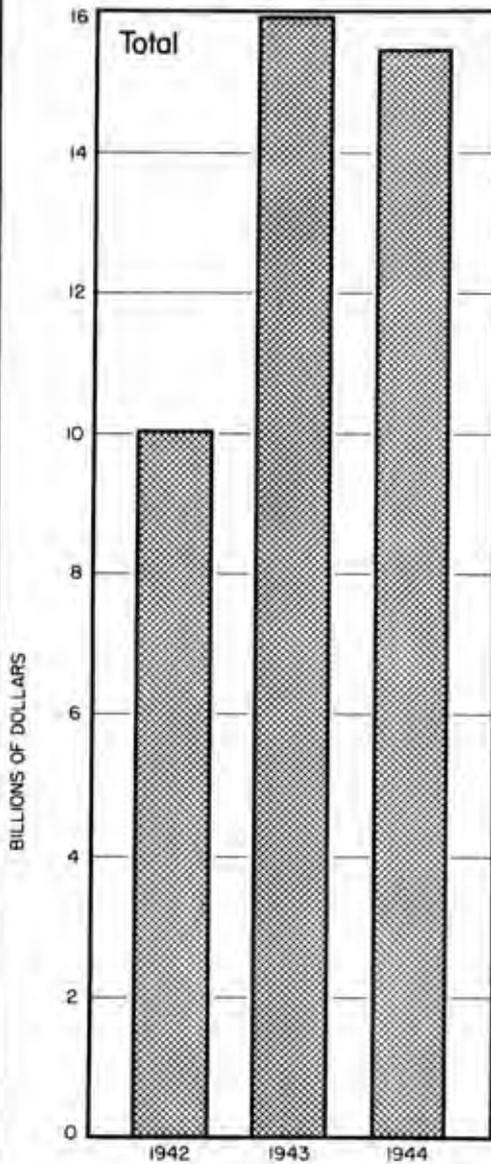
AIRPLANE PRODUCTION



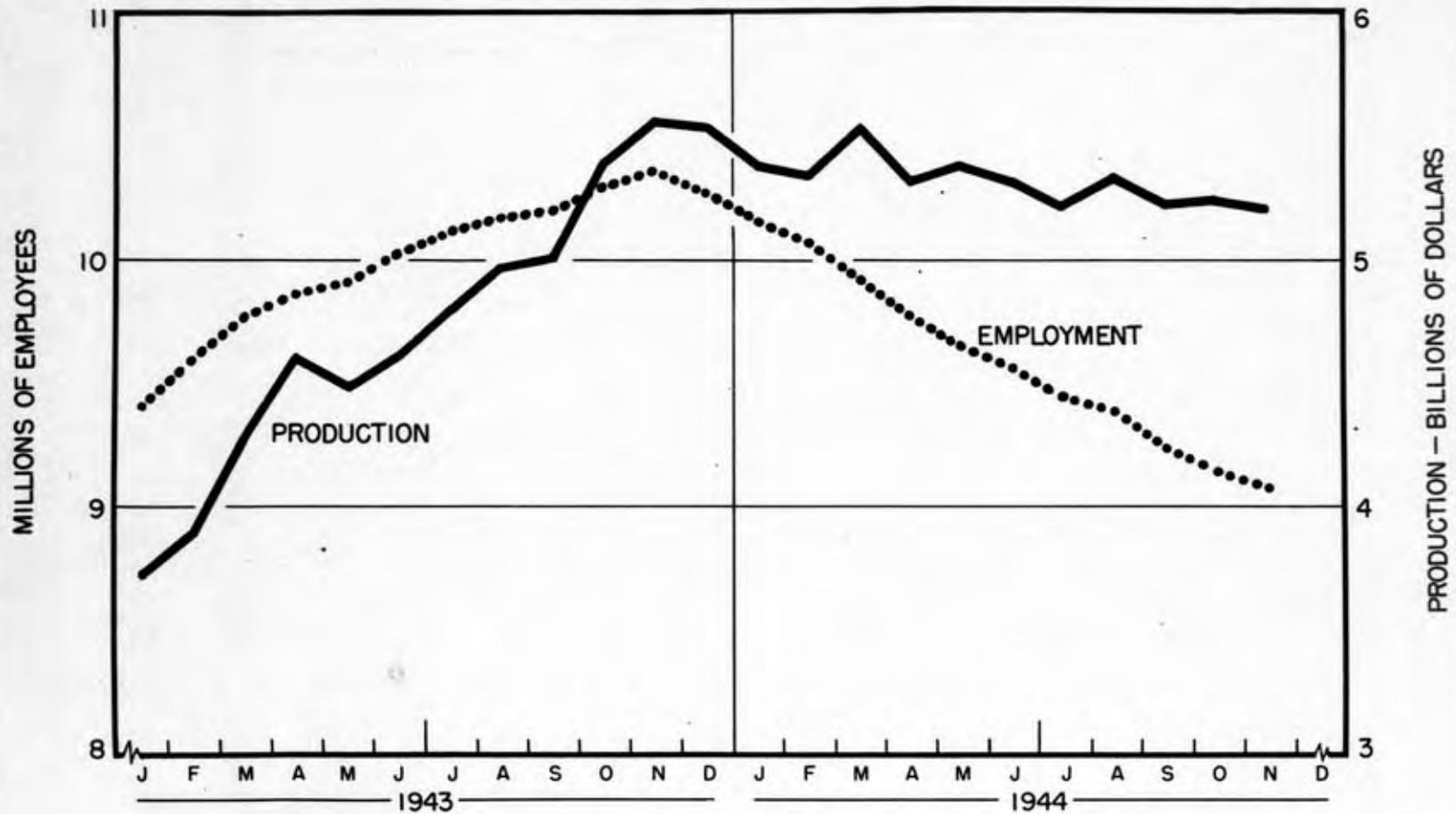
SHIP CONSTRUCTION—Value Put in Place



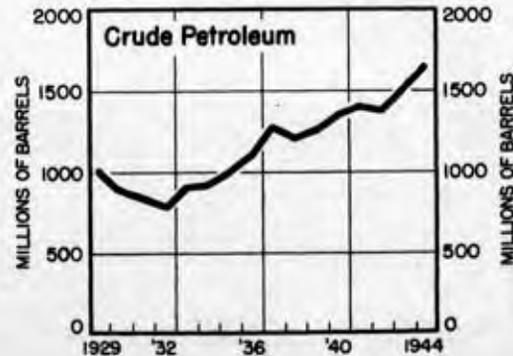
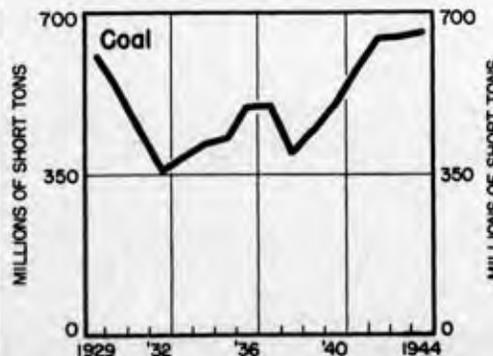
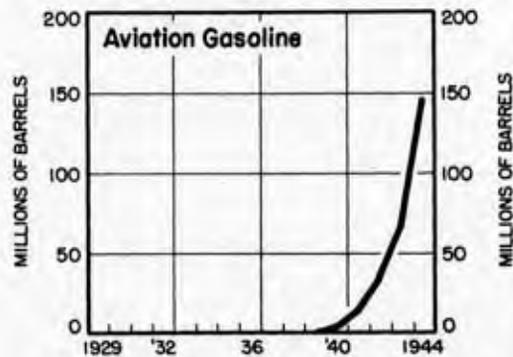
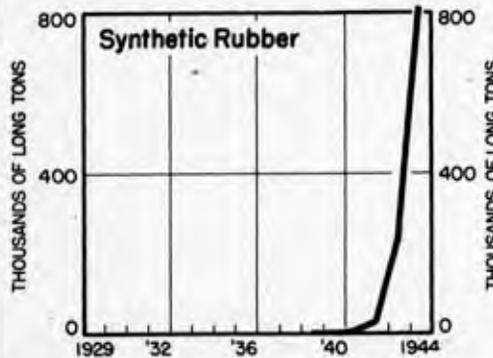
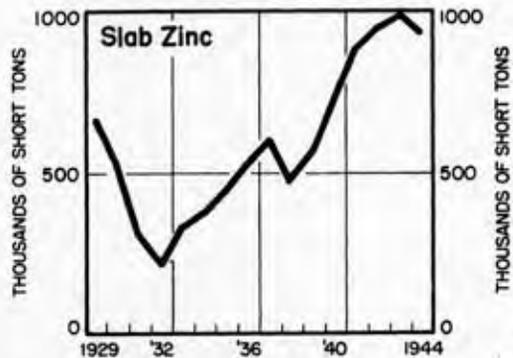
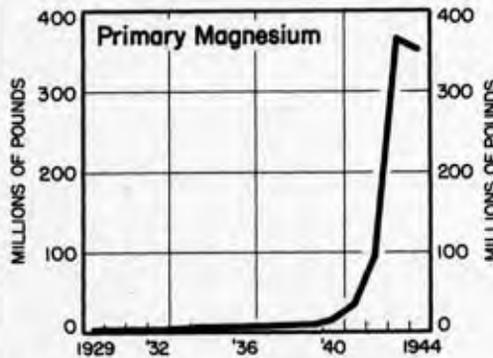
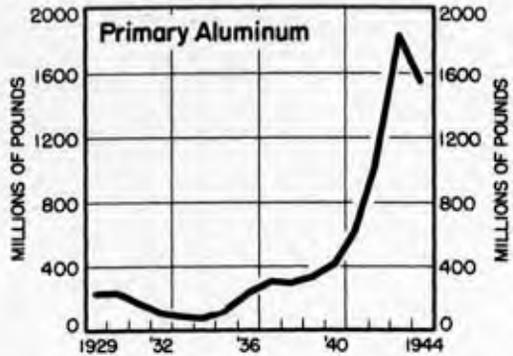
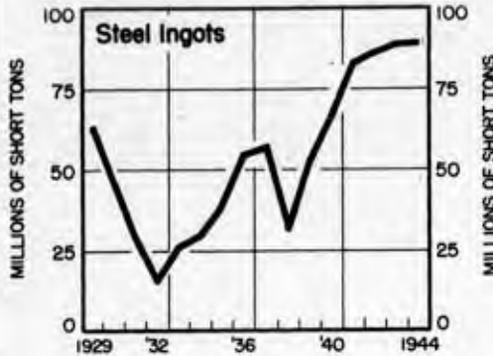
GUNS, AMMUNITION AND VEHICLES - Delivered



MUNITIONS PRODUCTION VS. EMPLOYMENT

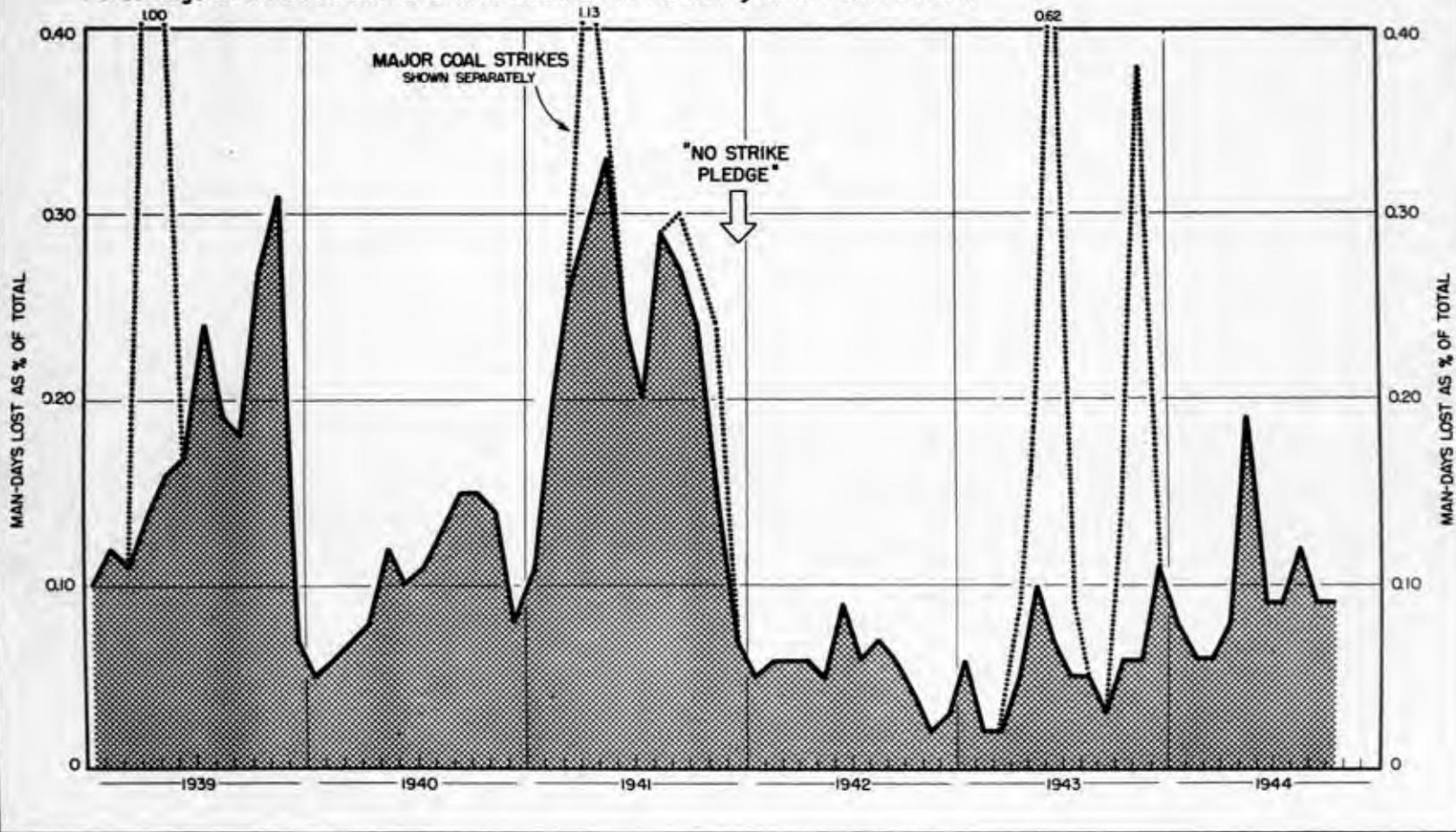


MATERIALS FOR WAR



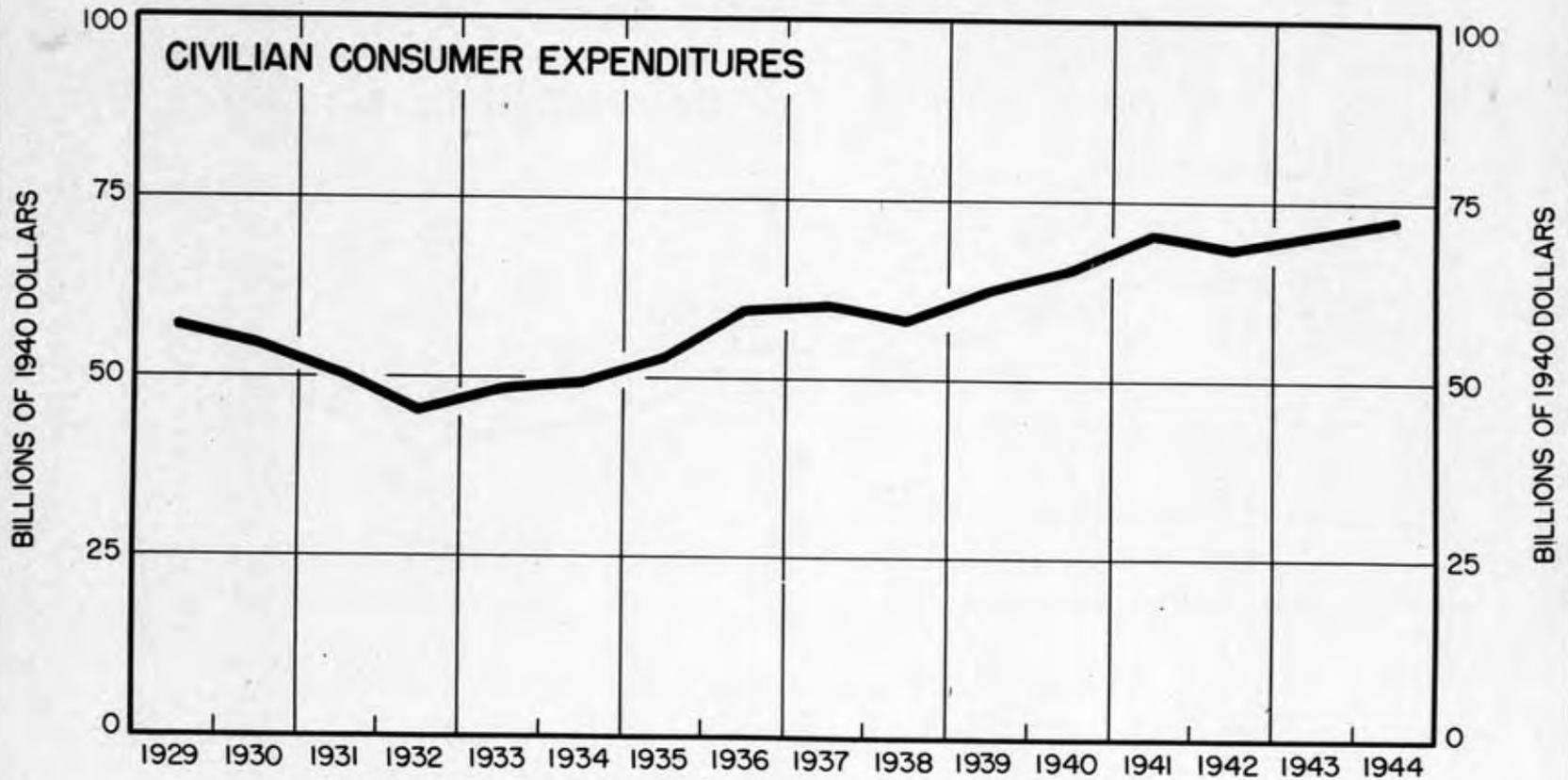
BEFORE AND AFTER "NO STRIKE PLEDGE"

Percentage of time lost due to strikes declined immediately after Pearl Harbor.



WAR AND THE CIVILIAN ECONOMY

Consumption today is above levels of 1929 and 1940.



By setting price ceilings, establishing wage controls, increasing tax rates, broadening the tax base, limiting corporation profits, and encouraging savings, the government has been able to repel the inflationary forces resulting from the increase in war expenditures from \$2,800,000,000 in 1940 to \$91,000,000,000 in 1944.

That increase in the nation's war output had the effect of doubling the incomes of individuals--from \$76,000,000,000 to \$155,000,000,000. Yet the output of goods and services for the consumer remained substantially unchanged. Thus for every \$2 of income there was little more than \$1 of production. That shift in the supply-demand balance in the economy might well have exploded the price structure. That it did not do so is due to the effective program of economic stabilization which has been hammered out in successive stages by Congressional, Executive, and administrative action.

The benchmark of the stabilization program is the last war. From July 1914 to the armistice in November 1918 (52 months) living costs rose 62 percent. Over a longer period in this war, from August 1939 to December 1944 (64 months) the increase has been only 28 percent.

The stabilization program began back in February 1941, when ceiling prices were placed on second-hand machine tools. This was even before the Office of Price Administration and Civilian Supply was set up (in April 1941). In January 1942, Congress passed the Emergency Price Control Act, ending the period of "voluntary cooperation" in prices. That Act provided general authority to fix maximum prices. With a view to increasing farm income relative to other incomes, Congress specified that in the case of farm products ceiling prices must be considerably above those then prevailing.

In May 1942, the General Maximum Price Regulation placed a lid upon the prices of the vast majority of nonfarm products. In the same month, rent ceilings were first established--in 20 major urban areas. On October 2, 1942, Congress created the Office of Economic Stabilization. Five months later, point rationing of processed foods started. A month later, in April 1943, the President issued his "hold the line" order.

Subsequent establishment of dollars and cents price ceilings and enlargement of the use of subsidies completed the major steps in the development of price control policies. These successive actions steadily improved control over the price structure. By May 1943, living costs had risen 27 percent; they have gone up only about 1 percent since.

Wage and price controls were companion pieces. It was necessary to keep prices steady so that workers would not demand boosts in wage rates which in turn would force production costs and prices up, thus bringing another round of demands for wage boosts. First, the National Defense Mediation Board, then the National War Labor Board (January 1942) were established to settle labor-management disputes.

In July 1942, in the "Little Steel" decision, the War Labor Board announced its intention of holding general wage increases to 15 percent above the January 1941 level, except in cases involving substandard conditions or inequalities. And in the Stabilization Act of October 1942, Congress granted the President authority to control wages even when employer and employees agree upon increases.

Wage stabilization would not have been possible without the cooperation of labor and management through the War Labor Board. With a few notable exceptions both labor and management have accepted the decisions of the War Labor Board. The machinery for peaceful adjustment of disputes provided by the War Labor Board was and is necessary to enable labor and management to carry out their no-strike, no-lockout pledge. Government seizure and operation to avoid interference with the war effort has been necessary in only a few cases where employers or workers failed to live up to their wartime responsibilities.

In some cases, seizure is not the best way of enforcing the decisions of the War Labor Board. It imposes on the government onerous responsibilities of running private business. I recommend that the Congress should provide in addition to seizure other means of enforcement. The War Labor Board should have the right, whenever it considers it necessary, in the public interest, to make its decisions mandatory and legally enforceable in the courts without resort to seizure.

During the 22 months between Jan. 1941, and October 1942, when the War Labor Board was given complete control of wage rates, basic wage rates in manufacturing went up slightly more than 15 percent. During the next 22 months, another 4 percent was added, bringing the total to 19.5 percent. In addition, as a result of incentive payments; merit raises to individual workers, and job upgrading, hourly earnings advanced another 10 percent, or a total of 30 percent; this more than offset the rise in the cost of living. (as a result of longer hours, overtime premium pay, and shifts from lower-pay to higher-pay industries, weekly earnings have risen by much more--by some 75 percent.)

Corporate profits were restrained through price ceilings, renegotiation, profits taxes. Although profits rose from \$5,800,000,000 in 1940 to \$8,800,000,000 in 1944, production rose even more. The ratio of profits to the value of non-agricultural private output actually dropped from 7.3 percent in 1940 to 5.7 percent in 1944.

Renegotiation has limited profits in two ways:

1. Through refunds, Renegotiations began during the fiscal years 1942 and 1943 and have brought in \$4,355,268,000 to date. (These figures do not reflect tax credits allowable against the refunds.)
2. Through price reductions, Statutory renegotiation and other procurement activities have resulted in cuts on existing contracts of \$3,887,597,000 in addition to lower prices secured on reorders.

The Renegotiation Act, as amended, will terminate on June 30, 1945, and it is my recommendation that it be extended at least to December 31, 1945, with authority in the President to extend it for another six months.

The story of how inflation was checked--despite the sharp rise in all types of income: wages and salaries, farm income, income of other unincorporated businesses, corporate profits, interest and rents--can be told statistically. The \$79,000,000,000 increase in individual income receipts from 1941 to 1944 was siphoned off as follows:

\$16,700,000,000 in taxes, which rose from \$3,300,000,000 to an estimated \$20,000,000,000;

15,500,000,000 in war bond purchases, which rose from \$500,000,000 to \$16,000,000,000;

15,500,000,000 in other savings, which rose from \$7,300,000,000 to \$22,800,000,000.

Thus of individual incomes of \$155,300,000,000 in 1944, only \$96,500,000,000 was spent.

PROSPECTIVE DEVELOPMENTS

The battle for economic stabilization will not end with victory in Europe, perhaps not even with victory in the Pacific. The last war provides a warning. For a few months prices sagged--as workers were laid off by munitions plants, as soldiers were demobilized, and as government orders dropped off. But inventories had been depleted. Businesses were building up stocks. At the same time foreign demand--especially for U. S. Foodstuffs--was brisk.

Then in March 1919, prices again started upward. In the spring of 1920, living costs were 28 percent and wholesale prices almost 25 percent above their inflated level at the war's end. These high prices choked off construction activity, which had begun to rise. At the same time foreign buyers turned to less high-priced sources of supply, and consumers rebelled at the inflated living costs. Result: the inventory boom ended abruptly.

By the middle of 1921 wholesale prices had fallen 45 percent and farm prices 53 percent. Between 1919 and 1921, factory payrolls dropped 44 percent; new income of farmers 61 percent; and profits of all corporations from \$6,500,000,000 in 1919 to a deficit of \$55,000,000 in 1921. It was one of the sharpest economic collapses in history.

Again this time there will be powerful inflationary and deflationary forces at work. First as to deflation.

Let us assume that the war in Europe ends before the war with Japan. When V-E Day comes, munitions requirements of the armed forces will decline. That will automatically result in reduced war production and reduced payrolls. Some temporary unemployment will be unavoidable. However this will release manpower and materials for reconversion. At the same time continuing war orders for the fight against Japan will make the transition from all-out war to all-out peacetime gradual--a two-stage process. The letdown will not come all at once, as it did after the last war.

When the war ends on both fronts, the full force of deflation will be felt. Government expenditures, which today amount to about \$100,000,000,000 a year, will decline to perhaps one-fourth that amount. The resulting declines in employment and payrolls, as war orders are canceled, could have far-reaching effect. Consumers, for example, might hesitate to use their savings to buy goods if a depression and prolonged unemployment seemed likely.

Hours worked per week will also decline. Though this will have the effect of spreading the work, it will also deflate the earnings of workers--particularly since they will lose part if not all of premium overtime pay. These consequences are being carefully studied by the War Labor Board. The possibility of reduced earnings will have a direct bearing on the relationship of workers income and their living costs.

It is essential that we facilitate reconversion as rapidly as possible so that peacetime industries can move into the breach. At the same time we must have ready plans for Federal, State, and Local public works projects--for highways, schools, land reclamation, etc.--which can be promptly dovetailed into the employment requirements of the post V-E Day and postwar economy.

Now, as to inflationary pressures.

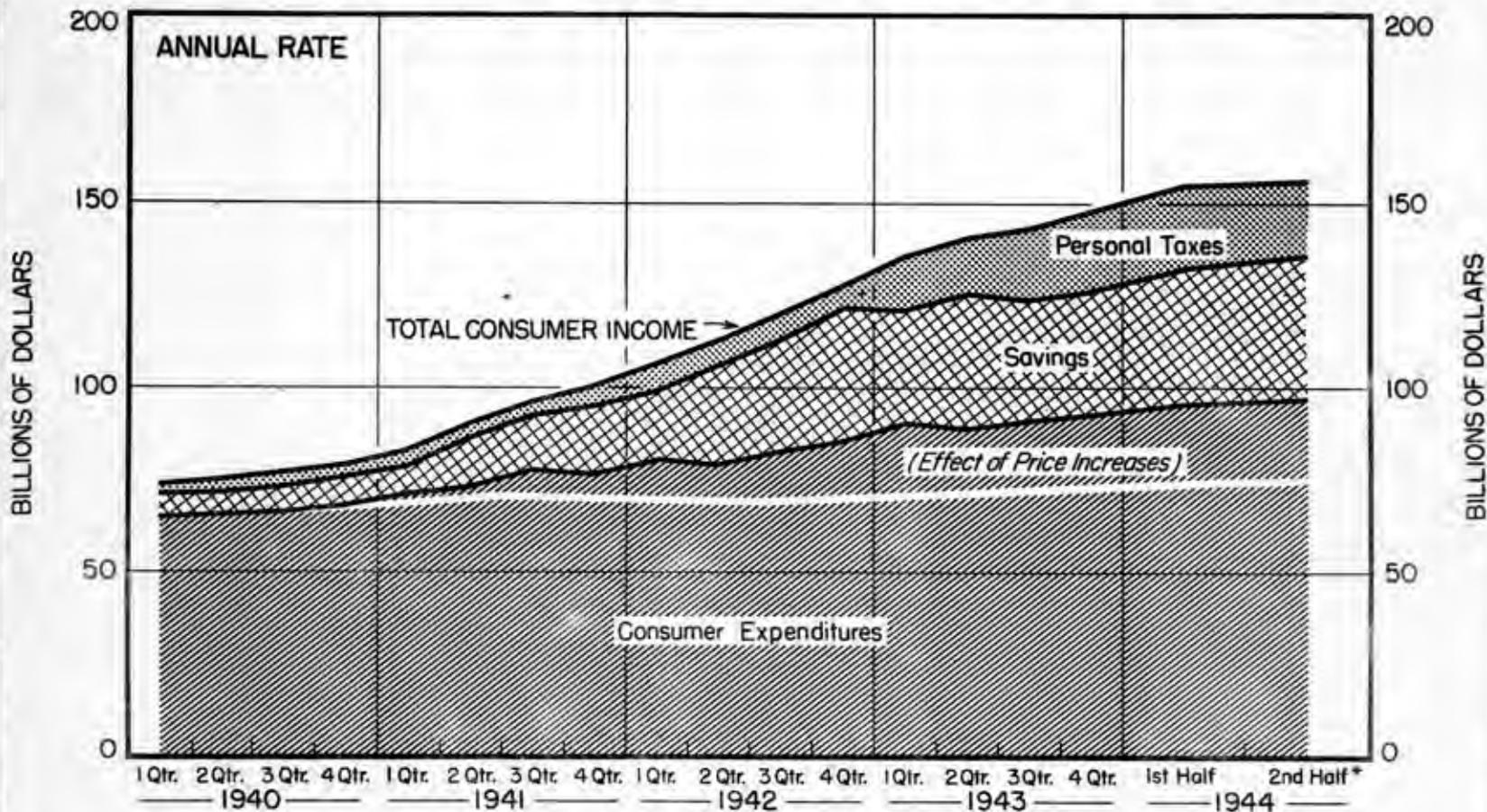
During the four years 1941 through 1944, consumers have accumulated a record volume of savings--\$90,000,000,000. Some \$45,000,000,000 of war bonds have been bought. Another \$45,000,000,000 has been stored up in bank deposits and in currency. And that \$90,000,000,000 is superimposed on pre-Pearl Harbor cash assets of \$50,000,000,000. In part, these holdings will remain a financial nest-egg, but in part they represent potential demand for new houses, automobiles, refrigerators, furniture and other consumer goods--both durable and nondurable. But whether they are used depends on whether there will be jobs.

Also, inventories of consumer goods will be low--as after the last war. Wholesalers and retailers alike will try to build up stocks. This could force up prices, for which we must be prepared. It is not too early, in my opinion, for the Congress to consider extending until June 30, 1946, the Stabilization Act.

The problem in the transition period is to hold to a middle course--to stop a runaway market in the prices of goods which may be in high demand as a result of pent-up, unfilled wartime requirements, yet without checking the forces working toward expansion. At the same time deflationary forces, as a result of the drop in munitions production, must be combatted. Toward this end, the Congress has already provided in the "G. I. Bill" for the maintenance of minimum levels of income of \$20 to \$23 per week for demobilized soldiers.

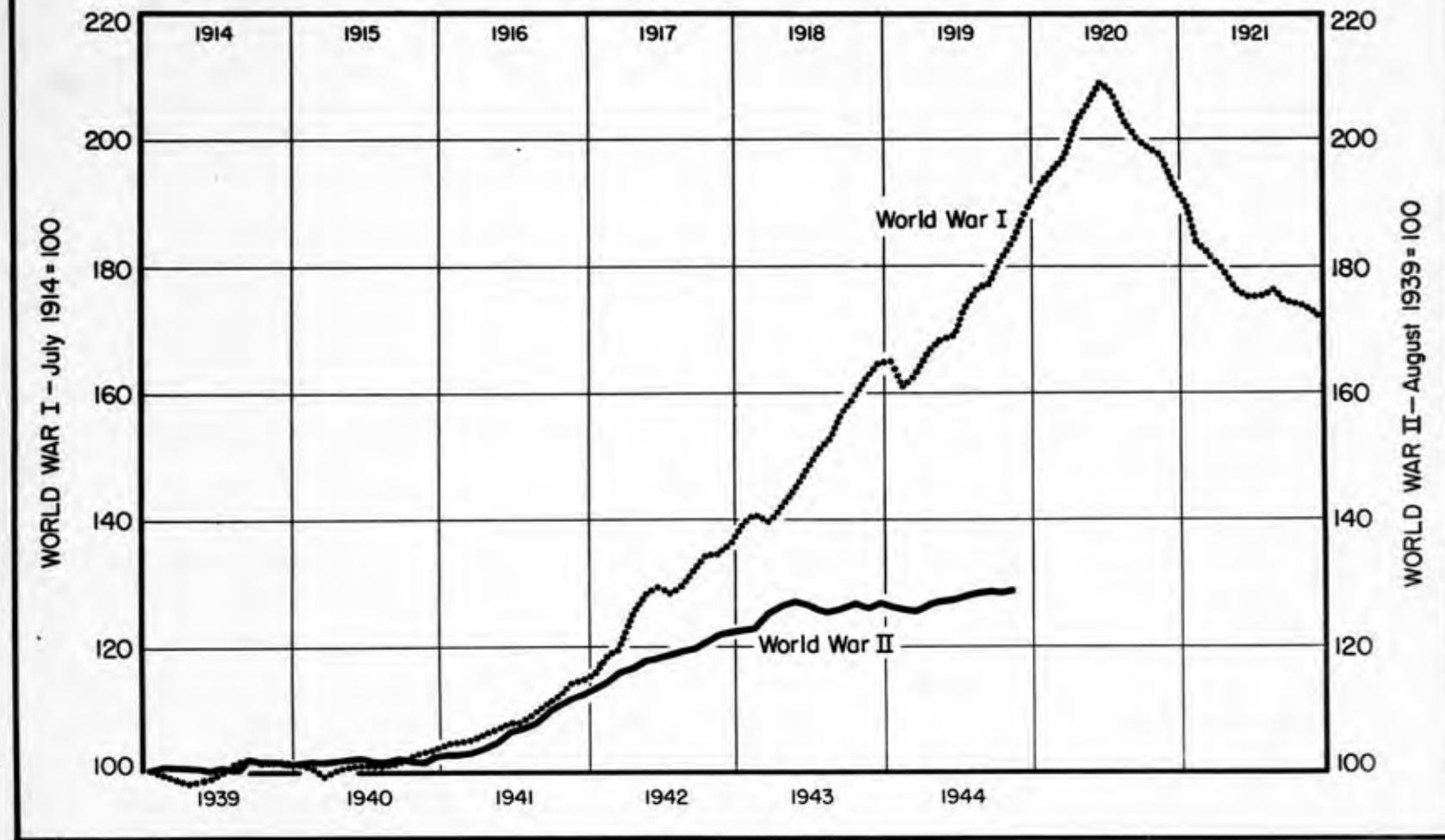
I renew my recommendation that the Congress liberalize unemployment benefits for civilian workers. Such legislation would perform the double duty of alleviating distress among lower-income workers who become unemployed and of maintaining a level of consumer expenditure necessary to facilitate a speedy transition to high-level output of peacetime goods.

HOW PEOPLE SPENT (SAVED) THEIR MONEY



*Personal taxes include quarterly Federal income tax payment due January 15, 1945.

PRICES—THEN AND NOW



MANPOWER

Even though the manpower mobilization problem is not so large as in 1942 and 1943, when virtually all munitions programs were expanding and needed workers, nevertheless, the task of providing manpower still required for the armed services and for some war industries is more acute and more difficult than ever. There is no longer ready manpower to be drawn on. In 1942 and 1943, large numbers were being released from civilian production, thus becoming available for war work. Also there was a pool of unemployed.

Today the need for labor in war industries is tied in directly with battle-field requirements. Programs calling for additional production and manpower include ammunition, machine tools, tires, textiles, dry-cell batteries, ship repair and maintenance, field and assault wire, and special types of combat airplanes.

MOBILIZATION ACHIEVEMENT.

A remarkable job in mobilization has been accomplished. From 1940 through 1944 we have added about 18,100,000 workers to the war effort, as follows:

1. The armed forces were increased from 700,000 to 11,900,000.
2. Employment in the munitions industries increased from 4,500,000 to 10,300,000, in November 1943, and then receded to 9,200,000--a net increase of 4,700,000 to date.
3. We have added to Federal war agencies, primarily to the War Department and the Navy Department civilian forces, 1,500,000 workers.
4. We have added to the transportation system and public utilities about 700,000 workers.

Where have these people come from?

First, at the beginning of the country's defense program there were 7,000,000 unemployed.

Second, we drew upon the underemployed--those working below their normal skills or part time.

Third, women left their homes for war jobs, students postponed their education and training, older workers deferred retirement. In all, there was an increase of about 10,000,000 in the labor force, of which 7,000,000 was "abnormal growth."

LABOR IN THE WAR

	October 1940	October 1944	Change
	Millions	Millions	Millions
Total labor force, including armed forces . . .	54.5	64.8	+ 10.3
Male	41.3	46.0	+ 4.7
Female	13.2	18.8	+ 5.6
Armed Forces7	11.9	+ 11.2
Male7	11.6	+ 10.9
Female	0	.3	+ .3
Civilian labor force	53.8	52.9	- .9
Male	40.6	34.4	- 6.2
Female	13.2	18.5	+ 5.3
Unemployment	6.5	.6	- 5.9
Employment	47.3	52.3	+ 5.0
Agricultural	9.6	8.8	- .8
Nonagricultural	37.7	43.5	+ 5.8
Manufacturing	11.5	16.2	+ 4.7
Metals and chemicals ¹	4.5	9.2	+ 4.7
Other manufacturing	7.0	7.0	0
All other	26.2	27.3	+ 1.1
	Years	Years	Years
Average age of civilian labor force	37.0	40.2	+ 3.2
Average weekly hours worked in manufacturing . . .	39.4	45.6	+ 6.2
Average weekly earnings in manufacturing	\$26.20	\$46.98	+ \$20.78

¹Now often called munitions industries.

SOURCES OF LABOR SUPPLY.

Today the picture is quite different from 1940. Some 300,000 workers are needed fully to man war plants, but there is no longer an unemployed group available for recruiting purposes. Our main sources of labor for critical programs must be:

1. New workers just entering the civilian labor market. In view of Selective Service requirements, these are largely women. The entry of women into the labor force, though still above normal, has slowed down. In the past year the increase was 700,000, approximately one-third of the increase in 1943.

2. Workers in relatively less essential occupations who must be induced to transfer to war industries.

3. Workers leaving munitions industries. In the last year some 1,100,000 workers were released from or quit war plants. About half of these joined the armed forces. Some retired from the labor force—for example, housewives who went back to the home. And some took nonwar jobs. The waitress who became a welder and loses her war job may return to restaurant work.

War production has become less attractive than it was a year or two ago. The earnings differential on war jobs relative to nonwar jobs has been reduced as overtime has become general. Living conditions in war centers are trying.

Also, concern over personal job security has perhaps created an urge to find employment in peacetime industries.

CRITICAL NEEDS NOW.

Several hundred thousand workers would fulfill the requirements of critical war production. But because the war economy has matured, because the labor supply is tight and relatively inflexible, moving enough workers to the right plants at the right time takes intensive effort on the part of all agencies.

The Office of War Mobilization and Reconversion has recently requested the Director of Selective Service to tighten Selective Service System classifications. The Director of Selective Service has reported that the new regulations have already succeeded in holding workers in critical war plants. The War Production Board has suspended the "spot authorization" plan for civilian production in tight labor areas. The War Production Board has also limited the production of civilian goods to the level reached in the fourth quarter of 1944.

The War Manpower Commission has been asked to tighten manpower ceilings, particularly in the less-essential industries, and the War Production Board has been authorized to deny priority and allocation privileges to plants which fail to comply with WMC regulations. Race tracks have been asked to close to reduce the drain on manpower, transportation, and other services. Notwithstanding the financial loss involved, the favorable response of owners of race tracks and race horses has been virtually unanimous.

However, even these measures may not be sufficient. It may be necessary to request the Congress for legislation designed to strengthen the authority of the War Manpower Commission.

Further, we must anticipate the possibility of increased calls under the Selective Service System. We must recognize the necessity of reconsidering the standards governing the deferment of agricultural workers, since this group represents the largest remaining source of young men for military service.

The Office of War Mobilization and Reconversion, together with all Government agencies concerned, recognizes that its first problem is to meet the demands of manpower for all-out war. However, it is not overlooking the manpower and employment problems which will certainly develop with the end of the war.

PROSPECTIVE DEVELOPMENTS.

The character and composition of the American labor force and of our labor market have undergone a drastic transformation. Manufacturing industries now absorb one-third of the civilian labor force, as compared with one-fourth in 1940. The average age of workers has increased from 37 in 1940 to about 40 years in 1944. The proportion of women workers in the civilian labor force has gone up from 25 percent 4 years ago to 35 percent.

Further, the wartime labor force is concentrated geographically. Though efforts were made to move industry to the workers, the necessity of speed in war production made it impossible to avoid a substantial concentration in areas where a nucleus of skilled labor, managerial know-how, and facilities

were available. Thus, the aircraft and shipbuilding regions on both coasts and the industrial areas in the Great Lakes region have expanded greatly, drawing population away from agricultural areas and States (map, Civilians on the March). Even within States, there has been a movement from small areas to manufacturing centers.

However, the growth of the labor force itself constitutes the main post-war problem. Peak employment prior to the war was reached in 1929, when an aggregate of approximately 47,000,000 persons were at work. During the depression, employment shrank to 38,000,000 in 1932, then recovered to 45,000,000 by 1939. Since then, both total employment and the average number of hours worked have increased greatly. Our working force, including those in the armed forces, is now approximately 65,000,000 persons--an increase of nearly 20,000,000 over 1939. This expansion poses the basic post-war problem.

Some of the additional workers will be absorbed through a return to pre-war working hours.

Some will retire.

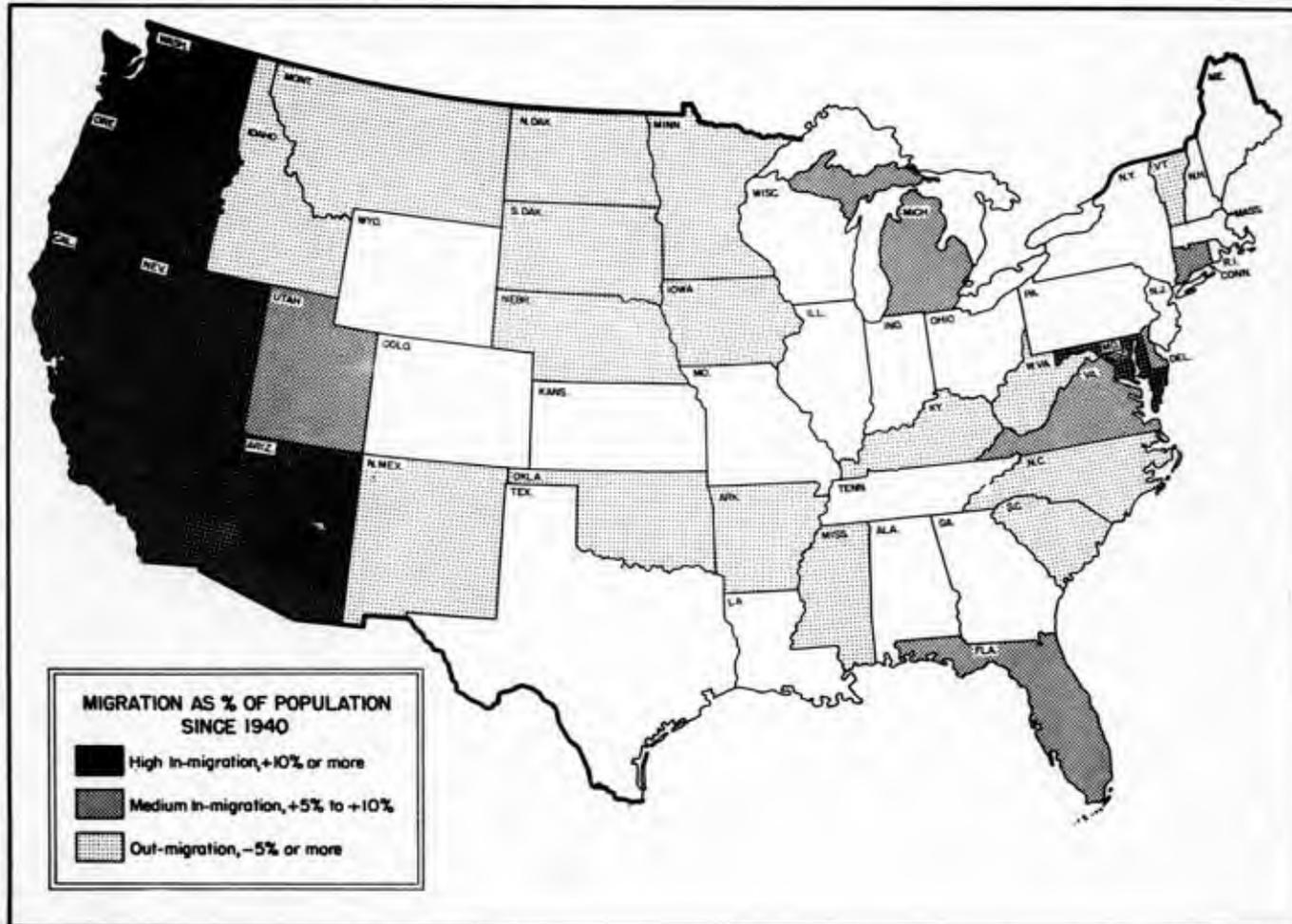
Some will return to school.

Some will remain in the armed forces.

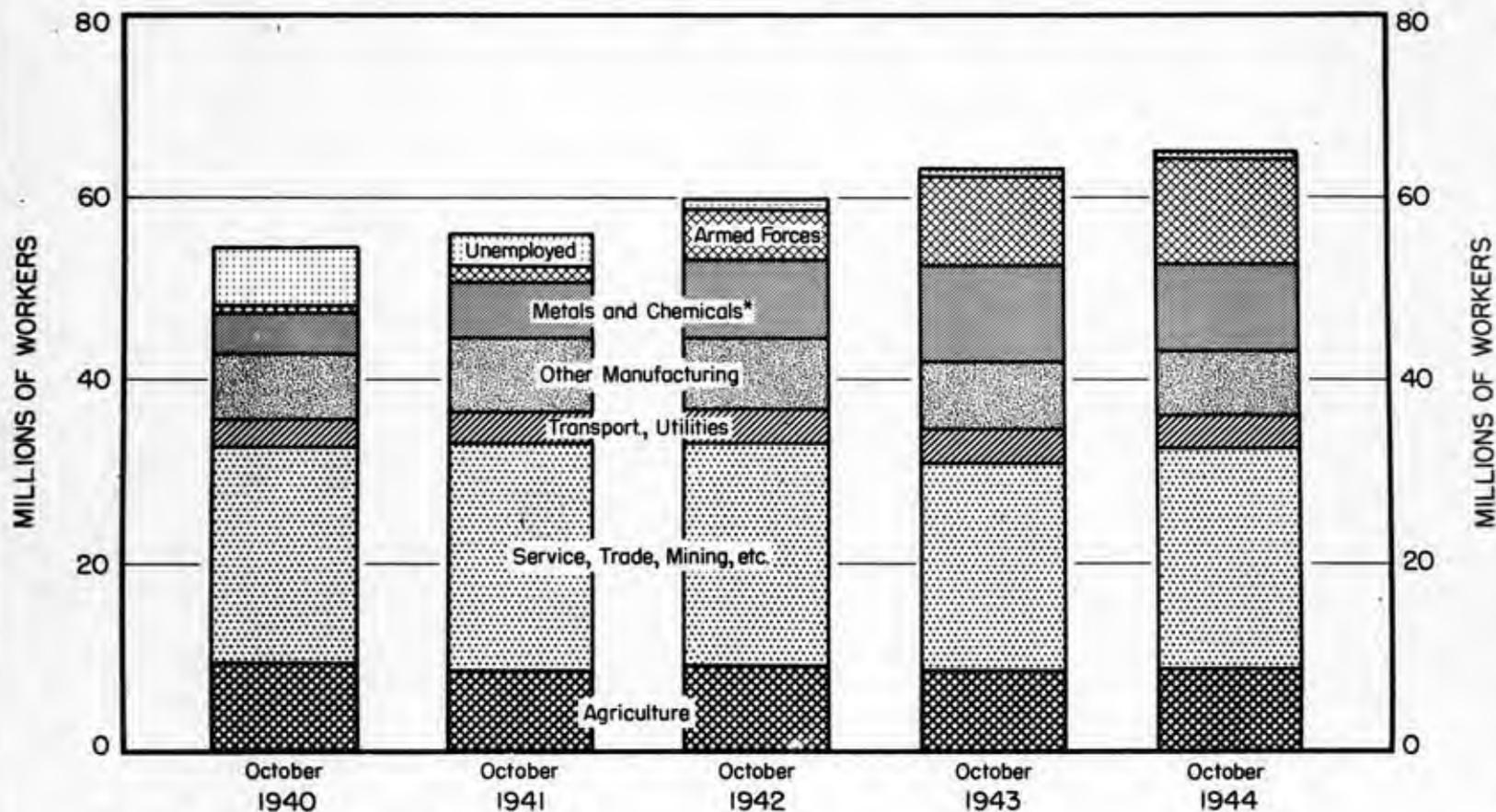
However, many will be out of work unless we succeed in building up a volume of production and distribution far beyond anything heretofore realized. That is the fundamental economic problem of the post-war period to which our thinking must be directed. It is a problem which this Office will discuss at greater length in subsequent reports.

CIVILIANS ON THE MARCH

Workers in search of war jobs gravitate toward coastal aircraft and shipbuilding centers. Out-migration heaviest from agricultural states.



THE WARTIME LABOR FORCE



* Industries producing mainly munitions today

The Nation's achievement in agriculture can be summarized thus: In 1944, almost one-quarter of the country's farm output went directly to our armed forces and allies, yet total food available to civilians slightly exceeded the 1935-39 average, and on a per capita basis was up 7 percent above that level.

Clearly, the American standard of eating-quantitatively-did not suffer. This was because total farm output, which by 1940 had risen one-tenth above 1935-39 average, increased by 21 per cent more between 1940 and 1944. Total food supplies increased 23 percent.

Here are some specific examples of big gains over 1940; eggs, up 46 percent; wheat, 33 percent; peanuts, 24 percent; corn, 31 percent; beef and veal, 32 percent; pork, 28 percent. In each of these items except pork, with its unprecedented 1943 volume of almost 13,400,000,000 pounds, 1944 set all-time records.

Unlike the increase in the production of munitions, this increase was not attained through a vast inpouring of additional resources. The total farm population dropped 16 percent (chart, "Civilians on the March," p.00). Farm employment fell 5 percent between 1940 and 1944, and the decline would have been much greater had not many farm workers been granted occupational deferments from military service, and had not many farm women and youths, normally not in the working force, stepped into the breach.

Acreage devoted to crops went up only 5 percent, and even this was mainly at the expense of rotation pasturage and summer fallow, rather than through the breaking of new ground. But the use of commercial fertilizer increased 45 percent over 1940. Moreover, the setting of voluntary production goals, farm by farm, stimulated each farmer to maximum effort. And prices, directly supported by the Government, advanced sufficiently to provide incentives for intensified operation.

MEETING WARTIME GOALS

Mechanization also increased. Immediately after Pearl Harbor, production of farm machinery was curtailed sharply as munitions production made exacting demands upon our steel capacity. Farmers, aiming at high production goals in 1942 and 1943, wished to purchase added machinery and equipment to offset the drop in the labor force. Many were unable to do so. However, in 1943-44 allotments of materials to farm equipment increased, and output in 1944 exceeded the record year of 1941.

To keep farm machines operating, production of spare parts was boosted year after year. As a consequence, though the demand for farm machinery is still great, farms generally have become increasingly mechanized. There are 29 percent more mechanical corn pickers on farms today than in December, 1941; 23 percent more combine harvesters; 49 percent more milking machines. There is still a serious shortage of farm trucks and farmers need more of some other types of farm equipment than is yet available.

As another factor, a decade of soil conservation had built up plant energy within the soil and hence contributed to larger yields. Improved varieties of seed-notably hybrid corn-also increased production. And there was good weather throughout most of 1944. It all added up to a high level of production per worker-28 percent better than in 1940, and 45 percent above the 1935-39 average.

Legislation played its part. To stimulate farm production, Congress provided price supports for specific classes of agricultural products. Prices received by farmers rose by 82 percent from 1935-39, and were 14 percent above parity in 1944. Realized net income of farm operators went up 170 percent from \$4,600,000,000 in 1940 to about \$12,400,000,000 in 1944. Some of this increase was due to the higher volume of production, and some to the advance in farm prices as compared with farm costs. Prices paid, and cost rates other than wages to hired workers, increased less than half as much as the prices received for farm products. Farm wages, however, increased 150 percent from 1940 to 1944. Not only did support prices help raise farm income, but, more important, they helped direct agricultural energy into products most urgently needed, whether crops or livestock. Thus output of pork, milk, eggs, canning crops, corn, wheat, soybeans, and peanuts rose sharply, while the output of cotton dropped (chart, "Wartime Peaks in Agriculture"). In a sense, agriculture was put on an incentive-pay basis, and support prices were to farmers what specific munitions contracts were to industry and higher wage rates to labor.

The object was highly practical-to provide an adequate supply of food for the armed services, the civilian population, and our allies, and to maintain reserve stocks to guard against a bad crop year or shipping exigencies. Thus stocks have been stored here, in the United Kingdom, and in the European theater. These stocks are still needed. If weather should be below average in 1945, shortages might develop. When the war ends, however, those stocks may become surplus to the extent that they are not absorbed by foreign markets or by relief and rehabilitation requirements.

PROSPECTIVE DEVELOPMENTS

The Congress apparently foresaw this and provided for the continuance of support prices for 2 years after the first day of January following the termination of the war. This guards against an immediate collapse of prices if military and lend-lease food procurement should drop off sharply. At the same time it assures a high level of production since it relieves the farmers of the apprehension that crops which had been planted in anticipation of a given price might have to be sold in an unsupported market. Although we may enter the postwar period with farm product deficits, the continuance of support prices after the war may impel farmers to raise some products above the then current consumption requirements.

During and after the last war-from 1914 to 1920-farm land prices rose 65 percent. Those were the days of \$400 per acre for farm land in Iowa. Farm mortgage indebtedness in the United States rose from less than \$5,000,000,000 in 1914 to \$8,500,000,000 in 1920 and to \$10,800,000,000 in 1923.

So far during this war, farm land values have gone up 43 percent. But mortgage indebtedness has declined from \$6,600,000,000 in January 1940 to less than \$5,400,000,000-the lowest level since 1916.

The inference is that farm land prices, though they have gone up, have not risen because of an overfree use of credit. However, the speculative situation bears watching. During 1944, the number of farm mortgages increased. It appears that established owners of land are reducing their indebtedness, but that a new group of farm owners is buying on credit.

The capacity of the agricultural plant will present a fundamental postwar problem. Improved practices, increased mechanization, and more intensive use of fertilizer have boosted output per farmer and per acre to record high levels.

Therefore, in the postwar period the same number of farmers could easily turn out more than the prewar volume of crops and livestock products. 125

In spite of this, farm workers drawn into munitions plants will return to the farms unless the level of industrial production is such as to hold them in other undertakings. Many soldiers drawn from farms will return. Supplies of some products will be available again from war-torn areas. Hence, important readjustments in agriculture seem necessary if we are to maintain a high farm standard of living. How important and how serious these readjustments are will depend on the level of industrial prosperity in this country and on the extent to which farm products can be exported.

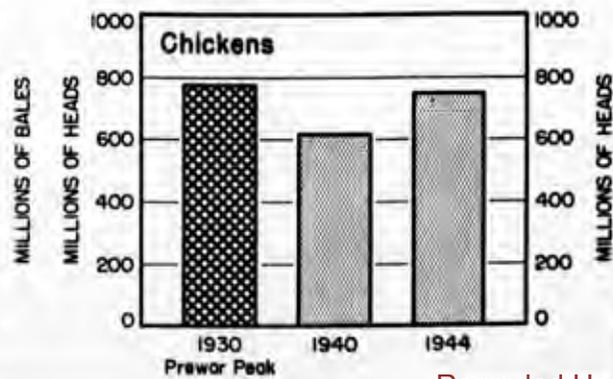
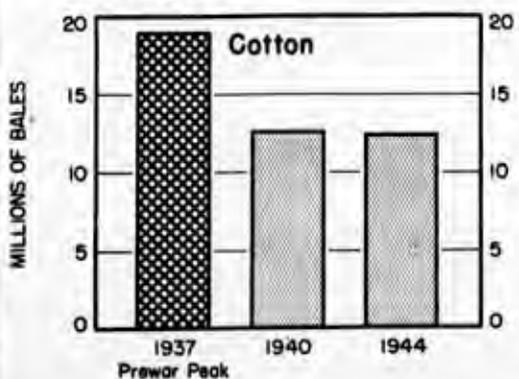
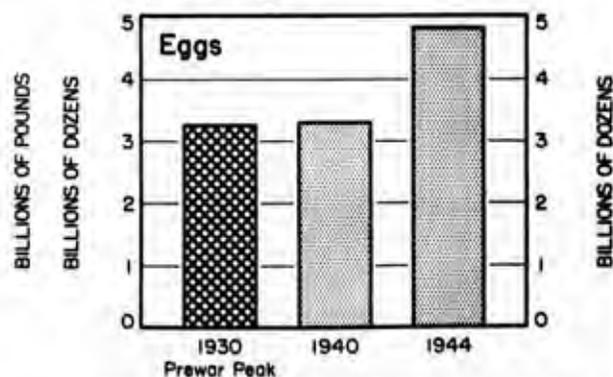
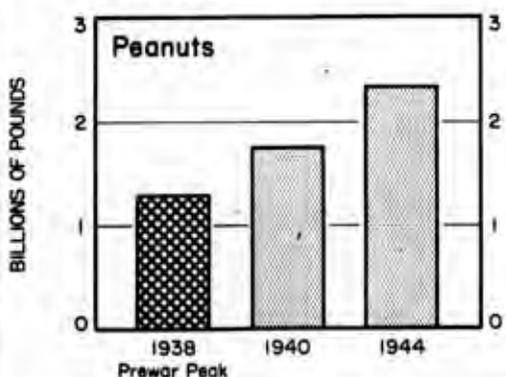
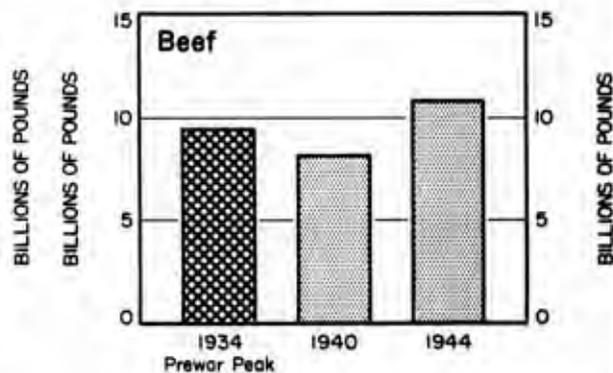
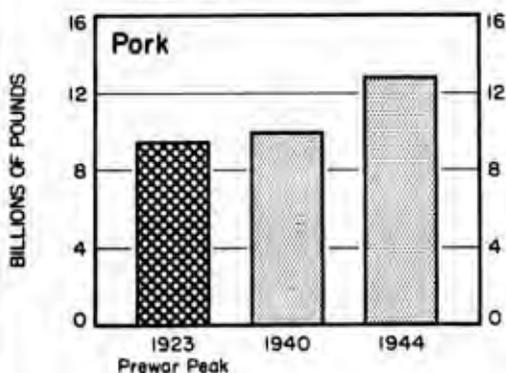
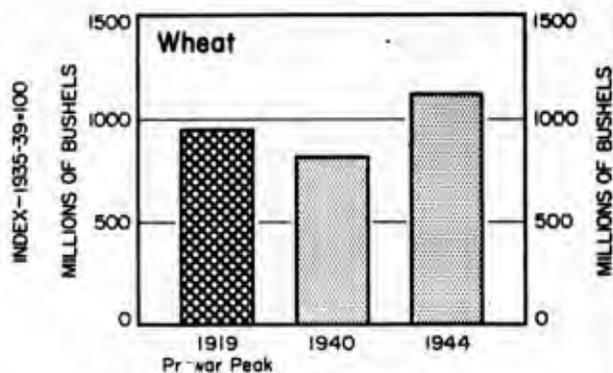
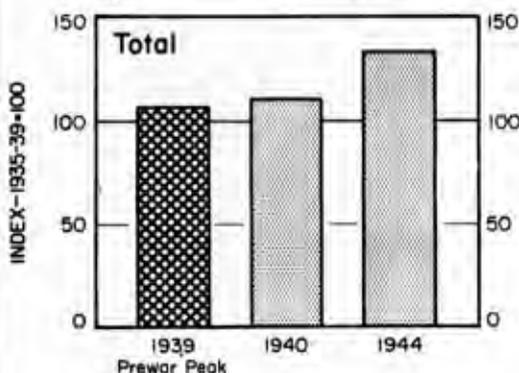
In the meantime, the task facing American farmers in 1945 is to make history repeat itself by once again producing the high volume of foodstuffs and other products needed to feed and equip the fighting and working populations of the United States and her allies.

WARTIME AGRICULTURE: 1940-1944

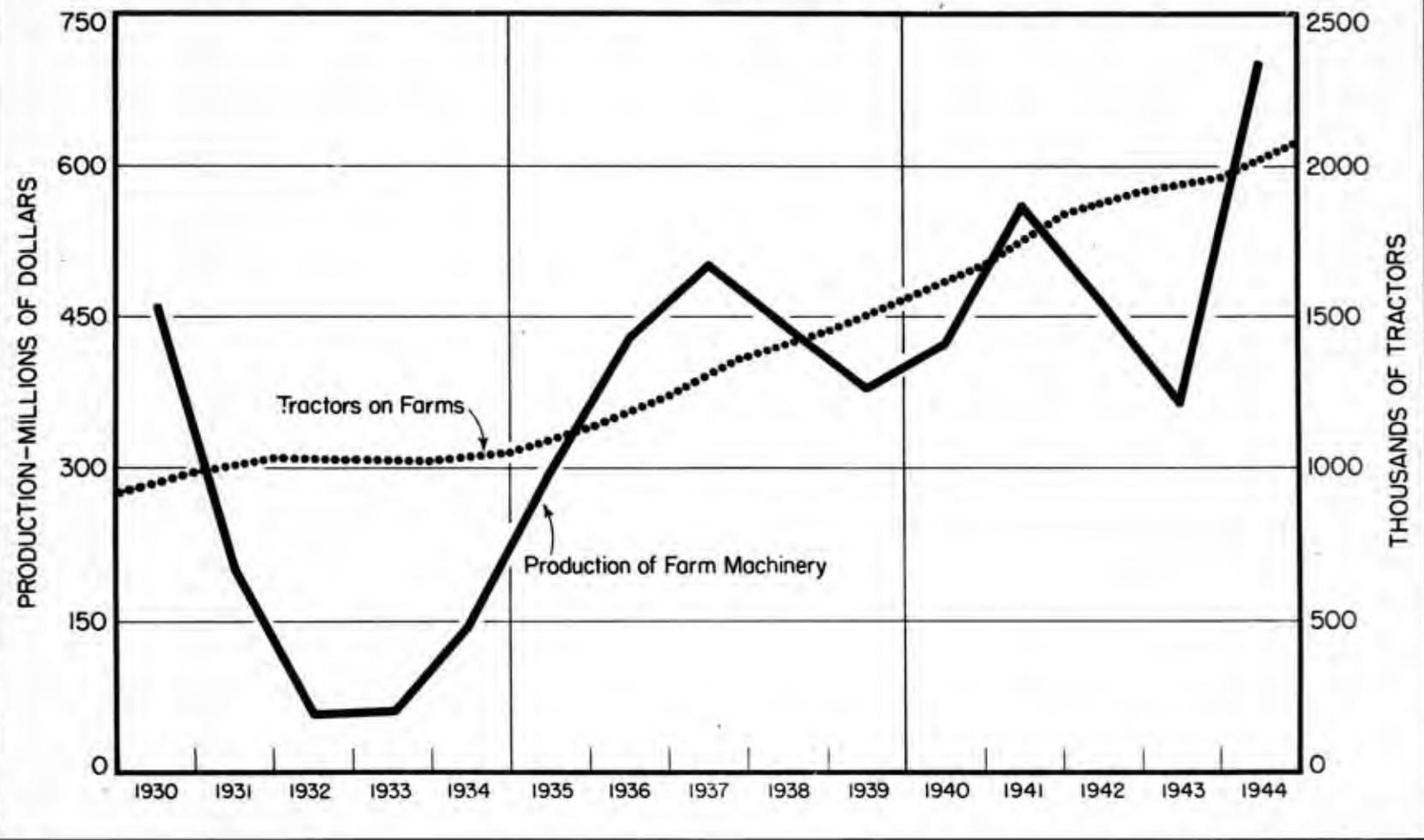
	Percent Change 1940-44	
Total output	+	21
Foods output	+	23
Acreage in crops	+	5
Farm population	+	16
Farm employment	-	5
Use of commercial fertilizer	+	45
Tractors on farms	+	25
Crop yield per acre	+	10
Output per worker	+	28
Net realized income, farm operators	+	170
Wage rates	+	150
Mortgage debt	-	14
Land prices	+	36

WARTIME PEAKS IN AGRICULTURE

Output of wheat, pork, beef, peanuts, eggs set new highs in 1944. Cotton, chickens are exceptions.



UPTREND IN FARM MECHANIZATION



FOREIGN ECONOMIC OPERATIONS

The story of foreign trade during the war period is largely the story of lend-lease on the export side and the procurement of critical war materials on the import side.

Shortly after Germany invaded Poland, both Great Britain and France sent purchasing missions to the United States to buy airplanes and other war products. These missions placed orders aggregating \$4,000,000,000 which started American industry to tool up for munitions production.

As the war mounted in scale it soon became evident that neither of these countries had the financial resources--the dollar balances--necessary to buy the munitions they would need from this country. The United States had become a creditor nation.

In March 1941, the Lend-Lease Act was adopted. This Act with subsequent modifications made it possible for our government to buy munitions and other supplies from industry and agriculture for transfer to Great Britain, Russia and other countries, whose defense was necessary to the defense of the United States, without definite arrangements for repayment. Since January 1942, there have been transferred about \$18,000,000,000 of combat munitions to our allies, or 16 percent of total U. S. output. Of this amount, \$16,000,000,000, or 14 percent, was under lend-lease:

	<u>Percentage of Output Transferred</u>	
	<u>Total</u>	<u>Lend-Lease Transfers</u>
Aircraft-----	16%	14%
Ships-----	10%	9%
Guns-----	12%	11%
Ammunition-----	17%	16%
Combat and Motor Vehicles-----	37%	32%
Communication & Electronic Equip.	<u>9%</u>	<u>8%</u>
Total Combat Munitions-----	16%	14%

Since March 1941, the U. S. has lend-leased 34,500 airplanes, 30,000 tanks and 700,000 motor vehicles. While both the British and Russians have produced the greater proportion of their own requirements, our contribution has been substantial, particularly in motor vehicle equipment.

Lend-lease has not been restricted to munitions. It has also helped our Allies to maintain their own industrial output. Exports of industrial products, many in unfinished form, have amounted to approximately \$6,400,000,000. Agricultural products, representing about 10 percent of our total food supply, have aggregated approximately \$4,450,000,000.

Lend-lease exports, which have exceeded \$24,000,000,000 are divided as follows:

2--Foreign Trade-12/28/44

March 11, 1941 - September 30, 1944
(000,000 Omitted)

	<u>Total</u>	<u>United Kingdom</u>	<u>Other British</u>	<u>USSR</u>	<u>Other</u>
Ordnance	\$ 3,560	\$ 1,620	\$ 940	\$ 750	\$ 250
Aircraft	5,010	1,760	1,660	1,330	260
Tanks and other vehicles	4,460	1,470	1,230	1,300	460
Watercraft	520	230	100	170	010
Agricultural Products	4,450	2,850	270	1,190	140
Industrial Products	6,380	2,630	1,400	2,150	200
- Total	\$24,380	\$10,560	\$ 5,600	\$ 6,880	\$1,340

REVERSE LEND-LEASE

During the period in which the United States has been assisting its Allies through lend-lease, it has also received substantial assistance from these Allies in the form of reciprocal aid. The United Kingdom has provided barracks, airfields, clothing, military bridges, ship repairs and many other items. Australia and New Zealand have provided substantial food supplies. British raw materials have been made available for U. S. production. Other countries have also provided reciprocal aid.

The reciprocal aid or reverse lend-lease obtained by the U. S. from the British empire is estimated by the British Government as follows:

	<u>January-June 1944</u>	<u>Total from June, 1942 to June, 1944</u>
United Kingdom	\$873,400,000	\$2,437,000,000
Australia, New Zealand, India	350,100,000	911,100,000
	<u>\$1,223,500,000</u>	<u>\$3,348,100,000</u>

Since the invasion of North Africa, the U. S. has also cooperated with other United Nations in providing the minimum essential requirements for the populations liberated by the Allied forces. This program to date has been largely a military operation, administered by the Army and Navy, to prevent disease and unrest along military lines of communication and to permit local populations to assist Allied forces. However, the Congress has authorized U. S. participation in the United Nations Relief and Rehabilitation Administration. The Foreign Economic Administration has allotted \$350,000,000 to date to procure supplies for UNRRA which include food, agricultural materials and equipment, clothing, medical supplies and some transportation and public utilities equipment. The export of these supplies must be governed by the availability of shipping beyond military necessity and by the military situation.

Lend-lease shipments have resulted in U. S. exports reaching the highest levels in history. In 1944 total exports will exceed \$14,000,000,000 which is three times the level of 1940, and almost twice the peak level of 1920 when this country exported goods valued at \$8,000,000,000 for the reconstruction and rehabilitation of Europe after World War I.

3-Foreign Trade-12/28/44

Despite shipping restrictions, imports have also risen as a result of the war, from \$2,600,000,000 in 1940 to an estimated \$4,000,000,000 for 1944.

During the early periods of the war, the United States engaged in preclusive buying of materials and products which would aid the Axis powers. However, our import program has been directed largely to the procurement of basic materials needed for war production. In 1943, almost all of our tin, 85 percent of our wool, all of our nickel, 85 percent of our chromite, 85 percent of our manganese ore, and 60 percent of our tungsten were imported.

We have provided financial, technical and material aid to foreign governments and producers to assist in the development of foreign sources of supply of critical materials.

The attainment of adequate stockpiles and the shift in war requirements are permitting the reduction of some government programs for procurement abroad. Trade in several commodities has already been returned to private hands and studies are now under way to determine when and how licensing restrictions on foreign trade can be modified.

PROSPECTIVE DEVELOPMENTS

Congress, in passing the Lend-Lease Act, made a major contribution to early victory. It developed a munitions industry in the United States. It also made it possible to extend maximum aid in the war to our Allies; it did this in a way to avoid draining such countries of all their gold and dollar balances.

As will be seen from the chart "Foreign Trade Goes to War", the cash imports into this country in 1943 and 1944 exceeded the cash exports, thereby increasing the supply of dollars abroad and the potential buying power for U. S. goods after the war.

The fact remain, however, that the world as a whole will need far more of the post war production of the U. S. than it can immediately pay for. United States, on the other hand, will have a productive capacity far in excess of domestic consumption.

Obviously, if our productive facilities are to be kept employed, we must buy not only in foreign markets but also credit must and doubtless will be provided to those countries requiring our goods which are unable to make immediate payment.

The financial problems involved have been the subject of an international conference held at Bretton Woods. They remain major problems to be solved before our own position in postwar trade can be determined.

It is important that we do not repeat the mistakes that we made at the end of the last war. Foreign countries are in the end only able to pay their debts and to continue buying our goods by selling their goods and services to us.

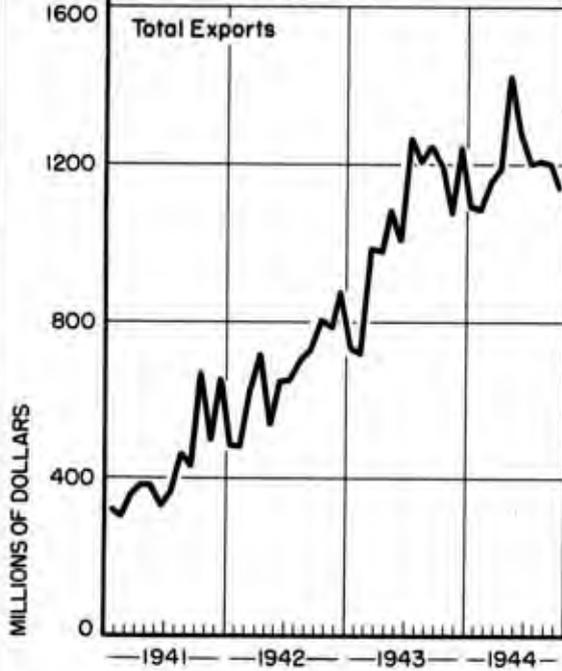
4-Foreign Trade-12/28/44

It cannot too often be said that if we are to get back the money which we lend abroad, and if we are to continue to sell our goods abroad, we must be prepared to import goods on a large scale. When we raise barriers against imports we restrict the outlets for American goods in foreign markets and reduce job opportunities at home. Trade breeds trade and trade restrictions breed unemployment.

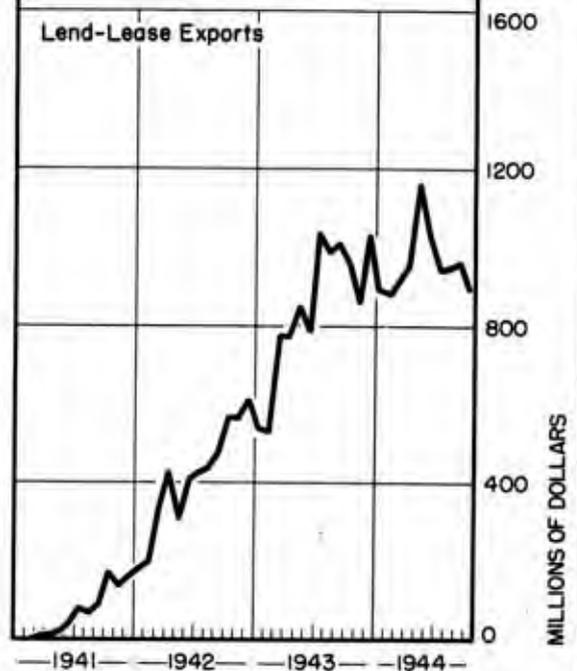
A full utilization of the increased resources developed in this country during the war and a satisfactory condition of employment require a great expansion in international trade.

FOREIGN TRADE GOES TO WAR

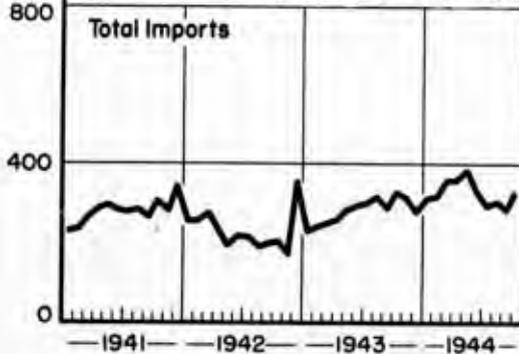
1. U.S. exports have risen sharply since January 1941,



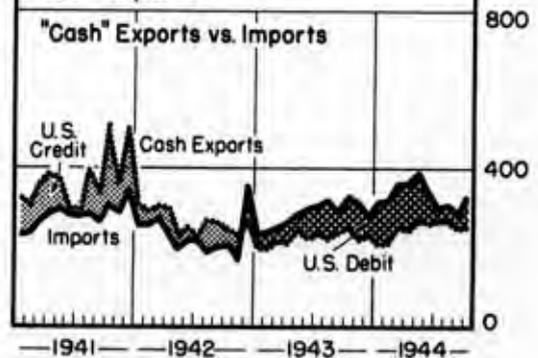
2. Mainly as a result of lend-lease,



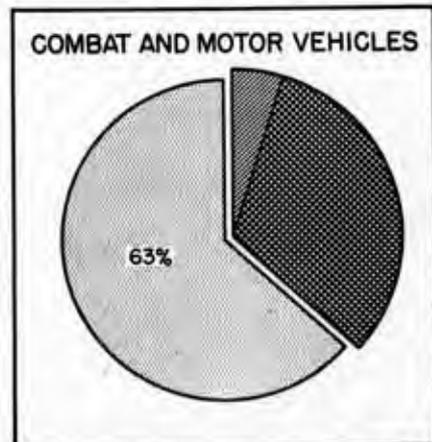
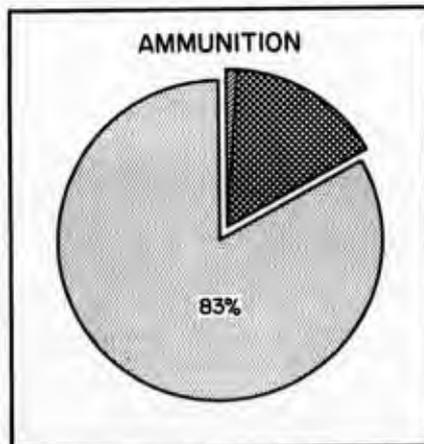
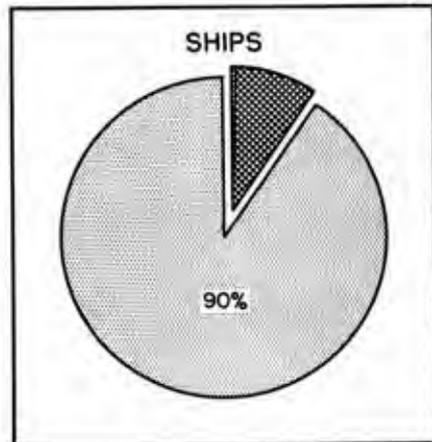
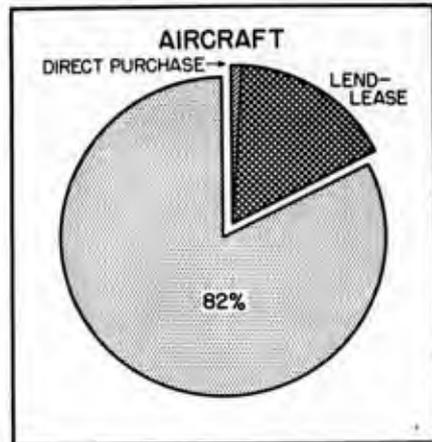
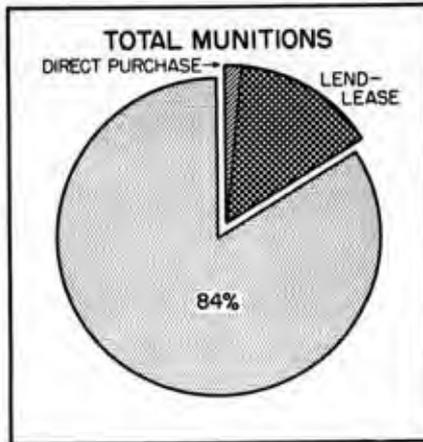
3. Imports have held steady for four years (limited by cargo space, etc.),



4. And since 1942 have exceeded cash exports.



ALLIES GET 16% OF U.S. MUNITIONS



Total volume of freight moved by United States railroads, trucks, pipelines, commercial air transports and over inland waterways has risen from some 300,000,000,000 ton miles in 1940 to more than 1,000,000,000,000 ton miles in each of the last two years. This added volume has been handled without an appreciable increase in facilities other than pipelines.

The railroads have borne the brunt of the burden. They handled about 70 percent of the total freight volume in 1944, as compared with only 62 percent of the much smaller total in 1940. Railroad passenger traffic almost quadrupled, rising from some 25,000,000,000 passenger traffic miles in 1940 to 98,000,000,000 last year.

Three factors were mainly responsible for imposing extra loads upon the railroads:

1. Closing of the Panama Canal to commercial shipping and diversion of inter-coastal ships to military assignment forced upon the railroads additional transcontinental burdens. Some 7,500,000 commercial tons were shipped through the Canal in 1940. After Pearl Harbor, commercial shipments stopped altogether.

2. Submarine warfare for a time curtailed coastal shipping and tanker transportation of petroleum and petroleum products to the east Coast. At the beginning of 1941, the railroads carried less than 1 percent of such traffic; tankers carried 95 percent.

In December 1942, there was a serious shortage of petroleum products on the east Coast. The presidents of eight railroad companies were requested to meet with the Director of War Mobilization. As a result of plans then suggested by the railroad executives and later put into operation, by the middle of 1943, railroads were carrying 71 percent, tankers only 8 percent. Last year, however, new pipelines were in operation and moved 38.7 percent of east Coast petroleum and petroleum products; tankers returned to transport 16.1 percent of the volume. The load on the railroads dropped to 37.8 percent of the total.

Developments in the last month, however, indicate that a number of tankers now in service may have to be recalled for overseas military operations. Since pipelines have been operating at capacity, this means that railroads may have to resume a major proportion of east Coast petroleum transport. (Since 1940, approximately 13,600 miles of pipelines have been constructed, converted, or reversed as to direction of flow. More than \$275,000,000 has been expended for new trunkline facilities.)

3. Since new motor carrier equipment, trucks, buses, tires, fuel - could not be provided except at the expense of munitions, commercial highway transport and private passenger cars could not assume their proportionate share of wartime expansion in traffic. The railroads were forced to meet the unprecedented rise in passenger travel demands -- about 40 percent of which represented military travel - without any increase in civilian passenger train equipment. Imposition of travel rationing has been avoided because of difficult administrative problems although some nonessential travel has been curtailed as a result of educational campaigns conducted by the industry and government.

The achievement of the carriers was made possible by the ~~unselfish~~ efforts of railroad workers.

EMERGENCY MEASURES

Emergency wartime measures instituted by the Office of Defense Transportation with the full cooperation of the industry and its workers include:

1. Compulsory maximum loading of freight cars under ODT orders. This added the equivalent of 141,000 freight cars to the existing supply.
2. Higher demurrage charges which penalized shippers for holding cars.
3. Maximum utilization of equipment. The ratio of serviceable freight cars to total cars on line increased from 92.2 percent in 1940 to 97.5 percent in 1944; gross ton miles per serviceable freight locomotive increased from 59,000,000 miles in 1940 to 85,000,000 miles last year. Movement of cars on line and through terminals increased from 39 miles per day in 1940 to 52 miles in 1944. The average haul per ton of freight increased from 351 miles in 1940 to 471 miles in 1944.
4. An overall program of export control to prevent freight congestion in ports. The coordinating measures of the military services, the War Shipping Administration and the Office of Defense Transportation have prevented port tie-ups which in the last war sometimes backed up rail traffic from New York to Pittsburgh and immobilized freight cars for weeks.

HIGHWAY AND TRANSPORT OPERATIONS

The motor carrier industry has obtained only 195,000 new trucks and buses since March 1942. This is less than 10 percent of the number it would normally require for replacements and expansions. Nevertheless, loads have gone up year by year.

In response to ODT regulations, stores have curtailed deliveries, truckers have loaded to fuller capacity, special delivery "luxury" services have been reduced or eliminated. The result has been a more efficient use of the available trucks and buses. For example, last year intercity buses transported 275 percent more passengers than in 1941--but mileage increased only 78 percent. Similarly, local truck operators cut mileage 40 percent below that of 1940 while carrying approximately the same tonnage.

Twenty-three thousand industry committees with a local membership of 102,000 have cooperated with the Office of Defense Transportation to obtain fullest use of the industry's restricted equipment.

INLAND WATERWAY TRANSPORT

The volume of water-borne freight in 1944 was 145,000,000,000 ton miles as compared with 118,000,000,000 in 1940. Total tonnage moved on the Great Lakes last year was greater than in any previous season, although ore shipments, as a result of reduced quotas, were some 11,000,000 tons below the peak movement of 92,000,000 tons in 1942. Traffic in the Mississippi-Ohio River system and other inland waterways has increased since January 1942, particularly in the movement of petroleum and petroleum products to the East Coast. Barges moved 7.3 percent of total petroleum products to the Eastern seaboard last year.

PROSPECTIVE DEVELOPMENTS

The defeat of Germany will result in an accelerated East-West flow of trans-continental traffic which will most likely require the retention of major transport controls. The provision of additional equipment will then depend on War Production Requirements.

While postwar freight and passenger traffic may be expected to decline from current high levels, it should continue at a much higher level than prevailed before the war. This suggests a heavy postwar demand for trucks, buses, rail passenger and maintenance equipment to replace wornout facilities and to improve service.

SHIPPING

Under the Merchant Marine Act of 1936, Congress directed the Maritime Commission to maintain a merchant fleet adequate to meet the requirements of national defense and to carry a substantial portion of U. S. commerce. That Act laid the foundation for the largest merchant fleet in the world. It has made possible the transport and supply of vast U. S. and allied armies throughout the world.

U. S. SHIPBUILDING OFFSETS ALLIED LOSSES

From January 1942 through 1944, American shipyards have turned out approximately 4,500 new cargo ships--transports, tankers, miscellaneous merchant type ships and auxiliaries--aggregating about 43,700,000 deadweight tons. American construction alone has thus more than offset the losses of United Nations ships due to enemy action and other causes. The net gain has been continuous since December 1942. During the same period also, thousands of the ships of Allied Nations have been repaired after damage by enemy action and heavy weather or overhauled after hard usage.

As a result, the United States has become more than self-sufficient as a peacetime carrier of ocean cargo. Last year U. S. ships carried an estimated 59,000,000 long tons of cargo, or 76 percent of all U. S. ocean shipping. As contrasted with this total, U. S. ships carried only 8,000,000 long tons, or 23 percent of U. S. cargoes during the years 1930 to 1939.

How this was achieved is well known. The Maritime Commission, early in the war, constructed new shipyards, enlarged others, and supplemented facilities of still others. Mass-production methods were introduced. One of the production marvels of the war is the reduction in construction time on Liberty ships from more than 200 days to about 50 days. Now Victory and other type cargo ships--faster and more suited to peacetime traffic--are replacing them on the ways.

As part of its duties, the War Shipping Administration directs the allocation, operation, and maintenance and repair of the merchant fleet. All vessels not allocated or assigned to the Army and Navy are operated by American shipping firms on schedules controlled by the W. S. A. To keep this huge fleet operating, officer and crew personnel has had to be increased from 67,000 men in September 1941, to approximately 200,000 today. More seamen are needed each month as additional ships come off the ways.

Since September 27, 1941, when the first U. S. merchant vessel was sunk, 5,855 merchant seamen have been reported killed, missing, or prisoners of war.

POSTWAR FLEET

In 1939, there were approximately 1,100 sea-going vessels in active service under the American flag. At the end of the war, the fleet will exceed 5,700 vessels, as follows:

Assuming that none are built after June 1945, nearly 2,500 will be Liberty ships, which will have served their essential purpose as a mass-production, wartime vessel. These will not be satisfactory for fast, competitive ocean-going service after the war, though undoubtedly foreign countries formerly engaged in tramp freight shipping will purchase a fraction of them at reduced prices.

There will be 700 old ships, largely prewar vessels, which in due course will be retired, as their operation costs become excessive.

There will remain 2,500 efficient C-type and Victory dry cargo ships and tankers. A few of these may have been so drastically altered for military use that reconversion to commercial service may prove to be uneconomical.

PROSPECTIVE DEVELOPMENTS

The use and disposition of the merchant fleet, with which the U. S. will end the war, is a problem with international implications. Prior to this war, the United States use of foreign ships, paid for in American dollars, helped to improve our foreign exchange position by providing other nations with the means of buying more American goods. However, if we use our war-built merchant fleet to its full capacity, then it is quite possible that instead of buying shipping service we will be selling service and thus cut down the world's international supply of dollars available for the purchase of American goods. Therefore, we will have to weigh carefully the effects that a great U. S. merchant fleet will have on our international trade.

The chart, "Projection of the Merchant Shipping Problem" points up the problem. In September 1939, Great Britain was the world's great maritime power, with some 24,000,000 deadweight tons; the United States had about 12,000,000. It is estimated that at the end of the war, the United States may have three times the fleet of the British--nearly 60,000,000 tons as against 20,000,000.

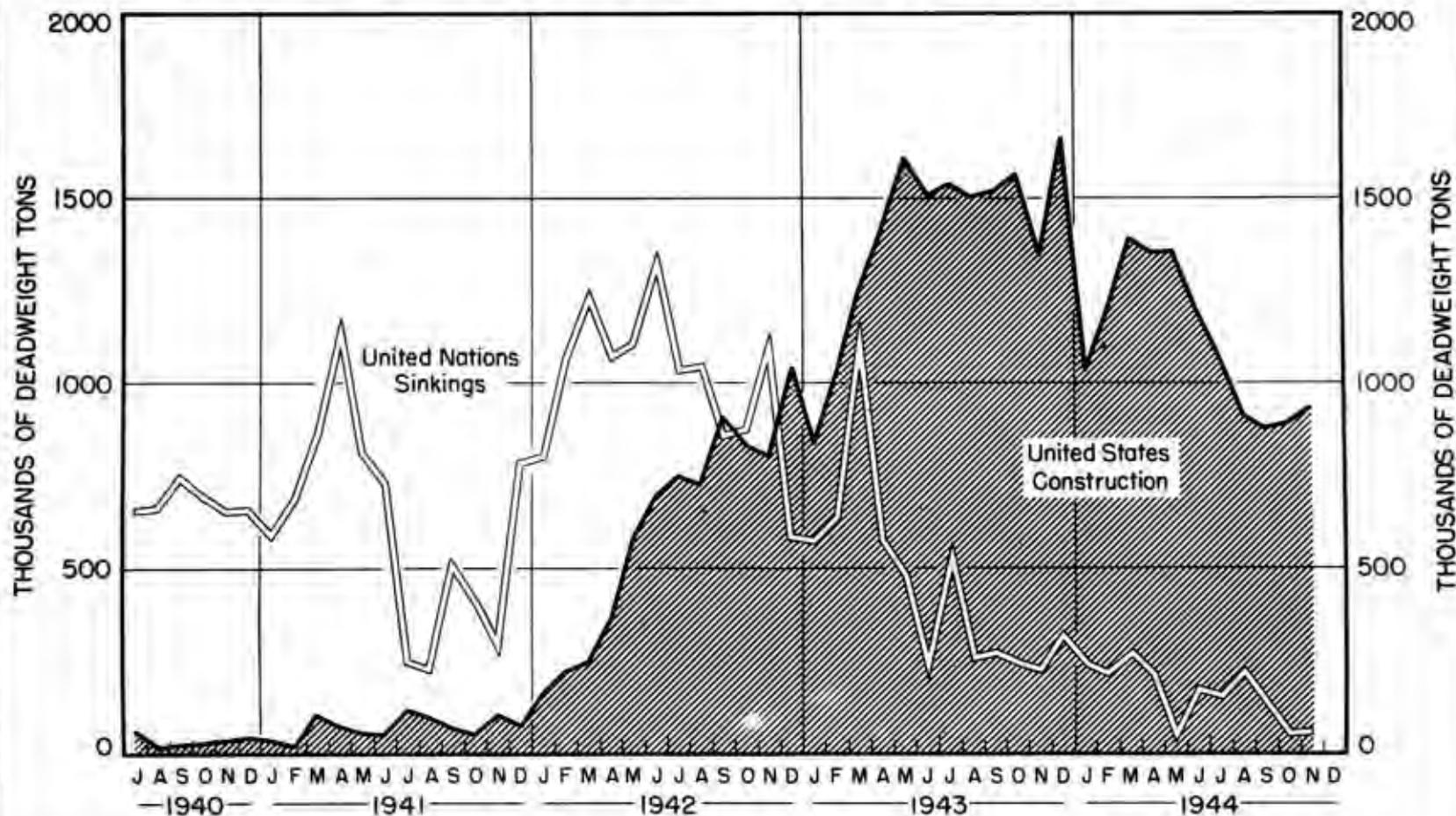
The Maritime Commission's Postwar Planning Committee is now developing policies and procedures. Legislation is pending to govern the sale of war-built ships. Discussions are being carried on with American shipping companies to determine their postwar intentions. Anchorage sites and methods for preservation of laid-up ships are being explored. Studies are being made of postwar tonnage expectations, probably condition of the ships, and likely commercial needs. Problems of postwar wages for seamen, working and living conditions, and social security requirements also are being examined.

The war has resulted in standardization of merchant ships. Parts are interchangeable. It will be interesting to see what effect this has on the postwar ship construction and on commercial investments in shipping facilities.

Even this expansion has not met the global requirements for shipping, but the situation will be greatly relieved by the full production of all types of ships in the first half of 1945. To provide for possible increased demands, I have authorized a limited extension of this program into the second half of 1945 for the Victory and C-type ships, which still will be badly needed for our war effort. It is hoped, however, that after next June construction of the slower Liberty ships can be avoided. It has served as the real pack-horse of water transport during the war years, but will not be of full postwar value to us, or to other nations, in the numbers that will be available.

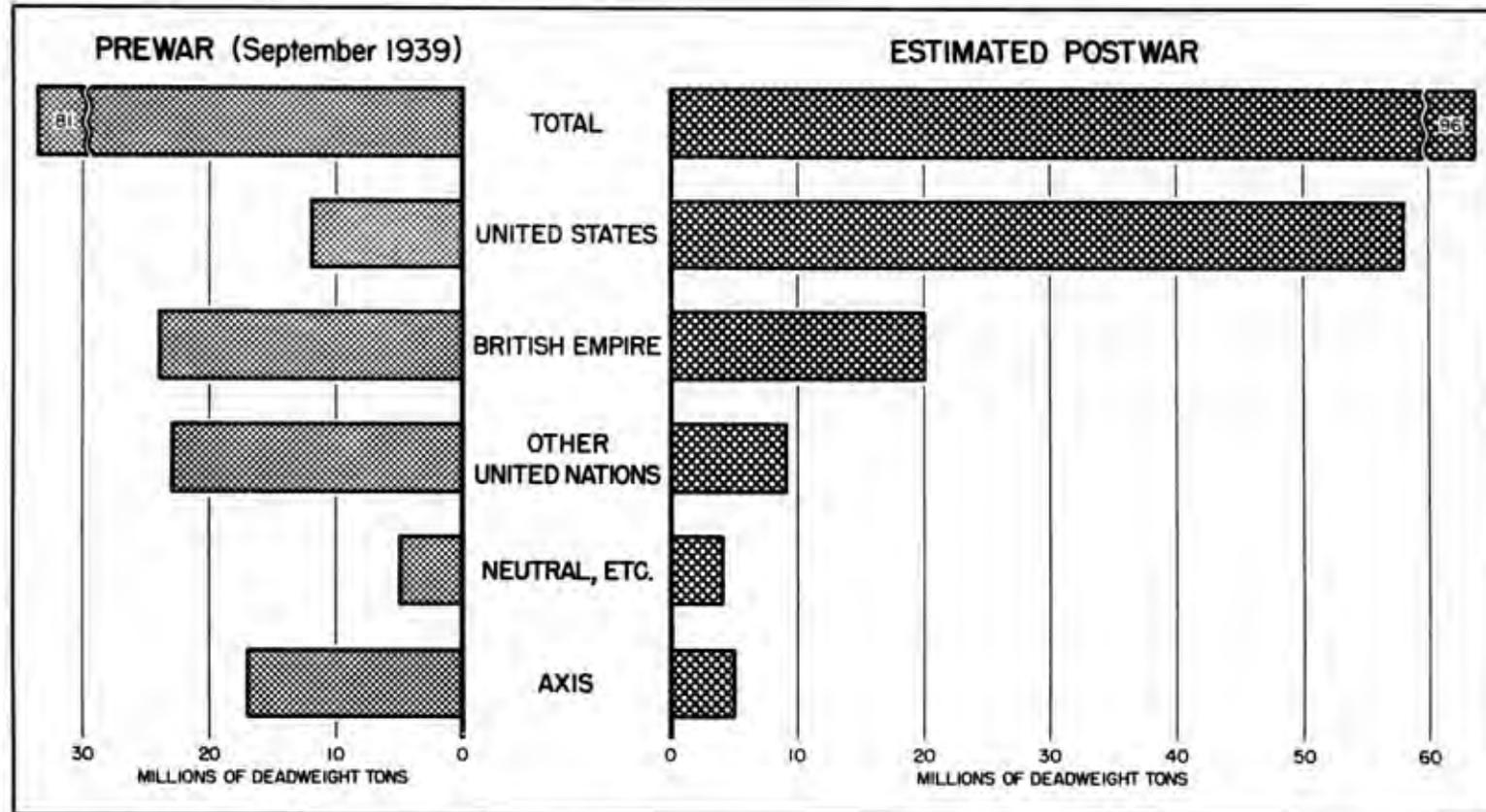
In the meantime, the merchant fleet's wartime responsibilities will not cease with victory. Large numbers of troops presumably still will be overseas--in Europe and the Far East--as part of the armies of occupation. They will have to be supplied. And if a rotation of occupation armies is adopted, the transport fleet, largely converted from cargo ships, will be required to carry troops to and from Europe and the Far East. War employment of the merchant marine thus will continue or some time after the last guns are fired.

MERCHANT SHIPS—Sinkings vs. Construction



PROJECTION OF THE MERCHANT SHIPPING PROBLEM

Estimated postwar fleet of the United States will constitute about three-fifths of the world's sea-going merchant vessels; will be nearly five times prewar size.



HOUSING

The National Housing Agency has largely completed construction of housing for some 4,000,000 migrating workers and their families in more than 1,000 communities. Sufficient housing is available in most war production areas. However, shifts in production, plus a few expanding programs, continue to create new demands for additional housing. These demands may be expected to develop from time to time.

The National Housing Agency plans to meet these demands by the transfer of temporary and demountable housing into areas of need from places where it is no longer required, and by new temporary construction.

Private industry and public agencies have completed more than 1,730,000 new or converted family units since the summer of 1940. On October 31, 1944, there were 81,800 units under construction and 59,800 others approved and awaiting construction, most of which were privately financed. In addition to these, approximately 25,000 units have been reported by the Army and Navy as necessary for workers in expanding munitions programs.

The housing program involved a total investment of about \$6,000,000,000, two-thirds of which represented private capital, protected in large part by FHA mortgage insurance. Throughout most of the construction period, a ceiling sales price of \$6,000 and maximum shelter rental of \$50 a month were established to insure that the housing would be within reach of the worker and to forestall use of certain critical materials.

A "Share Your Home" campaign conducted by NHA's Local War Housing Centers and Home Registration Offices received wide community support. It is estimated that, through their efforts, more than 2,000,000 workers were housed in structures already erected. This program, which has saved huge expenditures in materials, manpower, and money, must continue as long as war workers are being recruited.

POSTWAR HOUSING NEEDS

A great deal of new permanent housing will be needed after the war. The nation entered the war with a substantial deficit of decent housing. During the war, all housing has deteriorated because of intensified use and lack of adequate repair and maintenance. Moreover, war needs have prevented the unrestricted construction of civilian housing. There also is a large requirement for new housing to replace slum dwellings and other substandard houses.

PROSPECTIVE DEVELOPMENTS

The National Housing Agency estimates that during the first postwar decade an average yearly construction of 1,260,000 nonfarm dwellings will be required. Construction during the period 1920-29 averaged 700,000 units annually. In the peak year, 1925, a total of 937,000 units was built.

This estimate of annual postwar need is based on a requirement of 410,000 units per year for increased families, 140,000 units per year for returned married veterans, 80,000 units a year for those families now jointly occupying homes and to establish a normal vacancy reserve, and 630,000 units per year to replace substandard dwellings and those destroyed by fire, storm or other disaster.

The pent-up demand for new housing and for repairs represents a substantial opportunity for postwar employment. However, a high level of residential construction cannot be reached overnight.

The amount of multiple-unit residential construction will depend largely on costs, since housing must be built at a price most persons can afford to pay. NHA is surveying the need for increased technical research to help private industry to build better housing at lower cost and to overcome the problem of high land prices which makes slum clearance a difficult financial undertaking.

NHA also is examining the type and scope of activity which will be required of private industry, local and state governments, and the Federal Government so as to make sure of an adequate postwar housing program. Included in this survey will be a review of the prewar programs for Federal assistance in housing production and finance. This will ascertain what revision of the program it may be necessary to recommend to the Congress. Special attention will be given to the problem of improved farm housing.

There is a need for better fact-finding in housing and in market analysis. It would help in this work if the communities would lead the way in making an inventory of their housing situation, in estimating their further needs, and in planning to meet these needs.

HOUSING - PAST, PRESENT, AND PROSPECTIVE

THIS IS WHAT WAS BUILT:

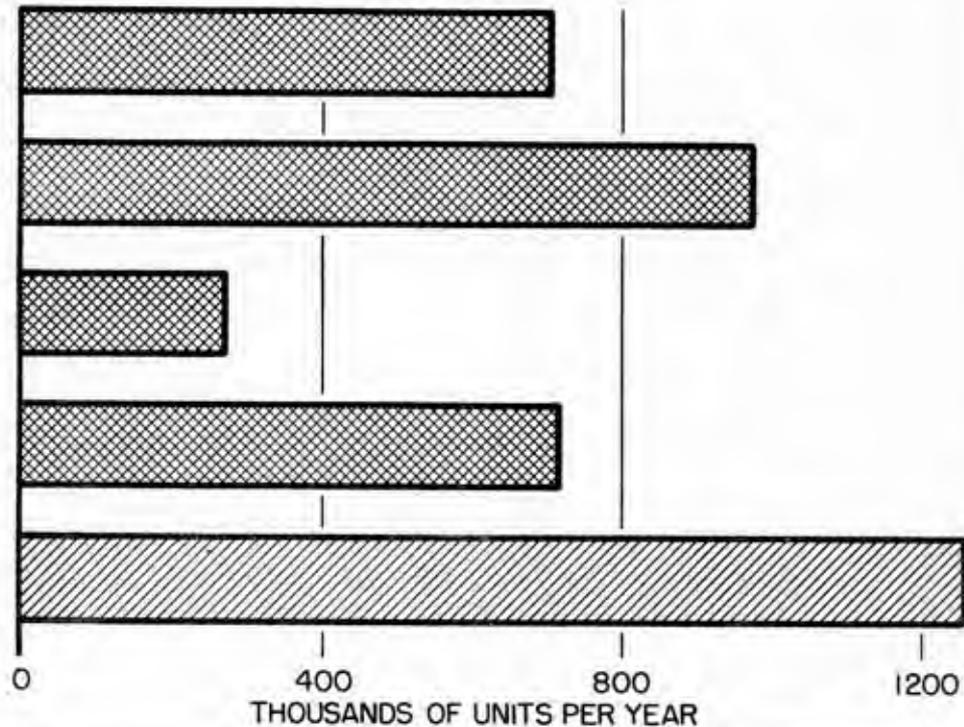
During the 'twenties

In 1925 (record year)

During the thirties

1941* (last pre-Pearl Harbor year)

NHA estimated need for post-war decade



*Includes "Defense Housing".

Note: Data refer to family units only; exclude farm dwellings.

No single war program is closer to completion than that of industrial facilities (Chart, "Wartime Construction Nearly Finished"). Construction of new plants, including equipment, has declined from a monthly rate of \$800,000,000 in the third quarter of 1942 to about \$200,000,000. But even in this mature program, sudden demands can change expectations. Because of the urgent requirements of the Army and Navy for ammunition, tires, and certain types of guns, and other equipment, new industrial installations are necessary. These will not change the direction of the construction curve; it still continues down, but it does not go down as fast as it otherwise would.

Since July 1940, more than \$20,000,000,000 has been invested in new or expanded industrial plant. About three-fourths of this expansion has been financed by the government. Government facilities, including about \$1,000,000,000 of work still to be done, are distributed as follows:

Aircraft.....	\$ 3,350,000,000
Shipways.....	2,195,000,000
Ordnance.....	5,159,000,000
Iron and Steel.....	1,352,000,000
Nonferrous metals.....	1,200,000,000
Chemicals.....	768,000,000
Synthetic rubber.....	692,000,000
100-Octane gasoline.....	203,000,000
Machinery and machine tools....	803,000,000
Other industrial plants.....	356,000,000
Total	<u>\$16,078,000,000</u>

Not all of this plant will be disposable.

About \$1,400,000,000 is in expanded arsenals and Navy shipyards--directly operated by the government. Probably most of these facilities will be retained by the War and Navy Departments as part of their systems for permanent preparedness.

There is also about \$4,500,000,000 of government-owned, privately-operated facilities so specialized as to have little peacetime value. This includes smokeless powder plants, shipyards, shell-loading facilities, etc. Some of these plants should be kept as stand-by munitions capacity.

That leaves about \$10,000,000,000 of facilities, immediately or potentially usable for civilian production. These include nearly all of the nation's aircraft and synthetic rubber capacity, most of the aluminum and magnesium, and a good share of steel and machine tools.

PROSPECTIVE DEVELOPMENT

For most of these facilities it will be sound public policy to get them as quickly as possible into the hands of private parties who will operate them competitively. This policy is complicated by the large size of most of the government-owned plants.

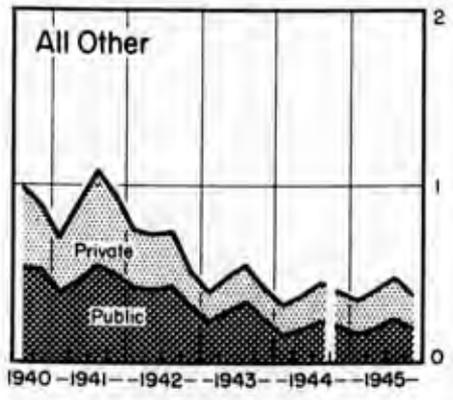
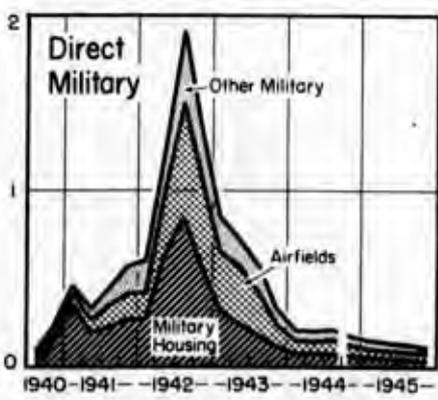
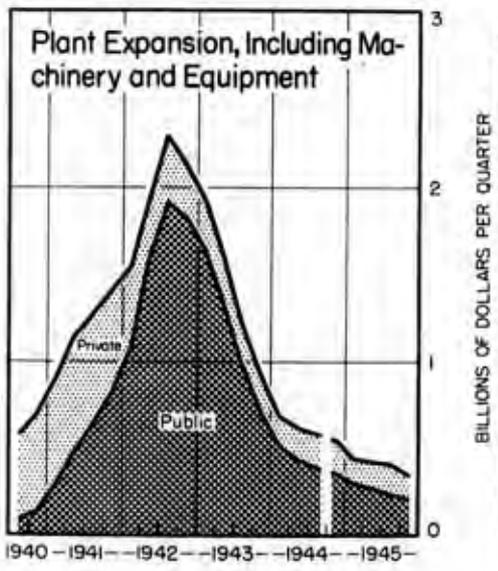
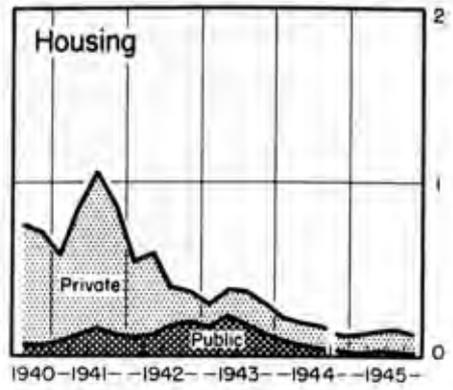
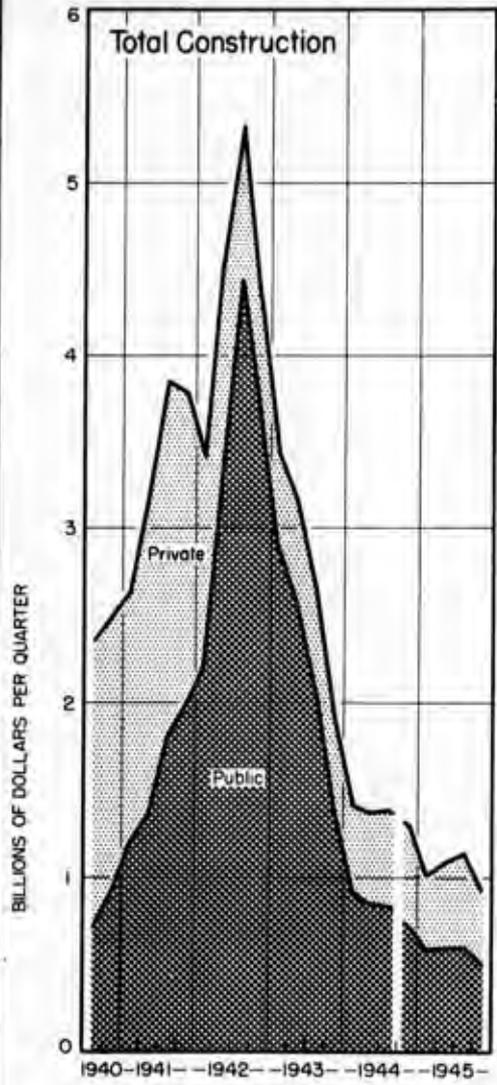
Seventy percent of the Government's investment is in units which cost over \$10,000,000. Many of these plants are out of reach of what we ordinarily consider "small" business.

Nevertheless, competition will be stimulated and growth of small business encouraged if (a) the facilities in any industry are disposed of to the smaller

firms already in the industry or to firms newly entering the industry and (b) the facilities are disposed of in small units to as many independent purchasers as possible. This policy should govern to the extent it proves practicable. Procedures for disposing of the surplus plant, under the Surplus Property Act, are discussed separately.

The huge wartime expansion of facilities has been concentrated in heavy metals and chemicals. Facilities installations in the nonwar industries have been far below the level of ordinary years of good business. Furthermore, wear and tear on plants has been far above normal, while repairs and replacements have been below normal. We may therefore expect a substantial resumption of plant expansion after the war, despite the large accumulated capacity in war industries.

WARTIME CONSTRUCTION NEARLY FINISHED



SURPLUS PROPERTY

The first World War ended so abruptly that plans to dispose of surplus war goods had hardly reached the discussion stage. This time, an organization already has been set up.

The Surplus War Property Administration was established by executive order last February on my recommendation. Then Congress, in the Surplus Property Act of 1944, approved on October 3, established a three-man Surplus Property Board to carry on this work. The Act, among other things, directed the Board to give maximum aid in the re-establishment of a peacetime economy of free independent private enterprise, to encourage independent operators in trade, industry, and agriculture with special attention to war veterans, and to stimulate full employment.

Surplus property is inevitable in war. When peace comes surpluses will include everything from actual munitions which will have little or no civilian value, such as bombers, tanks, guns, and artillery shell, to shoes, socks, food, mosquito netting, plants, industrial equipment, ships, and large and small passenger airplanes. In short, from a \$100,000,000 steel plant to a 10-for-a-penny pin.

Some portion of the surplus of civilian-type goods abroad can suitably be used for relief and reconstruction in Allied and liberated countries. Stocks of clothes and food on hand in the United States also can be used for relief and rehabilitation, either through the armed services, through United Nations Relief and Rehabilitation Administration, or by sale to other governments.

Some 1,300 industrial plants and other facilities, costing approximately \$16,000,000,000, will become surplus after hostilities cease. Many of these plants are not easily convertible to peacetime production--powder and shell-loading plants, for example. Others may have to be revamped for civilian production. Others, however, may be useful in peacetime operations--steel mills, synthetic rubber, or aluminum plants.

Other industrial properties will be kept on a stand-by basis for national defense; still others may be needed for continued production of supplies for our standing Army and Navy. Also, stockpiles of certain critical materials may be maintained as a military reserve.

Obviously, industrial surplus disposal is a problem to be worked out--finding how to utilize war-built resources to the best advantage in the national economy in peacetime.

DISPOSAL AGENCIES

Actual disposal of surplus has been assigned to existing agencies, as follows:

PROCUREMENT DIVISION OF TREASURY DEPARTMENT--for consumers goods, such as furniture, clothing, motor vehicles, etc.;

RECONSTRUCTION FINANCE CORPORATION--aircraft, industrial plants, industrial real estate, industrial equipment and supplies;

SURPLUS PROPERTY

UNITED STATES MARITIME COMMISSION--merchant ships, marine equipment, and other marine property;

WAR FOOD ADMINISTRATION--food;

NATIONAL HOUSING AGENCY--housing property and projects;

FEDERAL WORKS AGENCY--community facilities and certain nonindustrial real estate;

ARMY, NAVY--their own surpluses located outside continental United States.

From June 1, 1944 to October 31, 1944, a total of \$750,000,000 worth of goods had been declared surplus. Of surplus stocks then on hand, 58 percent was aircraft--obsolete and war-weary planes and equipment; 12 percent was plants and industrial real estate; 4 percent metal-working machinery; 3 percent ships and maritime machinery; 3 percent steel; 2 percent construction materials; and 18 percent miscellaneous.

About \$84,000,000 worth of goods was sold in the period June-October. This included 35,383 trucks, many of which went to dealers for re-sale to farmers and truckers; \$21,000,000 worth of metal-working machinery; \$6,000,000 worth of aircraft suitable for civilian use; \$5,000,000 worth of construction materials; \$1,300,000 worth of construction equipment; and \$1,300,000 worth of steel.

So far, the volume of surplus goods has been very small in relation to the huge demand for goods of all kinds. Clearly, the needs of war production and of the postwar economy can be served best by the immediate disposal of all available surpluses. It has been possible to sell these small surpluses through the normal commercial channels without effect on the level of employment or the structure of American industry.

Most sales to date have been made by the 11 regional offices of Treasury Procurement and the 23 regional offices of the RFC. Goods ordinarily are sold to manufacturers or distributors and not direct to the consuming public, because direct sales have been found almost prohibitive in cost. Catalogues are being prepared, which will inform prospective buyers what is available and how it may be obtained. The RFC is planning to establish huge regional warehouses, in which surplus goods will be displayed.

The sales of consumer goods, June through November 1944, totaled \$53,517,000, or 84 percent of the appraised value of the goods sold.

Sales are at ceiling price, at highest bid, or where speed is essential, at negotiated prices. Surplus materials and equipment are, of course, subject to the same rationing and allocations controls as similar goods which are not surplus.

PROSPECTIVE DEVELOPMENTS

The Congress has set up special restrictions on the sale of dwellings. By law, the 400,000 temporary housing units built under the

AbAn Act cannot be considered for residential use at a low cost to improve housing conditions. Some of these dwellings, when dismantled, may be sold for use overseas, or employed in relief and rehabilitation work. However, Congress may desire to consider the advisability of changing the law so as to allow such dwellings to be used to replace substandard dwellings in cities or in depressed farming areas.

AbAbout 63,000 permanent family units built with low-rent housing funds will become low-rent public housing after the war, under the jurisdiction of local housing authorities. The rest of the permanent units (about 129,000) and the demountable units (about 78,000) will be sold. Wherever possible preference will be given to current occupants, and next to prospective occupants, especially to veterans who will receive first consideration. Some 10,000 units built by the Defense Homes Corporation already have been offered for sale.

The Federal Works Agency is responsible for disposing of schools, hospitals, sewers, health centers, fire stations, power plants, garbage disposal plants and other community facilities built as Federal projects under the Lanham Act, which are declared surplus and which must be disposed of within six months after the emergency ends. The agency is already transferring titles of many of these Federal projects to local public bodies.

To facilitate the disposal of surplus war plants so as to permit their prompt utilization for other purposes, I appointed a special War Plant Utilization Committee to coordinate the work of the several government agencies having representatives in the field. Its chairman has reported to me that the Committee has enlisted from a community level the active cooperation of the U. S. Chamber of Commerce as well as state and local chambers, the Committee on Economic Development and its 1700 local Committees, the Association of American Railroads and its industrial agents, and the banks located throughout the nation. The chairman believes that the chief deterrents to quick sales lie in the provisions of the act requiring information to be submitted to Congress in eight classifications for facilities costing \$5,000,000 or over, and submission to the Attorney General 90 days in advance of the consummation of the sale of any plant costing over \$1,000,000. Congress should give further consideration to these statutory provisions. Certain option rights held by lessees also threaten to delay sales. However, about 250 lessees have indicated an interest in purchase or lease, and the RFC is now carrying on negotiations for the sale or lease of some thirty plants. Prompt action is necessary.

Recently, I have authorized the agencies owning surplus property abroad to proceed with its sale under policies to be established by the Surplus War Property Board. This will enable the Army and Navy to be prepared to sell facilities and installations no longer required in certain areas where military operations have closed, as in North Africa.

The Surplus Property Act of 1944, as drawn, presents several administrative difficulties. The limitations governing the sale of real property may retard such sales. However, experience under the legislation is a prerequisite to any specific recommendations for modifications.

In the development of a war production program beset by changing requirements, contract terminations and the settlement of resulting claims have become relatively commonplace.

Already, during the war, 120,860 contracts have been terminated, cancelling commitments of some \$25,000,000,000. A high percentage of these cancellations, 109,000 of them, have been written off the books entirely as settled. Through the fall of 1944, it has been necessary to cancel every month some 4,000 contracts, totalling \$1,500,000,000.

In contrast to this experience, the last war saw only a few contracts cancelled until after the Armistice had been signed. Then, almost overnight, some \$4,000,000,000 of commitments were terminated. As a consequence, procedures for settlement had not been worked out and considerable difficulty resulted.

Due to the knowledge gained in the last war and to the backlog of experience now being built up, the country should be able to handle the problem of mass cancellation at the end of this war with less financial and economic unsettlement.

Today the undelivered value of outstanding contracts is about \$65,000,000,000. The full impact--and hence a detailed estimate--of the termination and settlement problem will not be realized until after final victory.

Up to now, most terminations of contracts have been followed by new orders. Firms whose contracts for making tanks have been cancelled have been given orders for locomotives; contracts for building destroyer escort vessels have been switched to landing craft, and so forth. As a result of this, and because inventory and equipment intended for the contracts which had been terminated were often usable to fill new war contracts, many terminations have resulted in no claims at all, or in extremely small claims. The 109,000 terminated contracts which have been settled have an aggregate face value of more than \$10,000,000,000 but claim payments against these contracts amounted to less than \$400,000,000. In nine out of ten contracts, no claims were filed.

After final victory, however, the situation may be expected to change. Terminations will be without benefit of new war orders and no-claim settlements will decrease. The settlement problem will become more difficult at the same time that the need for speedy settlements will increase. Prompt settlement of war contracts is essential to orderly reconversion and to full employment in peace. Without it many businesses, especially small companies, would be financially paralyzed because working capital was frozen in inventories.

ADVANCE PREPARATION NECESSARY

Solution of this problem is two-sided. The government must move promptly to clear the plants and books and industry's action must be prompt. Prime, sub and sub-subcontractors should familiarize themselves with the Contract Settlement Act and with the regulations of the Office of Contract Settlement, as well as with the procedures of the contracting agencies with which they deal, so as to facilitate the quickest possible reconversion to peacetime production.

The Army and Navy have set up schools to train their own contract termination personnel as well as those of other contracting agencies. Special courses for contractors and their employees have been established at a number of colleges

with the cooperation of contracting agencies. The Smaller War Plants Corporation is conducting an intensive educational program among small businesses. It is good business for every war contractor to plan in advance and to prepare for prompt submission of settlement claims.

The Office of Contract Settlement, under its mandate from Congress, has issued regulations requiring procurement agencies to clear unwanted war materials and machines from contractors' plants within 60 days. Other regulations provide that, within 30 days after presentation of proper claims, a contractor becomes eligible for advance payment or loans of up to 100 percent of the value of finished war materials, and up to 90 percent on other materials. But space cannot be cleared unless inventories are properly prepared by industry, and money cannot be advanced or loaned on claims without detailed accounting statements.

The Office of Contract Settlement has made progress toward simplifying the routine necessary for termination settlements. Uniform termination procedures and forms for the presentation of settlement proposals have been adopted.

Present procedure ordinarily calls for prime contractors to settle directly with their subcontractors. However, the act permits direct settlement by the Government with subcontractors in case of undue delay. Surveys now are being made to determine the practicability of routine direct settlement with subcontractors.

SETTLEMENT TIME REDUCED

After the first World War, the average time lag between termination and final settlement was eight months, but many claims dragged on for years and one was not settled until 1942.

The average time lag between termination and final settlement is now about four months. Small and uncomplicated contracts are settled more swiftly. Large contracts, involving many subcontracting ramifications require longer. But we have progressed far from the difficult pioneer stage, in which occurred some cases as the one in which 16 months were consumed in settling claims growing out of termination of the International Harvester tank contract at Bettendorf, Iowa.

The most serious delays in the current program have been encountered in settling the cost-plus-a-fixed-fee contracts. The cost-plus contractors and their subcontractors submit vouchers and are paid as their work progresses. These vouchers are subsequently audited by the General Accounting Office, which, in some cases, disallows payments already made. Therefore, prime contractors have desisted to pay off their subcontractors until final settlement. This holds up payments all the way down the line to sub-subs.

About 650 cost-plus-a-fixed-fee contracts have been terminated with a face value of \$6,635,207,000. Final settlements have been reached on contracts totaling about 20 percent of this, with a face value of \$1,300,000,000. In contrast, fixed price contracts which have been terminated have face values of \$17,663,676,000 and more than 50 percent with a face value of \$9,411,768,000, have been settled finally.

Many problems remain to be solved, but a good start has been made on setting up basic rules for fast, fair and final contract settlement. The next task is to perfect and use these tools of settlement, both in the contracting agencies and in the offices and plants of the contractors.

Wartime taxation should end with the war. However, there can be no general revision of taxation until the war is over on all fronts. Postwar levels of government expenditures will be several times higher than in prewar years. Interest on the debt alone will exceed total internal revenue receipts of 1937. The requirements of the Army and Navy will be much higher than prewar levels. The "G.I. Bill" and veterans' hospitalization will add to expenditures. These are only a few of the items that make it apparent we will need revenues greatly in excess of prewar levels:

REMOVAL OF IMPEDIMENTS

But there can be no intelligent planning to "meet the problems arising out of the transition from war to peace" as directed in the act creating this office without giving consideration to the removal of tax impediments to reconversion and business expansion. There are certain tax revisions which would not greatly reduce revenues, but would materially aid business recovery and expansion if adopted immediately following the close of the European War. Among them are:

- Accelerated depreciation,
- Immediate availability of postwar refund bonds,
- Increasing the specific exemption for excess-profits tax purposes from \$10,000 to \$25,000.

1. Depreciation. The acceleration of depreciation allowances will enable taxpayers to take the earliest possible advantage of technological improvements, secure more quickly new equipment, and provide more readily for business expansion and employment. The depreciation policy of the present law, which provides for a depreciation allowance computed according to the physical life of the property acquired, has a tendency to discourage the acquisition of new equipment and the formation of new enterprises.

For example, if a businessman desires to start a new business and to purchase new equipment, under the present tax law he may have considerable difficulty in raising the funds to acquire plant or equipment because of the length of time required to recover the cost of the new plant or equipment through depreciation allowances.

It is clear that unless a taxpayer can recover his capital within a reasonable time, he will not embark upon new enterprises, or acquire new facilities, which are essential to the production of income and the stimulation of employment.

I suggest, therefore, that the Congress give serious consideration to the enactment of a provision to permit a larger deduction for depreciation in the earlier years of the life of the asset. In most cases, these are the years of the highest income. It may be advisable to limit this special allowance to the income computed for normal and surtax purposes, and not for excess-profits tax purposes. Such a provision would make it easier for the smaller business enterprises to borrow money for expansion facilities.

2. Many corporations, particularly the smaller type, will be handicapped through lack of capital to carry out their reconversion plans. Their financial condition may be eased somewhat by making immediately available after the end of the war in Europe a part of their post-war refund of excess-profits tax and by reducing correspondingly the compulsory savings provision in the excess-profits tax. A limitation could be placed on the amount to be made available.

3. While an excess-profits tax is justified in time of war, it is recognized that such a tax discourages small and new enterprises. I do not believe that Congress would be justified in removing this tax during the continuation of the war with Japan. However, its impact on the smaller corporations and new enterprises may be mitigated to some extent by an increase in the excess-profits tax specific exemption from the present \$10,000 to \$25,000. Such an increase will enable many small and new concerns to become established during the transition period.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 1, 1945

TO Secretary Morgenthau

FROM Mr. White

Subject: Support for the Bretton Woods Program

During the past months there has been a great demand from various organizations to have members of the Treasury staff speak on the Bretton Woods program. We have participated in nearly 100 meetings and we have distributed thousands of pamphlets explaining the Fund and the Bank. There is no doubt that this work has brought us considerable support from all sections of the country and from many groups of people. The London Financial News of November 15, 1944 published the following report from its American correspondent:

"Representatives of the United States Treasury have done an excellent job recently in explaining the purposes of the Bretton Woods proposals to various trade and banking groups and, apparently, have made much progress in softening up the opposition. Indeed, responsible quarters are gradually showing a favourable reaction."

You will be interested in knowing that we shall have the support of many influential groups. The following are among the more important ones that have issued or are planning to issue reports supporting the Fund and the Bank:

1. Leading members of the American Economic Association have prepared a statement to be signed by several score or more specialists on money and banking that will be submitted to the Congressional Committees.

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2. Americans United for World Organization have issued a statement in support of the Bretton Woods program, and are now asking our help in securing speakers.

3. The League of Women Voters has voted approval of the Bretton Woods program and is publishing a pamphlet endorsing the Fund and the Bank. We have had an opportunity to work with them on the pamphlet.

4. The Foreign Policy Association has published a pamphlet favorable to the Fund and the Bank which we have helped distribute in large numbers. This report was commonly regarded as representing the views of the Foreign Policy Association. However, Mr. Leon Fraser, who is a director of the Association informed the Research Director of the Association that the report could not represent the views of the Association because the directors had not taken such action.

5. The Citizens Conference for Economic Union has given the Fund and the Bank complete support from the beginning.

6. The American Association of University Women has published a pamphlet by Miss Newcomer in support of the Fund and the Bank.

7. The Committee on Economic Development will probably issue a statement endorsing the Bretton Woods program. The statement as phrased was not wholly satisfactory and we are meeting the committee to discuss it further with them. A favorable report from the Committee would be extremely influential among business people.

8. The Pennsylvania Bankers Association has endorsed the Fund and the Bank. Several other state banking groups are expected to take action favoring the Bretton Woods program.

9. The C.I.O. has endorsed the Fund and Bank and has included ratification of the Bretton Woods program in its platform. The C.I.O. News has published several articles urging support for the Fund and Bank.

10. The American Labor Conference on International Affairs which represents the A.F.L. has given its support to the Bretton Woods program.

11. The Garment Workers and other unions are considering publishing a pamphlet we prepared on labor's interest in the Fund and the Bank.

12. The National Farmers Union has endorsed the Bretton Woods program.

We expect that many more groups will come out for the Fund and the Bank during the next few months when Congress is considering the legislation.

Some of the reports mentioned in this memorandum are attached.

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For your information.

Seymour E. Harris

Memorandum No. 3 to Sponsors of the Bretton Woods Statement

1. As of November 30, the results of the balloting on Statement I (the shorter one) and Statement II are as follows:

Number of proposed sponsors	36
Favor Statement I	17
Favor Statement II	12
No preference	1
Not approve of either	1
Not sufficiently informed ..	1
No reply	<u>4</u>

36

Of those who prefer Statement I, one disapproves Statement II and one finds Statement II unobjectionable.

Of those who prefer Statement II, three disapprove of Statement I and one approves with reservations.

2. I am submitting herewith a final draft of the statement to be sent to 600 economists listed in the A.E.A. Supplement as primarily interested in money, international trade, cycles and national economics.
3. Apart from stylistic changes, the present statement combines parts of Statements I and II. The first three paragraphs of the new statement are substantially identical with the first three paragraphs of Statement II. Paragraphs 4-7 are substantially identical with paragraphs 1-4 of Statement I. Paragraph 8 is composed of parts of the last paragraph of Statement I and Statement II.
- The changes involve no significant alteration in our position. Aside from stylistic changes, they are made in order to reduce the danger (1) of antagonizing Congress and (2) of offering material which economic isolationists might seize upon.
4. These changes have been made in large part as a result of suggestions made by sponsors and also by several others who have had considerable experience in dealing with Congress in matters of this kind.
5. Since of the 30 favoring either Statement I or II, 27 approve Statement I and 29 approve Statement II, and since the final statement is an amalgam of Statements I and II, I shall assume that all who approve Statement I and Statement II approve this statement. I also hope that the three sponsors who approve Statement II and not Statement I and the one who supports Statement I and not Statement II will support the new statement. Unless I hear to the contrary by December 9, I shall assume that all who approve Statement I and Statement II approve this final statement. Will the three sponsors of Statement II who disapprove of Statement I and the one who approves Statement I and not Statement II, and the four who have not replied kindly let me have their opinions as soon as possible and not later than December 9.

Again, many thanks for your cooperation and patience.

Seymour E. Harris

RECOMMENDATIONS OF _____ ECONOMISTS FOR UNITED STATES APPROVAL
WITHOUT RESERVATIONS OF THE BRETTON WOODS MONETARY AGREEMENTS

We, the undersigned economists, urge the Congress to accept the "Bretton Woods" agreements providing for an International Monetary Fund and International Bank for Reconstruction and Development. Our main reasons follow:

1. If expanding international trade is to make its much needed contribution to the prosperity of the United States and of the world, exchange relations between currencies must be established on a stable and orderly basis and there must be a steady flow of international investment to increase the productive efficiency of the countries of the world. Action is, of course, required in other no less important fields such as trade barriers and commodities in world surplus. Although the Monetary Fund and the International Bank do not furnish a complete solution to the international economic problems, they will contribute substantially towards solving the exchange and investment problems.

*Preserved
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2. The experience of the interwar period has demonstrated that neither the operation of the international gold standard nor the independent action of national governments will achieve workable exchange arrangements. The nineteenth century gold standard is too inflexible to allow countries the independence of domestic action which they now demand; and the policy, so widely followed in the thirties, of subordinating international considerations to freedom of action in the domestic sphere only served to contract international trade and, in the end, to make every country poorer.

3. In the field of investment, the last twenty-five years have shown the need for international action. While international investment did reach a substantial volume during the twenties, the investment was in many cases ill-advised; rates of interest were high and many countries resorted to borrowing in order to balance their international accounts without increasing their productive capacity. The collapse of the thirties brought repudiation, deflation or depreciation; and many borrowers and lenders resolved to eschew the dubious benefits of international investment in the future. Conditions of foreign lending must be substantially improved if international investment is again to make its indispensable contribution to the prosperity of the world economy on which, to a large degree, our own welfare depends.

4. The proposed Monetary Fund provides a program for avoiding competitive currency depreciation, the arbitrary and discriminatory control of foreign exchange available to pay for current imports, the "freezing" of funds due for current transactions, and related forms of economic warfare. This is in line with the fundamental United States trade policy of free enterprise with a minimum of administrative interference, discrimination, bilateralism, and international "barter". The Bretton Woods agreements are essential to keep the door open for later application of this fundamental policy through international negotiations dealing with tariff discriminations, "administrative protection", import quotas, cartels, raw material controls, etc. The clauses in the Bretton Woods agreements which permit limited devaluation,

continued control of capital movements, "rationing" in emergencies of particular currencies officially declared to be scarce, and a gradual removal rather than abrupt termination of wartime currency and exchange controls are necessary modifications for reaching the fundamental objectives.

5. The proposed Bank for Reconstruction and Development aims at increasing security of international lending, not merely through the Bank's guarantee, but by making the government of the borrowing country directly responsible to the Bank. Since the Bank rather than any particular government is made the direct representative of creditors, the debtor country's government can be called upon to take responsibility without loss of dignity or risk of conflict.

6. Under the Monetary Fund, barring outright repudiation of debts by some debtor government, the risk of financial loss is very small. Under the Bank, the risk is somewhat greater. But under the Bank agreement, loans are to be safeguarded not only by the scrutiny of the Bank but by authorizing each government to prevent its currency from being lent if it thinks the transaction dangerous; and under the guarantee, all losses are to be shared among all member countries in proportion to their subscriptions. The advantages of the agreements far outweigh the financial risk incurred by the United States.

7. The good will acquired by accepting the agreements, together with the influence the United States can legitimately exert through its heavy voting power in the Fund and the Bank, will be of great advantage in the settlement of other international issues.

8. Bretton Woods represents the first attempt of the United Nations to reach agreement on vital economic issues. The present drafts could undoubtedly be improved as regards details. But in view of the fact that over 40 governments are involved and in view of the complexity of the problem, the extensive concessions made by others to the United States at Bretton Woods, and the ill will we would incur by insisting on reservations, it is very doubtful whether a substantial agreement could be reached at all or, if reached, whether in the end it would be a better one. If the present proposals were not ratified by the leading countries of the world, the outlook for genuine international collaboration in the economic field and even for world peace would be indeed gloomy. It is therefore a matter of urgent necessity that full support be given to the agreements by the United Nations.

BRETTON WOODS

Written by Leo M. Cherne for Americans United for World Organization. Mr. Cherne is Executive Secretary of the Research Institute of America and Chairman of the New York Organizing Committee of Americans United.

One bright afternoon not many months ago a weird and unidentifiable sound filled the air over the English countryside. To folks inured to all of the gruesome sounds of war for five years, here was something new and more terrifying. Within a second or two the source of the sound came into view. That mysterious thing poured flame into the sky. In a few minutes it was to pour death over the English soil.

That first day the folks in England didn't know what it was. They weren't sure where it came from nor how it flew. They had no name for it. Their name even now is frequently just "those things." But in that first moment of so many doubts, one certainty crystallized. It was the certainty that they would find out what it was - how it worked - where it came from, and - most important of all - though months of fruitless attempts and endless millions be spent in the process, they would learn how to stop it.

There is one of the great ironies of the war. Dangers far greater than rocket bombs hang over our heads - but we pay them little attention. Take a phrase like "Currency Stabilization." No more people know what's in it than knew what was in the rocket plane. Yet it's much more deadly - and I mean just that. It will kill many more people. But because the threat isn't as clear as a flying bomb, there's no great excitement to find out what it's all about.

It's not that no one is interested. One of the most important of the peace conferences of World War II took place in Bretton Woods, New Hampshire. The diplomats at that conference took apart the rocket bomb called currency stabilization, but no spectacular solutions are likely.

It's unfortunate that unlike the rocket plane, the phrase "Currency Stabilization" makes no weird and frightening noise.

I know of few outgrowths of this war that will have more effect on your jobs, your savings, the entire environment in which you live - yes, even the safety of your children - than will be found in the actions taken by the governments of the world in connection with the international exchange of goods and the currency that is used for that purpose. I am discussing it because of the possibility that the conference agreement reached this summer at Bretton Woods will not be approved by Congress.



We can see just how that failure concerns you intimately if we think about something familiar to all of us - say, gasoline stations. In the good old days before A, B and C cards, you may remember the price wars that sometimes started among gas stations in a community. One outfit down at the crossroads, hungry for more business, would cut his prices. Soon cars began to pull up at his pumps, passing other stations by. Well, those other stations couldn't stand the pressure. The man up the road a piece cut his prices even lower than the fellow at the crossroads, and so it went. Each station undercutting the prices of another - with a price war raging all through that community. The consumer got an accidental break during all this. But - there's a big "but." If carried on long enough, one or more of those gas stations would have to go out of business. Incidentally, his bankruptcy would mean that many less jobs in the community - so the community itself paid for the price war.

Exactly the same kind of thing can happen in the international scene, and does quite frequently - in the form of a country's devaluation of its money. But when you get an "International Price War," the consequences can be very much more dangerous than the competition among filling stations. First of all, instead of John Smith who employs two helpers, you're dealing with sovereign nations, each with millions of mouths to feed. Besides, each nation has a military force that may fight if the competition becomes too painful. Of course, a gas station owner might set fire to his competitor's place if there weren't laws against arson and a police force to compel compliance. But these curbs on drastic action - these restraints against the anger of a competitor - don't exist on the International scene. Nor is there the police force to curb the violators if, instead of just price cutting, they start using the club.

And that's where currency stabilization comes in. Stripped of its complications, it means an international agreement about the nature of monetary exchange between countries so that the coins of each can be relied on from month to month - pesos and francs, pounds, sterling and rupees, dollars, drachmas and rubles, or what have you.

Unless there is a definite, set relation that says so many of one unit of money is worth so much of any other - in terms, for example of the American dollar - unless you have that understanding, nobody buying or selling in international trade would ever know where he stands, what he's paying for a shipment of rubber or what he's getting for the export of a carload of typewriters from the United States.

It's as if a country grocer were forced to let his customers decide what they'd use for money. Some of his customers



might offer him nickels, others pigs, and still others buttons. That poor grocer's problem would be further complicated if the customer could also decide how much the button he was using for money was worth. Or how many hairpins it would take to buy a twenty-cent can of Crisco.

Actually, this isn't an exaggerated picture. A sovereign nation can change the value of its currency whenever it pleases. The United States for example, did so during the depression years when it devalued the dollar.

Here's how it happens.

Let's take the case of a country that booms or busts as a result of the success or failure of one major crop. In a good year that country exports a substantial portion of its crop. With the money - the foreign exchange that it receives - it buys tractors from the United States, clothing from England, shoes from Czechoslovakia.

But suppose, as happens too frequently, either drought or excess rain spoils that one crop. The country has much less to export. Not only is there no money at home for the farmers and the merchants of that country, but it doesn't buy as much from other countries. Which means those countries don't sell as much, and consequently aren't as prosperous as they would otherwise be.

In the anxiety to keep up some foreign credit, those depressed countries will do many things. Germany within the last fifteen years gave us outstanding examples of what can happen. Germany, for instance, started playing around with a new kind of money - that we call "Blocked Currency." Blocked Currency is like a department store gift certificate. That certificate isn't negotiable. It can only be used to buy the merchandise of that department store. The blocked marks which were circulated in South America, for example, - and even in this country - before the war, made it impossible for the importer who held them to buy any other than German merchandise with those marks,

Now, if you're given a gift certificate for Christmas, fine - but why should anybody buy blocked marks? The reason is simple. Germany promised that every mark would be worth a mark and a half in goods. It's as though you were getting a dollar and a half worth of merchandise for every dollar you spend. Buy from us and we'll give you a real discount is the cry of those depressed countries beginning their currency war.

The hitch in the deal, though, is that you have to rely



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on that country to redeem its promise. Balkan countries, for example, that were compelled to take piles of German blocked marks, received endless shipments of aspirin - more aspirin probably than all the Balkan headaches could require for years to come. And there are plenty of Balkan headaches.

Another practice is to ship goods that are shoddy or fraudulently priced in exchange for the blocked marks. The buyer's stuck. Those are the only goods he can buy with the blocked money. If he doesn't like it - too bad.

It's as though you paid \$10 for a \$10 gift certificate and were promised a \$10 hat for it. But when you redeemed it you got a \$2.95 hat that had been marked up to \$10. A department store that did that would probably lose its customers pretty fast. In international trade, though, it's not that simple. Bribery of important diplomatic contacts is one way of keeping customers, even though they're being cheated. The threat of force is another. And probably most important of all is the fact that the country doing the buying has stuff of its own to unload that it can't dispose of except under these deadly competitive arrangements.

The important implication behind all of this is tied very intimately into the war we're fighting now. It becomes immediately apparent, for example, that there's no possibility of any country being immune from the economic diseases that afflict another country. The currency that a country uses in its international trade is just one of the means by which purely domestic diseases in one country spread to other countries. It's not accidental that the depression hit all countries in the early 30's. Even though the internal conditions in each of those countries were strikingly different, the epidemic spread, and there was no anti-toxin against it.

There's the real danger. The temptation is very great for many countries to use war as an anti-toxin to depression. Often this isn't done consciously. You merely start with the kinds of currency warfare that I've been discussing, and on its heels inevitably comes diplomatic warfare, and the growth of suspicions and bitterness among nations, and finally the spark - the incident - and war is again with us.

The purpose of the Bretton Woods Conference in New Hampshire was to prevent that happening again. In a planet filled with nations of unequal strength and unequal wealth and prosperity the only basic cure is an agreement not to engage in currency warfare. That's the real meaning of currency stabilization.

But, if Ruritania, for example, is to give up its right to suddenly cut the value of its rupees in half, that mythical kingdom would do so at a sacrifice of some of its own independence - of its sovereign right to do as it pleases. And that's the fly in the ointment that will be up in Congress real soon. "Independence," or "Sovereignty" as it is called in the language of the diplomats.

Stripped of its legal definitions (and its significance in international law) sovereignty merely means the power of any nation to act with complete independence on any questions without being required to consult with other nations or to hesitate because of the interest of other nations. A completely sovereign nation is one that is its own boss in the world with no interference from any outside source.

An agreement outlawing the use of poison gas is a whittling down of the sovereignty of each of the nations that agree. An international mechanism for the control of the sale of opium such as has existed for the last generation is an invasion of sovereignty.

Now, Ruritania - or the United States - is not going to give up its sovereignty for nothing. It would agree to do so only if it were compelled to, or if it were given a real guarantee of financial and economic stability.

Well, what's the price that was offered at the monetary conference? The price is the monetary stabilization fund you've been hearing so much about lately. It's quite simple. The various countries would contribute a certain amount of money to the central fund. Then if a country like the one that got into trouble with its main crop lost its foreign credits, it could go to this fund for a loan that would make it possible to continue buying foreign goods.

Obviously, countries that are weak economically would be willing to give up some "sovereignty" in return for that privilege. They stand to gain very directly by it. How about the United States though?

We insist with great logic that we are the world's most important creditor nation, that the world owes us - not we the world. That we own most of the world's gold, that we normally buy from abroad much less than we sell. And there are many who will insist that any monetary stabilization plan will demand of the United States that we pay more in cash than we shall receive in cash. You will hear it said, and correctly, that our sovereignty will be whittled down to provide economic stability and currency security to France and Iran and Tibet and England. And

that's all true. But equally true is the fact that without the cooperation that is known as a sacrifice of sovereignty, the financial and economic war will start again before the smoke is settled on the battlefields. The depression-ridden countries will once more sharpen their knives on the grindstone of their local dollar sign. And before long, economic and financial rivalry will again build the competitive blocs of nations which have always led to war in the past.

The conference at Bretton Woods was the first of the peace conferences of World War II. If it fails to be accepted by the United States, the peace itself has been deadlocked. Victory on the battlefields will not solve these questions. It will take a more intricate and difficult victory in our nation's capital.

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● Bretton Woods Monetary Conference— *Plans and Achievements*

BY ELEANOR LANSING DULLES

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Bretton Woods Monetary Conference— *Plans and Achievements*

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THE flow of goods from country to country is inevitably dependent on an international price structure which makes it possible to buy and sell. Prices have always been disturbed by wars, but never before has there been such a complete breakdown of the system of price interrelationships. The more important exchange markets have been completely isolated from each other. It is impossible for any one to say what is the true value of the money of one country in terms of another. No one knows what the Danish crown, the German mark or other belligerent currencies are worth, either in terms of international goods, gold, or dollars, or pounds. It will be necessary for each country to set a rate of exchange as a basis for doing business, but even though these rates are regarded as valid or near to their true value, every one knows that they will be set to some extent as a matter of guesswork and because of the necessity for a basis for trade in urgently needed goods. The extent to which the rates set are "right" and can be maintained during the critical period of early post-war adjustment, as well as the extent to which readjustment of rates which are too high or too low can be made without occasioning serious disturbance, will depend on consultation between nations as well as on cooperation of a very critical nature. Never since world trade has become highly developed has there been such a complete tearing down of the economic network of prices and never, perhaps, will there be so much need for joint action in reconstructing international financial relations.

There are, then, two different but extremely pressing needs. First, we need a basis for the interchange of goods and the short-term financing which is tied up with the payment on current accounts and the multilateral exchange of funds. Exports of food, clothing, machinery and other similar commodities cannot go from the United States to Europe or, in fact, cannot flow through any of the usual channels of trade in any volume unless they can be paid for in stable currencies. It

is true that relief such as that which might be provided through UNRRA can be largely independent of exchange values, but ordinary commerce requires predictable exchange rates.

Second, we need the long-term financing essential to the transfer of capital goods from countries with large productive capacity to those in need of reconstruction. Devastated industrial plants, public utilities, transportation systems, and cities cannot be rehabilitated promptly unless critical supplies are advanced in time to stimulate energetic reconstruction. Similarly, the potentialities of backward nations might be long delayed if they have to wait on the revival of capital markets, which have been seriously crippled by the destruction of war as well as by the financial restrictions of the pre-war period. Another factor is undoubtedly the lasting effects of past defaults on debt payments on capital markets calling for measures which will help restore confidence.

BASIC OBJECTIVES OF THE FUND AND THE BANK

Because of the needs outlined above, plans for the International Monetary Fund and the International Bank for Reconstruction and Development¹ have been designed as major foundation stones in the post-war structure of international relations. Before considering special aspects of the problems raised, it is well to set down the purposes accepted as guiding principles.

The purposes of the Fund are: (1) To promote international monetary cooperation; (2) To facilitate the balanced growth of international trade; (3) To promote exchange stability and orderly exchange arrangements; (4) To assist in the establishment of a multilateral system of payments; (5) To give confidence by making available the Fund's resources; and (6) To shorten the duration and lessen the degree of disequilibrium in the

1. For text of the articles of agreement of the international Monetary Fund, see *New York Times*, July 23, 1944; of the International Bank for Reconstruction and Development, *ibid.*, July 24, 1944.

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balance of payments.

While some differences of opinion may exist as to the relative importance of these aims, it is clear from the machinery which has been outlined as the means of furthering these ends that the development of a stable, orderly, and dependable system of exchange rates was paramount in the minds of those who shaped these plans and of the government representatives who remolded them to be consistent with their national aims.

The purposes of the Bank are: (1) To assist in reconstruction and development of territories of members by facilitating the investment of capital for productive purposes; (2) To promote private foreign investment by guarantees and participation and, when private capital is not available on reasonable terms, to supplement it by providing out of its own resources; (3) To promote the long-range balanced growth of international trade; (4) To arrange for loans so that the more urgent projects will be dealt with first; and (5) To conduct its operations with due regard to assisting transition from war to peacetime economy.

These objectives are obviously closely related to those of the Fund. Thus it is apparent that, in the opinion of the originators of the proposals, one institution can hardly flourish without the other and that, if there is a failure in the effort to inaugurate either, the other will be subject to serious and possibly intolerable strains.²

While the Bretton Woods program is bold and venturesome in that it attempts to develop financial cooperation on an international scale and on the basis of binding commitments, the detail with which the plan is elaborated, and the extent to which all participating representatives agreed to the final draft both in its broad outlines and in its specific provisions, give some indication of their belief that the program is a practical one.

Reduced to the simplest terms, the Fund project tries to knit together nations much as states or provinces within a country are bound together by a single price structure and a money which is freely interchangeable. The Bank project is a carefully guarded plan to permit a limited amount of pooling of capital resources so that production may revive throughout member nations.

EARLY PLANS FOR INTERNATIONAL BANKS

Many schemes for international financial cooperation have been developed in the past. Some of these have stressed the idea of an international monetary unit to facilitate the flow of goods between countries, others emphasized the use of international

lending power for developing backward areas.³

The most serious attempt to achieve some of the aims set forth at Bretton Woods for the Fund and the Bank was developed as a result of the Young Plan Conference in Paris in 1929. This conference held its first session on February 11, 1929. After many weeks of negotiation, and consideration of various plans for settling the reparation question, it was decided to establish a special institution called the Bank for International Settlements. Many of the proponents of these plans hoped to make the founding of the Bank the occasion for providing large credits which would aid the exports of many lands and facilitate the payment of all debts, including those for reparation.

At the time when the Bank was being developed there was, however, growing uneasiness in some quarters over the amount of foreign credits which had already been issued, and fear concerning the possibilities of repayment. International financial consultations were informal. Although central bankers had formed a habit of conferring together at irregular intervals, they could not bind their governments to act in accordance with any fixed plan. Because of the doubts and uncertainties which divided economic opinion before the world depression, the conservatives won out in the Paris discussions of 1929, and the Bank for International Settlements was given limited functions on the theory that, with experience, it could expand both its membership and its activities.

THE BANK FOR INTERNATIONAL SETTLEMENTS

The Bank for International Settlements, as founded in 1930 with headquarters in Basle, Switzerland, was tied closely to the gold standard, was unable to create credit, and was based on membership, at the outset, of the seven principal founding countries, with the United States refusing to participate.

The directors, meeting as scheduled and considering the framework laid down for them, were conscious of the restrictions placed upon them with respect to exchange and credit operation. They decided to adopt a policy which virtually excluded exchange risks, and limited the type of security in which its funds were placed to those of a highly liquid character. They chose to develop the new institution cautiously, and with as much economic agreement among its members as possible.

During its first year the Bank for International Settlements was able to perform a number of ad-

3. See Eleanor Lansing Dulles, *The Bank for International Settlements at Work* (New York, Macmillan, 1933), pp. 14-17. See also Paul Einzig, *The Bank for International Settlements* (New York, Macmillan, 1930).

2. See p. 146.

visory functions, to assist in exchange stabilization, and to place its funds in such a way as to assist the money markets of some of the weaker members. A number of countries joined the Bank and its contacts expanded among both members and non-members. Its development, while slow, was businesslike, and was not challenged by the financial authorities of any country. It labored under the handicap of its war heritage and was referred to frequently as a "reparation bank," but it managed to create a non-political atmosphere in its meetings. It became not only a bankers' club for those who were accustomed to dominate large financial centers but also a place of consultation for representatives of the newer and weaker central banks.

Political and economic disaster were destined to overwhelm the new Bank before it had completed two years of operation, at the very time when it was planning to develop a more active role in the fields of exchange stabilization and of gold clearing, and was maturing its policies with regard to short-term credits. The closing of the Kredit-Anstalt in Austria, and the subsequent freezing of European credits, led to financial collapse and abandonment of the gold standard in England.

From September 1931 on—and after the coming to power of Hitler, and the development of Nazi economic restrictions and techniques which had a contagious influence over all world trade—the position of the Bank for International Settlements became hopeless. While efforts were made to keep the institution alive, its activities were reduced to those of a minor agency for replacing limited credits in a few European markets, holding gold for some of its members, and for advice and communications. Then, after the confused and frequently misunderstood episode of the transfer of gold through the Bank for International Settlements from the Bank of England to the German-dominated Czech institution, it lost virtually all its non-Axis support.

It is essential, for a correct appraisal of the future, to note some reasons why the Bank effort failed and to underscore the difference in the approach to the problem of international finance which it represented and that envisaged in Bretton Woods plans: (1) The Bank for International Settlements had its origin in the hotly contested problem of reparation; (2) Our government was not a participant; (3) The Bank had neither the authority nor the resources to stabilize exchanges; (4) It was the agent of central banks of members, and was not fully supported by their governments; (5) Its funds were limited; (6) It was developed in a decade when economic war-

fare was rife; and (7) Its leadership was cautious and tentative, rather than bold and determined. It could not take any aggressive steps to counter the sweep of the depression which overwhelmed it before it was fully established. The most striking sign of complete loss of faith in the plan initiated at Paris in 1929 and in the Bank was the desire for its liquidation expressed in 1944 at Bretton Woods and elsewhere.⁴

FINANCIAL ABNORMALITIES OF THE PRE-WAR DECADE

The period between 1931 and the outbreak of World War II was characterized by comprehensive and almost universal restrictions on exchange transactions, by multiple currency practices, by economic warfare, and by a control of international trade designed to support government-dominated programs of production and, in the case of Germany, rearmament.

The degree of stability of exchange rates which prevailed was the result of special and largely nationalistic measures. There were, however, a number of exchange agreements, notably the Tripartite Agreement of 1936, which represented an attempt by the United States, Britain and France to arrange for the interchange of funds at stable rates. It was inevitable that large idle balances should accumulate in a few centers, notably London and New York, and that with the outbreak of the war these balances should be frozen. Thus the difficulties which became conspicuous in 1931 proved increasingly disturbing to trade and investment, and the world of international finance was broken up into a series of compartments with little possibility of interchange. The very essence of world economic relations was destroyed, and what was left was a confusion which it will be difficult to end after the war even under the very best circumstances.

ORIGIN OF THE BRETTON WOODS PLAN

The Bretton Woods plan, with its two-sided approach to the financial problem, had a number of forerunners of varying significance for the proposals ultimately adopted. There were proposals by Professor Milhaud^{4a} and Lord Keynes⁵ in the early thirties, as well as numerous other plans before and after the Paris conference which gave rise to the Bank for International Settlements. There was a proposal by Herbert Feis for a pooling of funds to finance foreign trade.^{5a} There were various conversations and articles regarding the

4. See *Final Act*, July 22, 1944, p. 14.

4a. Edgar Milhaud, *La Compensation Organisée* (Paris, 1935).

5. "The Means to Prosperity" (London, Macmillan, 1933).

5a. Herbert Feis, "Restoring Trade After the War," *Foreign Affairs* (New York), January 1942.

ture of the techniques used in the stabilization funds and their possible extension. In a very real sense, however, the Keynes and White Plans of 1942 were innovations and must be considered as distinct steps forward as compared with these early beginnings. To a considerable extent, their early formulations were distinct, and their appearance at approximately the same time a reflection of general awareness of the urgency of the problem.

In London there were, in 1941 and 1942 particularly, discussions of the Schumacher Plan for a pooled clearing. Meanwhile, in Washington the first draft of the White Plan had been made available on a restricted basis in the spring of 1942. Thus, from the early summer of that year and until the Bretton Woods Conference, increasing numbers of financial economists and others were occupied with consideration of the two approaches to finance and international economic measures, and were concerned with arriving at a common basis for action. This common basis later took the form of the Joint Statement of April 21, 1944.⁶

The Joint Statement covered only the Fund plan for current account transactions and did not include longer-term financing. The White Plan of early 1942 had been presented in two parts. The first covered short-term financing, and the second provided for a Bank for Reconstruction and Development of the United and Associated Nations. The Keynes Plan, while not designed primarily to facilitate capital transactions,⁷ had considerable scope and flexibility by means of the overdraft principle, and within its framework could have permitted the extension of credits which would not have been repaid for a considerable period. The publication of the Joint Statement, issued in both London and New York, thus marked the end of the first stage of preparation for the Bretton Woods program and the bringing together of the two projects.

THE KEYNES AND WHITE PLANS

Before considering the later development of these plans, further comment on the conversations between experts is necessary. Both the so-called White Plan, issued by Dr. Harry White of the Treasury, and the plan prepared by Lord Keynes were presented tentatively and without definite official support. The Keynes Plan, being in many respects the simpler and more attractive, provided a clearing in which the credits arising from exports could be held in suspense and theoretically liquidated at

some later date by goods flowing in the opposite direction as imports. The central bank of each exporting country could pay for the goods shipped from the country, and the central bank of each importing country could collect the cost of the goods from the purchaser. The limits to the amount of imports to be financed in this way would be set on the basis of a formula for quotas for members, the total thus established to be approximately equivalent to exports plus imports. Rough calculations as to the amount of short-term credit which might be extended on this basis varied from 25 to 30 million dollars upward as a total. All accounts would be carried in *bancor*, a monetary unit, which was to have a fixed value in terms of gold. The members would tie their currencies to this unit at a constant rate, varying it only under prescribed conditions.

The White Plan, while designed to meet the same basic needs, differed substantially in the means to be provided. The Fund was to be based on contributions in gold and national currencies totaling \$5 billion (later raised to \$8.8 billion). The resources thus constituted would provide a variety of currencies, and would be available to member countries in a ratio corresponding to their contribution. The White proposal, therefore, constituted a limited pooling of assets while granting a certain amount of drawing power for settlements on international account. Fund accounts were to be carried in terms of a monetary unit to be known as *unitas*. The original version of the Fund also contained a provision for gradual liquidation of blocked balances, which was omitted in the later stages of discussion.

Thus, while the two plans differed from each other in a number of respects, the differences have little more than academic interest now, because both have been subject to considerable revision. In summary, the Keynes Plan seemed to be more flexible and simpler in operation, but of too novel and ambitious a character to win support. The White Plan, calling for contributions in gold, was more restricted, and in its first draft appeared inadequate to meet post-war financial strains. The procedure by which the two were merged has considerable interest in connection with the achievement of economic collaboration in other fields.

THE CONVERSATIONS OF 1943

After publication of the British and American plans in 1943, correspondence with a number of governments informed them that an attempt would be made to explore further the technical possibilities of an international financial action. As a result

6. See p. 142.

7. See *International Clearing Union* (New York, British Information Service, April 8, 1943), p. 18.

of these communications, a series of informal meetings of technical experts were held in Washington in June 1943 and later. Experts of seventeen countries⁸ took part in these conversations. Questions and answers revealed their concern over a number of points—such as the willingness of countries to contribute gold, fear of unlimited inflation, the special needs of occupied countries, apprehension lest international policies should force deflation on any country, insistent emphasis on the importance of the creditor country, and the desirability of avoiding deflationary measures initiated to exact payment from the debtor.

Shortly after the conclusion of these multilateral conversations a new draft of the White Plan was issued, dated July 10, 1943. This draft embodied some of the results of the experts' suggestions, and was in fact closer to the Keynes proposal. Soon after this plan was made available, American experts met in successive bilateral conversations with the experts of Britain, Russia and other nations. Conversations with the British were long and searching, and led to a number of inquiries of financial authorities in London and elsewhere. After a series of meetings, the points of agreement and of difference between the Americans and British were summarized in an informal document. The points of agreement were then scrutinized and discussed for a period of months, and notes of an informal character were exchanged on the unsettled problems.⁹ The result was the publication, on April 21, 1944, of a Joint Statement by Experts on the Establishment of an International Monetary Fund of the United and Associated Nations. This document, together with that of July 10, 1943, were basic materials for the final plan.

During these discussions it was understood that, although the Fund was carried along in advance of the Bank, every effort would be made to bring forward an acceptable proposal on a combination of institutions aimed to provide for short- and long-term financing in a coordinated fashion. Thus, a considerable measure of agreement had been reached before the spring of 1944.

PLANS FOR THE BRETTON WOODS CONFERENCE

Invitations for an international monetary conference were issued by the United States to forty-four governments, asking them to send representatives to consider the institution of a Fund and

8. Belgium, Brazil, Canada, China, Czechoslovakia, Ecuador, Egypt, France, Luxemburg, Netherlands, Norway, Paraguay, Philippines, Poland, United Kingdom, United States and Venezuela.

9. Reference should be made also to the Canadian plan made available in 1943, which was in a sense a compromise between the Keynes and White plans. The experts defending it exerted a constructive influence on the whole undertaking.

a Bank. The response made possible the calling of the conference in Bretton Woods, New Hampshire, on July 1, 1944. For a little over two weeks before the formal meeting, financial experts of most of the invited governments met in Atlantic City to prepare draft documents for submission to the conference.¹⁰

THE BRETTON WOODS CONFERENCE

Forty-four nations sent their representatives and experts to the conference, many of them traveling thousands of miles to be present.¹¹ There were also some seven or eight hundred delegates, advisers and technicians. The conference convened at a plenary meeting on July 1 and closed its sessions on July 22 with the signing of the Final Act, which outlined the proceedings and included the details of agreement that were to be placed before the various governments. The plenary sessions were open to the press, and there was fairly full reporting not only of the public sessions but also of some of the less formal discussions.

The conference at the outset elected Secretary Henry Morgenthau, Jr., president of the conference and set up three main commissions. Other leading officers included: Commission I, Harry White, Chairman, considering the Fund; Commission II, Lord Keynes, Chairman, considering the Bank; Commission III, Eduardo Suarez (Mexico), Chairman, considering other means of international financial cooperation. The two main commissions set up four committees on: Purposes and Policies; Operations; Organization and Management; and Form and Status. The various committees of Commission I met continuously over a period of ten days in order to make as rapid progress as possible with the provisions of the Fund. The various articles of the document of July 1 were divided among the committees as the agenda for their work. Meanwhile, the draft document on the Bank, dated July 10, was prepared and put before the conference. Thus, Commission II began its sessions somewhat later than Commission I and proceeded along much the same plan.

10. *Questions and Answers on the Fund*; a similar document on the Bank (not available until July 10); and *Preliminary Draft of Suggested Articles of Agreement for the Establishment of an International Monetary Fund*, July 1.

11. Australia, Belgium, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, the French Delegation, Greece, Guatemala, Haiti, Honduras, Iceland, India, Iran, Iraq, Liberia, Luxemburg, Mexico, Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, Philippine Commonwealth, Poland, Union of South Africa, Union of Soviet Socialist Republics, United Kingdom, United States of America, Uruguay, Venezuela, and Yugoslavia. By special invitation, the Danish Minister was invited to attend the conference in his personal capacity.

POINTS OF CONTROVERSY WITH RESPECT TO FUND

It was apparent early in the conference that a number of questions were bound to be critical to the attainment of a common agreement with respect to the Fund. These related mainly to the following questions: (1) The amount of each country's gold contribution to the Fund; (2) The manner in which the par value of its currency would be fixed; (3) The conditions under which the exchange value of the currency could be altered; (4) The quotas, and control and voting which would be provided for; (5) The extent to which restrictions on trade and finance would be permitted; and (6) The manner in which multilateral exchange could be attained. There was also considerable discussion with regard to the location of the Bank, and where gold would be held.

Reservations were made on some aspects of all these points and other lesser points, but it was agreed that reservations on the Fund need not be embodied in the Final Act but merely incorporated in the minutes. Thus, they constituted precautionary statements and did not become in any sense amendments or modifications of the plan itself. On all the main provisions as modified during the conference there was unanimous agreement—a degree of unanimity surpassing the most optimistic expectations of the experts.

PLACE OF GOLD IN THE FUND

Much interest naturally surrounded the place of gold in the Fund, and the conditions and amounts of contributions. The Fund plan has been criticized in two main respects, the criticisms being in conflict with each other. Some have contended that the plan is too closely tied to gold and is a virtual attempt to restore the gold standard. Others have argued that the Fund permits too much flexibility and too easy alteration in exchange rates.

The course of deliberations at Bretton Woods throws some light on these two opposing views. The keenest attention was directed to original gold contributions and also to later payments of gold acquisitions by members. The general attitude of most of the representatives was that, while it was for the general good to have a substantial amount of gold in the Fund, each country must also hold gold outside and protect its reserves to the maximum possible extent. The desire to have gold in the Fund was a unanimous recognition of its importance as a means of multilateral payments. There was, in fact, little indication of a desire to abandon gold as an instrument in international finance and a recognition of its usefulness—always provided the links to gold would not be excessively

binding and unchangeable.

There is little inconsistency between this attitude toward gold and the desire to provide for changes in the exchange rates between members. The fixing of initial par values was regarded as a very difficult task. The uncertainties facing many countries were fully recognized, and the impossibility in the future of forcing deflation to maintain an unduly high rate was urged as a major consideration. No delegate showed any willingness to accept an iron-clad commitment to hold to a prescribed rate if circumstances showed it prevented an internal policy of public works, stimulation of employment, or readjustment in the national interest.

While gold was accepted as an instrument, there was unmistakable evidence that the value of a national currency in terms of gold could not be held unchangeable. A recognition existed of the tentative nature of the initial rates but no wide-open provision was made for large-scale changes. Rates are not called tentative. Changes must be notified to the Fund and changes beyond 10 per cent call for special procedures. It is to be presumed that the general safeguards and precautions, the conditions surrounding recourse to the Fund, and the availability of exchange all serve as added protections.

NATIONAL QUOTAS

The struggle over quotas, fully described in the press, was in fact somewhat exaggerated. It was clear that, once a scale was developed to limit the extent to which each country might draw on the Fund, there would be an effort on the part of most countries to improve their positions. It was well recognized in most cases, however, that substantial changes in the position of any country altered its position in comparison with other countries, and that from this point of view changes could not be made to the benefit of all. Thus, the maneuvering that did take place with respect to each country's share must be regarded as more political than economic in character.

In the original drafts there had been attempts to base quotas on objective economic criteria. In the Fund the first plan had been to use national income as a controlling index. In the Keynes Plan foreign trade had been similarly used. After discussions with various countries it developed that both these factors, as well as several others, were relevant. Attempts were then made to combine several economic indices, but the result was confused and somewhat unsatisfactory. In the end, therefore, consideration was given to a number of economic factors, and the composite result was

the basis for negotiation—a basis admittedly difficult to defend on a purely academic basis. While many continue to hope that an automatic standard can be applied, it is clear that in a period of such far-reaching change, the past situation of no country could be taken as an absolute guide to its future circumstances. A Fund designed to change conditions and improve the position particularly of some of the weaker countries could scarcely be tied to pre-war conditions even if absolutely reliable statistics were available.

Thus, although there was considerable discussion of quotas at Bretton Woods, the difficulties in this respect were somewhat more apparent than real, even though quotas will determine the controlling interest in the Fund as well as the use of its assets.

EARLY POST-WAR ARRANGEMENTS

From the very outset, critics of the plan, notably J. H. Williams and Jacob Viner, called attention to the different type of arrangements needed for the early post-war period as compared with more normal times. The discussion of this matter was keen and often heated. It focused mainly on the gold contributions of war-damaged countries and on the "initial determination of par values" for countries affected by the war. There was also considerable discussion with respect to the possibility of access to the Fund in the early period by countries whose entire economies had been wrecked by war disturbances.¹² After considerable discussion, flexible provisions were introduced into the plan providing for special circumstances, and also giving some leeway to members and management in determining the conditions under which contribution should be made, the setting of rates, availability of the resources of the Fund, and changes in values. It was agreed that there should be no "provisional rates," but that possibilities of readjustment should not be excluded. Thus, measures were outlined to reduce as far as possible speculation with regard to changes in exchange values, and to leave the possibility of maintenance of the initial rates. The proposal sponsored by a number of devastated countries to reduce the gold contribution 25 per cent was rejected.¹³

SCARCE CURRENCIES

It was recognized throughout the discussions that the need for the Fund lies to a considerable extent in the fact that a few of the world's senior currencies have tended in recent years to become scarce. This applied to both the United States dollar and

the British pound in the twenties and thirties, but more recently affects particularly the dollar. Therefore, from a technical angle, the critical problem in the Fund is to prevent, as far as possible, the scarcity of the dollar and to make it or any other currency, which subsequently becomes scarce, available on an equitable basis to all trading nations.

The controversy over quotas was considered by some to be largely a question as to how many dollars would be available. For this reason Article VII of the agreement was hotly debated. Considerable attention was given to the measures to be taken when dollars or other currencies are about to become scarce. It was recognized that in such circumstances it might be necessary to have rationing of remaining supplies, and also to provide for approval by the Fund of measures by debtor countries to prevent exchange disturbance due to continued exports from creditor countries whose currencies have become scarce. Various provisions of the Fund were outlined, however, to prevent the more extreme measures. Moreover the purposes of the Fund, to which members subscribe, indicate the readiness of potential creditor countries to prevent the excessive strains which come from long-continued export balances and to encourage compensating flows of imports. It was judged by most of those who have examined the development of the plan that the Fund alone could not provide any absolute guarantee against such unbalanced commercial tendencies, but that wise management and flexible provisions could do much to prevent extreme situations.

OBLIGATIONS OF MEMBERS

In line with these purposes, members were, therefore, obliged to cooperate with the Fund in making their currencies available as far as this cooperation was consistent with their domestic policies, and to promote the stability of their currencies in terms of gold and support the general structure of exchange rates as determined in agreement with the Fund. There is also a general commitment not to impose financial and trade restrictions contrary to the purposes of the Fund. In addition, members are bound to turn over annually to the Fund half of the increases in their gold reserves under circumstances specified,¹⁴ thus sharing the benefits of "favorable" trade with the Fund.

The members agreed to a number of other specific conditions. They are to furnish the Fund with information on the balance of payments and with other financial and economic data. They are to notify the Fund under specified conditions with

12. See Louis Rasminsky, "International Credit and Currency Plans," *Foreign Affairs*, July 1944.

13. See *Final Act*, cited.

14. Article V, Section 7(b).

respect to any proposed changes in par values. They are to avoid discriminatory currency practices and to maintain the freedom of newly acquired foreign balances arising out of current account transactions.

In general, the plan consists of a comprehensive agreement to collaborate and to facilitate the easy transfer of funds. Without a sincere acceptance of the general provision, a member might easily interfere with the more specific techniques and devices. In such circumstances, the Fund would have to take disciplinary action and deny its resources to recalcitrant members. Suspension from the Fund was made subject to particular conditions, but withdrawal from the Fund is at the option of members and was made easy in order to protect the rights of individual nations and prevent undue interference in national policies.

ADVANTAGES AND LIMITATIONS OF THE FUND

The advantages which members derive from the Fund are, therefore, both general and particular. Each country has a right to draw on a diversified pool of resources, and has a partial guarantee against competitive depreciation. The advice and counsel of the group are available as guides to commercial and financial policy. Similarly, the Fund can make plain to all members the causes of difficulty with respect to incipient strains and excessive credit and debit accounts. There is a degree of multilateralism in international payments implicit in the plan which is close to that provided in rare periods when the gold standard operated effectively.

The limitations on the power of the Fund arise out of the fact that it cannot bring about an equality of production costs, living standards, and value conditions from country to country. It cannot directly do more than give a breathing space to countries with unfavorable trade balances. The Directors and Governor are not authorized to take the initiative in entering the money markets of the world for the purpose of buying and selling currencies in an effort to force stability. They rely on the genuine cooperation of members to maintain par values. The Fund cannot directly control gold production, although it can influence the factors which determine its significance. It cannot prevent speculation, but it can reduce to a minimum the idle balances held by residents of one country in the banks of another.

Since the Fund cannot prevent the withdrawal of members and cannot force any country to join, it must depend on the obvious benefits of cooperation and the attractiveness of the rights of members to draw on the Fund to gain the adherence of all the countries important in world trade.

THE BANK PLAN

In the early conversations, as well as later, many of the experts stressed the importance of having an investment and development institution to help bring about those economic conditions which are essential to sound currency stability and healthy trade. It was generally admitted that exchange stability would not be preserved by temporary devices, however ingenious, unless production and trade were revived. It was clear that a number of member countries would need long-term credit to restore their devastated plant and renew their capital equipment.

As already indicated, proposals to meet these needs were advanced at the same time as those for current account transactions and exchange stabilization. At some stages of the two preparatory years they received less attention, but they were never laid aside. At Bretton Woods the Preliminary Draft Outline of a Proposal for a Bank for Reconstruction and Development (issued by the Treasury, November 24, 1943), a document called Questions and Answers on the Bank, and a draft proposal of July 4, 1944 were the basis for discussions. The deliberations were carried on under Commission II and its various committees, meeting frequently after the first stage of work on the Fund was completed. Lord Keynes, as Chairman of the Commission, skillfully guided the conference in this part of its work.

In some ways the technical problems raised by the Bank were less complicated than those considered under the Fund. The basic principles were already fairly well agreed. The questions which remained were primarily concerned with the scope of the Bank's endeavors.

There was a substantial difference of opinion, for example, over the amount of lending the Bank could facilitate.¹⁵ After considerable debate, it was agreed that the "total amount outstanding of guarantees, participation in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed 100 per cent of the unimpaired subscribed capital, reserves and surplus of the Bank." Considerable effort had been made in some quarters to have the ratio as high as 150 or 200 per cent, but the dominant opinion was that the resources to be provided, totaling in the end \$9.1 billion, were substantial and would call for careful administration. It was urged that a larger potential might actually discourage lenders and reduce in practice the scope of the Bank's activities.

Another problem was the manner in which the

15. Article III, Section 3.

Bank would handle losses incurred and the manner in which the guarantees would become effective.¹⁶ These defaults would be met at the discretion of the Bank up to not more than one per cent of total subscriptions per annum out of each member's unpaid subscriptions.

One of the most difficult controversies, which was only resolved toward the end of the conference, concerned the amount of each country's contribution to the Fund. There was an effort on the part of many countries to reduce the amount to be put into the Bank, and only prolonged negotiations produced a schedule acceptable to the conference. At the last minute, the Russians in a dramatic move, having gained the right to a smaller quota than that first assigned—\$900 million—increased their share to the original \$1.2 billion.

RELATION OF THE BANK TO THE FUND

The Bank and the Fund are closely related to each other both in their concept and in their organization. It will be noted in Article II of the Bank plan that membership in the Bank is open only to members of the Fund. It is also notable in Article I that the purposes are closely related and, in fact, somewhat overlapping. More important than these interconnections, however, is the fact that the Bank is to a considerable extent dependent on the Fund, and the Fund on the Bank, from the point of view of the economic usefulness of either. While there are provisions in the Bank plan for making good losses due to changes in value of currencies,¹⁷ it is clear that the smooth working of long-term investment projects is greatly enhanced if currencies loaned preserve their value with relatively little change. It is also true that, if the Bank is not created and if no similar organization is adapted to perform its functions, the Fund will be subjected to excessive strains in attempts to substitute short-term funds and current-account transactions for long-term advances.

The question naturally arises then whether, if one institution fails to be accepted by a sufficient number of governments and does not come into existence, the other can function effectively. It is difficult now to foresee the exact nature of the developments which would follow the creation of one institution without the other. It is probable, however, that the answer to the question would be found in the almost inevitable development of less permanent and less comprehensive efforts at international financial cooperation to fill the gap left and to meet the pressing needs for which the Fund

or Bank is designed. Much would depend on the ingenuity and foresight of management and much on the intentions of the governments in setting up one institution while failing to inaugurate the other. It is essential, in the opinion of experts, for nations to have a real determination to cooperate not only in these particular fields but also in respect to commercial agreements, commodities arrangements, cartels, transportation, and in other areas. If this determination to arrive at constructive solutions is evident in practical ways, it is probable that the failure to set up all the desirable organizations and permanent bodies is not a serious menace to progress. If, however, refusal to act along these lines means a reluctance to engage in practical collaboration, then any single institution will be highly vulnerable to the inevitable stresses and strains of international life as well as to possible attack of a more deliberate character.

It is also evident that the Bank and the Fund will be stronger in direct proportion to the number and importance of their members. The existence of the Bank will make membership in the Fund very much more attractive, and vice versa. Supporters of the institutions thus feel there is a real urgency to accept the plan as a whole and to act promptly on both institutions.

CRITICISMS OF THE PLANS

In the swift-moving course of events it is difficult to keep pace with developing plans for post-war economic action. For this reason, it is not possible now to give a valid cross-section of American opinion on the Bretton Woods proposals. Virtually all the significant comment in print has been directed toward the early drafts. No comprehensive criticism on the Bretton Woods agreement is available. It is possible that some of the earlier critics will alter their positions since the plan may reflect the result of certain adverse comment. On the other hand, it may introduce new points to which they might object. In anticipation of these more careful analyses, only brief mention of some points of attack is worthwhile.

Even Senator Taft's recent statement¹⁸ may be modified when he examines the provisions regarding protection of American interests. His concern has been mainly with respect to the United States' "minority voice" in a plan which "places American money in a Fund to be dispensed by an international board." Professor Viner proposed that, instead of the adoption of either plan, there should be "a blend of the two with only a few substan-

16. Article IV, Section 7.

17. Article II, Section 9.

18. *New York Times*, July 12, 1944.

tial deviations from both.¹⁹ This was done. Professor Williams in various articles²⁰ has urged the "key country" approach, which would form a nucleus of stabilized exchange rates with gradual extension of stabilization on a somewhat flexible basis to other countries as conditions warrant. Here again, however, one must wait his later appraisal of the final plan before knowing whether he would accept the machinery in the Bretton Woods Act granting that, in general, he has already advocated the purposes formulated there.

A group of moderate critics is typified by those who accept most of the objectives of the plan but are afraid that the methods prescribed are over-complex and not likely to be adjusted to real needs and circumstances. J. H. Riddle²¹ and Leon Fraser²² should perhaps be put in this class. They are more skeptical than Professor Williams and Professor Viner, but less severe in their attacks on the general approach than the group which advocates a return in the direction of a partially automatic gold standard.

There is still another group of critics who condemn the plan much more vigorously and are not likely to be won over by the modifications in the later version. This group, typified by Dr. Benjamin M. Anderson and including a number of prominent bankers, is bitterly opposed to the breathing spell promised to debtor countries and will almost certainly reject any plan which serves to "delay adjustment." In their opinion, there is no easy way to avoid the painful deflationary measures which will bring poorer countries into a healthy relationship with those with higher incomes or lower costs. They believe that complicated schemes for international action are illusory and that more direct methods are healthier in the long run. A

19. Jacob Viner, "Two Plans for International Monetary Stabilization," *Yale Review* (New Haven), Autumn 1943.

20. J. H. Williams, "Currency Stabilization: The Keynes and White Plans," *Foreign Affairs*, July 1943; also *Post-war Monetary Plans and Other Essays* (New York, Knopf, 1944). In a review of this book, Professor Viner says: "I am impressed rather by the degree of success of the American negotiators [at Bretton Woods] than by their failure. What prospect was there that by some other mode of negotiation, or by postponement of negotiation, we could have gotten more along these lines? Or even nearly as much?" *New York Times Book Review*, August 20, 1944.

21. J. H. Riddle, "British and American Plans for International Currency Stabilization" (Washington, D.C., National Bureau of Economic Research, December 1943).

22. See speech before Herald Tribune Forum on November 16, 1943, *New York Herald Tribune*, November 17, 1943.

number of people have said that the plans were too rigid and did not make adequate allowances for the uncertainties of the post-war world, while others contended they were premature.

Newspaper editorials have been divided in their comment, with the *New York Times* outstanding for its adverse criticism and the *Christian Science Monitor* among those supporting the final plan as presented at Bretton Woods. Some few months will pass, however, before public opinion and expert judgment on the agreed draft give a reliable picture of the degree of approval which can be expected.

The main criticisms have been two—that the schemes are too complicated and that the United States is asked to do too large a share of the financing. Both criticisms are advanced with more or less vigor according to the general philosophy of the commentator. Some of the other attacks on the plan are of such opposite nature that they tend to nullify each other. That is, there are those who think there is a return to the old gold standard and those who declare the plan too novel and ingenious; those who think it too comprehensive, and others who conclude it will not go far enough to meet post-war needs.

NEXT STEPS

It is now the turn of the governments represented at Bretton Woods to accept or reject the proposals. It is impossible to predict the outcome, as there are no clear signs of substitutes if the plans are not adopted. The plan introduced in Congress by Representative Dewey merits attention, but in its original form was not adequate. If the plans so overwhelmingly approved by the conference are cast aside, there is apt to be a serious feeling of discouragement. Questions as to the possibility of any comprehensive economic collaboration would then inevitably arise. In fact, all economic conferences in the next few years would be made difficult and uncertain by failure to accept the workmanlike efforts and honest results of international consultation as expressed in the Act of Bretton Woods. Before passing judgment on the plans, responsible persons will naturally look carefully into the exact nature of the proposals, and bear in mind the consequences of currency depreciation, exchange confusion, and spasmodic, unregulated foreign investment.

In the September 15 issue of FOREIGN POLICY REPORTS:

U.S. FOREIGN POLICY AND THE VOTER

by Vera Micheles Dean

Financial Challenge of Post-War Period

By GRANT S. McCLELLAN

The critical nature of financial settlements in the post-war period, other than those considered at Bretton Woods, is generally recognized. Even the most optimistic supporters of the Bretton Woods plans have never claimed that the Fund and the Bank could meet all the more urgent needs. Some perspective can be gained by reviewing three problems which demand urgent attention. (1) The problem of blocked balances is recognized as a major difficulty in international finance. (2) The settlement of lend-lease obligations, while subject to the terms of the master agreement of February 1942 with Britain (and on which agreements with other countries were patterned), is also of critical importance. (3) A third question will undoubtedly be the nature and amount of Germany's financial obligations, whether by way of reparation or otherwise.

PROBLEM OF BLOCKED BALANCES. Blocked balances have been accumulated in various countries as a result of the war, but the most serious problems are raised by blocked balances in Britain. These have been estimated at various amounts, but were referred to by Lord Keynes¹ at the Bretton Woods Conference as likely to amount to \$12 billion. More than half of these are owned by India. The reason why accounts in Britain overshadow all other financial settlements is that they are considered a menace to free trade. No one questions the difficulty England will have in arriving at a balance of international payments which will not put pressure on the pound sterling. Professor Alvin Hansen has suggested the post-war deficit of the United Kingdom as probably in excess of £180 million per annum.² Other semi-official studies have placed the figure considerably higher.

In any case, the demand for reconstruction materials, conversion, and improved standards of living are certain to create a large demand for imports. Britain's exports will depend on various factors only partially within its control. It is not unnatural, therefore, that many governments fear the use of blocked balances to increase British exports. They contend, for instance, that countries with large claims on Britain may be required to take payment in goods even though it might be possible for them to buy commodities more advantageously elsewhere. Various suggestions to settle this issue have been made, but none has yet received official support. The original White Plan suggested gradual liquidation of blocked balances through the Fund, with debtor and creditor sharing the obligation on a more or less equal basis. The Keynes Clearing Union would have made possible the absorption of the balances on a somewhat inflationary basis. It is sometimes urged that blocked balances to a considerable extent could be funded into long-term debt.

LEND-LEASE SETTLEMENT. The master lend-lease agreement emphatically states that the final settlement shall not be such as to "burden commerce." It has

been generally assumed that this statement, combined with others, would mean cancellation of the major portion of lend-lease debts, which otherwise could become a second important post-war problem. Some have taken for granted that this cancellation would apply mainly to articles already consumed; others have thought it should be effective in connection with installations, machinery, and stocks which remain intact at the end of the war. No one has seriously recommended full repayment, although in some cases payment for various categories of goods has already been accomplished through reverse lend-lease, or has been proposed in other forms by the recipient countries.³

Elimination of the largest portion of lend-lease transfers is likely to cut possible ultimate payment to almost negligible amounts. If this should occur, the problem will be one of minor economic importance. It presents, however, troublesome political aspects. For this reason, it is of considerable urgency that the United States should propose a plan of settlements and that the public be informed of its nature. The most constructive approach would seem to be to limit financial obligations to payment for those remaining materials and equipment that enter into active competition in international trade with our own products—surely a very insignificant part of the total.

COMPENSATION BY GERMANY. The third largely financial question, which may threaten all other arrangements if unwisely handled, will be the compensation Germany is asked to pay. If either the amount required or the method of payment is such as to come in conflict with the broad general principles of international trade and international settlement, no reasonable prospect of healthy recovery can be envisaged. Reports with regard to Russian, British, and American policies concerning Germany reflect an awareness of the potential conflict between free exports by way of reparation and normal commercial transactions. It would be politically and economically impossible to ignore the pressing demands of devastated territories for a share in German production after the war. The enormous increase of German industrial plants since 1932, amounting to probably as much as 100 billion marks, may provide some basis for a large post-war output despite bombing and other war damage. The question that concerns those who are thinking about this question apparently is not so much Germany's probable capacity to supply goods and equipment, or the desirability of making it pay for some of the damage wrought, as the manner in which deliveries outside normal channels of trade will affect the recovery of world commerce.

Mere mention of these questions serves as a warning that an informed public cannot expect perfect and final solutions, but must look rather for a general line of policy which can clear the way toward international economic cooperation.

1. *New York Times*, July 7, 1944.

2. "Britain's Trade in the Post-War World," *Planning Pamphlets* (Washington, D.C.), December 1941.

3. See H. P. Whidden, Jr., "Reaching a Lend-lease Settlement," *Foreign Policy Reports*, April 15, 1944.

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Introduction

Bretton Woods should give us courage and hope. The proposed International Monetary Fund and Bank for Reconstruction and Development should serve as the keystone of future peace and security. These economic bodies, plus an international tariff agency, a lowering of tariffs and the removal of competitive trade barriers, are all essential to a firm foundation for the future world.

The most important objective of international cooperation is undoubtedly a large volume of trade. In the past we have been eager to sell but not willing to buy. We must do both. If there were a free flow of trade between all commercial nations there would be no reason for major wars. The interchange of goods and ideas, not only eliminates to a very considerable extent the underlying causes of war, but would help materially to increase world-wide production and minimize unemployment.

We in the Citizens Conference are anxious to do our part towards the creation of a new organization of nations which will not repeat the failures and discouragements which followed the last war. While the main reason for the failure of the League of Nations was undoubtedly the unwillingness of the great powers to use it in times of stress for the great purposes for which it was intended, it is true that the failure of the architects of the League to see the necessity for economic cooperation and for promoting trade among the nations was a serious defect. Not enough thought was given to economic cooperation, to multilateral trade arrangements, customs unions, stabilization of the currency, the development of lending and banking agencies to serve the nations in need, or to the provision of access to raw materials for all.

The fact that the Bretton Woods agreement has preceded the attempt to form a new league at Dumbarton Oaks is indicative of the appreciation the people of the world now have of the necessity for economic cooperation as a prelude to world government.

The building of economic unity among the nations is not easy, but it is urgent. The issues must be met frankly and practical machinery for an organized international society established. The government of the United States has been courageous and forward-looking in planning for peace, but we cannot depend entirely upon our government, however statesmanlike. We learned after the last war that government alone, without the active support of the people, cannot get very far.

When the Citizens Conference was organized two years ago there was all too little understanding of the necessity for a free flow of trade and for the creation of the necessary agencies for economic health. Our purpose was and is to bring to the support of the President and Congress the understanding and the support of individuals—through their churches, labor unions and civic organizations—so that the necessary steps toward a just and lasting peace may be accomplished.

No proposal for an international bank and lending organization or for a currency stabilization fund can be satisfactory to everyone. The best possible compromise must be accepted and put into effect. If there are errors they can be corrected as we progress further in international cooperation but if we do not make the attempt there is no hope. We shall go back to the chaos which succeeded the last war.

We sincerely believe that both currency stabilization and the international bank for reconstruction and development should be promptly accepted by the United Nations without waiting for the end of the war. They are essential now. We also believe that they should be integrated with an international trade agency whose function it will be to encourage the nations to remove those barriers and those competitive measures which militate against a large volume of trade, and create suspicion, rivalry, and ill will. The removal of competitive trade barriers is not only essential to eliminate the underlying causes of war but it would materially help to increase production, reduce unemployment, and secure a higher standard of living everywhere.

The Bretton Woods agreements will come up before Congress shortly in the form of a joint resolution. There will be ample opportunity for study, discussion, and debate. The Citizens Conference is enthusiastically for the Bretton Woods agreement. They are the first step toward the rebuilding of a society of nations and a just and lasting peace.

If we are not willing to take the first step there is little hope of accomplishing any lasting international accord.

As the world's largest creditor nation, the United States has a special obligation to act favorably upon these agreements and lead the rest of the world. Both the peace and the prosperity of the citizens of this country are vitally involved.

LOUIS HEATON PINK

Chairman, Citizens Conference on
International Economic Union

New York

November 1, 1944

Contribution Of The International Monetary Fund And Bank

BY MABEL NEWCOMER

Chairman, Department of Economics, Vassar College, and Member,
United States Delegation, Bretton Woods Conference

THE basic aims of the Bretton Woods Conference are the same as those of the international conferences that preceded it. The specific problem may be food, relief, or monetary problems; but the end is to build a durable peace, and to achieve the stable world economy and democratic procedures that make a durable peace possible.

The specific contributions of the Fund and Bank are to assist in stabilizing exchanges and to extend credits for reconstruction and development. With the assistance of these two institutions it should be possible to restore trade quickly after the war, when it will be badly needed. In the long run, the members agree to maintain stability of currencies as far as this is consistent with the steady development of world trade as a whole, to reduce exchange discrimination and restrictions as rapidly as possible, and not to engage in competitive devaluation. This pledge should prevent any recurrence of the suicidal exchange restrictions, currency devaluations, and capital flights that completely disrupted international markets between wars.

It will be necessary to follow this Agreement, if it is accepted by the nations concerned, with a gradual removal of direct restrictions on the flow of goods from one country to another. And domestic policies must contribute to economic stability at home and abroad. But the existence of the Fund and Bank should facilitate the removal of trade restrictions and the maintenance of sound domestic economies, and not—as some critics have implied—hamper such action.

Anyone familiar with the history of the Conference is aware that few projects of this nature have been so thoroughly debated and so carefully prepared. Bankers, treasury officials, economists, and other experts from many countries were consulted. Many preliminary conferences were held and many plans proposed. The British and American plans were published as early as the spring

of 1943. By the spring of 1944 the experts of thirty nations had reached an agreement on basic principles, and a skeleton plan incorporating these was published. Consequently, by the time that the Bretton Woods Conference was called most of the evidence was in. There had been ample time and opportunity for those concerned to present their point of view. The time had come for decisive action. At the Conference the skeleton plan was amplified, drawn up in final form, and signed by the delegates of all nations present.

The final plans are probably not precisely what the United States or any other country, given free rein, would have formulated for itself, since there is inevitably some conflict of interest. They are a compromise; but they are a fair and workable compromise. The area of common interest is, in fact, much larger than most newspaper readers have been led to believe. Conflicts make better news than harmony, and there has been a tendency to overemphasize them accordingly.

Actually, there was a genuine effort to be fair to all interests and to keep the procedure of the Conference itself democratic. Owing to a high level of leadership, and to the recognition of the vital importance to all countries—whether large or small, debtor or creditor—of the institutions under consideration, there was a true spirit of give and take. Many differences melted away with full discussion. Others, representing genuine divergence of interest, were resolved by mutual concession. The results were not only accepted by the delegates of 44 nations; but were accepted by the vast majority with real enthusiasm.

The fundamental purpose of the Fund is to restore international trade after the war and to assist in its steady expansion. This is important because domestic policies alone cannot assure high levels of employment and a stable economy. Fluctuations in foreign trade can make the difference between prosperity and depression. It is important, also, because restrictive and discriminatory trade policies have been a frequent source of international friction in the past. If we are to build a durable peace we need both a stable and prosperous world economy and international cooperation, rather than competition, in trade.

The most ardent supporters of the Fund would not claim that it, alone, can achieve all this. It is only one step forward on the long road of international cooperation. But it is believed to be an essential first step.

The specific purpose of the Fund is to promote exchange stability and extend short-term credits to finance international transactions. There can be no question as to the need for exchange stability. In the absence of a freely operating gold standard, countries must either control their exchange rates as best they can or submit to wide and unpredictable fluctuations in rates. Fluctuations

in exchange rates increase the risks of foreign trade, since apparent profits may be wiped out over night by an unexpected shift in exchange rates, and this in turn reduces the total of trade.

Control of exchange rates usually leads to restrictions in the amount of foreign currencies available, and is apt to result in discriminating against some countries and favoring others. This, too, means a substantial reduction in trade, and in addition leads to international frictions.

The Fund does not take the initiative in buying and selling currencies in order to obtain stability. Its members agree (1) to fix the value of their currencies in terms of gold when they become members of the Fund. And after a preliminary trial period, which will be necessary to determine a reasonable rate, they agree (2) to maintain their currencies at the rate specified, unless a change is needed to correct a persistent and longstanding flow of trade in one direction. Any change that is made must be made only after due notice and after consultation with the directors of the Fund. Furthermore, the members agree (3) not to engage in competitive devaluation.

In other words, stabilization is not rigid. Rather, a reasonable flexibility is provided. But there is no opportunity for sudden and unexpected changes, and the drastic shifts in trade that follow devaluation.

Short Term Credits

The Fund assists its members in maintaining stable exchanges through the provision for short-term credits. The Fund's resources come, in the first place, from the subscriptions of its members. Each member is expected to pay 25 percent of its quota in gold, with special concessions to countries with unduly small gold reserves. These quotas supply the Fund with the various currencies necessary for its transactions.

Members may buy these currencies as needed, at the rates determined. Moreover, they may obtain them by borrowing from the Fund. Such loans, at a maximum, may equal 100 percent of their quotas. Since the amount of the quota limits the amount a country may borrow, many countries were eager to obtain quotas in excess of those originally allotted by formula. Also, the size of the quota was regarded by some countries as a matter of prestige, and other factors operated to make the amount a matter of particular concern. Consequently, the determination of the individual quotas became a matter of long debate.

The basic formula took into account the relative national incomes and foreign trade in the pre-war period. These were regarded as the best tests both of each country's ability to contribute to the Fund and its probable need for foreign funds. This formula was modified, however, for countries where it appeared that post-war conditions would differ greatly from pre-war.

The credits provided by the Fund are safeguarded in various ways: First, they are to be used for current transactions, and not for speculation. Second, the charges increase both with the amount borrowed and the length of time the member has been in debt. And finally, definite provisions are made for repayment when a country's monetary reserves permit.

These safeguards do not inevitably prevent losses, nor is there any complete guarantee that the Fund can supply its members with the specific currencies desired in the quantity demanded. But the risks of loss are by no means as great as some of the critics have implied, nor is the danger of exhausting the supply of currencies of the creditor countries immediate. The rate of increase of borrowing is specifically limited. Under the most adverse circumstances it would be a matter of years before the Fund's resources could be exhausted. The risk is not being shouldered by the United States alone. There are other creditor nations.

The USA Will Gain Too

Further, the United States stands to gain by the extension of such credits in much the same way as the merchant stands to gain from extending credits to his customers. Our own export trade will be definitely fostered by the operations of the Fund. In fact, the pressure from exporters, in the absence of such an institution, is apt to lead to the United States advancing the credits directly, with fewer safeguards, thus taking a greater risk alone.

Finally, the amount risked is not as great as is sometimes implied. Were we to lose the entire sum contributed—which would be all but impossible—it would be the equivalent of the cost of about ten days of war. Surely we can afford to take this risk in the interest of promoting a durable peace.

The Fund has other functions, in addition to stabilization and extending credits. It provides for central clearing of international payments and it offers a central meeting place where those engaged in international finance can gather and discuss their problems. The members agree to eliminate foreign exchange restrictions and discriminatory currency practices. Thus, indirectly and directly, it will contribute toward the gradual freeing of trade which is our ultimate goal. It is recognized that this cannot be achieved immediately, but if any member should continue restrictions which are inconsistent with the purposes of the Fund, after a specific period, the Fund may require the member's withdrawal.

The Fund will not take over existing blocked balances. This was requested by India, which holds large and growing credits in the United Kingdom as a result of war operations, but to do this would have required a much larger sum than most nations, including the United States, were prepared to subscribe. However, the availability of credits, and the relative stability of exchanges,

would give the countries with large blocked balances and inadequate gold reserves time to fund their war debts and thus enable their creditors to use their credits in such countries as they choose.

The Fund is not an end in itself; something to protect us from loss at any cost in human suffering. It is designed to reduce that suffering. It is only one link in a long chain of measures designed to promote international cooperation and expanding world economies. But it is the next link in the chain. It can be of great assistance in restoring trade in the immediate post-war years. And it provides another channel of communication through which other measures can be initiated.

The Bank has received general approval, even from many of those who are not convinced of the merits of the Fund. However, under the Agreement the Bank is open only to Fund members and consequently it cannot be established if the Fund is rejected. The Bank will assist in establishing international loans for productive purposes on a sound basis. It is expected that the guaranteed loan floated through ordinary investment channels will be more widely used than the direct loan. This will widen the international investment market and hasten the process of reconstruction and development.

In Reply To Certain Critics

Many of the earlier objections to the Fund and Bank were met in the final draft of the Agreement. Some criticism remains, however. This can, perhaps, best be evaluated in terms of the alternatives suggested by the critics.

Some critics want the restoration of the "automatic" gold standard. This worked well for a short period before the First World War; but its success is attributable to conditions that no longer exist. The gold standard failed completely in the twenty years between wars. Conditions today are even more unfavorable because of the greater dislocations of trade resulting from this war. The gold standard can function only when gold reserves are well distributed among the trading nations. Today the United States possesses three-fourths of the world's monetary gold supply, and if other countries were willing to remove restrictions on exchange after the war, and we were to continue to expand our export markets as we hope to do, we should soon drain the treasuries of the world. Actually, of course, no country is going to be persuaded to attempt the restoration of the unrestricted gold standard—least of all the United Kingdom, which suffered so much from the attempt to return to gold between wars.

Some have suggested the "key-country" approach. This, in brief, proposes that the United States and the United Kingdom should agree to stabilize their currencies in terms of each other, with other countries joining at their own option. This proposal,

too, is somewhat unrealistic. There is no reason to suppose that the United Kingdom is interested in such an agreement. It assumes a more rigid stabilization than that proposed by the Fund and a closer approach to the old gold standard. Neither is apt to be acceptable to the United Kingdom. And the other nations of the world would not be reassured by an agreement in which they had no part.

Still other critics have suggested caution. They ask for time to study the plans further. They are not sure that the safeguards against losses are adequate. They propose minor amendments. In reply, it can only be pointed out that there was ample time for study, and opportunity for criticism, before the plans took final shape. The time for minor amendments has passed. The drafts cannot be changed without reassembling the delegates of 44 nations and starting over again. Also, there are many safeguards against loss. There will always be risks; even the most conservative financial institutions occasionally make bad loans. But the risks are comparatively small. For the Bank, the management can use its discretion in guaranteeing loans or making them directly. For the Fund, the risk is of frozen assets rather than actual losses, but the provisions for keeping them liquid should prove adequate.

Alternative—No International Cooperation

The real alternative to acceptance of the Fund and Bank as drafted at Bretton Woods is no international agreement at all. This means return to the economic warfare that prevailed between the two wars—intensified by the fact that the trade and monetary dislocations created by this war are far greater than those created by the First World War.

Many influential financiers and statesmen in the United Kingdom are definitely interested in a completely controlled system of trade and foreign exchanges. In the absence of some agreement such as that of Bretton Woods they would be almost certain to adopt such a system. Many other countries would follow the same course. The United States, which has everything to lose by this, would be forced to increase its own controls in self-defense. Thus, the increased government interference that some critics foresee—and deplore—with the adoption of the Fund and Bank, would be intensified, not diminished, by failing to accept them.

The next step, if the Fund and Bank are to become working institutions, is for the Agreement to be adopted officially by the government of at least the larger nations—particularly the United States and the United Kingdom. The Agreement will soon come before Congress. It is important for the American people to take the lead in participating in the Fund and Bank, and it is to be hoped that Congress will accept the Agreement.

The importance of having these plans accepted cannot be overestimated. They offer the only practicable road, at the present time, to the restoration and steady growth of international trade, which is essential both to sound domestic industrial development and to international cooperation. We must not go back to the international rivalries and the depression that preceded this war.

The Agreement for the Fund and Bank does not pretend to solve all the problems of international trade. Their success will demand a reduction in trade barriers such as tariffs and import and export quotas. And some critics have insisted that reduction of trade barriers should come first. But the implication of these critics that the operation of such a Fund would delay or prevent the removal of trade barriers is without foundation. On the contrary, it will give them time to establish their trade on a sound basis. Moreover, the existence of such an institution, interested in the long run reduction of trade barriers, should prove an additional factor in favor of such reduction.

The United States can well afford to take the lead in this, also. If we wish to continue as the principal creditor country of the world, we must abandon the restrictive tariffs that interfere with the payment of interest and principal on our international loans. Domestic policies, too, must be directed to the same ends—a stable and steadily expanding economy. But the existence of the Fund and Bank should facilitate the removal of trade restriction and the maintenance of sound domestic economies. They provide the essential first step to this end.

A DIGEST OF THE INTERNATIONAL MONETARY AGREEMENT

I. Purposes	The Fund	The Bank
	<p>"To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.</p> <p>"To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.</p> <p>"To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.</p> <p>"To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.</p> <p>"To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity.</p>	<p>"To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.</p> <p>"To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.</p> <p>"To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.</p> <p>"To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.</p> <p>"To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy."</p>

	The Bank	The Fund
II. Membership	<p>The original members of both the Fund and Bank shall be those countries represented at the Bretton Woods meeting whose governments sign the Agreement at Washington before December 31, 1945; and members of the Bank shall be members of the Fund.</p> <p>Before signing, each government shall first have accepted the Agreement in accordance with its country's law and taken all steps necessary to enable it to carry out its obligations under the Agreement. It is expected that the procedure of acceptance by the United States will be by introduction of a joint resolution, public hearings, a majority vote of approval in both Houses of Congress, and the signature of the President.</p>	
III. Total International Obligations	<p>A fund shall be subscribed by the members, and an amount of \$8,795,000,000 was allocated to the 44 nations. This may be increased by a four-fifths majority of the total voting power.</p>	<p>The authorized capital stock of the Bank shall be \$10,000,000,000. The capital stock may be increased by a three-fourth majority of the total voting power.</p>
IV. National Obligations	<p>Members of the Fund and Bank shall subscribe their quotas in accordance with the schedules specified for each agency in the Agreement, the largest quotas being those of the United States, United Kingdom, Union of Soviet Socialist Republics, China, and France. The United States Fund quota is \$2,750,000,000; its Bank quota \$3,175,000,000.</p> <p>Members shall pay to the Fund 25 percent of their quota in gold or 10 percent of their net official holdings of gold and U.S. dollars, if this sum is smaller.</p> <p>No quota may be changed without the consent of the member concerned.</p> <p>Shares of the capital stock shall have a par value of \$100,000 each, and shall be available for subscription only to members, in quantities scheduled in the Agreement. Two percent of the price of each share shall be paid in gold or United States dollars.</p>	
V. Voting Control	<p>Except as specifically provided otherwise, each member of the Fund and Bank shall have 250 votes plus one vote for the equivalent of each \$100,000 of its obligation to either agency and all matters before either agency shall be decided by a majority of the votes cast.</p>	
VI. International Unit of Value	<p>No specific international monetary unit is named but the par value of the currency of each member shall be fixed in terms of gold or of United States dollars of the weight and fineness in effect in July 1, 1944.</p>	

VII. Powers and Operations

The Fund

The members of the Fund shall agree to stabilize their currencies after a preliminary trial period. They will not be required, however, to maintain the par value set in this trial period indefinitely if it is apparent that longtime shifts in trade have made it unreasonable to maintain the original rate. Any changes made will be to correct a fundamental disequilibrium and not to give the country concerned a temporary trade advantage over other countries; and due notice must be given. The Fund may object to any change exceeding 10 percent of the original value if the change does not appear to be in accord with the purposes of the Fund.

Members needing the currency of other members may purchase it with their own currency. This will enable them to borrow from the Fund when their need for other currency exceeds the demand for their own currency. The amount of each country's quota determines the total amount it can purchase. The rate at which purchases may increase is also limited. Members are discouraged from unnecessary purchases by a scale of charges that increases both with the amount of the purchase and the length of time required for its repurchase. Members shall be required to repurchase their currencies with gold when their monetary reserves are increasing and the Fund's holdings of their currency exceed their quotas. The Fund, in turn, may use this gold to buy scarce currencies. These and other safeguards are intended to prevent the currencies of creditor countries from being scarce. If these measures should fail, however, the Fund has power to ration currency in the interests of all members.

The Bank

The Bank may make direct loans to members for productive enterprises in their territories, or it may guarantee such loans when floated through regular investment channels. The guarantee will make it possible for sound enterprises to borrow at low rates of interest, thus encouraging investments at rates that can reasonably be repaid. Loans and guarantees will be granted at the discretion of the executive directors of the Bank.

Equitable consideration shall be given to projects for development and projects for reconstruction alike. A loan contract shall be made for each project in accordance with the terms and conditions of interest and amortization payments, maturity, and dates of payment as the Bank determines. In determining the conditions and terms of loans to restore and reconstruct the economies of members whose territories have been devastated by the war, special regard shall be given by the Bank to lightening the financial burden of these members and expediting the completion of their projects.

The Bank shall be governed in its decisions by economic considerations only, and shall not interfere in the political affairs nor be influenced by the political character of the member concerned.

VIII. Organization and Management

The Fund

Each agency shall have a Board of Governors, Executive Directors, and a staff. All powers of each agency shall be vested in the Board of Governors, consisting of one governor appointed by each member country in such manner as it may determine. Governors shall serve for five years. The Board may delegate its powers, with specified exceptions, to the Executive Directors. The Executive Directors of each agency shall number no less than twelve, shall conduct the general operations of the agency, and shall exercise all powers delegated to them by the Board of Governors. Of the directors five shall be appointed by the five member countries assuming the largest obligations (See IV). The other seven directors of the Bank shall be elected by all of the Governors. Of the other seven directors of the Fund not more than two shall be appointed by member countries which may later assume larger obligations, two shall be elected by the American Republics not entitled to appoint directors, and five shall be elected by member countries not entitled to appoint directors, other than the American Republics.

The Bank

IX. Location of Offices

The principal office of each agency shall be located in the territory of the member assuming the largest obligation which, in both cases, is the United States.

X. Withdrawal and Suspension from Membership

Any member of either the Fund or the Bank may withdraw from the agency at any time by transmitting a notice in writing to the principal office. A member failing to fulfill any of its obligations under the Agreement may be suspended by either agency and all benefits withdrawn.

XI. Amendments

Proposals for modifications in the Agreement with respect to the Fund or Bank must first be accepted by the agency's Board of Governors. With the exception of specified provisions, the amendment must then be approved by three-fourths of the members having four-fifths of the total voting power.

XII. Interpretation

Any question of the interpretation of the Agreement arising between a member and either agency shall be subject to the decision of the Executive Directors. A member may require that such decision be submitted to the Board of Governors. Specified disagreements may be submitted to arbitration.

XIII. Entry into Force

With respect to both the Fund and Bank the Agreement shall not enter into force until signed on behalf of governments having 65 percent of either agency's total obligations and when each of these governments has deposited an instrument setting forth its acceptance of the Agreement.

XIV. Relations with other International Organizations

The Fund and Bank, within the terms of the Agreement, shall cooperate with any general international organization and with public international organizations having specialized responsibilities in related fields.

Speeches delivered at a public meeting

PROMOTION OF ECONOMIC PEACE AMONG THE NATIONS
held under the auspices of the Citizens Conference on International
Economic Union, Washington, D. C., March 4, 1944

The Importance of Public Attitudes

BY ELBERT D. THOMAS
United States Senator from Utah

I THINK THAT everyone present will grant, after listening to the papers on international economic collaboration that have been delivered during this conference, that we have brains enough to go through with a sensible program. I want to talk about attitudes toward those principles.

There can be no doubt in anyone's mind that if any one of these plans for cooperation among nations were allowed to be developed, we could have that type of world economic order which would make for the uplifting and general prosperity of people of the whole world. But that is only half the problem. The thing that we have to be thoughtful about is that we become frightened of words: for example, this word "economics." If I remember my Greek right, it merely means "science of household endeavor." It has grown to be a pretty big proposition today, and people, in theory, don't think that it has much to do with the household any longer. But it has everything to do with the household. Just because it is on a worldwide scale doesn't mean that it doesn't affect the last person in the house. I think it pays for us to go back and see how *attitudes* have probably destroyed chances which we have had to go forward.

I cannot help but think that the group at this conference has been struggling with an idea which is not new, but an idea which, if it is put into effect, will be extremely new. I cannot help but think of when the invention of money took place, and the old traders in the market place in the ancient country of Lydia met together and heard about the idea of money, how those old patriarchs exchanged thoughts with one another and said, "This scheme can never work, because if we have money, a slave can buy. Even women can buy." And didn't they learn how! And is any economist sorry that they did?

But thoughts are terrific things. Something happened which upset the whole economy of a past civilization. I haven't been in public life in Washington very long, but even in my own experience I have seen some of those attitudes. I happen to be father of the

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Strategic Materials Act, and I remember that when it was presented on the floor of the United States Senate the dean of the Senate and probably the greatest Senator in the minds of all the people on the Senate floor told me he would have nothing to do with the bill, and he just walked out. He didn't even listen to the discussion, because he said that if he knew anything, he knew that America lacked nothing, and he knew too that as long as the British Navy complemented the American Navy, we would lack for nothing.

Americans Not Self-Sufficient

There was no use of my explaining to him that the American people were a people that lived out of tin cans and on rubber and that we didn't have either tin or rubber. He didn't understand that. And irony of ironies, the very man who has charge of our national economic stabilization today was a man who tried to kill this bill that gave us a little bit of a start towards thinking in terms of our own dependency on the outside world, and demonstrating that we are economically interdependent and cannot live by ourselves. The world has moved a great distance since then.

That bill did wonders for us. I might give you an illustration so you can see how much a little national device can do if you have it when the opportunity to use it comes. You have heard of cartels; you are not familiar with the fact that on the day that Germany went into Poland, Russian interests in the United States started buying up all our rubber, and that rubber actually skyrocketed three hundred per cent in one day in price. A representative of the rubber cartel rushed down to Washington and into my office, because I handled the Strategic Materials Act, told of this condition, and asked what could be done about it. There wasn't anything in law that could be done about it, for the simple reason that those persons had all the right in the world to buy rubber.

But different arrangements were made. An embargo on the exportation of goods brought into our country for our national defense followed. That caused the price to fall. But that wasn't all we needed. We needed more rubber, and rubber was a commodity which was controlled. We needed an increase by a hundred per cent of America's quota for this year and next on the rubber sent to our country. And we got it. Had the Japanese known about it, they probably could have done us more damage by sinking the rubber that was on the high sea than they did by attacking Pearl Harbor on the 7th of December, 1941. But they didn't, and we went along without a material increase in the price of rubber and without shortage until we actually got into war.

Those things, then, were done as a result of study, but you have to have an attitude toward that study to accomplish anything. What can you do to bring about a change of attitude among the people of the United States which will cause them to see, for ex-

ample, that if the Chinese were at peace and there were a restoration of the old habit of the master giving every one of his servants a new coat or a new dress or something like that every year, our cotton problem would be ended by that single act? If you could only get the Chinaman to add another inch to his blue denim work clothes, we wouldn't have a cotton surplus in the United States. Those are pretty small things; still we are afraid of them. We are always afraid. There are enough things to be frightened about, but don't let's be frightened about bettering our own people. That is the silliest fear, and yet we suffer from it more than any single fear that I know anything about.

We are building a steel plant which is unique in the history of the country, a plant which is near all the raw materials you need to make a steel plant economically profitable—iron ore, coal, gas, and we are putting it in a place where every worker can have a home, where he can have a garden, where he can live a normal life as in the choicest of our cities. Healthful surroundings. Education for his children, from the kindergarten to the university. That plant is more social than it is economic, but please tell me what is the difference between a social approach and an economic one. I don't know the difference myself. I don't see any sense in accomplishing anything if it is not accomplished for the men, women, and children of the world, because I think they are the most important elements in the world. I don't know what sense there was in the creation of the world if it wasn't for the benefit of these men, women, and children.

Can we change attitudes? I am going to try again. Next week there will be introduced another resolution, providing for a study on the part of our Departments, the bringing together of groups so that we can be ready when the time comes, so that the Treasury Department may have an outlet and we will not work in many ways. We will work in one way, towards bringing about an economic understanding of the whole world problem. The resolution will have more dignity than my former resolution had, because it will have the names of the heads of two of the greatest Senate committees on it, and it may be we can build up some sentiment to encourage the things these thoughtful men have already shown us need to be done.

I hope we may be able to show that there is nothing for the American people to fear in bringing about a better world, a better standard of living for all the people of the world. If we can get over that fear, then it will be possible to adjust most of the economic barriers which have come into being as a result of false political, probably selfish political thinking. My hope for the Citizens Conference on International Economic Union is that you may be able to create those attitudes which will bring about the breaking down of the old barriers.

The Mechanisms of World Economic Collaboration

BY HERBERT E. GASTON
Assistant Secretary of the Treasury

THE WOE and the disaster of war are so great that we ought not to add to them the peril of an unplanned peace, or armistice between wars, that may be as destructive as the war itself.

In planning it is usual to think of alternatives, and we have them on the international economic front. One would be economic isolationism, but it would be easy to show that it isn't a workable alternative. We don't exactly know what was the degree of isolation on this continent prior to 1942; but we do know that isolationism has not been the rule since then. Nor could it have been.

There is probably no political unit on earth so well fitted for economic isolation as the United States of America, so nearly equipped to supply all its own wants; but to accomplish it we should need a police force of unimaginable size and the result would be an economic revolution internally. It is of course quite true that America is her own best customer, both for the present and the future, and that foreign trade accounts for but a small fraction of our business. But that small fraction has been built or has grown into the fabric and tissue of our economy. We couldn't cut it out without serious damage and peril to our economic health.

So long as we need and want the products of other lands we shall have foreign trade, and no set of restrictions will entirely choke it off. There seems to be no good reason to choke it off, but on the other hand a good many reasons why we should encourage it.

There are reasons of immediate and obvious self-interest. We need to buy and we need to sell. We need to buy products that we don't grow, make or dig. In spite of progress in synthetics we shall probably want to go back to heavy imports of crude rubber. We shall have to continue to get our tin from abroad and to make the high-speed and specialty steels that modern industry and transport demand we shall have to import 40 different commodities from more than 50 countries. We need asbestos, nitrates, chrome ore, flax fiber and various kinds of wools. These are basic materials for manufacture, but the list is long when we get into the field of consumer wants with such items as coffee and tea, tropical fruits and nuts and a great variety of food products. We want also, though we may not need them so badly, cheeses from Holland, china from Great Britain and Sweden, linen from Ireland, laces

from Belgium, watches from Switzerland, and no doubt again rare wines and objects of art, beauty and utility from France. We want rugs and other textiles from the near and the far East and works of art and handicraft from the remotest mountains and valleys of all the continents.

Importance of Foreign Markets

These things we would not give up without a wrench to our economy and our mode of living, nor could we give up our exports without difficulties just as serious.

Although normally we sell abroad less than 10 percent of our output of movable goods, that 10 percent is vitally important. The significance of the foreign markets must be judged, not on the basis of the magnitude alone, but in terms of the crucial position of the foreign market in certain industries and the indirect effects that loss of those markets would have on other industries. The tobacco leaf industry, for example, in 1938 exported 57 percent of its total production, the cotton industry 46 percent, and the aircraft industry 62 percent. The foreign market is also very large for machinery, petroleum, for autos, iron and steel, chemicals and wheat, to mention only a few of the most important.

Exports, too, will assume an added importance for us in the immediate post war years. This country will be faced with the job of reconverting from war to peace-time production. Since the process of manufacturing a steel ingot is the same whether it is to be fashioned into a tank or a locomotive, the conversion problem will be considerably lighter if the industries producing capital goods can expect a continuing market for their output. It may be expected that for a considerable time other countries of the world will need urgently the machine tools and capital equipment that this country will be in an excellent position to provide.

Considerations of direct and obvious self-interest thus dictate for us a policy of trying to open up and to keep open to the maximum degree the channels of foreign trade after the war. We can profit by exporting our special skills and products and by importing the special skills and products of other countries. But there are other less obvious and direct advantages that are in the long run probably even more important. Few other countries are as nearly self-contained economically as we. For most of them the life of their populations on any decent level of subsistence depends on the ability to export and to import. This is as true of countries with a high organization of industry as of countries which are mainly sources of minerals and agricultural products. It is true of Great Britain, of Sweden, of Brazil. As to some countries the export of services such as shipping means the difference between depression and prosperity. For many of these countries the United States is the major market and they also constitute important markets for us.

One of the most striking facts about the modern world is its increasing economic interdependence. One of the by-products of that interdependence is that prosperity can be exported and so can depressions. If we trade with other lands we are to a considerable degree subject to economic influences at work in them. We have a stake in world prosperity, in a generally high level of well-being. We have an economic stake, and also a political stake, for economic pressures may and do produce political explosions. If we mean to avoid other world wars on the heels of this one we must lose no time in building the economic foundations that will make continuing world peace possible.

Action Must Be Planned

Some people have such great faith in the automatic mechanisms of economic life as to believe that no planned overt action is needed for the restoration of international trade, that the world will go back to the happy position of some blessed year in the past if only left to the devices of the individual business man. Hopes such as these ignore completely the experience so painfully acquired during the decades between the two wars. Those years taught us that no nation can avoid assuming some responsibility for the economic life and trade of its citizens. We can choose the economic warfare of the 1930's, when the nations of the world undertook to handle world trade and currency problems independently, or we can benefit by this experience and lay our plans for solutions which do not so clearly lead to decreasing trade and lower standards of living.

From the high tariff policies of the late boom years until the outbreak of the present conflict, the major countries were engaged in practices which seriously diminished the volume of world commerce and prosperity. Politically, we were officially at peace during these years, but economic warfare was being waged continuously. Although no single country was entirely to blame, all were short-sighted. Nations attempted to achieve economic recovery at each other's expense. By means of quotas, tariffs, exchange controls, and competitive depreciation of currencies, countries undertook to export unemployment. These measures provided temporary relief until the countries discriminated against followed suit. The volume of world trade declined rapidly and all suffered.

Competitive exchange depreciation is an evil which snowballs. The actions of specific countries and groups of countries in cutting the value of their currencies—actions which often could not be avoided without help which was not obtainable—created pressures on other countries to do the same thing. The exchange dealers, understanding the incentive to further depreciation, were encouraged to speculate and thus contributed to the flights from specific currencies which were developing because of the growing

monetary instability. The whole pattern of exchange relationships, so slowly reconstructed after the last war, was endangered, and the situation became one of serious monetary disorder.

In addition, another development took place which further diminished the volume of world commerce. Nations, if they are to buy abroad, must pay for their purchases in one of three ways: with gold and foreign exchange, or with money obtained by selling their own products in foreign countries, or with money obtained by borrowing. Since no country is able or willing to permit a gold outflow indefinitely (and the depression had considerably decreased the opportunities of selling abroad), foreign loans and credits were very important in determining the level of world trade.

After 1928, however, this last avenue for the acquisition of foreign exchange was virtually closed. The attraction of our own stock market for the investment funds of American and foreign investors was one of the reasons for the pre-depression decline. Unsettled political conditions and the depression were responsible for the reluctance of investors in subsequent years. The result was a further decline in the export markets of all nations.

Problem Demands Vast Program

Thus the problems we shall have to face after the war are not merely those created by the war itself, but in large part they are the heritage of the years of depression and economic warfare which preceded it. We shall face a world disorganized, exhausted and in many areas devastated by war. The occupied areas and those which have been the battlefields will require economic assistance on a tremendous scale. UNRRA, the international relief organization, will provide for the most urgent needs, but relief will hardly be sufficient in view of the devastation of Europe and the thoroughness with which the occupied nations have been plundered of machinery and other capital equipment. Immediate positive action will be necessary to prevent economic stagnation and the social and political unrest which would follow upon it.

For some years after the war a few countries will have the surplus commodities which can be used to pay for imports. Until such time as these nations can again make use of their full productive capacity, extensive international credits must be provided. We may reasonably expect that the required volume of short term capital will be made available by commercial banks and trading houses. Industrialists and foreign traders are already making plans to resume their usual exports and to extend generous credits to their customers. It is also likely that there will be a rapid resumption of direct investments in industrial enterprises abroad in the form of subsidiaries and branch plants.

In addition, the world normally counts on a considerable

volume of long term credits to bring about a large and balanced international trade. As much as one-fourth of the exports of the large industrial countries has been paid for in ordinary times with funds provided through foreign investment. In the post war period, long term credits will also be required for reconstruction, for re-conversion to peace time production, and for the development of economically backward areas.

For many reasons it is unlikely that private investors will provide an adequate supply of long term capital. In view of the losses suffered on foreign securities and the restrictions imposed on the withdrawal of earnings in the last decade before the war, private investors may reasonably exercise considerable caution. The uncertain business conditions which will undoubtedly prevail for a number of years will also serve to discourage long term lending.

Public And Private Enterprise Needed

Only with some assistance, therefore, can private investors be expected to satisfy the unprecedented capital requirements of the post war world. An institution is needed which can encourage private investors and share their risks. To meet this need the United Nations have begun discussions which look forward to the establishment of an international agency designed to facilitate the extension of long term credits. A tentative plan for a Bank for Reconstruction and Development has been formulated by the technical staffs of the Treasury and other departments and agencies of this government.

The proposed Bank would be a permanent inter-governmental institution designed to encourage and to aid international investment through the usual investment channels. It is intended to make no loans or investments which can be made by private investors on reasonable terms. In those cases in which borrowers could not secure loans for productive purposes without aid, the Bank would guarantee the loans made by private investors. Where market conditions made it difficult to secure all of the funds from private investors, the Bank might participate in loans made through the customary channels. It might also supplement the private capital market by making loans itself if capital for productive purposes was otherwise not obtainable. In all of its operations, the Bank would lay great stress on the productivity of the project to be financed. While the Bank would be interested in seeing adequate capital made available for productive purposes, it would encourage only sound loans on which the borrower would be able to pay interest and principal.

The existence and operations of the proposed investment Bank would be a powerful stimulus to the revival of private international lending and trade. It could not, however, do the whole job alone. If private enterprise is to take hold quickly, investors and traders

must confidently expect the restoration of stability and balance and a greater degree of freedom in international economic relations. There must be explicit assurance that the monetary collapse which followed the last war in many countries will not be permitted, and secondly, that the restrictions which hampered trade and the withdrawal of earnings will be abandoned as quickly as possible.

To accomplish these purposes another international agency is currently under discussion by technicians of the United Nations. In this case the proposal is for a permanent International Stabilization Fund designed to prevent undesirable currency fluctuations. The Fund would also have as a major function the removal of the monetary restrictions on trade which developed during the depression and the war.

Both functions are extremely important. Monetary stability does not mean that exchange rates will be pegged for all time with no fluctuations permitted, but rather that exchange rates must move only when essential to establish orderly and stable patterns in accordance with changes in the basic economic relationships. The Fund would require that member countries define their currencies in gold and agree not to change these relationships, except to a very moderate degree, unless the change had been approved by the Fund. In turn, the Fund would help member countries maintain the value of their currencies. Member countries would also be prevented from engaging in competitive currency depreciation and from imposing exchange restrictions, except for the purpose of controlling undesirable capital movements.

Both the Bank and the Fund would have no other purpose than to help create conditions under which the flow of foreign trade and productive investment between member countries would be fostered. To the extent that we succeed in creating an environment conducive to a high level of commerce, the interests of all nations will be served. Both projects are now in the area of technical discussion. To set them up will require international agreement and of course legislation which will put the full weight of our Government behind them.

The problems involved are international in scope. Our experience in the years between the two wars, when countries attempted to deal with these questions independently, must convince us that only through effective international cooperation can they be solved.

Progress Toward International Economic Cooperation

BY WILLIAM FOWLER

Chief, Division of Commercial Policy, Office of Economic Affairs,
Department of State

IT IS FORTUNATE that we can assemble here today to discuss, with a sense of realism, of confidence, and of urgency, the kind of international economic cooperation that will be needed if we are to have prosperity and security for more than two-or three-score years after this war.

If nations now our allies had not stubbornly held back the Axis forces we might well be standing alone today in a last-ditch fight. If we had not awakened to our mortal danger, even before Pearl Harbor, and put our great producing forces into cooperation with the fighting forces of the democratic nations; if we had not, after Pearl Harbor, linked our producing and our fighting forces with those of the other United Nations to form one gigantic machine—we probably would not be here today discussing post-war problems.

Through wholehearted cooperation we have been able to remove any question of ultimate victory. By exerting ourselves to the utmost, in cooperation with our allies, we can hasten the complete collapse of our enemies, minimize the economic costs of the war, and, above all, save lives. We know now that we shall have another chance to establish a world order that will provide security against future aggression and opportunity to all peoples to enrich their lives, economically and socially, and culturally.

Such a world order will demand international cooperation in a far higher degree than has ever existed before. There will have to be international cooperation to keep the peace, but cooperation for this purpose alone will not be enough.

Cooperation in the economic field is needed for two reasons: *First*, the obvious one of helping to achieve an expanding world economy, full productive employment, progressive improvement in real living standards, and freedom from want and the fear of want; *second*, for the reason that international cooperation in the economic field is necessary if international cooperation to keep the world peaceful is to remain vigorous and effective for more than a few decades.

The task of making the world safe from recurring outbreaks of war is so important, and so difficult, that we cannot afford to run any unnecessary risks of failure. Such a risk, amounting almost

to a certainty, would be ever present in the absence of international economic cooperation. Nations would not cooperate indefinitely to keep and, if necessary, to enforce peace if economic warfare were permitted to develop between them.

In order to insure against the outbreak of economic warfare, the major trading nations of the world will have to do more than merely vow not to repeat the same economic blunders they made after the last war. The economic situation confronting the world at this war's end will be such that anything short of positive national programs of economic reconstruction on the part of all governments and in cooperation with each other will not be sufficient to prevent economic disorder within and between nations.

The main outlines of the early postwar economic situation are becoming clear. Many countries, particularly on the continent of Europe, will be devastated. There will be desperate shortages of nearly everything. In others, notably the United States, there will be a tremendous job of reconversion from war to peace time production. Millions now in the armed forces will need productive employment. The foreign investments of other countries, particularly of the United Kingdom, will have been depleted to the point where they will yield far less purchasing power for imports than they did before the war. In general, the needs of the outside world for dollars with which to buy many things we will be in a position to produce will be vastly greater than the supply of dollars readily available to them.

In such a situation mere avoidance on our part and on theirs of new and higher barriers to international trade will not contribute positively to the solution of the national and international problem of maximizing production, the exchange of goods, and consumption. Nor will the mere avoidance of another "war-debt" burden, or of unsound foreign lending and wild speculation, be a positive contribution.

The early strains will be eased somewhat through the operations of the United Nations Relief and Rehabilitation Administration. But for the longer pull, much more will be needed.

The proposed United Nations Food and Agriculture Organization should be beneficial in many ways.

Surveys For Bank And Fund Began Early

Considerable progress has been made in discussions looking toward international currency stabilization—one of the most important matters calling for effective international cooperation. Proposals for an international bank to supplement private and national investment are also under discussion. Given the will to cooperate, it should be possible to work out satisfactory and mutually helpful arrangements in these fields.

Cooperative efforts to solve postwar shipping and aviation problems will be needed.

These and other special international economic problems require, and are receiving, constructive attention. The most basic problem of all, however, is the problem of trade barriers.

If the network of trade restrictions remaining on the peacetime statute books comes back into full force and effect after the war's end, the solution of the difficult problems of the transition period, and of the longer-range problems of economic reconstruction, will be rendered vastly more difficult.

This network of trade barriers is the legacy of economic anarchy and chaos during the interwar years. It has been loosened considerably by our own trade-agreements program, but too much of it remains to permit anything like the maximum flow of international trade.

This network of trade barriers of all kinds.—tariffs, import quotas, exchange controls, and discriminations—should be examined critically by all concerned with a view to clearing away all unnecessary obstacles to international trade after the war.

The time to do this is now. The way should be prepared in advance for a substantial increase in international trade over prewar levels as soon as circumstances after the war will permit.

The need of this country and of others for such trade, on as diversified a basis as possible, will be far greater than it has ever been in the past. Without such an increase in international trade, we shall fall far short of the goal of full productive employment, here or elsewhere; we shall not have a vigorously expanding world economy; we shall not have a strong economic foundation for enduring security.

I am not suggesting that it would be either feasible or desirable for the world to go over suddenly to completely free trade. The world has gotten too far away from that ideal of laissez-faire economic theory. I am suggesting that unless the peoples of the United and Associated Nations give early and serious thought to loosening up the world network of peacetime trade restrictions, and take timely and effective steps to do so, trade and employment after the war will be kept below desirable and attainable levels.

Each country's trade restrictions affect adversely the relatively strong, more productive branches of production in other countries. At the same time, these restrictions cut down foreign purchasing power for the country's own export products.

Foreign tariffs, import quotas, and discriminatory measures reduce or cut off foreign markets needed by our export branches of production.

The general relaxation of trade barriers and the elimination of trade discriminations would benefit, in each country, those branches of production naturally best suited to provide produc-

tive employment. There would be a large net gain in such employment, and in the production of peacetime goods going into consumption.

Fortunately the facts of international life are far better and more widely known now than they were in 1918 and the years following. We learned most of them the hard way—when the false prosperity of the Twenties was shattered almost overnight—when, for the second time within a single generation, war came again and quickly enveloped the globe.

We learned that our Tariff Act of 1930, on top of those of 1921 and 1922, did not ensure prosperity to anyone. Too late, we saw that it was just as effective in stopping our own exports as it was in stopping imports. We saw national income, farm cash income, and industrial wage and salary payments plummet downward. We saw breadlines in the shadow of bulging granaries.

In 1934, with the initial passage of the Trade Agreements Act, the United States sought to substitute economic cooperation for economic anarchy and economic warfare. Prior to the outbreak of war, mutually helpful trade agreements had been concluded with 20 foreign countries. Included among them were many of the most important trading nations of the world outside the Axis. These agreements for the reciprocal reduction of trade barriers, and for general rules of fair play in international commercial relations, helped to improve our foreign trade. They helped also to improve general relations with the countries concerned.

Since the outbreak of war, trade agreements have been concluded with Iceland, Iran, and four additional American republics (Argentina, Peru, Uruguay, and Mexico). The latest extension of the authority to enter into such agreements, in 1943, covers two years ending June 1945.

Ground Broken For World Trade Plan

This encouraging experience with cooperation in the field of trade barriers should make it far easier than it otherwise would be to deal constructively and effectively with the remaining network of trade restrictions, and with the whole broad problem of international economic relations in the postwar period.

Progress toward international economic cooperation on a broad basis has been helped by progress toward an effective system of international security. The Declaration by United Nations, the results of the Moscow, Cairo and Teheran Conferences, the resolution adopted by the Senate of the United States, by a vote of 85 to 5, and the similar resolution passed by the House of Representatives by a vote of 360 to 29, are among the most hopeful indications that this government intends to do everything in its power in cooperation with other governments to achieve enduring peace

and security after this war. American farm and labor leaders, business organizations, religious organizations, many other representative groups, and the press, have indicated awareness of the necessity for United States cooperation to this end, not only for the purpose of establishing a security system but also for the purpose of creating economic conditions favorable to the continuance of such a system.

Many steps toward the objectives set forth in the Atlantic Charter and in Article Seven of our Mutual Aid Agreements remain to be taken. Whether they will be taken depends very largely upon the people and the Government of the United States. Public and private discussion of proposals advanced for achieving these objectives should help to insure further progress toward them.

Economic Interdependence in the Postwar World

BY AMOS E. TAYLOR

Director, Bureau of Foreign and Domestic Commerce,
Department of Commerce

IF I WERE to base my talk this morning on a text I could hardly do better than quote one of my former graduate teachers at the University of Chicago. In a pamphlet, "The Golden Rule Among Nations," Professor Andrew C. McLaughlin closed his essay with the following sentence:—"If war taught nothing else than the golden rule of economics that the prosperity of a nation is beneficial to its neighbor, and the poverty of one nation is a misfortune to the world,—if the war taught only the interdependence or unmistakable community of interest among nations—it taught a valuable lesson."

Since 1923, when these words were written, we have had many occasions for pondering their meaning. The breakdown in the world's exchange mechanism during the early thirties, the decline in the volume of goods and services which the peoples of the world found it possible to exchange on a basis of mutual benefit, the pressure on the internal economies of many countries and our inability to check the drift to war,—all these reflect a failure to apply international remedies to cure international maladies.

The modern economic and industrial system is an intricate and interdependent mechanism of world-wide dimensions. Gear any important segments to war and you have the means of far-reaching destruction. The sources of power are drawn from the earth, from the sea, and from the air. Gear it to peace and its productive and

creative possibilities are phenomenal. Why should we not enjoy its fruits in more leisure and a higher standard of living?

In time of war the modern industrial nation is a highly integrated economic organism. Combatant and non-combatant are equally important to its efficient operation. The distinctions of a century ago in contraband and non-contraband have disappeared. Virtually all articles of commerce are essential. The former distinction between weapons of war and foodstuffs has become blurred since technology and chemistry have made it possible to develop high explosives from animal fats, oils, grains and other food products.

The industrialism of the nineteenth century contributed much towards the development of an economically interdependent world. Raw materials from remote parts of the earth were moved thousands of miles into populated areas where machines and workers were concentrated for the purpose of turning these materials into finished products. The latter in turn were shipped to distant markets oftentimes back to the same areas whence came the material ingredients essential to manufacture. During much of the nineteenth century a complementary relationship existed between these respective areas. Each produced what the other needed. Creditor nations found ready markets for their manufactured products in all parts of the world, including the less-developed areas which supplied many of the food products for the working populations and the raw materials for the factories. Debtor countries had a market for their mineral and agricultural products, thus enabling them to pay the interest and dividends on the obligations representing the investments of the creditor countries. Goods moved rather freely, standards of living improved, and the world was relatively free of major wars.

Each Nation Must Collaborate

These complementary economic relationships of the nineteenth century do not exist today. Not only have two world wars created serious distortions in the world economy, but modern technology as well as advances in communications and transportation have made the world economy much more dynamic. International collaboration is absolutely essential if we are to assure ourselves that the utilization of our vast resources and our means of drawing boundless energy from many sources are to be directed towards constructive rather than destructive ends.

First of all, goods must be permitted to move, and in large volume. When we consider that productive capacity is potentially unlimited and that modern technology and means of transportation enable us to move an almost limitless volume of goods, it would seem that the need for a broad exchange of goods and services would be taken for granted. Yet the solution may not be easy. The price which it is necessary for each nation to pay as its

contribution to a well-functioning economic world is less easily accepted and certainly less well understood than is the price each must pay for national safety in time of emergency.

Towards the attainment of a stable economic world order each nation must contribute according to its economic strength, its resources, and its ability to develop a national consciousness of the goal ahead and of the implications of failure. Economic strength is a measure of responsibility and the part that the United States must play can not be minimized. By the same token the major powers, in their collective strength, have a correspondingly great responsibility to see to it that the resources and energy under their control are utilized for the benefit and gain of all nations.

The history of the past two decades has amply demonstrated that economic progress is seriously retarded whenever the forces which have turned the world into an interdependent unit are subjected to controls which check the international movement of goods and services. These have constantly exerted a growing pressure upon the balance-of-payments position of the less self-sufficient countries. These controls have produced social and economic upheavals which inevitably contained the germs of international conflict.

National Economies Interwoven

At this point we can all the more readily appraise the position of the United States in the world economy. Although this country normally exports only about 9 percent of its total production many segments of our economy would be seriously affected if this avenue for sales abroad were to be closed. Moreover, these exports constitute from 12 to 15 percent of total world exports and represent the most important single factor in the total volume of international trade upon the maintenance of which many countries are dependent for substantial parts of their national income. Our imports, which represent possibly 10 percent of the total world imports, are an indispensable source of buying power for many countries whose standard of living is seriously affected whenever their participation in total world trade is materially diminished. It is only by maintaining these streams of trade that conditions of economic health can be maintained at both the source and the termination of international transactions.

The level of domestic business activity in this country reflects the volume of our imports of foreign goods and of our dependence upon the resources of the outside world. Since dollars made available through our purchases of these materials constitute the primary source of buying power in foreign countries for our own goods, it is apparent that the United States directly influences the level of activity and prosperity elsewhere. This country is clearly a primary factor in the maintenance of world stability which is always es-

sential to peace. The relationship between domestic business activity and foreign trade as a whole reflects the interdependence of the various elements which constitute a well-functioning world economy.

Winning the war and winning the peace are simply different stages in the process of seeking an objective. During one stage we hurl the products of modern industry at each other for purposes of destruction; during the other we use the same materials and similar processes but utilize the final product for human betterment and for a happier life.

The relationship between our national economy and that of the world community is one of growing interdependence and we can not afford to ignore its implications. If developments in communications and transportation have tended to be more rapid than the reorientation in our political and economic thinking we can hardly hope to retard the former in order to justify our inertness in the latter. Time and space continue to shrink, in the future perhaps at an accelerated rate.

Maximizing Production, Distribution

The economic phases of international economic collaboration converge on the common objective of producing and distributing the maximum volume of goods and services. Economic problems must not again be subjected to non-economic, legalistic or emotional solutions. In the modern dynamic world the approach to economic problems must be positive, not negative. Production and distribution must be orderly, prices of primary products must be stable, exchanges must be stable, and international exchange and investment must supplement each other if world prosperity is to be achieved and maintained.

More than half a century ago Herbert Spencer compared the world to a living organism in which the circulation of goods is as essential to existence as the circulation of blood is to human life. As we come to a clearer understanding of this analogy it is perhaps our paramount duty to synchronize national economic programs through international cooperation so that the interchange of goods and services among nations may assure mutual benefits. The alternative is economic warfare under the guise of another quarter-century of "peace."

The Aim Is To Maintain Full Employment

BY ROBERT K. LAMB

Legislative Representative, Congress of Industrial Organizations

THE LEVEL OF international economic activity for decades after the war will be determined by whether the United States preserves and expands the present levels of national economic activity achieved during the war. If we turn our back on the world as we did for five years after 1919, it will set in motion a train of events even more devastating than those following the last war. If, on the other hand, the United States recognizes that its own prosperity depends upon achieving a balanced national economy with full employment, there will still be a hard row to hoe. The achievement of a stable worldwide post-war economy will require a rare combination of good luck and good management.

I think that most of us realize that no cry of "back to normalcy" will rally the majority of people after this war. They were still struggling out of a worldwide depression when the war began, and they have fought the war with the shadow of unemployment always close to the surface of their thoughts.

Unemployment has already begun to appear during the height of our war effort, as cut-backs are made in the war production program. These are bound to grow, and we shall need a program for the transition period which outruns anything offered by our leaders to date.

To maintain current levels of U. S. national output, we shall need to export considerably more than ten percent of our gross national product for the decade after the war. This would start the world on the road to modern economic activity. We, meanwhile, with our great head start, should be able to export the more advanced consumer and producer goods to these countries of advancing industries without fear of competition from others. During this period we shall have the opportunity to adjust the economy of the United States to the advantages of an economy of abundance and full employment.

The backbone of our war effort has been our heavy industry. If we abandon its use, and allow it to sink back to the break-even point or to even lower levels where it rested for most of the decade of the thirties, we cannot fail to have deep economic depression and resulting industrial strife in this country. The successful operation of our national economy requires that we devise a plan for putting these industries to work supplying the huge accumulated backlog of needs at home and abroad. Private initiative alone will never do the job, and governmental and group cooperation will be required.

We need an international survey of international need and of potential productive capacity. And this in turn calls for international cooperation in the working out of an international program for raising the levels of all national economies to a minimum level of health and decency. Sanitation, electric power developments, road building, the installation of modern means of transportation and communication, and the construction of modern plants for supplying the basic necessities of life to all peoples—such a program should occupy the best talents of the world's leading engineers for decades.

Separate State From Corporate Power

Fascism and Nazism arose from a merger between the corporations and the state to form the corporate state. The fact that political gangsters became the rulers of the state and had themselves made directors of the leading corporations should not obscure the fact that in both Germany and Italy and similarly in Japan the corporate leaders in these countries seemed to have decided that they could no longer operate in a nation which preserved the forms of representative government. The power to confer upon these corporations the right to operate monopolistically rested in the state. The threat to these monopolies at home and abroad seemed to them intolerable. A seizure of political power, a merger of the leading corporations with the state apparatus was to them the logical next step.

The modern war economy tends to lead to a high degree of centralization, even in the most democratic countries. It must be counterbalanced by planning for maximum economic activity after the war, if developments in the leading democratic countries are not seriously to weaken any international economic program.

Whether we shall move in the direction of an expanding or a contracting post-war economy both at home and abroad is already being decided. The decisions being taken in the next year or two while the war is still on will go far to determine the shape of future developments. We are fortunate that circumstances will require that the transition to the post-war economy be made in several stages. We needed at the earliest possible moment a change in the climate of opinion. Ours is the difficult task of adjusting a machine in motion, but we have no satisfactory choice. Either we make these adjustments or we suffer the consequences.

Today for the first time the majority of Americans are realizing two things: first, that our population amounts only to about six percent of that of the globe and second, that our productive capacity outruns that of our combined enemies and surpasses that also of our Allies.

If we are correctly reading the implications of our situation we will realize that we have twenty-five or fifty years head start

on the world. I think we can safely say that whatever the outcome of the war as it affects the various nations of the world the Nazis have lost. Even if our leading pessimists are correct and reaction is in the making throughout most of the western world, modern industrialism seems likely to force the nations sooner or later into the pattern of economic abundance. In any event the transferability of these methods is likely to defy the vigorous monopolistic tendency to maintain scarcity.

If this is so our problem would be to broaden the horizon of all of us rapidly enough to prevent another period of grinding depression before we once more attain and surpass our present levels of productivity.

Full Employment Can Be Planned

There are in this country today certain leaders of labor and industry and others in public life who appreciate our potentialities and are not afraid to see them unleashed. If they were to set themselves to the task of blueprinting the job ahead for the next decade I feel sure they could do it.

This would require our agreeing with the other United Nations that during the early years of the decade this country and Great Britain would devote their surplus energies immediately after the close of the war and perhaps while the Japanese war continues to a great program of rehabilitation and new construction. This would require estimating the needs for new installations in each of the United Nations and the productive capacity especially in Great Britain and the United States available to carry on the job. Part of the estimators' task would be to determine what goods and services can be expected in return from these United Nations not necessarily in the first five years but certainly beginning in the second five years of the decade.

In all of these estimates allowance would have to be made for the reduction in the cost of production involved in running our plants full blast instead of at or near the break-even point. This would greatly reduce our unit costs and permit us to scale down the legitimate profits. By this means much of the cost of the operation in terms of needed re-payments would tend to disappear. We could also make allowance in this set of books for the benefits accruing to each creditor nation from a reduction in the burden of public assistance, public make-work projects and the like.

What is suggested is that we undertake almost for the first time a realistic system of bookkeeping for the national economy. By approaching these problems from the point of view of the individual firm engaged in competition in a free market we suggest that the gain of one company or individual tends to be the loss of another. Such a system of bookkeeping totally ignores the fact that a national depression is a national loss of all the goods un-

produced and that the costs involved in maintaining the population during a depression should be a first charge upon the individual profits.

According to the approach here suggested, the greater the national productivity and the national income, the less burdensome the servicing of the national debt arising from the war and the previous depression. The war has shown that the potential productive capacity of our economy has for more than fifteen years probably been far greater than that demonstrated at the 1929 peak, and yet we never surpassed the 1929 record until we had the forced draft of a world war to whirl us up to current levels. The question is: how to underwrite such full employment of our resources in time of peace. None of us, I suppose, wants to see the government maintain such levels of expenditure for a moment longer than necessary. Many or most of us hope that we can maintain the current per capita output in peacetime, and employ those in the armed forces and those who wish to remain from the war-employed. It remains to be seen how much of the job can be done by private industry, and what sort of role the government is to be expected to play.

Planning Must Be International

Unless there exists some international plan, a composite of national plans, equalized to make the international parts fit together, our attempt to maintain or even to return to present levels of productivity will be a painful bootstraps operation probably doomed to failure, for a long time ahead. On the other hand, an inventory of international assets available for carrying out a joint program would show that the war has endowed us with an enormous new supply of certain goods. For example, ships, planes, machine tools are all readily transferable articles, as factory buildings are not. Trained technicians are another readily loaned or exportable commodity. Many a trained engineer, machine tool operator, or repair man aviator or sailor would prefer to be employed temporarily abroad to enduring a long spell of unemployment at home.

Many people, organized workers among others, fear the effects of cheap articles imported from the backward countries and ask, "What about tariffs?" Many other people spend their time fretting over the international currency problems after the war and ask, "What about exchange control?" To my mind these considerations are decidedly secondary. If we do not face up to the major problems of a program for world-wide cooperation, we shall have a period of international competition which will make the thirties look like a dress rehearsal. And during this period we shall resort to devices for dumping, cartelization, blocked currencies and the like which far outdo our present fears.

Organized labor has of course a great stake in any such

program of international cooperation, for the alternative of widespread depression will fall most heavily upon its members. But only a very small number of people in this or any other country will stand to gain by another world-wide depression such as set in after the 1929 crash. Even in the ranks of those who will benefit from further concentration of control over our economy in the hands of the few there is anxiety lest they may not be included among the successful few after the next turn of the wheel.

Indeed, this is the great deterrent and a good reason why we may hope that many even in the ranks of the biggest businesses may see their advantage in an expanding economy. But certainly America's smaller business men, like our farmers, professional folk, and workers in shop, office and factory cannot gain from another grinding depression.

I hope there will appear among us those who can translate the proposed solution into every day terms which will bring home to everyone the degree to which they are personally involved here, now, today.

Mobilizing Support of a People's Peace

BY PAUL SIFTON

Assistant to the President, National Farmers Union

PEARL HARBOR, Bataan and Singapore proved to American industry, farmers and the public generally the "economic interdependence of all peoples." In a few weeks, the Japanese gave a complete course in world economics by jerking the tires off the millions of civilian cars and trucks that were to have been produced in 1942. Overnight, as the rubber supply line from the East Indies was cut, not only the automobile and rubber industries were "converted" in more senses than one, but the whole Nation lost the illusion of self-sufficiency, the illusion that we could choose to retreat and escape from a total global war into isolationism, either within our own borders or within the limits of the Western Hemisphere.

Today, the problem is, not to prove the "economic interdependence of all peoples" nor even "the need of their cooperation in maintaining productivity, trade and full employment," but—what is much harder:

(1) to formulate the policies and the methods for such cooperation;

(2) to identify the Black Internationals, the cartels that took over the peace after World War I, financed fascism and were in turn taken over and employed by fascism in preparing for World War II; and

(3) last and most difficult, to organize, coordinate, and mobilize the people's tremendous potential strength to defeat the entrenched power of the Black Internationals and to substitute for their post-war planning such policies and methods as will insure full use of all human and material resources—full production, full employment, fair distribution of income, trade, and services, and full consumption—not only within the USA, but extended rapidly into and throughout all the nations and colonies of the world.

The National Farmers Union, its officers and its membership, are persuaded that there can be no return to isolationism after the war. We believe the question is, not will there be international organization and regulation of production, trade, and, as a consequence, conditioning of the individual lives of all peoples, but in whose hands, under what controls, shall such regulation be applied?

Wanted: A Democratic World Organization

Shall this international organization and regulation be worked out and applied by the peoples through their representatives, meeting and operating in an international goldfish bowl, wired for quick two-way communication, or

Shall such regulation be devised and applied secretly, without public notice or consultation, by the officers of national monopolies and international cartels, who are themselves compelled to subordinate national loyalties and considerations of humanity to the cold, impersonal, non-human laws of money seeking profit at any cost?

Assuming—and this is a big assumption, the biggest of this century—that this question can be presented fully and squarely to the peoples so that they can make a decision in their own interest, then how shall they make that decision effective and controlling, first upon their organizations, second upon the Executive and Legislative branches of their governments, and third, upon the creation and operation of whatever post-war international organization is established?

Before examining the possibilities and difficulties that confront us in promoting international cooperation in the peoples' interest, let me make plain and unmistakable the position of the National Farmers Union. I quote from the program adopted by the delegates to our 38th Annual Convention held at Oklahoma City, Okla., in November, 1942, and still in effect. Under the heading "No Return to Isolationism":

"The time calls for a chart to win the war and win the peace. It must include: . . .

"Full participation in the councils of the nations, to the end that we may live in abundance in a world that is governed by law based on justice. This means that we cannot return to isolationism, but must participate in world affairs to protect the way of life we are determined to achieve.

"Insistence upon world trade policies that will give all peoples everywhere the chance to earn a decent living. Trade barriers lead to wars. In this war trade is a weapon used by the government for the best interests of the United States and the United Nations. *When peace comes we must continue to exchange our surpluses with those of other nations without the intervention of international profiteers. Groups adversely affected must be provided with economic and technical assistance to bring about a sound adjustment.*"

The preamble states:

"The world of yesterday is gone. A new world is being shaped in the course of the present conflict, long predicted as the inevitable end of the cruel and outmoded system based on unbridled exploitation. That new world, the People's Century, can be born alive or dead. It will be born alive, in victory, freedom, and hope, if we prove ourselves worthy of the new free world we seek.

"We renew our profound commitment to the basic Farmers Union principle: the security of the farm family on the land in an economy of abundance brought about by a free exchange of goods and services.

We in the National Farmers Union have our own "realism" and it is not the sort of realism that leads to Darlanism abroad or at home. Our sense of "realism" tells us there is no magic line separating the peace that is to come from the war in which we are now engaged. It tells us that the shape of that peace is being formed by the day-to-day decisions that are taken in the prosecution of this war on the battlefronts, in our relations with the peoples to whom we are bringing a widely advertised "liberation," and, here on the home front, by the policies and the methods in the production of goods and foods for war, in the utilization of our material resources, our manpower, and by the extent to which we count in—or out—"the folks," the working farmers and wage earners to whom the war slogans "Freedom from Want" and "The People's Century" have real meaning.

Out of our own experience, we know that working farmers, individually and through their organizations, have not been counted into war food production, processing and distribution as they should have been. We know that war food production in 1944 could be at least ten per cent greater if the Administration and the Congress had provided \$1 billion—equal to the money cost

of the war for four days—for loans to 1,300,000 under-financed and therefore under-equipped and under-employed farm families, in addition to about 460,000 already being assisted by the Farm Security Administration.

We know that the *farm labor* problem today would be much less acute if it were not for Public Law 45, recently renewed, which prohibits use of Federal funds in interstate movement of farm labor except upon prior written approval of the County Agent, who is often under the domination of a private farm organization. In the midst of a war to establish a global peace of free men under effective international organization, this provision breaks the nation into 3,000 little kingdoms. In conjunction with the Tydings amendment, deferring essential farm men under the Selective Service Act, it operates to freeze farm labor in areas of surpluses and shortages at a time when effective prosecution of the war on the food production front requires mobilization, transportation, and maximum utilization of every farm laborer.

We know that *farmers cooperatives* were not counted in when WFA and WPB were allocating scarce materials for the construction of additional war food processing plants and facilities. Big packers and processors were helped to become bigger, and to move toward more complete domination of processing and distribution.

We have observed that, while dollar-a-year men from Big Business have been taken into war agencies until they now dominate policy and operation, labor and working farmers have been used principally as window-dressing, having little or no participation in formulating and applying policies—with the unique exception of the War Manpower Commission.

We note with dismay and growing indignation reconversion and post-war proposals that would favor Big Business in the peace economy even more than it has been favored during the war.

With this prospect before our eyes, we cannot be blamed for wondering how the Black Internationals are to be broken up and prevented from re-forming after the war when, now within our own country, a program for surrender to concentrations of economic power appears to have the support of what was once the New Deal Administration and the Congress.

Democracy Begins At Home

Observing all this, it seems to us that the barriers to economic peace are an elastic, yielding but tightly-woven, seamless web. It cannot be pierced internationally except as it is pierced within nations by people acting in their own interest and for their own salvation and freedom from economic and political tyranny. The two tasks are not exclusive; they must be done together; neither can succeed without the other.

Of course, our Nation's policy of "realism," which in practice

becomes Darlanism abroad and at home, is, in the minds of dis-franchised peoples everywhere, preferable to Nazi slavery, but it is not the Atlantic Charter nor the Four Freedoms, nor the dawn of the People's Century. The samples of "liberation" we have given in French North Africa, Italy and here at home are not the best that the U.S.A. can offer. We can do better than that, and we should. We will do better, if, at meetings of representatives of peoples' organizations such as this, it is recognized that peace, and understanding, and cooperation, and economic and political justice are *not* creations that come into being magically with the signing of an armistice or a peace treaty, but are matters of *becoming*, of slow growth, being built up or torn down by day-to-day adoption or rejection of policies and actions that promote or that hinder economic justice and peace.

The members of the National Farmers Union are not dismayed by the prospect that I have so briefly sketched this morning. They are not used to winning easily or very often. They have suffered drought, floods, grasshoppers and bleeding by railroads, middle-men, industrial monopoly and government.

They have won some gains in the past 40 years. They have developed their own supply and marketing cooperatives, their own farm organization as the brain and heart of their organizational, cooperative, educational and legislative activity. Through organization they have protected themselves in considerable measure against unfair competition and exploitation in the market place and in state and national legislatures.

In the past decade, agriculture has won a new status in our national life. Non-farm people are becoming aware of the importance of maintaining family-type farming as the anchor fortress of democracy in rural America. The Farm Security Administration—which a coalition of Big Agriculture, Banks and Business has found guilty of aiding one million farm families to win security on the land, thereby keeping them out of the pool of cheap farm and factory labor—has been saved from execution again and again by the determined cooperation of the National Farmers Union, state and local units of other farm organizations, the three major labor organizations, Protestant, Catholic and Jewish religious groups and other civic and welfare organizations that represent, in sum, the vast majority of the people of this Nation.

Out of our experience in agriculture, in defending FSA, we offer the suggestion that peoples' organizations and nations must cooperate or die. We, the National Farmers Union, propose to live. We hold out the hand of brotherhood and urgent appeal to all other peoples organizations and individuals of good will. If we are to be saved, we, the People, must save ourselves. Together.

The Individual Citizen's Obligation To A World Community

BY REV. BERNARD W. DEMPSEY, S. J.

Regent, School of Commerce and Finance, Saint Louis University

THE DIVISION OF LABOR is one of the cornerstones of economic science as well as of economic institutions. Its presence is so universal, and its advantages so obvious, that the layman and scientist alike take it for granted in their social thinking. The division of labor, and the providential vanity of human capacities on which it is built, is perhaps the greatest single source of economic efficiency.

Equally fundamental with the division of labor, and concretely bound up with it, is the division of resources, commonly referred to as private property. Natural resources are not found with name tags on them; they are, in general, provided for all men in general.

As useful and necessary as private property is, when a system of private property is administered in such a way that it does not divide the earth's resources so as efficiently to serve the uses of all men, then the system has lost its basis and its goal. Not only is it failing of its goal, but to exactly the extent that it fails, will the total product be less for all. In such case, the division of resources must not be abandoned, but overhauled and rehabilitated as private property, that men may again enjoy the fruits of the earth without sacrifice of the independence of fear and independence of the state that alone becomes free men.

If this peaceable and reasonable re-orientation and re-generation of a system of private property that has been deflected from its goal does not take place, those who have been excluded from the earth's resources will rebel. One grave disorder is followed by a worse disorder. The community is handed over to anarchy or to the state.

Thus men, concrete individual persons cooperating through division of labor and division of resources, are the object and the material of economic processes. The concrete individual human person is at the core of the economic as of the social system. For him it is, and through him, and in him it works, if it works at all.

The validity of these homely truths is not altered by changing the scale on which they operate. Since nations are nothing but associations of men, their principles of efficient and equitable operation derive from the men who make them up. The resources of the world are for all men, for all nations, not for the one with the

biggest army, navy, or air force. And if one nation by whatever means, obtains a disproportionate share of these resources and *excludes others* from access to them, then the international system of ownership of resources is failing of its purpose and losing its justification, and will invite overthrow by those who have the least to lose. And the world will waste its resources in the anarchy called war. That will be rebellion against an inequitable division of resources.

The Citizens Are The State

What can the individual do to overcome this folly? It is worth a great deal of effort for us to overcome it, because the cost of the error is enormous. Moreover, only individual persons can change it; states and nations change only with the individual persons who compose them.

We need both plain, straightforward fair dealing, as between man and man, and complete honesty in the relation of the state to the citizen. . . . There is a more fundamental obligation of man to himself and to his own, the obligation to contribute positively to the building up of the sort of community which he needs for growth and development. This is the virtue of social justice, a radical and powerful force which places on man, just because he is a man, the duty to help make society, on every level, all that it can be. Social justice has been used as a catch-word for all manner of things; but this is its true and basic meaning.

However obscure that obligation may have been in the eighteenth and nineteenth centuries, today there can be no question of it, progress and prosperity, without national socialism, are possible today only to the degree that men make their own economic communities, local, national, to the extent that they contribute positively to the welfare of the groups with which they live and work, prior to and independently of the activity of the state and government. Owners, investors, managers, workers in any industry expect to make their living out of that business. And consumers expect to use its product. The radical purpose of the world's resources is to serve men, the basic relation of men to the material world, and its forces is to use it to better themselves. No subsequent activity of men or the state may go counter to these fundamental ones.

In any modern state, where there are many varieties of businesses, the basic point is that all the people expect, through a proper combination of the businesses, to make their livings and better themselves.

Now there are essential conditions in these fields that can be met only by cooperation. Men can see the problem, can see the solution, can see the loss to the group if they fail to put the solution into effect, can see that under that loss, human beings are without benefits that they ought to have to lead a more fully

human life of culture and civilization that corresponds to their situation.

And in our present situation, we Americans must convince ourselves of the necessity of contributing positively to international society. We have contributed to it negatively in disastrous fashion. Twice we have entered world wars and determined their course; once we thereafter withdrew with appalling results. We ignored our obligation in social justice to the whole community of men, and today we pay the price of our failure.

We must realize *as persons* that we have positive responsibilities not only *as citizens*, but *as men*. Americans, if they are consistent, must maintain that their loyalty cannot be exhausted by the civil state. We are bound to many lesser loyalties, and one larger one. To put this into practical application we must, beside realizing that the obligation of social justice is real and dynamic, also write a dynamic peace. We cannot put the world into a political and economic strait-jacket and just leave it there. The facts of economic life change steadily, all the facts—basic ones like population—and important ones like transport and technology. The peace we write should have three parts—a constitution stating the principles on which world order rests—a political section with some stability, but admittedly not eternal explicitly subject to revision every ten years, and finally an economic section, explicitly subject to revision every three or five years.

Such an apparatus will provide occasions when the peoples of the world could make continuous, actual revision of their economic relationships, will provide dynamic institutions for a dynamic world, and provide easy practice for the neglected dynamic virtue of social justice.

When we provide such means for making effective the demands of social justice on the nations and on the men who make them up, when we realize that no community can be better than the contributions we make to that community, when we realize that nations like men achieve their full stature and independence only through inter-dependence, and when in every community of which we are members we promote the understanding of these fundamental, true, and fruitful ideas, then we will have done what the man and citizen can do. We will have done all that is necessary to create a living, plastic, adaptable international community which can effect and maintain the division of labor and the division of resources and which will yield the maximum of goods and the maximum of dignified human living for all.

Challenge To Action

BY WILLARD L. THORP

Trustee, Associated Gas and Electric Corporation

ONE OF THE great failures of our Country after the last war was in the field of international economic relations. The learned statesmen who sat at the Peace Table focussed their attention on political problems,—boundaries, minorities, plebiscites, mandates and the like. They reserved the basic economic problems for the League of Nations, but the proposed machinery never shifted into high gear. Not only did we as a nation fail to join in the consolidated effort to meet these problems, but in our own national policies we proceeded to disregard completely the realities of the international economic picture. The war and post-war period had established us firmly as a creditor nation. We endeavored to increase the obligations of others to us by insisting on the validity of various public international debts. We added billions of dollars of new private loans made to private and public borrowers in foreign countries. We set up a special government agency to work with business men to increase our export trade. And then, at the same time, we built higher and higher tariff barriers around our boundaries to keep out goods from foreign countries. The consequences were inevitable. Those programs could not balance. Foreign borrowers defaulted one after another on their loans. Foreign countries endeavored to keep their balances even by erecting still higher barriers against our goods. Monetary standards were destroyed. Bitterness and ill will crept into international relations.

It is true that we then were relatively unsophisticated in the area of international economic policy. It is also true that the basic facts had changed substantially since the nineteenth century. To the extent that public policy usually takes the form of a recognition of facts and conditions some time after their appearance, we were following the age-old pattern. But the lag has now been so long that we can no longer offer it as an excuse. Now the facts are clear. We shall again want to send our goods abroad. We shall again be a lender in the capital markets of the world. Our position will be even more strongly that of a creditor nation. We should know by this time that such a position is untenable, unless we open our ports to the importation of goods and services. The payments for the use of our capital and for our exported commodities must be made in American dollars. The foreign purchaser can lay his hands on American cash only if Americans have paid cash abroad for goods, services, or securities which they have purchased.

However, the problem is not solely one of permitting the purchase of foreign goods by American consumers. International economic relations is a large sounding phrase covering a number of complicated and often technical areas. Problems arise from such economic matters as shipping, aviation, access to raw materials, patent rights, allocation of markets, cartels, sanitary regulations and a host of others. Furthermore, a nation's international policies are not separable from its domestic policies. For example, there must be an effective international medium of exchange. This in turn involves the domestic monetary and banking system of each nation. Again, the problem of international credit, both as to controls and machinery, is tied up to each domestic economy.

It is essential that we move ahead on these various problems now. Sometimes procrastination serves a useful purpose, as when the letter eventually does not need to be written, or the problem disappears or is solved by someone else. In this case, the outlines of the problem are clear today and will not change. There is absolutely no possibility that it will disappear. Today, we have the maximum opportunity to find the right answers. As time goes on, little decisions here and little decisions there will steadily narrow our freedom to find solutions. And today, we are not in that difficult position where the pressure of the necessity of the short-run interferences with long-run wisdom.

All Can Support World Unity Program

What can we do? First, I think that there is a basic job of education to be done. We still are doing a lot of our thinking in nineteenth century terms, when we were building our industries and borrowing abroad. Today, we are at the point where the facts lead clearly to the broad outlines of a program for the future, a program looking towards the lowering of trade barriers, and the stabilization of monetary and credit conditions. In such a program, both the hard-headed and the big-hearted can join. The hard-headed can support it because, instead of providing protection for a few favored industries, it will protect our investors, our consumers, and our credit and monetary systems. The big-hearted can support it because it is a program not limited to our own national advantage, but aimed at international economic health and well being. These things must be said over and over so that they become an accepted part of our national thinking.

But in addition to education, we also must have action, and have it soon. Of course, the experts have been busy in this area, as evidenced by the several proposals for dealing with the problems of credit and currency. But we as citizens can well be impatient. We do not know what our national policy is in this whole area. It is not enough for the experts to labor. We must have frank, thorough and public discussion of the issues involved. The peace

will bring many problems to trouble and confuse us. Now is the time to determine our basic attitudes. Even then, there is much work to do, for there is no one quick gesture which will solve our basic international problems. They require long and skilled labor plus time and patience. There is a well-established technique, the international conference, which is being used most effectively in connection with problems of food and of relief and rehabilitation. The same technique should be extended to the problems of international currency and credit arrangements, and of international trade. These are world problems, and should be attacked by the nations together. It should be sufficient punishment to have to fight a second World War, without adding a second post-war failure. The time has come to shift into high gear, driving hard towards a clear-cut national policy and the legislation to implement it.

Resolution Adopted At The Washington Meeting Of The Citizens Conference On International Economic Union, March 4, 1944

WHEREAS, it has been demonstrated by the experience of every nation during the present war and in previous periods of war and peace that the economic needs of all peoples everywhere are common and indivisible, and that joint international agreements and action are essential to full employment, to raising the standards of living, and to the prevention of armed conflict in the future, and

WHEREAS, the principles of international economic cooperation to operate throughout the world after present hostilities cease are clearly enunciated in the Atlantic Charter and have been subscribed to by the United States and 33 other nations, while similar principles outlined in Article VII of the Mutual Aid Agreement have received the approval of the President and the Congress and of representatives of 16 of the other strong industrial nations,

BE IT THEREFORE RESOLVED, by those in attendance at the Washington meeting of the Citizens Conference on International Economic Union that the United States shall participate in the establishment at the earliest time possible of those international agencies essential to preserve the peace—to aid and encourage international investment in productive enterprise, wherever necessary in order to promote industry and development; to secure the removal of trade barriers and to promote the unhampered distribution of food, goods and services produced, in accordance with an international multilateral agreement; to establish and maintain stabilized currencies and an orderly and stable pattern of exchange rates, and

BE IT FURTHER RESOLVED, that the United States shall call meetings of the United Nations without delay, for the purpose of creating and integrating these agencies of international economic cooperation.

CITIZENS CONFERENCE ON INTERNATIONAL ECONOMIC UNION, Inc.

45 ASTOR PLACE, NEW YORK 3, N. Y.

Purpose: To stimulate interest in economic cooperation among all nations as the basis of a just and lasting peace, and to promote educational activities to that end.

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MONETARY PLANS for the UNITED NATIONS

A Layman's Guide to Proposals
of the Bretton Woods Conference

by

MABEL NEWCOMER

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MONETARY PLANS FOR THE UNITED NATIONS

by
Mabel Newcomer, Professor Economics, Vassar College
and Official Delegate Bretton Woods Conference

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* * * * *

STUDY GUIDE

by
Maxine Sweezy, Associate in Social Studies
American Association of University Women

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MONETARY PLANS FOR THE UNITED NATIONS

The United Nations Monetary and Financial Conference has taken us a long step forward toward the goal set forth in the Atlantic Charter: "...to further the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity...."

The fundamental objectives of the Bretton Woods Conference are the same as those of the international conferences that preceded it. The immediate problem may be food, labor, relief, or international exchanges; but the ultimate aim is to achieve a stable world economy and democratic procedures in order that we may have a lasting peace, and a reasonable degree of economic security and well-being for ourselves - and for other nations.

This is a Herculean task, and one that will not be achieved by a conference or two. But such complex and difficult problems can be solved, bit by bit, with patience and hard work, if we want the end results badly enough. Each international conference brings us a little farther on the long road of international cooperation.

THE PROBLEM

The immediate economic problem with which all countries will be faced is to restore civilian production to prewar levels, or better. This problem will differ in different countries. We, in the United States, are faced with the problem of "excess capacity" - excess, that is, according to prewar standards. France, on the contrary, will have to rebuild and replace such industrial equipment that has been destroyed by war; and England, which has suffered less actual destruction, will have to reassemble industries that have been scattered to avoid bombing.

The transition period calls for domestic programs of orderly demobilization, retraining, and reemployment; rapid reconversion; and what has sometimes been called "controlled de-control." It demands, also, drastic and rapid international adjustments. The domestic and the international programs are interrelated. When one country stops buying from another because of declining incomes, the business of the selling country falls off and incomes decline. The great depression of the nineteen-thirties was not just an American phenomenon. It occurred in

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such widely scattered countries as Great Britain, Germany, Australia, and Japan.

With the transportation and communication systems that exist today, our relation to other countries has changed. The fact that the most distant spot in the world is only a few days flying-time away - and no time at all by telephone - is not just a scientific marvel; it means that the people of India, New Zealand, and South Africa are our neighbors, with all the opportunities for neighborly cooperation and neighborly quarrels that this entails.

International trade has long been regarded as a help rather than a hindrance to peaceful relations. Some economists were convinced, prior to the First World War, that nations would not tolerate the interference with trade that a major war would involve. Unfortunately, it is not as easy to keep the peace as they imagined; but a reasonably free flow of international trade is an important factor in maintaining friendly relations. If countries have "access, on equal terms, to the trade and to the raw materials of the world," - if they can buy coal, cotton, rubber, tin, or whatever they lack, without discrimination - an important cause of friction is removed, and much of the argument for colonial expansion vanishes. Hitler did not start a war because Germany was suffering from trade discrimination, nor because Germany had lost her colonies as a result of the First World War; but he made the most of both these arguments in stirring the German people to military aggression.

The problem is not limited to raw materials and colonies. Manufacturing industries have an important stake in international trade; and high levels of employment are involved. In the past we, for example, have frequently sold more cotton abroad than at home; and also more machinery of certain types, such as machine tools and motor cycles. Even for commodities with comparatively small foreign markets, decline in foreign trade may spell depression.

If we are to have high levels of employment in the post-war years, we cannot depend on domestic markets alone. With our excess capacity, foreign markets may be peculiarly important in the transition period. The countries in need of reconstruction can use some of our surpluses more readily than we, although they may not be able to pay for them until later.

TRADE RELATIONS BETWEEN THE TWO WARS

The years between wars witnessed many and varied efforts to restore "normal" trade, but there was little concerted action

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and the steps taken were often contradictory. Nations were in competition with one another, and placed immediate advantage ahead of long-run gains. Great Britain returned to her pre-war gold standard, only to find that she was unable to maintain it. It failed as an "automatic" regulator, a virtue that is still occasionally claimed for it. We, in the United States, sat complacently behind our high tariff walls - or built them higher - and watched the world's supply of monetary gold flow into our vaults until the other countries were forced to suspend, one by one. Finally, faced with shrinking foreign markets, in addition to declining domestic trade, we joined in the game of competitive devaluation.

The experts preached the virtues of free, multilateral trade; but governments, one by one, resorted to ever growing restrictions and bilateral agreements that only accelerated the downward trend of international trade.

Under the Tripartite Agreement of 1936, France, the United Kingdom, and the United States agreed to abandon competitive devaluation and to attempt to stabilize exchanges. Our reciprocal trade agreements program was another constructive effort to reverse the trend. These measures were useful, but they could not do much to off-set the growing restrictions elsewhere. Even the United Kingdom, the traditional home of free trade and the gold standard, abandoned them in favor of the newer doctrines and practices.

This experience has taught us, first, that a return to an international gold standard is neither easy nor a panacea. Second, that creditor nations, such as the United States, who attempt to prevent imports through high tariffs or other means, will not only be left with worthless securities on their hands, but will find they have goaded debtor countries to retaliatory measures - trade restrictions of their own, or devaluation. Our exports declined far more than domestic production in the early nineteen-thirties. And third, that in the absence of agreements among the majority of nations, regional and bilateral pacts will develop, to the detriment of the rest of the world.

Wars always interfere with trade, but never before has war been so nearly universal, or trade controls - even for trade among allies - so complete. Consequently, the restoration of reasonably free movement of goods between countries presents a more difficult problem than at any time in our earlier history.

To restore trade it is essential, first of all, to stabilize exchanges and extend the credits which facilitate international buying. And long-term financing will be urgent, both to reconstruct industries that have been shattered by war and to develop some of the less industrialized regions. International trade can only be restored on a durable basis if would-be buyers have goods to offer in exchange.

WORK OF THE BRETTON WOODS CONFERENCE

The International Monetary Conference which met in July 1944 at Bretton Woods, was called to consider two specific projects: a "Fund" and a "Bank." These had been under consideration by several of the governments concerned for many months in advance of the Conference. Both the United States and the United Kingdom had published specific proposals for a stabilization fund more than a year earlier, and other nations had suggested various modifications. In the spring of 1944, a joint statement was issued by the experts of 30 nations, with definite recommendations for an international monetary fund. The project for a bank had also received serious consideration, although it had not been discussed as fully as the fund, partly because it was a less controversial issue.

Finally, the experts of all the nations concerned were invited for a preliminary conference at Atlantic City, immediately preceding the Bretton Woods Conference. Consequently, the delegates of 44 nations¹ were presented with a series of clearly formulated and carefully considered alternatives when they finally met in July. Many of the delegates had attended earlier meetings of the experts, and all had ample opportunity to acquaint themselves with the issues. Moreover, they were provided with a whole battery of advisers.

¹All nations but enemy nations and neutrals were invited to participate. Those present were Australia, Belgium, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, French Delegation, Greece, Guatemala, Haiti, Honduras, Iceland, India, Iran, Iraq, Liberia, Luxembourg, Mexico, Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, Philippine Commonwealth, Poland, Union of South Africa, Union of Soviet Socialist Republics, United Kingdom, United States of America, Uruguay, Venezuela, and Yugoslavia. The Danish Minister was an observer.

This thorough preliminary study of the problem made it possible for the Conference to reach definite conclusions on many technical problems in the short space of three weeks. The delegates were aided, further, by ample clerical staff organized to give twenty-four hour service. And the isolated location of the Conference kept many delegates within reach, when easy access to cities might well have lured them away and slowed up proceedings.

The broad purpose of the Monetary Conference was to establish machinery to assist in the restoration of world trade, and to promote its steady expansion in the future. World trade can be carried on only with money and credit. To return to primitive conditions of barter would be to strangle international transactions. And money values must be stable, and reasonable credit facilities must be at hand, if the steady and expanding world markets that contribute so much to steady employment at home and to national well-being are to be realized. This is the underlying purpose of the plans for an International Monetary Fund and an International Bank for Reconstruction and Development.

INTERNATIONAL MONETARY FUND

Purposes of the International Monetary Fund, as stated in the articles of agreement, are:

1. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
2. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
3. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
4. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
5. To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct

maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

6. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Two of the major functions of the Fund will be to stabilize exchange rates and prevent competitive devaluation of national currencies. All other postwar programs for world reconstruction will be greatly facilitated by such stability. Even the work of UNRRA would be handicapped if the value of the currencies of the countries in which it operates were to fluctuate widely from day to day.

Our experience in the years between the two world wars with both unplanned fluctuations and competitive devaluation of currencies demonstrates the importance of such stability. To cite a single instance, when Great Britain suspended the gold standard in 1931 the value of our dollar, in terms of pounds, rose 40 per cent in a few days' time. Other countries followed Great Britain, and in each of these countries the prices of American goods rose, in terms of their depreciated currencies, as much as 25 or even 50 per cent. This made American goods too expensive for their people to buy, and our already declining foreign markets were even further reduced. We countered, in 1933, with suspension of our gold standard.

Such competitive devaluation of the currencies is a game that all can play, and any temporary gains may be quickly nullified. Moreover, this economic warfare promotes irritation and international ill will. And it interferes with the steady expansion of international trade, which is almost as important as the steady expansion of domestic trade, in maintaining a high level of employment and prosperity.

This type of devaluation would not be permitted under the Fund agreement. Provision is made for some flexibility in rates, both in an initial three-months' experimental period, when exchanges that have been suspended are again finding their natural level, and over long periods of time. The changes permitted, however, are relatively small, and there are some safeguards to insure that they will be in the interest of promoting total world trade rather than giving a temporary advantage to a single country at the expense of the others.

In order to implement the agreement to stabilize exchange rates, each member nation will contribute to a fund.

One fourth of each country's quota is paid in gold, with exceptions for countries with abnormally low gold reserves. This gold can be used to buy any currency needed by the Fund. The remainder is in the country's own currency, thus supplying the currencies of different countries which other countries can buy as they need them to pay for imports.

The subscriptions, totalling \$8.8 billions for the 44 nations participating in the Conference, were determined by prewar incomes and prewar foreign trade of the different nations, with adjustments in individual cases where there was general agreement that postwar ability and need will be markedly different from that in the earlier period.

Each nation can borrow from this Fund to a maximum of its subscribed quota, if necessary, when it is temporarily buying more in foreign markets than it is selling in foreign markets. Largely for this reason (but also, in some instances, for reasons of prestige) the majority of nations wanted larger quotas than those indicated by their prewar incomes and foreign trade. Consequently, the size of the different quotas was a cause of considerable debate. In the end, however, most countries were reasonably well satisfied with the outcome.

The conditions under which loans can be obtained are carefully safeguarded, so that they will operate in the interests of all. They are designed to finance current operations; no country may increase its borrowing by more than 25 per cent of its quota in a single year; and the charge increases both with the amount borrowed and with the length of time the loan runs. If a country devalues its currency, in terms of gold, it must pay the difference to the Fund in order to maintain the gold value of its quota.

The criticism that has occasionally been made that a few unscrupulous nations might bankrupt the Fund in a few months is quite without foundation. A nation that did not meet its obligations would lose its membership, and the consequences of this in a world where most other nations were cooperating in foreign trade would prove too serious to be risked lightly.

Provision is made for later increases in the Fund, to allow both for increases in the quotas of member nations, and for the admission of new members when this seems advisable.

The advantage of such a Fund to countries temporarily buying more than they are selling is reasonably clear. It will enable them to make purchases abroad that they cannot pay

for at the moment. Some have questioned its value, however, to creditor nations such as the United States and Canada. But our gain may be just as real as theirs. We have the same interest in extending credit to our customers in other countries as any merchant has in extending credit to his customers.

The availability of such a Fund should facilitate and increase sound international trade, just as adequate bank credit furthers business activity. Moreover, the agreement to maintain stable exchange rates removes much of the risk that often attends international buying and selling. And, in addition, members pledge themselves not to engage in discriminatory currency practices (except under carefully safeguarded conditions), such as those that hampered trade between the two wars.

One criticism is that the Fund is just a device with which bankrupt nations can exploit our wealth. It has been described as "putting money down a rat hole." This criticism fails to take into account the many safeguards that have been provided. Nor does it take into account the probability that without the Fund, pressure from our exporters will lead us to extend such credits in the postwar period, ourselves, in order to develop such needed foreign markets. Without the Fund the risk will be all ours. With the Fund in operation the other 43 nations, combined, will be advancing \$2 for every \$1 that we advance.

Some risks there will be. Even well managed private banks have been known to make bad loans. But there is no reason to expect serious losses; and at worst, the amount that we could lose would be equivalent to the cost of about ten days of war. Surely this is a chance that we can afford to take when the stake is not merely expanding trade and high levels of employment, but international understanding and a durable peace.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The purpose of the Bank is to facilitate international investment. It is designed to provide funds for productive purposes, such as factories, power plants, or transportation facilities. Loans for the construction of municipal buildings, or current government expenses, such as were advanced all too often by American investors after the First World War, will not receive any encouragement from this institution. Nor will relief loans be made. Relief is the function of UNRRA.

Long-term international loans for productive purposes are essential to the restoration of a smoothly functioning world economy. The high interest rates prevalent after the First World War for international loans made it difficult for borrowers to meet their obligations even when they borrowed for sound productive enterprises; and the frequency of default discredited such investments in this country. Consequently, it is important for this type of lending to receive some support.

The Bank will have the power to make direct loans, but for the most part it is expected to guarantee loans floated through regular banking channels. Such guarantees will offer the lender reasonable security and will offer the borrower reasonable rates of interest. The lower rate of interest should not restrict the market, since the average investor is willing to accept a low rate of return if he has some assurance that his principal is safe. On the contrary, the amount of international lending should increase. And the low rate of interest itself will prevent many defaults.

Precautions have been taken to prevent losses from these long-term loans. The fact that loans must be for productive purposes is in itself a safeguard. Moreover, they must be guaranteed first by the country whose nationals are borrowing, and they must be approved by the management of the Bank, just as any loan floated through a bank is approved. Since the management is not interested in earning commissions, and since it represents countries that have no interest beyond promoting sound reconstruction and development projects and protecting their investment in the Bank, there is no reason to expect serious losses.

The capital for the Bank comes from subscriptions made by the member nations. These total \$9.1 billions. For the most part the quotas for these have been approved at the same figures as for the Fund. In some instances, however, the smaller countries have subscribed less for the Bank than for the Fund, and the larger countries more. The United States, China, and Canada have agreed to subscribe somewhat larger sums for the Bank than for the Fund. However, our total is again approximately one-third (35 per cent for the Bank and 31 per cent for the Fund).

It is to the interest of creditor countries as well as borrowing countries that such capital should be made available. The more each country produces, the higher the standards of living of its people. And the higher the standards of living, the more they can buy abroad as well as at home. In the past we have ordinarily sold less to China, with a population of between 400 and 500 millions, than to Australia, with a population

of only 7 millions. Nor does the industrialization of other countries reduce our markets. We sold more to the people of the United Kingdom in the twenty years before the war, on a per capita basis, than to the people of Australia.

CRITICISM OF THE FUND AND BANK

The better informed criticism of the Fund and the Bank takes two forms. First, that these institutions are not comprehensive enough; unless other measures are taken promptly - and perhaps first - to promote the free flow of trade, the Fund and Bank cannot succeed; and second, that the machinery is cumbersome and there are alternative methods of dealing with this problem that would be more effective.

Other Steps Needed to Restore World Trade

With regard to the first criticism, it is true that other measures will have to be taken to supplement these, but the Bank and the Fund must come first unless there is to be a prolonged and painful period of readjustment, accompanied by widespread suffering. To indicate how far these institutions go, and where they fall short, it may be desirable to trace the steps necessary to restore and continue the free flow of goods where they are needed.

The first step is to fix par values of the different currencies. We have already had some experience with this in countries retaken from the enemy, and we have found it a difficult problem. The fact that international trade has been completely controlled during the war period - a period during which price levels in different countries have changed greatly and in widely varying degrees - means that prices in different countries are no longer interrelated. We found it necessary to revise the rate set for the franc in North Africa after a trial period. The rate set for the lira in Italy has been criticized as favoring the American servicemen and discriminating against the civilian population. The rate set for the franc in France, on the contrary, has been criticized as favoring the civilian population and discriminating against the American servicemen. The fact is, that a suitable rate can only be determined by trial and error. Under the Fund agreement, each member determines its own par value in terms of the common denominator, gold, and each may change that value within ninety days after its initial determination, if the original value selected proves unsatisfactory.

The second step toward restoring the free flow of goods is the stabilization of the exchange rates thus determined.

This is a primary purpose of the Fund. The objective is not complete stability. Some flexibility is needed. The Fund provides for changes in rates when such changes will facilitate the free flow of trade, and when the change is in the general interest rather than to the temporary advantage of a single country. The unpredictable fluctuations and competitive devaluations of the prewar years will be eliminated.

The third step is provision for relief and rehabilitation. Neither the Fund nor the Bank has any direct participation in this, but other machinery has been provided, primarily through UNRRA. And the work of UNRRA will be facilitated by stable exchange rates.

The fourth step toward restoration and development of trade is the extension of short-term credits. These are provided by the Fund. As noted earlier, each country may borrow from the Fund, at a maximum, the equivalent of 100 per cent of its quota. The restrictions are that the loan be used to obtain currencies with which to pay for imports; it may not be used for speculative transactions.

Increases in the amount of such borrowing are limited to 25 per cent of the country's quota per year. The currencies borrowed are to be used for purposes consistent with the objectives of the Fund. If the currencies needed are scarce, the management of the Fund may use its judgment in apportioning them. Provision has been made for replenishing the Fund's holdings of scarce currencies, and for repayment of loans. For the latter, among other measures, the charge increases with the proportion of the quota borrowed and with the time that the loan has run.

The gains to the borrowing countries are clear. But some critics have questioned the gains to creditor countries - especially the United States. The alternatives, however, are loss of foreign markets, or continued lend-lease for which repayment is much less likely, or private extension of credits with (in all probability) even fewer safeguards.

The fifth need, in restoring trade, is liquidation of international war debts. The "blocked balances" of the United Kingdom are particularly large. They will probably amount to around \$2 billions (\$5 billions) by the end of 1944. Approximately half of this is owed to India. Neither the Fund nor the Bank has made any provision for this directly.

If these debts can be repaid over a period of time, they will not hamper the activities of the Fund and Bank. And the

existence of the Fund and Bank, offering assistance in other ways, will make it easier for the United Kingdom to solve this problem. For one thing, they give the United Kingdom a breathing space in which to make other adjustments. Some definite provision will have to be made for blocked balances, however, if the Fund and Bank are to function smoothly.

The sixth step is to prevent widespread exchange rationing and discriminatory currency practices. These force trade from its natural channels and tend to dry it up altogether. Under the Fund agreement, temporary controls of this type will be permitted, since they will probably be needed during the transition period. However, nations are expected to abandon them as rapidly as possible, and if restrictions that are harmful to others continue for a long period the nation employing them will be forced to choose between abandoning the restrictions in question or withdrawing from membership.

The seventh step is to provide central clearing and a central location where bankers can meet and confer on international monetary problems. This the Fund and the Bank provide. The location of these institutions is to be in the country with the largest quota, viz., the United States. This should prove particularly advantageous to the banks in this country that are interested in the business of financing international transactions.

The eighth step toward restoring world trade is to provide long-term loans for the development and reconstruction of countries which, because they have never been industrialized or because of war destruction, will find it difficult to obtain the capital needed. Our interest in the reconstruction and development of other countries has been discussed earlier in connection with the functions of the Bank.

The ninth step is to decrease the direct restrictions on commodity imports and exports. We in the United States have maintained high tariff barriers to keep out foreign goods. We have also used quarantines and other types of restrictions - sometimes for protection against diseases and pests, but sometimes merely to keep specific commodities from competing with our own products.

During the war, of course, it has been necessary to control all exports and imports, both to insure the best distribution of essential materials, and to insure the best use of shipping space. Other countries, before the war, employed protective tariffs, import and export quotas, and other devices

that controlled the quantity of imports and exports, and also the kind of goods and the countries with which trade was carried on. These controls have multiplied with war conditions.

The reasons for the prewar restrictions were many. Some, including our own protective tariffs, were to favor special business interests. Others were designed to extend a country's sphere of influence over other countries. Still others were to make countries self-sufficient in case of war.

It would not be economically desirable to remove all these restrictions immediately after the war, even if it should prove politically feasible. The disruption of trade and industry that would result, after a long period of complete control, would cause needless hardship. Over a long period, however, most of these restrictions can probably be removed, with advantage to all countries concerned. And gradual but continuous reduction will be essential if trade is to expand.

The successful operation of the Fund and the Bank requires that creditor nations, particularly, remove such restrictions. For if loans are to be repaid they must be repaid in goods. The United States, especially, must lower tariff barriers if it is to operate successfully as a creditor nation. We failed as a creditor nation after the First World War because we increased tariffs to the point that other countries were unable to sell goods in this country, and this was their only means of repaying their debts to us. It is, of course, possible to use gold for small sums, but the monetary gold supply of the world was not, and is not, large enough to meet the need, and we already have much the largest part of it in our vaults.

The export industries of the United States, also, are interested in lower tariffs; for only if we buy abroad can we sell abroad. It is to our interest to reduce trade restrictions whether or not the Fund and Bank are established. The Fund and Bank, by extending credits and stabilizing exchanges, give the time which is needed to remove these trade barriers. The only danger is that we shall move too slowly. However, the Fund and Bank would serve as an added pressure for such reductions.

There is no expectation that all such trade barriers will be removed by all the countries cooperating. It would be unrealistic to think that this could be done. It is expected, however, that these barriers will be greatly diminished and those remaining will not be used to disrupt the economies of other nations, or in other ways to seriously handicap the operations of the Fund and Bank.

The final step needed to restore the free flow of goods in international trade is to prevent undue restriction of international trade by private industry. International cartels, in recent years, have divided world markets among them, restricted sales, and increased prices. This is the familiar monopoly problem, complicated by the fact that one nation alone cannot control the situation successfully. This is a problem that neither the Fund nor the Bank is designed to deal with. In short, the plans for the Fund and Bank are not devised to solve all the problems of international trade; nor can they stand alone. But they offer an essential part of the whole program required for international economic cooperation, and if they are adopted they will greatly facilitate the adoption of related measures.

Further Criticisms

With regard to the second criticism, that the machinery is cumbersome and there are more effective methods of dealing with this problem, it is true that two new institutions are contemplated, and that eventually it is expected that all the members combined will pledge the sum of about \$20 billions for the two. Not only are the institutions new, but also any institution that is participated in by most of the nations of the world must necessarily have a formal government. There are simpler alternatives. Whether these alternatives would prove more effective or quite inadequate is a matter of opinion.

There are other criticisms that are probably less important than those already discussed, but which appear frequently enough to receive consideration. One of these is that the United States, as the principal creditor nation, is taking the major risk and has only a minority voice in the management. The safeguards in the final draft of the plan, however, would seem to be ample.

Some believe that the Fund is too large and some that it is not large enough. Only experience will determine which, if either, is right; but excess funds need not be used, or even paid in, and there are provisions for expansion if expansion is called for.

As a matter of fact, many of the earlier criticisms of the Fund and Bank have been fully met in the final plans, and some of the earlier critics have modified their views. Professor Viner, for instance, who was one of the more constructive critics of the earlier projects,² has written recently:

²J. Viner, "Two Plans for International Monetary Stabilization," Yale Review, Autumn, 1943.

"But given the state of British and other foreign opinion I am impressed rather by the degree of success of the American negotiators than by their failure. What prospect was there that by some other mode of negotiation, or by postponement of negotiation, we could have gotten more along these lines? Or even nearly as much?"³

ALTERNATIVES

The first, and obvious, alternative to the Fund and Bank is for each nation, independently, to attempt to restore the gold standard. It is generally conceded, however, that this is impossible in the immediate postwar period. The principal difficulty is that we shall be doing most of the selling and we already have most of the gold. The countries in need of reconstruction will be unable to pay us in goods immediately, and gold reserves are already pretty well depleted. Even in the long run it seems doubtful if the gold standard could be made to function as successfully as it did for a few years before the First World War. And the United States is almost alone in having any interest in re-establishing such a standard.

The plans for the Fund provide for a modified gold standard. Gold is the common unit of measurement for valuing the different national currencies, and substantial gold contributions to the Fund are required of all member nations. These provisions are substantial concessions to our desire for a gold standard. In view of the present unequal distribution of gold, an "automatic" gold standard could not be expected to function. Moreover, the United Kingdom, which was formerly the principal advocate of such a standard, is today unalterably opposed to it.

The second alternative to the Bank and the Fund, and one that has been advanced by bankers and economists whose judgment must be taken seriously, is the "key-country" approach. This proposes, in brief, that the leading countries in international trade should collaborate closely, but somewhat less formally than the plans of the 44 nations contemplate; and that small countries should adjust their currencies to those of the major country with which they trade the most. The "key countries" would adhere to the gold standard and stabilize their currencies rather rigidly. Smaller nations would not be held to these requirements.

Such a system might well be effective once it was in operation. There are, however, serious objections to it under

³New York Times Book Review, August 20, 1944, p. 20.

present circumstances. The first is that it would not come into operation as quickly as the Fund and Bank, and to that extent would be less useful in the immediate postwar reconstruction.

A second objection to the "key-country" solution is that it leaves the small countries somewhat at the mercy of the large country to which they have tied their currency, and for that reason might be less satisfactory to them. It is true that the small countries can be outvoted in the Fund and Bank, since votes are determined by quotas, but at least they have a voice, and the final decision will not be that of a single country. In short, the Fund and Bank offer a more democratic procedure.

Also, it seems improbable that this alternative is really available at the present time. It assumes the consent of the United Kingdom as well as the United States; and the United Kingdom has shown great interest in a completely controlled system of trade, more closely related to the immediate prewar German system than to our own. Close cooperation between the United Kingdom and ourselves would not be possible if the United Kingdom should move in that direction. In short, the one alternative to a completely controlled system of trade for each nation, that the United Kingdom has shown any interest in, is the plan of the 44 nations.

The final alternative to the plans drafted at the Bretton Woods Conference is for each nation to adopt a completely controlled system of international trade. This means using export and import quotas, fixing exchange rates, and determining, in detail, what commodities shall be sent abroad, where they shall go, and what shall be taken in exchange for them, - essentially the controls that we now have for purposes of war.

Such a system means both greatly reduced total trade and greatly increased government control. It would hardly be acceptable to the United States; nor will it operate to expand the total of future world trade, with all the advantages in improved standards of living that such expansion offers.

UNFINISHED BUSINESS

The tangible results of the Conference are specific and carefully drafted plans for the Fund and the Bank. It was essential that the plans be in such a form that they could be accepted as they stood by all the governments concerned, since it would be difficult to assemble the delegates of the 44 nations a second

time. Many of them had to travel thousands of miles to attend the Conference; and they included finance ministers, governors of central banks, and others whose many responsibilities would make it all but impossible to give time to another conference. Consequently, in addition to careful consideration of objectives and fundamental principles, the exact phrasing was weighed and argued by subcommittees at some length.

If the Fund and the Bank are to become working institutions, they must be adopted officially by the governments of at least the larger nations, - particularly the United Kingdom and the United States. Our Congress will probably consider them shortly after the election.

Once adopted, the Fund and the Bank must be supported by more liberal trade policies than most nations have pursued in the recent past. The United States can well afford to lead in this. If we wish to continue to be the principal creditor nation of the world, we must abandon the restrictive tariffs that interfere with the payment of interest and principal on our international loans.

Such a governmental program will only be followed if the people of the United States - or at least the more articulate voters - are convinced that it is desirable. And this requires understanding of problems that have too often been regarded as too technical for the layman. It is true that the detailed mechanism must be left to the technicians, but the objectives and the general avenues of approach are well within the comprehension of the voters.

It is important that the United States should take the initiative in adopting these measures. Because this country is the leading creditor nation, the plan will only succeed if the United States accepts it. Also, this is urgent business. It must be considered by Congress in the comparatively near future. One of the virtues of this particular plan for international cooperation is that it can render material assistance in the transition period from war to peace.

CONCLUSIONS

To evaluate the results of the Conference solely by the final, drafted plans, important as they are, would be to overlook an intangible but genuine by-product - a spirit of serious purpose and true cooperation. Proceedings were businesslike. Because of the thorough preparation of the technicians and the carefully planned and smoothly working machinery of the

Conference, it was possible to accomplish much in little time. Moreover, information concerning decisions was available to all, as soon as decisions were reached, and where there was disagreement full discussion took place in meetings attended by delegates from all the nations represented. There were, of course, small meetings behind closed doors; but the final decisions were made available promptly, through the operation of an efficient twenty-hour clerical service. Also, the newspaper correspondents were on the ground and in close contact with developments. Finally, there was a determined effort, when disagreements arose, to reach a fair and workable compromise, and not to resort to "horsetrading."

There is ground for congratulation that the Conference did not break down with the weight of insoluble conflicts. More than one sincere effort to reach international accord in the past has met that fate. However, many differences melted away with full discussion; others, representing genuine divergence of interest, were resolved by mutual concessions. The success of the Conference in this respect is partly attributable to the quality of leadership; partly to the general recognition that the institutions under consideration are of vital importance and can, in fact, be advantageous to large and small countries alike, and to creditor and debtor nations.

Finally, the procedure was democratic. The delegates of small nations, such as Iceland, Liberia, Luxemburg, and Panama, sat side by side with the delegates of the great powers; they had equal opportunity to present their views, and equal votes. Even the smallest nation had a hearing and serious consideration.

It is true that in the end small nations can be out-voted by the larger nations. Once the Fund and the Bank are in operation the four largest nations will have a majority of votes, and the United States alone will have the veto power. But there is no reason to suppose that the large nations will have a single interest in opposition to the small nations.

It cannot be claimed that every nation was completely convinced of the justice of decisions that they had opposed. But there can be no doubt that they recognized that there was a genuine intention to be fair and reasonable. If this procedure can be repeated for the next international conference, and the next, there should be some hope of the peaceful solution of world affairs.

With regard to the specific objectives of the Conference, it is important to stress that all countries stand to gain from

cooperation in this field. The criticism that we, as a creditor nation, are giving all and getting nothing in return has no more validity than the argument that a merchant has nothing to gain by advancing credit to his customers. Actually, of course, the creditor and the debtor both stand to gain by the transaction. And the prosperity which will make other countries good customers for American goods, will contribute, in turn, to the prosperity of the United States.

It is important to emphasize, also, that domestic economic policies will be an important factor in determining the success of the two institutions. Stabilization of the exchange and uninterrupted growth of international trade are only possible if the domestic economies of the countries are sound. No international arrangements that might be made can insure sound domestic policies, but they can be of great assistance to countries in maintaining stable domestic economies.

Finally, these plans must be judged in the light of the practicable alternatives. One might prefer an unmodified gold standard, but what chance is there of making it work? Or, a very effective theoretical case can be made for the key-country approach, but as long as the United Kingdom cannot be persuaded of its virtues it is not an available alternative. The Fund and the Bank have been approved by the delegates of 44 nations. What possibility is there of obtaining the cooperation of any substantial number of this group in formulating another plan?

The final plans are probably not precisely what any one country, working by itself, would draft as ideal. They are the product of give and take - a compromise, but a fair and workable compromise. Much depends on how wisely and fairly they are administered, but this is true of any plan. And the plan in question has reasonable safeguards against abuse.

The only real alternatives today are two: The first is completely controlled national systems of foreign trade, which are bound to restrict trade drastically and to result in the discrimination and narrow cliques that increase international frictions. The other alternative points to declining trade and clashes between nations, and would be chaos.

Once victory is ours it will be difficult to hold the average citizen's interest in international affairs. He will be eager to return to life as it was before the war and to forget international problems. This cannot be done, however. The world is not the same, and if it were we should be faced with more depressions and more wars. The peace, too, has to be won; and this is more difficult because there is no longer the

singleness of purpose and the obvious goal that we have in time of war. The British economist, R.H. Tawney, was probably right in saying: "It is possible that not the least guilty among the authors of the war were those of us who desired only to be let alone to live in peace."⁴

We turned our faces inward after the last war. This time we must endeavor to safeguard the future by working with other nations toward a common end. The plans formulated at the International Monetary Conference are only one approach, but they are a definite and constructive approach to an urgent problem. As Secretary Morgenthau said at the final plenary session: "We are at a crossroads, and we must go one way or the other. The Conference at Bretton Woods has erected a signpost - a signpost pointing down a highway broad enough for all men to walk in step and side by side. If they will set out together, there is nothing on earth that need stop them."

⁴R.H. Tawney, Why Britain Fights (London, 1941), p.44.

STUDY GUIDE

*Items contained in AAUW kit: ECONOMIC RECONSTRUCTION ABROAD, 15 cents from AAUW Headquarters.

I. The Problem

QUESTIONS FOR DISCUSSION

1. Why is a free flow of trade an important factor in maintaining peace?
2. Is an expanded world trade in the economic interest of the United States?
3. Would it help or hurt your community to cut off international trade?
4. Does the United States have the responsibility to take part in international economic cooperation to achieve an expanded world trade? Why?

Suggested Readings

- *Carnegie Endowment for International Peace, World Trade and Employment.
- Comstock, A., "Reconstruction and World Exchange," Current History, August 1944.
- *Condliffe, J. B., Problems of Economic Reorganization, Carnegie Endowment for International Peace.
- Harris, Seymour E., "The Broader Issues of Bretton Woods," New Republic, July 31, 1944.
- Lary, Hal and associates, The United States in the World Economy, Bureau of Foreign and Domestic Commerce, Government Printing Office, Washington, 1943.

Program Suggestions

Organize a speakers bureau for short speeches on "The Broad Issues of Bretton Woods" to be presented before church groups, women's organizations, social clubs, etc.

For your local industries find out what proportion of their products in peace-time come from abroad. Find out what industries in your town sell abroad.

II. Trade Relations between Two Wars

QUESTIONS FOR DISCUSSION

1. Why did the free international gold standard fail to work in the interwar period?

2. What have we learned from this failure?
3. What are the essentials for restored world trade?

Suggested Readings

- *Condliffe, J. P., The International Economic Outlook, Carnegie Endowment for International Peace.
- "Bretton Woods Monetary Conference," Foreign Policy Report, September 1, 1944.
- "Our Foreign Commerce in Peace and War," Annals of American Academy of Political and Social Science, September 1940.

Program Suggestions

Several expressions used in connection with any discussion on international trade may not be clearly understood by all. Have a report from individual members on the meaning and definitions of the following terms. (You may want to ask an economist or teacher to make the explanation.) What is meant by the following:

international gold standard
 blocked balances
 exchange depreciation
 devaluation
 bilateralism
 multilateral agreements
 economic blocs
 exchange rationing

III. Work of the Bretton Woods Conference

QUESTIONS FOR DISCUSSION

1. Did the U. S. official delegation represent many points of view?
2. Was the conference the result of real cooperation among nations? What were the sources of controversy among the various nations in the conference and how were they resolved?
3. Were the interests of small nations represented?
4. Does the outcome of the conference represent the best judgment of technically qualified experts and individuals with a statesmen-like understanding and broad experience in government and business?
5. Do you approve of the way in which the Articles of Agreement for the Fund and the Bank were arrived at? What changes would you suggest?
6. Were the procedures of the conference democratic?
7. On what grounds would you congratulate the conference?

Suggested Readings

New York Times or New York Herald Tribune, July 2-July 23, 1944.
Inter-American, July and September 1944.
Time, July 10, 1944, pp 279-80, and July 17, 1944, pp 67-69.
 Davenport, J., "Baron Keynes of Tilton," Fortune, May 1944.
 Also read section in pamphlet, "Conclusion."

Lahey, E. A., "Reporter at Bretton Woods," New Republic, July 17, 1944.

"Rivalries Beset Monetary Pack," Business Week, July 17, 1944.

Program Suggestions

Have someone report on the personal qualifications of the Bretton Woods Conferees, and the manner in which the conference was conducted. A good report will necessitate research and summary from the "Suggested Readings" for this section.

IV. International Monetary Fund

QUESTIONS FOR DISCUSSION

1. What are the objectives of the Fund?
2. Why is competitive devaluation not permitted by the Fund? Does this mean that there will be no flexibility in rates?
3. How does the Fund prevent competitive devaluation?
4. Do you think the subscription quotas were determined in a fair and equitable manner?
5. Is the lending power of the Fund sufficiently safeguarded?
6. The United States will contribute the most money. What provisions are made to protect American interests?

Suggested Readings

- *Articles of Agreement, International Monetary Fund and International Bank for Reconstruction and Development, U. S. Treasury 1944.
- "Bretton Woods Monetary Conference," Foreign Policy Report, September 1, 1944.
- *Goldenweiser, E. A., and Bourneuf, Alice, "Bretton Woods Agreements," Federal Reserve Bulletin, September 1944.

Program Suggestions

See suggestion under II

Only the major provisions of the Fund could be discussed in the present pamphlet. The whole idea, however, will seem more concrete if the various provisions of the Fund are discussed in detail. Have someone study the Articles of Agreement and summarize the main provisions. Where will the Fund be located? How will its board of directors be selected? What measures can be taken to replenish the Fund's holdings of scarce currencies? How will the bank function from a "physical" point of view? What are the obligations of the members? Can Germany and Italy join? What are the withdrawal rights and restrictions of members? How are the accounts of withdrawing members settled, etc.?

V. International Bank for Reconstruction and Development

QUESTIONS FOR DISCUSSION

1. What are the purposes of the "Bank"?
2. Does the "Bank" mechanism provide sufficient precautions to prevent losses from long-term loans?
3. If we help to raise living standards elsewhere by helping to industrialize other countries will that lower our own living standards?
4. If low wage countries industrialize, what about the competition from the low paid workers who will now be equipped with machines?
5. If every country industrializes, then where shall we trade?

Suggested Readings

- *Articles of Agreement, International Monetary Fund and International Bank for Reconstruction and Development, U. S. Treasury, 1944.
- *Goldenweiser, E. A., and Bourneuf, Alice, "Bretton Woods Agreements," Federal Reserve Bulletin, September 1944.
- Staley, Eugene, World Economic Development, International Labor Office, 1944.

Program Suggestions

Use Staley's book for a refutation of "Some Standard Bugaboos" (See questions 3-5 above) or have an oral review of this excellent little book. Have reports from various members on economic development possibilities in Far East, Russia, and Latin America.

VI Criticism of the Fund and the Bank

QUESTIONS FOR DISCUSSION

1. What are the necessary steps to restore world trade?
2. What are the major criticisms that have been made of the Bank and the Fund?
3. Do you think these criticisms are valid?
4. Why are broadly based international arrangements preferable to, or more practical than bilateral arrangements for the extension of credit?
5. What practical objections are there to the universal return to the gold standard?

Suggested Readings

- "Postscript on Bretton Woods," Fortune, September 1944.
- Rasminsky, Louis, "International Credit and Currency Plans," Foreign Affairs, July 1944.
- See also "Suggested Readings" under I, The Problem.

Program Suggestions

See II, Trade Relations between Two Wars

VII and VIII. Unfinished Business and Conclusions

QUESTIONS FOR DISCUSSIONS

1. Should we vote against the Fund and the Bank if the proposed plans are not in every respect an ideal draft from our point of view?
2. What do you think accounts for the suspicion in the United States that international economic cooperation in any form is a method of getting the United States to "share the wealth" with less favored countries?
3. To what can be attributed the successful outcome of the Bretton Woods Conference?
4. What policies, in addition to the Fund and the Bank, will also be important factors in restoring world trade?
5. What are the merits and limitations of alternatives to the Fund and the Bank?
6. What do you think the average citizen's responsibility is in regard to international economic cooperation?

Suggested Readings

- Comstock, A., "Bretton Woods and After," Current History,
September 1944.
Harris, Seymour E., "Broader Issues at Bretton Woods," New
Republic, July 31, 1944.
*Radio Script, "The Meaning of Bretton Woods," AAUW mimeograph-
ed pamphlet.

Program Suggestions

Write your Senator and Representative concerning your position on the Fund and the Bank.

Conduct a public forum or town hall of the air, "The Meaning of Bretton Woods." A radio script may be obtained free by writing the Associate in Social Studies, American Association of University Women, 1634 I Street, N. W., Washington, D. C.



ABOUT THE AUTHOR

MABEL NEWCOMER was one of twelve delegates to the international monetary conference at Bretton Woods in July, and the only woman in the American delegation. Her work for the conference is characteristic of her career, which has always been a dual one. Her academic work and her distinguished record of public service have been built together. She has been head of the economics department at Vassar College for many years. Most recently, she has been serving as an adviser on New York State taxes, and also to the Federal Treasury Department on tax publicity.

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PRESIDENT, FIRST NATIONAL BANK, HORTONSBURG, PA.

OFFICE OF THE CHAIRMAN
F. BRIAN REUTER
THE UNION TRUST COMPANY
OF PITTSBURGH

PITTSBURGH, PA.

November 28, 1944

To the Members of the Committee on
International Finance -
Pennsylvania Bankers Association:

The enclosed report of the Committee will be submitted
to the Council of Administration, Pennsylvania Bankers Association
on December 9th in Philadelphia. This statement was arrived at with
unanimity of opinion at the Committee meeting held in Philadelphia
November 17th last.

I hope that this will meet with the approval of those of
the Committee who were not present at that meeting, and in this
connection wish to point out that these recommendations on our part
are of a general enough nature to lead to more positive action at a
late date should it be deemed necessary.

Faithfully yours,

F. Brian Reuter
Chairman

FBR:mbe
Enc.

To the Council of Administration, Pennsylvania Bankers Association

In discharging its obligation, your Committee has studied the official documents of the United Nations Monetary and Financial Conference and has considered the reasons for and against the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development.

It therefore submits its preliminary comments and recommendations for your consideration as follows:

Comments

The International Monetary Fund is based on three major principles: (1) that the gold value of each nation's currency is inherently a matter of international concern; (2) that countries should do all in their power to make their currencies freely convertible so that each country can count on using the proceeds of its exports to any part of the world to pay for imports from any part of the world; and (3) that countries acting in good faith should have a reserve of international currency to meet temporary deficits in their international balance of payments without having to resort either to domestic deflation or to international anti-social measures of the type followed after the First World War and in the Thirties.

The Committee has found that the assets of the Fund and our share in it appear to be amply protected against abuses. Their gold value is guaranteed; they are protected against improper or excessive use as well as by initial gold payments, subsequent repurchase requirements, and other provisions. The impression that the United States might lose its subscription is not borne out by the analysis of specific provisions of the Agreement. While the language of the Agreement appears complicated, the principal objectives of the Fund are clear and definite -

establish orderly international exchanges. The technical provisions of the Agreements are of concern to treasuries, stabilization funds, and central banks that alone will deal with the Fund.

The startling progress of the United Nations and the rush of events warrant immediate consideration of effective methods in dealing with financial developments during reconversion and afterward.

The purpose of the International Bank for Reconstruction and Development is to make long-term capital available to countries whose industry and agriculture have been destroyed in the war and to countries whose economic potentialities have not been developed. It would accomplish this purpose primarily by encouraging private lending and, when necessary, by guaranteeing private loans made through the usual investment channels. It would make loans out of its own resources only when they could not be floated through normal channels at reasonable rates. The agreement is based on the twofold principle (1) that needed capital must come largely from countries that have it, but (2) that the risk involved should be borne by all members, not alone by those who lend the funds. Since in any event the United States will be the chief lender, these provisions appear to protect our interest by distributing the risks, and this is a great improvement over the method followed after the First World War.

As the Committee sees them, the Agreements of the Fund and the Bank are based on the proposition that prosperity is unlimited and indivisible - that the more prosperity other nations enjoy, the more each nation will have for itself. The prosperity of all nations depends on the orderly exchange of goods and services among all countries.

Recommendations

In view of these considerations, the Committee believes (a) that it is in the interest of the United States to promote international economic collaboration; (b) that agreement upon the principles and objectives underlying cooperation in international finance is necessary; and (c) that these principles and objectives should be expressed in the form of comprehensive plans for dealing with post-war financial problems.

The Committee believes that the essence of success of any international plan dealing with exchange rates, long-term lending, or other aspects of post-war problems lies in mutual trust, understanding, and willingness to undertake and carry out obligations by all participating countries. To be effective, any collaboration must be based on good faith.

The Committee further believes that the principles and objectives underlying the proposed agreements for the International Monetary Fund and the International Bank for Reconstruction and Development provide a foundation for working out a suitable policy and program to deal with international financial problems after the war. It therefore recommends that the Congress give these Agreements favorable consideration.

The Committee submits the following specific suggestions for consideration of the Congress:

- (1) That, since the Fund and the Bank deal with international monetary and credit problems, the Secretary of State, the Secretary of the Treasury, and the Chairman of the Board of Governors of the Federal Reserve System be consulted before the representatives of the United States are selected;
- (2) That the representatives of the United States be appointed by the President of the United States by and with the advice and consent of the United States Senate;
- (3) That an official statement of the obligations of the United States be made if and when the proposed Agreements are accepted by the Government of the United States.

COMMITTEE ON INTERNATIONAL FINANCE -
PENNSYLVANIA BANKERS ASSOCIATION

BY

H. Brian Ruck
Chairman

November 17, 1944

A. L. C. NEWS LETTER

100 AMERICAN LABOR COUNCILS AN INTERNATIONAL JOURNAL
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Regraded Unclassified

Vol. 2, No. 19
Editor: A. L. C. News Letter
2 South St. New York, N. Y.

Editorials

What Does Labor Say?

A recent issue of the great British English newspaper, the *Manchester Guardian*, gives some interesting figures about what will happen to the means of the proposal to improve the lot of workers and of the *Daily Worker* is quoted as follows:

The *Guardian* includes the transfer to *Radio Free Britain* (Typeset and Laser Speed, Washington and Princeton, N. J.) the *Guardian* and *U.S. papers* of their production, and the *Guardian* (Washington, D. C.) and *any other* will receive of *France*: this total production will be reduced by 15 percent, compared with 1943, but not reduced by 15 percent.

With very real *Worley* they have made it impossible for *Germany* to fight another year, and they had still to say.

But with a *winning*. The plan goes further than that: it also proposes to transfer all the *German* living to the *devalued* countries to the *new* *regional* Reich. Together with the 17 *million* *British* *German* *workers* *living* in the *territory* of *Germany* *occupied* by the *British* *armies*.

In other words, the *English* *workers* *person* and the *old* *man* *mean* that *more* than 71 *million* *British* *workers* will be forced to live on a *territory* of *income* *equivalent* *only* *slightly* *more* than the *size* of the *United* *Kingdom* of *Great* *Britain* and *Ireland*, with a *population* of only 75 *million*.

But the *people* of *Great* *Britain* and *Ireland* would *never* *be* *able* to do so, even if they were to be *forced* to do so. The *plan* goes further than that: it also proposes to transfer all the *German* living to the *devalued* countries to the *new* *regional* Reich. Together with the 17 *million* *British* *German* *workers* *living* in the *territory* of *Germany* *occupied* by the *British* *armies*.

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BRITISH TRADE UNIONS HEAR PLAN FOR PUBLIC CONTROL OF INDUSTRY

Key Industries Urged as Blackout Conversion

A large number of British trade union representatives met in London last week to discuss the plan for public control of industry. The plan, which is being prepared by the Government, is expected to be announced in the next few weeks. The plan is based on the principle of public ownership of the means of production and distribution. It is expected that the plan will be implemented in the next few years. The plan is based on the principle of public ownership of the means of production and distribution. It is expected that the plan will be implemented in the next few years.

RETURN TO PRO-NAZI UNIONS URGED FOR POSTWAR GERMANY

The British Government has urged the return of pro-Nazi unions in Germany after the war. The Government believes that these unions will be necessary to help rebuild the German economy. The Government has urged the return of these unions to help rebuild the German economy.

The Searchlight

PROFESSOR LETZ SAYS

Professor Letz has said that the British Government's plan for public control of industry is a step towards the establishment of a new social order. He believes that this plan will lead to a more equitable distribution of wealth and power. He believes that this plan will lead to a more equitable distribution of wealth and power.

PROBLEMS OF POSTWAR RECONSTRUCTION

International Bank vs. International Fund

The International Bank for Reconstruction and Development and the International Fund for Agricultural Development are facing significant challenges in their efforts to help rebuild war-torn countries. The International Bank is providing financial assistance to help rebuild the infrastructure of these countries. The International Fund is providing technical assistance to help improve agricultural production in these countries.

US ALTERNATIVE PLAN

The United States has proposed an alternative plan for the reconstruction of Germany. This plan is based on the principle of public ownership of the means of production and distribution. It is expected that this plan will be implemented in the next few years. The plan is based on the principle of public ownership of the means of production and distribution. It is expected that this plan will be implemented in the next few years.

THE DISTRIBUTORS' STAKE IN THE POSTWAR ECONOMY

The distributors' stake in the postwar economy is a significant one. They are the ones who will be responsible for distributing the goods and services that will be produced in the postwar economy. They are the ones who will be responsible for distributing the goods and services that will be produced in the postwar economy.

WHAT KIND OF ADJUSTMENT?

The question of what kind of adjustment is needed in the postwar economy is a complex one. It involves a number of factors, including the need for public ownership of the means of production and distribution, the need for a more equitable distribution of wealth and power, and the need for a more efficient system of production and distribution. It involves a number of factors, including the need for public ownership of the means of production and distribution, the need for a more equitable distribution of wealth and power, and the need for a more efficient system of production and distribution.

FREEDOM IN WASHINGTON

Freedom in Washington is a goal that should be pursued by all Americans. It is a goal that should be pursued by all Americans. It is a goal that should be pursued by all Americans.

The Future Role of the I.L.O.

By all the international and United Nations organizations which of which are in the process of formation, the International Labor Organization is the one of the most important. The International Labor Organization is the one of the most important. The International Labor Organization is the one of the most important.

The proposed transfer of functions to the I.L.O. is a significant one. It is a step towards the establishment of a new social order. It is a step towards the establishment of a new social order. It is a step towards the establishment of a new social order.

The I.L.O. has a long history of success. It has been successful in many areas, including the promotion of public ownership of the means of production and distribution, the promotion of a more equitable distribution of wealth and power, and the promotion of a more efficient system of production and distribution. It has been successful in many areas, including the promotion of public ownership of the means of production and distribution, the promotion of a more equitable distribution of wealth and power, and the promotion of a more efficient system of production and distribution.

Government Plans in Postwar Britain

The Government has announced a number of plans for the postwar period. These plans include the establishment of public ownership of the means of production and distribution, the establishment of a more equitable distribution of wealth and power, and the establishment of a more efficient system of production and distribution. These plans include the establishment of public ownership of the means of production and distribution, the establishment of a more equitable distribution of wealth and power, and the establishment of a more efficient system of production and distribution.

Canada Facing Acute Postwar Job Crisis

Canada is facing a significant job crisis in the postwar period. This is due to a number of factors, including the need for a more equitable distribution of wealth and power, and the need for a more efficient system of production and distribution. This is due to a number of factors, including the need for a more equitable distribution of wealth and power, and the need for a more efficient system of production and distribution.

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Remember November!
Be Sure You and
Your Family Are
Registered To Vote!

The CIO News

National Edition

Weekly Publication
of the Congress
of Industrial
Organizations

Vol. 7, No. 33

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August 14, 1941

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**HEROES
IN
DUNGAREES**

The story of the contribution
of American Merchant Seamen
to the war effort!

PICTURE STORY: The CIO-Nail Maritime Union tells its wartime history in a four-color, comic strip booklet, the Transpinescope of which is shown above.

Radio Code Gag Gets Body Blow; Credit to UAW

WASHINGTON, Aug. 12—A body blow was struck this week at the Nat. Assn. of Broadcasters code, which frequently keeps labor unions off the air by banning the sale of time for broadcasts on controversial issues.

The punch was thrown by radio station WJBC, at Columbus, Ohio, meeting last action by the CIO United Auto Workers Union.

The union has charged that the station, which has received \$140,000 broadcast time, is not being purchased on the public interest. The union's complaint is scheduled to be heard by the Federal Communications Commission here on August 15, when the FCC will consider its six charges that work to the UAW's charge, the station told the FCC that it was impossible to

operate under the NAB code and that hereafter WJBC would not do so.

CONTROVERSIAL BROADCASTS

According to UAW-ABC Attorney Ernest Sandman, the station said that it will not time to anyone to broadcast almost anything, provided that the program may have reasonable limits—that it does not include anyone, or refer

(Continued on Page 8)

'Ike' Hails Negro GI's

WASHINGTON, Aug. 12—At home and abroad, the Negro soldier won up for some well-deserved attention and citations this week.

In France, praise came from Gen. Eisenhower to two Negro units which had taken part in the D-Day operations in Normandy. One was an anti-aircraft battalion which landed "under artillery, machine-gun and rifle fire" and single losses "carried on its mission with courage and determination."

The other was a maintenance company which went ashore under fire, salvaged most of its equipment and within three days had 80 percent of its equipment operating on a D-Day basis.

Meanwhile, in Detroit, Local 600 of the CIO Auto Workers Union was paying tribute to Major George Spencer Roberts, Negro leader of the famous 88th Air Squadron which distinguished itself in North Africa, Italy and over the Azores beachhead.

The EAW local presented the Negro aviator with a check of \$1,000 as a gift to all the men in the unit, with the recommendation that it be used as a contribution for a fund out of which annual awards could be granted the individual who distinguished himself to understanding and cooperation between the races.

GOP & Polltaxers Rush Phoney Reconversion Bill

(See Page 3)

5,000,000 Jobs In Exports—Postwar Vista

(See Page 5)

U.S. Probes Anti-War Plot In Philly Transit Strike

PHILADELPHIA, Aug. 12—Unite Sam is hot on the trail of the plotters and perpetrators who engineered the transportation tie-up in Philadelphia for the purpose of influencing the national election and the course of the war for their own sinister ends.

The walkout was branded a conspiracy by many government officials and by the CIO Transport Workers Union which from the very beginning charged that the plot was also aimed at wrecking the TWU's national sale campaign spearheaded by the 5,000 Philadelphia Transportation Co employees in a bitter labor action last March over the various questions of the company.

CITIES ELECTION

In charging the federal grand jury which opened its investigation of the recent PTC group, Judge George A. Wiley said that its job was "to investigate not only a crime but a series of crimes, not something else." The judge described the events in Philadelphia as "amounting to a conspiracy" and recorded the fact that they occurred in a town "where a national election is impending."

Earlier Attorney General Francis Biddle said that he also believed that this was a "conspiracy." Federal Prosecutor Gerald A. Glavin declared that the government "will pull no punches" in bringing out those responsible.

International and local officials of the TWU exposed the law of the government's order to stop grade crossings as a smoke screen to claim that there was a strike of a majority of the employees. Actually a small group of company union elements and company officials tied up the service through malicious action.

"As the rank and file leaders intimately associated with the men and women of PTC, we can assure you that the vast majority of those workers are devoted, loyal and understanding Americans," the TWU statement declared.

"They did not want any part of this plot. The national and local leaders of our union condemned this work stoppage. We are unquestionably against strikes

in an attempt to influence the election. In our union there are men of the highest character for over a month in the streets before the TWU would be arrested and the gates won by the union would be opened."

On August 5, the same day an action was taken and the Philadelphia Union, the Transport Workers Union and PTC was signed. The contract was immediately ratified at a mass meeting at PTC members on July 3, showed great sentiment to 1,000,000 dollars a year, as reflected in Vol. 11, 1941.



ALVY SINGER

For This We Fight

Public Housing: U. S. Democracy In Action

By ERNEST FALLOWAY

WASHINGTON, Aug. 12—You have seen these areas!

Among the lofty towers of great American cities, they rise as "slums" and when their rays with fratricidal social impact strike the lives of every single citizen. In small towns they are the nationality and racially restricted areas, just across the railroad tracks near the factories. In the broad expanses of our agricultural areas, their lonely existence presents the terrible picture of need in the midst of abundance.

For newspapers, they produce good copy. For sociologists and the like, they produce dissertations and theses. The slums have become a national obsession. The slums have become a national obsession. The slums have become a national obsession.

RUSSIAN DELINQUENCY

Back in the largest areas of delinquency, the health, hygiene and sanitation of some 100,000 of our people was left in the most sordid of conditions. These areas were not only filthy, but they were crowded, unclean and dangerous. The slums were a national obsession.

As our housing expert said, "Better democracy will destroy the slums in the same way it destroyed democracy."

This was the depressing picture of an America before 1932 when the U. S. Housing Act became law and President Roosevelt declared, "We are beginning an attack on the slums of this country, which need an overhaul and every American has a vested interest."

With the passage of the Housing Act and the creation of the U. S. Housing Agency, the New Deal made its biggest step in the removal of the most responsible of government to the people.

FOOD SHORTAGE

If you have a long day's struggle for decent apartment housing, food and the best and cheapest food, you are in a bad way. The slums were a national obsession.

When it was left for the food, the American people were slowly but surely winning the war against the slums. The slum clearance program has been suspended for the duration because of the food shortage.

Before the war, it was estimated that the country had 40,000 apartment houses, 70,000 row houses and 100,000 tenement houses. The slums were a national obsession.

SECRET NEED CRISIS—The slums were a national obsession. The slums were a national obsession. The slums were a national obsession.

This day was first announced by U. S. public housing officials and from a local housing office of New York. The slums were a national obsession.

Out of a total of 33,348 dwelling units in 126 or more public housing (new) projects, 46,500 or 33 percent are occupied by 100,000 Negroes.

Of the 100,000 are facilities for essential Negro war workers.

70,000 are of permanent residence, which brings to a total of 100,000 the low-cost dwellings occupied by 200,000 Negroes.

That is a lot of people. Housing, food, water, and well-to-do, and the slums were a national obsession.

Public housing is a national obsession. The slums were a national obsession. The slums were a national obsession.

INTERNAL UNITY

After the public housing program was started, the slums were a national obsession. The slums were a national obsession.

In an analysis of the patterns of racial occupancy of public housing projects, it was revealed that out of a total of 100,000 dwelling units in 44 federal projects, more than 100,000 Negro and other minority families were living in segregated areas.

It was revealed that out of a total of 100,000 dwelling units in 44 federal projects, more than 100,000 Negro and other minority families were living in segregated areas.

Several days later, a group of the women called on the housing manager and stated, "We do not feel quite right about not welcoming the new Negro families. They are some of the best families in the project. We think they ought to be given the same treatment as we did the others."

The slums were a national obsession. The slums were a national obsession. The slums were a national obsession.

CIO Fights For Vet's Job

Attack Aug. 11—CIO is making a fight for a job for a veteran. The slums were a national obsession.

Garrison said that he was not backed by several of the union leaders. He declared that he was not backed by several of the union leaders.



BEFORE: This was the home of Enoc Averett, who earned \$12 a month as a shipping porter for a Georgia textile mill. In two rooms, seven members of his family lived without inside running water, private bath, toilet or electric lights.



AFTER: This is the home of Enoc Averett, after the U. S. Housing Authority built the Booker T. Washington Homes at Columbus, Ga. Here the Averett family is given new hope and a chance to live.



A NEW STAKE in democracy is given these tots in the nursery school program at the USHA Latrobe Homes in Baltimore, Md.

'Heavens! The Proletariat!'



Chaos or Common Sense?

As this is written, the Senate is moving toward action on re-conversion. This action is a vote on the so-called inadequate George Hill (R. 2051), which ignores the "human side" of the re-conversion problem and also fails to do a proper job on the planning aspect.

The Kilgore-Murray-Truman bill (R. 2061) did take care of the "human side" as well as the business and planning side. It outlined a real offensive against economic dislocation, unemployment, and against a return to the Hoover brand of human misery after the war.

The fight is still on, not only in the House version of the Kilgore-Murray-Truman bill but also before the American people. In fact, the campaign to take this most important of war and post-war issues to the people will not get under way till next week.

Though the initial credit for bringing re-conversion forward as a national issue goes to labor, and particularly to the CIO under Philip Murray's leadership, the issue did not remain simply a "labor" matter.

Farmers, through the Nat'l Farmers Union, church groups, housewives and businessmen have joined with labor in pressing for a rational, planned approach to the problem of maintaining war production and of the change-over to civilian output as it becomes necessary.

The entire labor movement has been united throughout the campaign, first for the Kilgore bill and then for the present Kilgore-Murray-Truman measure. CIO, AFL, and Railroad Brotherhoods stand together on this issue more than on any previous one.

The Republicans and their political allies in the Senate have tried to belittle the American people with their George Hill and their false slogans about "states' rights." They have not succeeded. The voters are aware of the real issue behind the demagogic monstrosities put up on the Senate floor and in the Dewey newspapers.

The real issue is simply this. Shall we have a national, planned approach to war production and re-conversion—as an approach that helps industry, the workers, the returning veterans and the whole of America?

Or shall we have the Republican-poll-luxury approach that means chaos, unemployment, misery and national disunity that will make Hoover's first depression look like a picnic?

The answer is in the hands of the American people—and will be given in the continuing fight for a Kilgore-Murray-Truman bill and in the election on November 7.

No Need to Read?

Word comes via Associated Press that U. S. troops in Britain are not to be allowed to buy British newspapers in their camps until after the U. S. election in November. This was done, according to the AP story, in conformity with the soldier's vote law which says in Title V: "No member of the U. S. armed forces shall have his vote influenced in any way."

Adding under this, the Army has already forbidden U. S. soldiers from reading American newspapers—on the ground that they might seek to influence their votes. Senator Taft (R. O.) was the author of Title V of the phony-soldiers' vote law that he and fellow reactionaries put through Congress.

We have a doubt and a suggestion to plant in Senator Taft's mind. The doubt is this: Why forbid soldiers from reading U. S. newspapers, the majority of which are for Dewey and against FDR? Isn't that unending your own purpose?

The suggestion is: Why not ask the Army to lift its ban on literates since you seem to think that the armed forces shouldn't be allowed to read anything?

'To Be Regretted'

Former Senator George W. Norris, veteran of 30 years of liberation in American public life, wrote this letter to the Nat'l Citizens Political Action Committee meeting in New York this week. After regretting his inability to attend and lead the meeting as Honorary Chairman, Senator Norris made this damning indictment of Dewey-Republican sabotage of the labor vote:

"I cannot understand how any patriotic American can afford to be classified in this campaign of hate against our President, the Commander-in-Chief of our fighting men all over the world.

"It is to be regretted of course that the action of an unfriendly Congress has made it difficult and perhaps impossible for thousands of these men to express their wish at the ballot box. I do not see how the American people can stand idly by and do nothing on this question."

Looking Ahead

By Len De Caux

W LEARN that the great CIO line led the great forward march of those that have been agreeing to their tactics, agreeing to their success and forwarding to their ends.

It has indicated the basic interests of America, and it has made labor politically effective. The question interests CIO's organized industrial drive and its present political drive and interests and striking pertinence in the type of opposition they have created.

"This was pulling two or seven-fifths down the line of union expansion by industrial reaction which CIO set out in organizing the organized nations.

But this natural development had been artificially retarded by the great company unions and their anti-labor laws, and by the reactionary trade politics of the AFL.

So, when the CIO broke through three artificial barriers, the door of progress swung forward to such a head that every labor thought a revolution had under way.

The anti-union propaganda launched a campaign of industrial propaganda that ran to hysterical frenzy.

They induced CIO workers into a business logic, they called every attack a collapse and every strike a revolution.

At the same time they combined their anti-CIO propaganda with anti-New Deal propaganda, charging the administration and labor with all sorts of counter-revolution.

Special efforts were made to divide and conquer labor, and since AFL leaders felt they were trying to separate the labor's propaganda of labor's interests.

Yet every industrial reaction since CIO's aim was simply to promote industrial bargaining, the AFL leadership welcomed the way of union organization, and AFL, as well as the CIO unions benefited from the general labor advance.

Looking back now, everyone can see how fantastic was the propaganda against CIO union organization.

As preparation after preparation signed collective bargaining agreements, as CIO unions became a recognized part of community life, the anti-CIO propaganda fell like a stone.

What remains for all to see is a labor movement that has doubled and tripled in strength, thanks to the greatest forward march led

by the CIO. Today, CIO is leading another great forward march—the march of labor political action.

Again there is nothing new as revolutionary in this line. Labor has always sought to play a part in American political life.

All CIO is doing is to make labor's political activity more effective, to get more workers to organize and vote, and to unite labor politically with other progressive forces.

But this national evolution, common to all democratic nations, has been artificially retarded in America by the industrialized, big union organization by the straight labor leadership and by other factors.

So now that CIO has cleared away old barriers and given an intelligent lead, American workers are becoming active politically with such a surge of enthusiasm that again many think some kind of a revolution is under way.

Since more and more the forces of reaction have taken alarm and launched a campaign of fantastic and hysterical propaganda.

All the old anti-CIO line are stretched to the limit. Every time labor able to a people's victory at the polls CIO is pictured as some kind of a monstrous red menace. Every weakness is held as a sign of collapse.

Anti-labor propaganda is again combined with anti-Republican propaganda, and again special efforts are made to divide and conquer the Atlantic labor force.

Again union labor leaders fall like reaction's trap and reveal the silly lies of labor's enemies.

But now, as before, this propaganda is really a failure to labor's growing strength.

The vast majority of AFL, Nat'l Brotherhood and other union members, as well as all who are progressive, want to see Roosevelt and a progressive Congress elected.

They are delighted that labor is playing a more effective part politically and are working jointly with the CIO, or along parallel lines, for purposes which are common to all forward-looking Americans.

And when the shouting dies away, and the present line disappears like a mirage, everyone will look back on 1934 as the year when American workers played a role more fully in their democratic responsibilities and began to assume the place in America's political life to which their numbers and their citizenship entitled them.

Murray Says 3 R's 'Must'

Washington, Aug. 12—Support for a National Co-Op Schools' Drive sponsored by the U. S. Children's Bureau and the U. S. Office of Education was urged this week by CIO Pres. Philip Murray.

"Our hope and goal are the foundation upon which we build our hopes for a better tomorrow," Murray said in a letter sent to CIO affiliates and officials with a copy of 20-page handbook for communities prepared by the two government agencies.

"To protect the future, we must see that our boys and girls carry

on with their education now. We won't you, in whatever capacity you speak, write or act for the CIO, encourage the boys and girls in your community to return to school when school opens, to attend regularly, and to study hard."

The handbook, addressed to parents, teachers, students and all other citizens concerned with the future of our Nation, urges aid in efforts to "revital and keep the nation's boys and girls of high school age in school, either full time or in a school and work program.

The CIO News

Published Weekly
Congress of Industrial Organizations

Philip Murray—President James B. Carey—Secretary-Treasurer

Joseph Curran John Green Reid Robinson

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TRADE—FOR JOBS & SECURITY IN THE POSTWAR WORLD

Bretton Woods: Key to Postwar Trade Expansion

By C. W. FOWLER

Jobs for five million Americans a year from exports will be a postwar reality—if plans worked out at a meeting in a little New Hampshire resort town are carried out by the U. S. Congress and by the parliaments of 43 nations represented at the meeting.

The meeting went under a long official name—"United Nations Monetary and Financial Conference"—shortened in the press to the name of the town where it took place—Bretton Woods.

Behind the long official name lies an attempt on the part of the anti-Axis nations to make sure of two things for the future peace of the world: (1) Jobs and prosperity based on an expanded world trade, and (2) prevention of imperialism and the fascist economic preparation that preceded World War II.

Needed: Postwar Jobs For 60,000,000

Let's look at the job angle first. The "miracle of production" created by American union workers to meet war needs has enormously expanded the productive power of American industry. For postwar prosperity and stability, we will need to find jobs for a working force of some 60,000,000 or more men and women. These jobs can't be found unless we expand our export trade far beyond the highest point it reached in 1929.

Europe and the rest of the world need our goods. It can't buy them unless it has the purchasing power and the financial and political stability to do so. Bretton Woods laid the foundations to make this possible, by laying out the plans for full and unfettered world trade.

Control and Stability For All Currencies

How was this done? To begin with, the Bretton Woods conference laid the basis for the control and permanent

stabilization of world currencies. Foreign exchange will no longer be at the mercy of selfish financial or reactionary political interests. It will be controlled by all the United Nations, through the "International Fund" and the "Bank for International Reconstruction and Development" set up at the conference.

Those who remember the '30's will



recall how countries deliberately drove down the value of their own money in order to gain an illusory advantage in world trade by being able to undercut prices. In the end, of course, their own workers paid the cost in debasement of living standards at home.

Remember Hoover and World Depression?

Those who remember Herbert Hoover and the long world depression will also recall how the private banks of wealthy countries used to enforce their will on smaller nations.

Nazi Germany, for example, demanded goods and raw materials from smaller nations, compelling her wayward subjects to



to compel a change in the political complexion of nations needing loans—as was done during the Popular Front days in France and earlier in Spain.

The currency manipulation of the '30's resulted in the complete destruction of world trade, reducing what was left of it to a primitive system of barter. Each nation sought to outdo the other in debasing its money, with the result that none prospered except the fascist powers that were planning and preparing for war.

Stable world currencies, backed by a world bank ultimately controlled by the governments and peoples of the United Nations, will remove this strangling effect on trade and will substitute freedom and security for fear and oppression.

Long Term Loans For World Industrialization

But the world will need more than stable currencies to buy our goods and keep 5,000,000 of our workers on the job. It will need long-term loans at fair interest rates. Nazi destruction and the heroic scorched earth policy of our Allies mean not only a tremendous need for American goods but an equally pressing need for help in buying them.

Here again the "Bank for International Reconstruction and Development" comes in. Long-term loans will be guaranteed by the Bank with security both for the lender and the



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Need Not Fear Compellion to U.S.

We do not have to fear competition from such nations. In a peaceful and stable world, made possible by the kind of economic and financial cooperation outlined at Bretton Woods, the fact that millions of industrial workers have well-paid, year-round jobs in other countries will mean more year-round jobs in our country.

The welfare of American workers and of our returning war veterans is at stake in the success or failure of the Bretton Woods plan. As Secretary Morgenthau said:

"The results will be of vital importance to everyone in every country. In the last analysis, it will help determine whether or not people will have jobs and the amount of money they are to find in their weekly pay envelope."

The Veteran's Stake in Export Jobs

"More important still, it concerns the kind of world in which our children are to grow to maturity. It concerns the opportunities which will await millions of young men when at last they can take off their uniforms and can come home to civilian jobs."

What will all this cost the American taxpayer? Will it saddle us with more and more debt, all for the benefit of a bunch of foreigners, as Senator Taft (R., O.) and Westmore Pegler put it?

Actually, it will cost the American taxpayer no more than the original investment in the Bank, and in the Fund—a total of \$3.5 billions. This money is invested, not expended. It is our share, as one of the United Nations in the whole enterprise. Other nations share also in proportion to their wealth.

If we don't have world trade and stability after the war, the cost to the American people and to the taxpayers will be infinitely greater. It will be the cost of millions of lost jobs, of relief, a return to the mass misery that went with the Hoover administration.

Action on Plan Up to Congress

The groundwork for a great expansion of world trade has been laid. It is now up to Congress to pass bills authorizing the U. S. to take its place in the new world economic setup, and appropriating the money for the original investment.

Conceived and carried out by the FDR Administration, Bretton Woods meets with the approval of the United Nations and of American labor and industry. What do the Republicans have to say on the subject?

Two who attended as U. S. delegates—Sen. Tobey of N. H. and Rep. Wilcott of Michigan—went along with the conference, raising no objections. That was left to Taft, who tried to blast it as a burden on the taxpayers. Dewey, as usual, has said nothing—despite the five million jobs at stake.

Republican strategy seems to be to lie low, except for the more irresponsible reactionaries like Taft, in the hope that Congress won't act until after the election.

After all, a plan that makes five million jobs in export trades a postwar reality would be a powerful argument for the re-election of the man whose leadership made it possible—President Franklin D. Roosevelt.



KNOW HOW: Kids not leech while their mothers discuss child care problem at United Federal Workers, CIO, conference in Washington. Know-how on food and milk is demonstrated by four-year-old David Hain, James Jackson, George Jackson and Ann and Jean Fowler.

FM—Future Voice Of the People?

This is the third of a series of articles on a new development in radio—FM, or Frequency Modulation broadcasting—that offers labor the chance to take its rightful place on the air waves.

Labor unions have been about as far from AM (amplitude modulation) broadcasting because big commercial interests have secured a monopoly on the 900 odd AM stations now operating. Getting in to AM broadcasting is a mighty expensive business, with small stations selling for as much as half a million dollars.

The main feature of FM broadcasting is that it is not enough for labor to get in on the ground floor—if unions act NOW! The need for speed is shown in a quote from a bulletin circulated by FM Broadcasters Inc., which said:

"The first and most important reason for doing it now (file) an application with the Federal Communications Commission for an FM license) is that the most ideal sites for FM transmitter locations are not going to last forever.

"In Los Angeles, for instance,

there are 17 applications for the best site to cover that area. In Chicago, practically every important site already has been leased."

While there is no charge made by the FCC for filing an application, complete satisfaction estimates that the legal and engineering expenses involved will run somewhere between \$2,000 and \$2,500.

Limited Applications

At first look you get the idea. The FCC is showing limited applications to be filed so that the purchasing price must be dispersed with the minimum necessary information and distributed from an independent licensee of an FM operating company—RCA, GE and Radio Engineering Laboratories, Inc. are the main entities in this field.

Aids from engineering information, FM applicants must show that they are financially capable of operating a station and that they are locally qualified. These are details that would offer no difficulty to any large union.

What would it cost to operate an FM station? FM Broadcasters make an estimate, assuming that the operation is to start from "scratch" for the second operating year of a 1,000-watt FM station, broadcasting six hours daily. Here are the figures:

Rent	\$ 8,000
Station manager	5,000
Announcer	3,000
Typewriter	1,800
Telephone, office supplies	3,000
Operators (3)	8,500
Promotion	2,400
Power and light	1,200
Tube replacements	450
Social Security and Compensation taxes	1,000
Apparatus maintenance	750
Depreciation	8,000
Insurance	300
Taxes	717
Program production	6,000
Transcription service	2,500
News service	3,325
FMRI dues	300
Misc. program material	1,400
Copyright fees	377
Transmitter site rent	375
TOTAL	\$25,950

(To Be Continued)

Parley On Problems

Working Mothers Have Tough Time

WASHINGTON, Aug. 12.—While their children played happily under the supervision of the Georgetown Children's Home staff, a large group of working mothers met here this week in a day-long session under the sponsorship of the CIO United Federal Workers Union to discuss their common problems and make plans to overcome them.

The need for more government recognition of the plight of the working mother was brought out in the discussion—how best to shorten working hours in order to spend more time with her children in their formative years, and the need for more adequate nursery facilities, transportation to the schools, and better health history school staffs.

The delegates from New York, Baltimore, Philadelphia and Washington, as well as representatives from several government agencies were advised by Dr. Arnold Geiss of Yale University, authority on child care, and UFW Sec.-Treas. Elizabeth Nelson.

GENERAL CONCERN

The difficulties of these mothers are not merely their problem but are that of every wartime woman. The transfer of working mothers to Federal service is estimated to be about 3,000 a year.

Miss Nelson said that 70 in the post war economy, excluded by the CIO, there will be plenty of room in industry for the skilled women workers who have been trained during the war.

"The utilization of these skills will be both desired and under impelled government guidance in solving the problems of postwar the American family and the development of the American child.

The conference brought out many of the sacrifices made by working mothers which could be avoided with recognition of the situation, proper planning and adequate nursery facilities.

WANT SHORTER HOURS

Most of the mothers, all employed by the Federal Government in many parts, offices, and government factories, felt that a shorter work week would be a long way toward the solution of their problem in giving their more time with their children. Some preferred a

flexible work which would make a possible for them to spend breakfast with Sunday with their children, while others wanted part-time work with a shorter work day.

The special hours for mothers working in the War Manpower Commission were cited as an example of what can be done. Through the Mothers Club dues, arrangements were made for the WEC working mothers who wish to come in work early and leave early.

Many mothers, however, especially the wives of servicemen, cannot afford a pay cut although they work shorter hours. A proposal for shorter government allowances for children of servicemen was adopted as a solution to this problem.

It was agreed that working mothers should have an option shorter work week and that part-time workers should receive half and annual leave which they do not get now.

BACK CHILDREN

The problem of the sick child was met with a resolution stating that mothers might use their leave privileges when a child is sick. At present the time taken to care for a sick child is deducted from annual leave.

Special leave provisions for maternity and postnatal care, including daily rest periods, were urged.

The faults of the federally financed nursery schools were generally blamed on low pay and long hours of the teachers. The reports of the delegates showed that nursery and after school facilities are far from adequate and standards of care are low. Transportation is said from nurseries for children being far from the schools is needed.

NMU Pledges Full Aid to Auxiliary

By ELEANOR FOWLER
Secretary-Treasurer, CIO Women's Auxiliaries

Joe Curran's speech at the third NMU auxiliary conference marks a very significant advance in union thinking on the whole question of auxiliaries. As president of the National Maritime Union, he told the delegates that the auxiliary is to be an "integral part of the union, not a subsidiary."

This is the first time that a national CIO union has gone the way in following the suggestion of CIO Pres. Philip Murray, make a year ago in a letter to all CIO unions that "our auxiliaries should become an established part of our union machinery."

Delegates from 11 ports in 10 states, including San Francisco and San Pedro on the West Coast, Galveston and New Orleans in the south, Duluth, Minn., and Boston, Mass., heard the president of their union stress political action as the major auxiliary activity.

"There is a big job ahead of the auxiliary to see that Roosevelt is re-elected and with him a win-the-war coalition," Curran pointed out. "The Women's Auxiliary must do the back-bell stinging. They must go back from the conference and bring the message of the CIO right into their communities."

Ferdinand Smith, NMU national secretary, emphasized particularly the part that must be played by Negro women in carrying out the political action program of the union and the auxiliary. "Negro women in over-representing numbers must be brought into this work," he said. "They have an especially large stake in seeing that President Roosevelt is re-elected, along with a progressive Congress. Greater progress for the Negro people will

be secured as a result in our economic, social and political life."

The decision of the NMU National Council that the auxiliary was an integral part of the union means, President Curran said, that the auxiliaries need not spend time raising funds by rallies or in any other way that would divert their time and energy from organization. The union itself, he told the delegates, is willing and able to spend the necessary money to subsidize the valuable work of the auxiliary.

Fred. Papp Stephenson of the CIO Congress of Women's Auxiliaries and Mrs. Lenora McFarlane of the CIO Political Action Committee also addressed the delegates. They stressed the important role women must play in the 1944 election campaign and the heavy responsibility falling on the CIO auxiliaries to help get out the women's vote.

Auxiliary resolutions endorsing President Roosevelt for a fourth term, expiating Thomas E. Dewey, and pledging "constant, continuing, and unceasing political activity" showed that the delegates agreed with the speakers that political action comes first in their program.

Keep Your Eye On Congress

Reconversion is still the hottest issue before Congress and the country this week, though a vote on the inadequate George (pittman, Ga.) bill (S 2051) was expected as The CIO NEWS went to press.

Even with a favorable vote on the George bill and an attempt to shelve the Kilgore-Murray-Truman bill (S 2061) the issue is still very much alive. After Senate action, it will come up in the House.

The bill labor wants now is the Kilgore-Murray-Truman measure (S 2061) which contains the "human aids" features of the original Kilgore bill (S 1893) as well as the provisions for an orderly planning of re-conversion from war to peace production.

BILL	WHAT IT DOES	WHERE IT IS	ACTION
Kilgore - Murray-Truman (S 2061)	Aids workers and veterans in reconversion from war to peace jobs; provides orderly process for industry re-tool.	Early vote expected in Senate on George bill (S 2051) which does nothing for workers and veterans.	If Senate vote has been taken on George bill, write Representative to support House version of Kilgore-Murray-Truman bill (S 2061).
Green-Lucas amendment (H 2000)	Amends soldiers' vote law to remove ban on political news in troops; ban put in law by Sen. Tamm (R, O.) forbids news to buy newspapers, even British ones.	To House committee on Privileges and Elections (Sen. Green, D. R. L. news)	Write your Senators to support.
FEPC Mills Permanent (amend)	A series of Mills making anti-labor agency (FEPC) permanent.	Held up in House Labor Committee.	Urge action by your Representative to get them out of Committee and on floor.

(Note: Address all Senators, Senate Office Bldg., all Representatives, House Office Bldg., Washington 25, D. C.)



Organizing

By ALLAN S. HAYWOOD
CIO Vice-President and
Director of Organization

PAW Reg. Dir. Paul K. Miley advised that the CIO was certified as collective bargaining agent for all employees of Marine Products Co., Dayton, Ohio.

Joe Kettle, ACA Dist. Org. reports AFL-Western Union Local in Los Angeles voted to disaffiliate from the AFL and affiliate with the ACA-CIO, at the largest membership meeting in its history.

George Craig, CIO Reg. Dir. reports: Harbortown Steel Corp., Harrisburg, Pa., USA-CIO 84, approx 28.

CIO Sub-Reg. Dir. Edw. Matvonic advises: Waterbury Felted Feltedry & Machine Co., USA-CIO 82, no union 100.

USA Dist. Dir. Felix Masala reports: National Gas Co. N. Y. (guards): CIO 24, against 4. Great credit is due to the officers of local 104 for this victory.

Felix S. H. Dalrymple, CIO Rubber Workers, reports: Castin Rubber Co., Parkersburg, W. Va., CIO 41, no union 24. Dayton Rubber Mfg. Co., Wapkesville, N. C., CIO 220, no union 122.

IWA Dir. Org. Gen. Brown reports: Natchez Kitchens Paper Co., Tinseltown, Mich: CIO 14, against 10. Brunswick Lumber Co., Tinseltown, Mich: (hard check) CIO received 21 out of 25. Owen Lumber Co., Piquette, Mich: (hard check) CIO won 19 out of 25. Majority of employees of J. M. Moss Logging Co., Piquette, Mich, designated CIO in a work-off by the NLRB. G. J. Johnson, Junction City, Oregon: CIO 35, no union 4.

Dept. Store Victory

CIO Reg. Dir. Felix Masala reports: Natchez Dept. Store, Brooklyn, N. Y.: URWISRA-CIO 22, no union 34. Resident Nicholas Carter, manager of Local 1250, was in charge. H. H. Mayne Park Cheever House, Bronx, N. Y.: CIO 125, no union 45. Buffalo William Galt to charge.

Dir. Org. Wm. B. Taylor, Oil Workers Campaign, reports: Crown Central Petroleum Corp., Pasadena, Texas, voted 100 to 25 for CIO.

Reg. Dir. Jas. D. Cannon, Louisville, Ky, reports: Federal Pen (alter plant), CIO Gas, Coke Chemical Works 51, no union none.

E. L. Sandberg, CIO Reg. Dir. for Cincinnati, reports: Toyosity Trading Co. Home, C. CIO For & Leader Workers 11, against 5.

Rep. Harry Scott did a very good job in this campaign.

Frank J. Bender, CIO Reg. Dir., reports: Liberty Cleaner & Dyers Co., Cosmopolitan, Md., employees voted for CIO. CIO Reg. C. C. Smith was in charge. Hudson Supply & Equipment Co., Buckeyes on a paid-off basis. J. B. Foreman, URB&PW, was in charge.

His. Pub. Helen Blumery, COPWA-CIO, advises: Metropolitan agents in Missouri voted for CIO, 284 to 120. This means CIO now represents a majority of Metropolitan insurance agents in the United States with contracts in right states.

Proc. L. A. Berne, FAEC-CIO, reports that in one of the largest units of exclusively technical engineers ever to participate in a NLRB election, engineers and draftsmen of the General Electric Co., Philadelphia, chose CIO by 231 to 51. Election covered a unit comprising all of the 500 engineers and draftsmen of the plant's Engineering Dept. FAECOT Reg. Dir. Theodore J. Vincent and Local Pres. Donald Backhaus announced that contract negotiations would be initiated immediately.

Hatch Act Suit To Go To Supreme Court

WASHINGTON, Aug. 12.—The CIO United Federal Workers will carry its fight against the Hatch Act to the U. S. Supreme Court.

The constitutionality of the act was upheld recently by the U. S. District Court here.

The only action of the act is not abridged by the union is that preventing Government workers from taking active part in political activities. The union claims the election is contrary to the constitutional guarantee of free speech and press.

The claims made by the Dept. of Justice that there are no basis for a suit by Federal workers against the act and that the Civil Service Commission was not the proper agency to do such were both rejected by the District Court. Eleanor Nelson, secretary of the union, pointed out.

On both these issues, the court upheld the constitutionality of the act.

Gandhi Tells Lowdown On What India Wants

BOMBAY, August 12 (ALN)—Acceptance by the British government of his latest proposals for solving the political deadlock in India would "take the wind out of the Axis sails" and help bring the war to a speedy conclusion, Mohandas K. Gandhi, head of the Indian National Congress, told Allied Labor News in an exclusive interview July 26. The interview took place at Panaghat Hill Station, near Poona, where Gandhi has been resting and working since his release from confinement.

Gandhi was hard at work when this correspondent met him, surrounded by papers and files. Since getting out of jail, he has evidently been getting down to serious study of the many difficult problems facing India.

The first question to Gandhi was: "You promise all aid to the Allied war effort. How concretely will the character and quantity of the war effort in India and other countries be changed through establishment of a new government in India?"

Gandhi replied that the question required a detailed answer, whereas the basis of his offer to the British was to give moral



YANK TANKS CRASH THROUGH: American tanks are playing a leading role in the spectacular advances from the Normandy peninsula across Brittany. Above, one of the M4 armored fighters rolls through the Avranches area now in the hands of U. S. forces. (U. S. Signal Corps photo via Federated Pictures.)

World Roundup

Give Labor Seat at Postwar Peace Table, Aussie Urges

World labor's presence at United Nations' talks on postwar problems is more than ever urgent, Ernie Thornton, head of the Australian Ironworkers and Moulders Workers Union, said this week in an interview with Allied Labor News.

The Bretton Wood foreign trade conference, the food, relief, oil, and aviation conferences

and the forthcoming United Nations meeting, he plans continued weekly, are examples of meetings that greatly concern the future of world labor, he said. He suggested that a "technical committee" of American, British and Soviet trade unions be formed to meet here in time for the security meeting now scheduled for mid-August.

Thornton, who was a delegate to the London World Labor Party which was set for June 5 but was indefinitely postponed because of D day, visited CIO Pres. Philip Murray and the CIO Executive Board during his stay in this country. Of American labor's war production record he said:

"Labor has a fine record during the war, and that fine record has not been seriously marred by the few examples of blowbrakes who put their own personal ambition of power above the needs of the nation."

"The very fine policy of most American unions during the war is now being followed up by very clear thinking about postwar problems and the strengthening of leaders such as Philip Murray in this respect is very impressive."

Thornton urged close postwar cooperation between U. S. and Australian workers, "not merely as an emotional matter, but because it is necessary for the economic well-being of our two peoples."

Praise Clerks In Bombings

High tribute is paid by the Nat'l. Union of Shop Assistants to the courage of union retail clerks working in under the retail bombings.

"We salute at their courage when we realize that every work in shops with glass windows, fronts, ceilings, shelves and display cases," the union's paper says. "We pay tribute to those who have risen from the ruins of their devastated shops and bravely attempt the shops for further action."

At the same time, ALN reports that the union is seeking an eight-point charter for its members, including higher standard wage rates, equal pay for women, a 40-hour week and two weeks' vacation.

Like Their Good Neighbor

Latin American workers are pleased that their "Good Neighbor" President Roosevelt has said:

"I am proud and feel that national gain will accrue to the Allies from the creation of India as an independent country, subject to the proviso accepted by you."

Gandhi replied: "Surely, if the character of the Allied cause is so radically altered, as I claim it must be by acceptance of my offer, all else must follow as a matter of course."

"But whether it does or not, I want reparation of my offer to be an unqualified and unconditional basis. It should be enough for the Allies to have the guarantee that their military operations will not in any way be adversely affected by India being counted as an independent nation—not merely in word but in fact."

"I hold that the effect of a declaration of India's independence, accompanied by armistice and peace action, should be to take the wind out of the sails of the Axis powers. And I should be surprised if they do not capitulate almost immediately after the declaration."

Millionth U. S. Security

Cleveland, Aug. 12.—The 100-millionth benefit payment was in force under the CIO Age and Survivors Insurance provision of the Social Security Act began Aug. 8, going to the widow and children of John Robert Thompson, whose name who had been working in a war plant here. Their monthly checks amount to \$20.00.

recommenced his fourth term, according to an editorial in El Popular, daily paper of the Confederation of Mexican Workers (CFM) in Mexico City.

It is a lengthy editorial written. Popular said: "Sumner's persistence in his 31 years of office is now proof of the overwhelming majority of the American people, a good working policy for the rest of the world, and particularly for Latin America. . . and what interests us above all, a clear, realistic and constructive spirit for the realization of a lasting and mild peace among free-living nations along the lines of the Atlantic Charter and the Moscow and Tehran conferences."

Equal Pay for Women

British women workers want a step closer to the goal of equal pay for equal work with a 20-11-11. Additional National proposal to pay them 26 shillings (£1.20) a week. Engineering trades are affected, including nearly one million women members. The union had asked for a minimum of 10 shillings (£1.00) which is the same rate men workers receive.



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Guild Backs FDR, Truman; Poll OKs Political Action

MILWAUKEE, Wis., Aug. 13.—Delegates to the 11th convention of the American Newspaper Guild in session here this week voted to support President Roosevelt and Sen. Harry S. Truman following an advisory poll of the members showing that the majority favored enforcement of readjustment in the presidential election.

The poll showed that the Guild membership voted 2,756 to 1,100 in favor of such an endorsement. The resolution calling for the endorsement was presented by William Davy of Cleveland.

Commenting on the passing of the resolution, Guild President Milton Murray said the convention: "Fortunately, I am glad that the delegates voted this way. This will allow the striking newspapers of the country to speak with some authority and to make a contribution to the electors of constitutional publishers.

"It is not the intent, the desire or purpose of the Guild as an or-

ganization to find its members to any Presidential candidate. No matter whom we endorse, our members will retain their freedom of political thought, their right to vote as American citizens, regardless of any recommendation by this convention."

Murray cited Dewey's "The Little 20,000,000 of the Republican party" and spoke for the "Institution of the past."

Carey, who represented the national organization at the convention, stressed the importance of labor's political activity. "We are in politics for keeps and must regard the political front as a year around job," he said.

The convention voted to reaffirm the non-strictly judge for the duration of the war and approved a monetary program referred to the National CIO's plan. Resolutions for an organizing and reform fund were approved.

Mid-West Parley Backs FDR

WATERLOO, Ia., Aug. 12.—Some 200 delegates representing a membership of 75,000 CIO members in two states, attended the convention of the Iowa-Nebraska CIO Council held here last week, with Council Pres. Ben Henry in the chair.

The convention endorsed the program of the CIO Political Action Committee which calls for the re-election of Pres. Roosevelt and the re-election of Harry Truman, the Vice-President, and called for other political contributions.

John Jacobson, regional direc-

tor of the CIO, told the delegates of the new job labor has done in organizing the war.

The convention went on record in favor of various progressive legislation before Congress, including the Kilgore reorganization bill, the Wagner-Murray-Diess social security bill, and the anti-poll tax bill; urged the various government agencies concerned to act favorably upon the demand for a 15-cent-hour wage increase, and reaffirmed labor's non-strictly judge.

UAW Hits Radio Gag In Code

(Continued From Page 1)
rise any religion, or incite to breach of the peace, or use indecent language, etc. It will further qualify its position on controversial broadcasts at the FCC hearing.

Meanwhile, in a deposition given at the UAW-CIO by Willard B. Egoff, NAB official, Egoff admitted that, although the NAB code is observed by about 600 of the 800 regular broadcasting stations, the NAB has made no survey of the extent of station cooperation—nor lack of it—in connection with the basic principles of the Communications Law.

While Egoff said that the NAB operates to make sure that its member stations will act in the public interest, he admitted that the NAB makes no attempt to police its members and that it will not bring an action on a violation of its code unless the station involved in the violation requests the opinion.

COMPLAINTS ANSWER UP
This, plus the fact that the FCC does not give hearings on specific complaints against stations but only considers the overall operation "in the public interest" once every three years, makes it difficult for those discriminated against by radio to get successful action on their complaints, Goodman pointed out.

In advance of the August 15 FCC hearing, the UAW-CIO this week asked the FCC to subpoena radio scripts of Brooke Carter, Epton Closs, Fulton Lewis, Jr., and several other commentators who have broadcast over the Mutual Network, which uses WIBC as an outlet.

In filing the request for the subpoena, UAW-CIO President R. J. Thomas and Vice President Richard T. Frankenstein, said:

"The action of Station WIBC in permitting these one-sided commentators to present their biased views over the air contracts strongly with the refusal of the same station to accept the uncorroborated views of the UAW-CIO on these same issues.

"It is no wonder so many people have a distorted view of labor's policies and objectives. What else can one expect when they are permitted to hear only the other side on the radio?"

British Women Take Men's Jobs Too

Washington, Aug. 12.—Women in England, as in America, during the war have invaded the most exclusive "strictly male" industries and entered, at least for the duration, the English unions, according to a bulletin on British women in wartime just released by the Women's Bureau of the U. S. Dept. of Labor.



EMIC At Work GI Mother, Babe Doing Swell

WASHINGTON, Aug. 12.—Last Thursday was 10 days after "D-Day" for Mrs. William J. Gerrish.

For her "D-Day" meant delivery day, and 10 days after D-Day was the day she was leaving the Providence Hospital here

to return with her baby, Mary Patricia, to her home. Her husband is a corporal with the 8th Airborne in Italy.

Day was made much easier for Mrs. Gerrish because of the Emergency Maternity and Infant Care Program, which, free of charge, had furnished her with prenatal care, physician's and hospital care, and would provide for such next cost of little Mary Patricia during the first year of her life.

GI WIVES ELIGIBLE
The wife of any serviceman is eligible for the benefits of the EMIC program. All she needs to do is ask her doctor, or the Red Cross, or the local health department for an application to participate in the program.

Mrs. Gerrish's radiant, care-free face showed that, thanks to the EMIC program, the anxiety of having the baby had been reduced to a minimum. Under the program she had been able even to select her physician.

"The EMIC program," she said, "relieves the worry as well as the financial strain of having a baby."

CAREFUL HUSBAND
On her D-day she had relied her husband to tell her of the arrival of the newborn Gerrish. She was sure that he knew of the baby's arrival, but was anxiously awaiting a letter from him.

To date, approximately half a million mothers and babies have been benefited by the program, and a number of these cases being unique cases of babies in their first year, according to the Children's Bureau of the Dept. of Labor, administrators of the program. CIO and CIO women's auxiliaries were largely instrumental in getting



FILES FOR VICTORY: That's the story told here as Wayne County CIO Political Action Chief Tracy M. Doll holds one of the files containing the names of 450,000 CIO members in the Detroit area. Mary Dixon sorts through a batch of the valuable cards which contains the answer to PAC's 5th question, "Are you registered?"

for the PAC in this area, presented the program to the delegates and called upon the convention to take the necessary steps to make it effective. He pointed out that the CIO Committee had already asked in defeating some resolutions which are not contributing to the full prosecution of the war.

Adolph Gerner, who represented the NAB CIO at the convention, warned that labor must be vigilant of the democratic principles of our American way of life are to be preserved.

Barnett Davis, liaison officer between the CIO and the OPA, praised expanded labor for its help to the OPA and stressed the need for price control even in the post-war period.

John C. Pierce of the Staff CIO

ACA Signs Big Western Union Local

New York, Aug. 12.—The AFL-CIO "Financial Telegraphers" largest local, comprising nearly 1,000 Western Union employees in Los Angeles, has voted to leave the AFL and join the CIO American Communications Assn. The ACA announced here this week. The action came on the eve of a Nat'l Labor Relations Board election involving about 60,000 members of the Telegraph Co.

The communication is withdrawn from the AFL and ask for an ACA election was adopted with but two dissenting votes at the largest membership meeting ever held by the local.

"It is expected that this switch by an entire AFL local, the largest in the country, will materially influence the outcome of the Labor Board election soon to be held when all 60,000 Western Union workers will choose their collective bargaining agent," the ACA stated.

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RE-LEASE YOUR SOCIAL SECURITY CARD IF YOU WANT IT

By Ralph Patterson

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BRETTON WOODS AND INTERNATIONAL COÖPERATION

BY HENRY MORGENTHAU, JR.

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BRETTON WOODS AND INTERNATIONAL COÖPERATION

By *Henry Morgenthau, Jr.*

THE United Nations won a great if unheralded victory at the Bretton Woods Monetary and Financial Conference. For they took the first, the most vital and the most difficult step toward putting into effect the sort of international economic program which will be necessary for preserving the peace and creating favorable conditions for world prosperity.

International agreements in the monetary and financial field are admittedly hard to reach, since they lie at the very heart of matters affecting the whole complex system of economic relations among nations. It is a familiar fact that in all countries sectional interests are often in conflict with the broader national interests and that these narrow interests are sometimes sufficiently strong to shape international economic policy. It was, therefore, a special source of satisfaction to all the participants in the Conference that agreements were reached covering so wide a range of international monetary and financial problems. This was largely due to long and careful preparation preceding the Conference during which we secured general recognition of the principle of international monetary and financial coöperation.

The Conference of 44 nations prepared Articles of Agreement for establishing the International Monetary Fund and the International Bank for Reconstruction and Development to provide the means for consultation and collaboration on international monetary and investment problems. These agreements demonstrate that the United Nations have the willingness and the ability to unite on the most difficult economic issues, issues on which comprehensive agreement had never before been reached even among countries with essentially similar political and economic institutions. The victory was thus all the greater in that the Bretton Woods Agreements were prepared by countries of differing degrees of economic development, with very far from similar economic systems, and will operate not merely in the immediate postwar years, as will UNRRA, but in the longer period ahead.

The hope that the United Nations will not prove a merely temporary wartime coalition which will disintegrate after military victory has thus received substantial reinforcement. No matter what pattern future organs of international coöperation may as-

sume — and the pattern may be diverse and varied to correspond with the great variety of problems to be met — Bretton Woods proved that if the determination to cooperate for peace as well as for war is present, adequate and suitable instruments can be devised in every sphere where international action is needed. In that sense, Bretton Woods was an unmistakable warning to the Axis that the United Nations cannot be divided either by military force or by the diplomatic intrigues of our enemies. It gave an unequivocal assurance to the soldiers of the United Nations that the sacrifices they are making to stamp out forever the causes of war are not being made in vain. And lastly it was a sign to the civilians on whose labors the war efforts of all the United Nations depend that such labors are bearing fruit in the councils of peace no less than those of war.

I have indicated that at Bretton Woods the United Nations took the first and hardest step toward the adoption of the kind of economic program necessary for world stability and prosperity. It was only the first step because the Articles of Agreement for the establishment of the Fund and the Bank still have to be ratified by each of the participants in accordance with legal and constitutional requirements and procedures. I would be the last to claim that the process is likely to be a simple or an easy one. Yet, so far as the action to be taken by the United States is concerned, I have sufficient faith in the common sense of the American people to believe that they have learned the painful lesson that the best way to guard our national interests is through effective international cooperation. We know that much remains to be done in other fields. But, despite their highly technical nature, the Fund and the Bank are the best starting point for international economic cooperation, because lack of agreement in these spheres would bedevil all other world economic relations.

Highly technical questions have one great advantage from the political point of view — their very intricacy should raise them above merely partisan considerations. My optimism is partly based on the belief that the Bretton Woods proposals will be discussed on an objective basis and that such differences of opinion as may emerge will not follow party lines. The American delegation was non-partisan in composition and was thoroughly united on all major questions. Republicans and Democrats alike had an equal voice in shaping its decisions, and there is good reason to expect that the precedent followed before and during the Conference will be continued and that the next stage of

ratification will be conducted on the same high plane. In the light of my experience as chairman of the American delegation, I believe that men of broad vision in both parties will rise to the challenge and the opportunity to initiate the historical pattern of international economic cooperation that world peace demands. The challenge and opportunity are all the greater because our course of action will largely determine the course of action of many other members of the United Nations. "As America goes, so goes the world" may be an exaggeration. But it is a pardonable exaggeration in a world made one by time and fate, in which America's strength and potentialities are perhaps more clearly realized by the rest of the world than by the American people itself. I should therefore like to emphasize as strongly as possible that a tremendous responsibility rests on our government and people in connection with the ratification of the Bretton Woods Agreements. For our action will be rightly or wrongly interpreted as a sure and infallible index of our intentions with respect to the shape of things to come.

II

The fate of the Treaty of Versailles adds to the significance of the course we adopt on the Bretton Woods proposals. As the President has pointed out, the Allied leaders are acquainted with our constitutional processes as they affect our dealings with foreign powers. If there are any Americans who would utilize the division of powers to defeat the ends sought by the vast majority of Americans, they are not likely to succeed if the issues are clearly and unambiguously presented to the Congress and the people. We must always keep in mind that other nations are anxiously asking whether the United States has the desire and ability to cooperate effectively in establishing world peace. If we fail to ratify the Bretton Woods Agreements, they will be convinced that the American people either do not desire to cooperate or that they do not know how to achieve cooperation. They would then have little alternative but to seek a solution for their pressing political and economic problems on the old familiar lines, lines which will inexorably involve playing the old game of power politics with even greater intensity than before because the problems with which they will be confronted will be so much more acute. And power politics would be as disastrous to prosperity as to peace.

One important reason for the sharp decline in international

trade in the 1930's and the spread of depression from country to country was the growth of the twin evils of international economic aggression and monetary disorder. The decade of the 1930's was almost unique in the multiplicity of ingenious schemes that were devised by some countries, notably Germany, to exploit their creditors, their customers, and their competitors in their international trade and financial relations. It is necessary only to recall the use of exchange controls, competitive currency depreciation, multiple currency practices, blocked balances, bilateral clearing arrangements and the host of other restrictive and discriminatory devices to find the causes for the inadequate recovery in international trade in the decade before the war. These monetary devices were measures of international economic aggression, and they were the logical concomitant of a policy directed toward war and conquest.

The postwar international economic problems may well be more difficult than those of the 1930's, and unless we cooperate to solve these problems, we may be faced with a resumption and intensification of monetary disorder and economic aggression in the postwar period. There is no need to enlarge on the consequences of such a development. It is a bleak prospect, yet it is one we must understand. In some countries it will present itself as the only practical alternative if the rest of the world should be unable to count on effective American participation in a rounded and coherent program covering international political and economic relations. If that should come to pass, we will have to frame our own future to fit a world in which war will never be a remote contingency and in which economic barriers and restrictions will be the rule in a contracting economic universe. On the other hand, if we ratify the Bretton Woods Agreements, we will be showing the rest of the world not only that we can cooperate for winning the war, not only that we are capable of formulating a program for fulfilling our common aspirations, but that we intend to enforce and implement such a program in every relevant sphere of action. Ratification would thus strengthen all the forward-looking elements in every country who wish to translate their craving for peace into deeds and will be a resounding answer to the pessimists who feel that peace is unattainable.

The institution of an international security organization on the lines agreed on at Dumbarton Oaks constitutes a history-making accomplishment of which we may well be proud. Here

is an organization for maintaining peace and political security which for the first time has teeth in it. But it is our duty to keep to a minimum the tensions to which that organization will be subjected and to deal with the economic causes of aggression before the stage is reached where more far-reaching measures would be necessary. International monetary and financial cooperation is indispensable for the maintenance of economic stability; and economic stability, in turn, is indispensable to the maintenance of political stability. Therefore, a program for international economic cooperation of which Bretton Woods is the first step must accompany the program for political and military security toward which the United Nations are moving. Bretton Woods is the model in the economic sphere of what Dumbarton Oaks is in the political. They reinforce and supplement each other. Political and economic security from aggression are indivisible, and a sound program for peace must achieve both.

III

As I have already said, agreement on international monetary and banking policy is only the first step toward the achievement of a constructive economic program through which world stability can be maintained and within which the horizon of prosperity can be expanded. Other measures, both national and international, will be required to round out the program.

Domestic economic stability is, of course, intimately bound up with international stability. But international stability by itself will not ensure domestic stability. It will be incumbent on us to adopt the kind of domestic program which will make possible the attainment and maintenance of high levels of employment with rising standards of living. I have sufficient faith in our economic system and the institutions of free enterprise and individual initiative to hope that this goal will be achieved. Needless to say, its achievement will be greatly facilitated by the promise of international monetary stability held forth by the Bretton Woods Agreements, just as the achievement of international monetary stability will be facilitated by a high level of prosperity in the United States. This is merely another illustration of the thesis that we are an integral part of the world economy and that the relations between the parts and the whole are intimate and mutual. High levels of employment in the United States strengthen economic and political stability throughout the world, which in turn reinforce American domestic prosperity.

In addition, international collaboration in the sphere of commercial policy, control of cartels, and possibly in the supply of primary commodities and labor standards will be needed if the basic causes of economic friction and aggression are to be abolished. The Fund and the Bank are not intended to cover these fields, which will, of course, be subjects for further discussion among the United Nations. The great objective of the Fund and the Bank is to provide the monetary and financial foundation without which agreement in these other important fields would be either impossible to attain or meaningless if attained. For no economic agreements among nations could survive discriminatory exchange practices, severe and repeated competitive currency depreciation, tight permanent exchange controls, and the like. In fact, it is not too much to say that when nations are pursuing competitive exchange policies — whether their purpose is aggressive or merely defensive is immaterial — reciprocal trade agreements cannot be made. Thus no reciprocal trade agreement with Germany in the period from 1933 to 1939, say, would have been worth the paper it was written on for the simple reason that all its purposes and effects would have been completely nullified by the exchange policy which the Germans pursued in those years.

This consideration applies with still greater force to agreements for protecting producers of primary commodities or for raising labor standards. How, for example, can we protect the American farmer in the world markets if a sizable wheat-producing country can resort to monetary action which places the wheat producers in that country in a preferred position with respect to American wheat exporters? If the American farmer is to continue to export wheat and to receive a fair price in dollars for the wheat he sells at home, he must know that the world price of wheat in terms of his own currency will not be seriously disturbed by large exchange fluctuations in the principal wheat exporting and importing countries.

And how can we obtain agreement protecting our own high labor standards if we do not participate in expansion of international long-term investment? For if the economically less advanced countries are to raise their labor standards they must increase their productivity, and to increase their productivity they need capital for modern machinery and processes. Unless adequate provision is made for a resumption and expansion of international investment by private investors on sound lines,

the less developed countries will have no alternative but to meet all their capital requirements themselves. The process of industrialization would then inevitably become more painful both to themselves and to the rest of the world, since they would have little choice but to control their imports rigorously and to compete as intensively as possible for their share of the world market, ruthlessly exploiting their own cheap labor, and undercutting countries with higher labor standards in the process. Instead of tending to raise their labor standards to our high level, this would tend to pull our labor standards down to theirs.

These instances are corollaries of the broader proposition that world stability and prosperity demand the expansion and growth of international trade and investment. In a contracting market each country will fight to maintain its foothold and will not be too fastidious as to the weapons it uses in the fight. An expanding market does not eliminate competition, but while competition assumes cutthroat and destructive forms in a contracting market, it tends to have socially beneficent effects in an expanding one.

IV

The Bretton Woods Agreements are thus the most vital step in the path of realizing effective international economic coöperation. Without monetary coöperation, international economic coöperation in other spheres will at best be short-lived; and it may not be too much to add that without monetary coöperation, international coöperation in non-economic spheres may be short-lived also. The Bretton Woods Agreements are also the most difficult step in international economic coöperation because while we were not exploring entirely uncharted seas, while precedents for monetary and financial collaboration for specific purposes existed, the scope and content of the collaboration proposed at Bretton Woods are so much broader and fuller that problems with infinitely more complications had to be solved. Our own stabilization fund has in the past entered into a number of arrangements with other governments and Central Banks to promote stability in exchange relationships between the United States and other countries. And such arrangements, while *bilateral* in character, undoubtedly made a definite contribution to orderly international monetary relations. An even broader form of *multilateral* coöperation through consultation with respect to contemplated changes in exchange rates was achieved by the

Tripartite Declaration of September 1936 among France, Great Britain and the United States, to which Belgium, Holland and Switzerland subsequently adhered. But without minimizing the significance of such monetary arrangements, and particularly of the Tripartite Accord, it is proper to note that because of their limited and improvised character, and also because of the conditions in which they were made, they could not cope with the range of problems the Fund and Bank are designed to handle.

Take, for example, the question of the relative international economic positions of the United States and England to which so much attention has been devoted in discussions of postwar trade possibilities. England was formerly a creditor nation and has now become a debtor. Previously she was able to turn her unfavorable trade balance into a favorable, or at least a compensated, balance of payments by receipts of interest and dividends on foreign investments and by receipts for current banking, insurance and shipping services. After the war she will have to expand her exports. Otherwise she will have to run down her foreign investment still further or resort to new borrowing, or she will have to curtail her imports which would lower her living standards and sharply restrict world trade. The United States has become a creditor country with the prospect of increasing exports, provided our customers are in a position to find the dollars which they need to pay for the goods and services they want to buy from us. Other countries cannot find the necessary dollars to pay for our exports unless we are willing to increase our own imports, our tourist and other expenditures abroad, or unless we are willing to become a creditor country on a greater scale, or both.

The measures for international cooperation on monetary and investment problems required to meet the needs of the United States and England must obviously be flexible in character and broad in scope. This was one of the outstanding accomplishments of Bretton Woods, an accomplishment which was easier to achieve because of the spirit of mutual understanding with which the American and British delegations faced their problems, and because of the extended British and American technical discussions during the two years prior to the Conference. I believe that the economic interests of the United States and Great Britain are not irreconcilable, that the world is large enough to provide an expanding market for the exports of both, and that, given the good will which has characterized the discussion of our common economic and financial problems in the past, no problem involv-

ing our two countries need remain unsolved. Quite obviously, the solution will be much less difficult in a world in which international trade is expanding and in which an adequate volume of sound and productive international investment is undertaken by private investors. That is precisely how the Fund and the Bank can contribute to the adjustment of international accounts.

v

But that is only part of the picture. At Bretton Woods, countries in very different stages of economic evolution joined in working out common instruments of monetary and investment policy. China and India are predominantly agrarian countries with low levels of industrialization and low standards of living. Naturally, they desire to raise both. The United States and England are countries with high levels of industrialization and high standards of living, which just as naturally desire to maintain and if possible raise both. Unless some framework which will make the desires of both sets of countries mutually compatible is established, economic and monetary conflicts between the less and more developed countries will almost certainly ensue. Nothing would be more menacing to world security than to have the less developed countries, comprising more than half the population of the world, ranged in economic battle against the less populous but industrially more advanced nations of the west.

The Bretton Woods approach is based on the realization that it is to the economic and political advantage of countries such as India and China, and also of countries such as England and the United States, that the industrialization and betterment of living conditions in the former be achieved with the aid and encouragement of the latter. For the process of industrialization, without which improvement of living standards is unattainable, can be most efficiently accomplished by an increasing volume of imports of machinery and equipment. And what could be more natural than for India and China to import such goods from England and the United States with their vastly expanded capacity for producing such goods? The harmony of economic interests in international trade between the more and less developed countries is a doctrine which has long been preached by economists, but it is a doctrine which has often not been honored in observance. The United Nations Monetary and Financial Conference made a big advance toward translating this theoretically sound maxim into practice.

Again, there is a clear line of demarcation between those countries ravaged by war and the countries fortunate enough because of their geographic situation to have escaped invasion, bombing and looting by the enemy. Nowhere was what I should like to call the Bretton Woods spirit more clearly manifest than in the Conference's determinations to give special attention and consideration to the problems of countries in the first category. It was shared no less by the countries whose territories had not been damaged by Axis operations than by the immediate victims of totalitarian aggression. The reconstruction of the devastated countries of Europe and Asia is essential if normal international trade relations are to be resumed promptly. These countries are vitally important to the export and import trade of the western hemisphere. That is why all the American Republics gave whole-hearted support to the provision that the Bank is to facilitate economic reconstruction. I should like to single out for special mention Russia's splendid demonstration of the sincerity of her intentions to participate in world economic reconstruction by raising her subscription to the Bank from 9 million dollars to 1.2 billion dollars on the last day of the Conference.

Finally, countries with widely divergent economic systems participated in preparing the Agreements for the Fund and the Bank. The United States is as indubitably a capitalist country as Russia is a socialist one. Yet both agree not only on the desirability of promoting monetary stability and international investment but on the means required to realize these ends. And this for a very simple and satisfactory reason — it is to the advantage of each to do so. As an impenitent adherent of the capitalist system, which in the crucible of war has once again shown its ability to deliver the goods, I am firmly convinced that capitalist and socialist societies can coexist, as long as neither resorts to destructive practices and as long as both abide by the rules of international economic fair play. Perhaps it is not too much to claim for the International Monetary Fund that it prescribes the standards in the field of monetary policy which it is hoped all countries, whatever their political and economic systems, will follow.

Despite these difficulties, the Bretton Woods Conference had to succeed because there is no other method of dealing with international monetary and financial problems than through international coöperation. There is no satisfactory alternative. There has been a suggestion that these were questions that could

be solved by the United States and England, perhaps with the aid in later years of a few so-called key countries. But this approach takes no account of the realities of the postwar situation. The establishment of an exclusive Anglo-American condominium would not be the appropriate means of dealing with international monetary problems. In the absence of effective international action, unstable exchange rates are much more likely to occur in other countries than in Britain. In fact, unless there is a *general* environment of stable and orderly exchange rates with expanding trade and adequate investment, the adjustment of the British balance of payments after the war will be immeasurably more difficult. The problem of exchange stability is a general problem. Our own exporters of agricultural and industrial goods need more assurance than the stability of the dollar-sterling rate of exchange provides. They want to know that the price and quantity of their exports will not be suddenly reduced by depreciation in the countries to which they export or in the countries with whose exports they compete.

I doubt that the 42 other United and Associated Nations, who have been fighting and working with us during the war, would take kindly to what might be regarded as dictatorship of the world's finances by two countries. There is a vague promise in this alternative that other countries might in time be added to the select group whose coöperation was regarded as desirable. But even these countries would be expected to coöperate by attaching themselves to a dollar bloc or a sterling bloc. If we should exclude the greater part of the world from coöperation on these problems and postpone for ten years agreement on stability and order in exchange rates, we should find that the world had become irrevocably committed to fluctuating exchange rates, exchange controls and bilateral clearing arrangements. Once firmly established, it would not be possible to obtain the general abandonment of these restrictive and discriminatory measures. Beyond that, there would seem to be considerable danger — political as well as economic — in setting up a world divided into two blocs. Such a division of the world would not only deprive us of the general advantages of multilateral trade but would inevitably lead to conflict between the two groups. The fact is that the problems considered at Bretton Woods are international problems, common to all countries, that can be dealt with only through broad international coöperation.

The above are only the most striking examples of the range of

issues before the Conference. Each country has its own peculiar position in the world economy which no other country duplicates. Naturally each country wants to safeguard and, if possible, strengthen this position. The representatives of all countries always had this consideration in mind in weighing the merits of the proposals for the Fund and the Bank. Yet the very fact that so broad an agreement was reached is the best proof that the United Nations have all learned that we are one world community in which the prosperity of each is bound up with the prosperity of all. Because this is a point on which I feel so deeply, I should like to quote from my speech to the final session of the Conference on July 22:

There is a curious notion that the protection of national interest and the development of international cooperation are conflicting philosophies — that somehow or other men of different nations cannot work together without sacrificing the interests of their particular nation. There has been talk of this sort — and from people who ought to know better — concerning the international cooperative nature of the undertaking just completed at Bretton Woods.

I am perfectly certain that no delegation to this Conference has lost sight for a moment of the particular national interest it was sent here to represent. The American delegation, which I have the honor of leading, has been, at all times, conscious of its primary obligation — the protection of American interests. And the other representatives here have been no less loyal or devoted to the welfare of their own people.

Yet none of us has found any incompatibility between devotion to our own country and joint action. Indeed, we have found on the contrary that the only genuine safeguard for our national interests lies in international cooperation.

VI

Attention should also be called to two resolutions of special significance passed by the Conference. The first recommends the earliest possible liquidation of the Bank for International Settlements. Whether rightly or wrongly, this institution has become inextricably identified with appeasement and collaboration. It is fitting that a United Nations Monetary and Financial Conference should record its unqualified stand on an existing financial organization which, to say the least, did not promote the ends we are seeking. Further, the Conference did not wish considerations of power politics to enter into the functioning of the instruments it fashioned. It is specifically stated that the Fund and the Bank should not be affected by political factors in their operations or in their recommendations to member countries. The Conference wanted to avoid linking the Fund and the Bank in any way with the Bank for International Settlements. It might be said

that the best way to deal with the problem was to ignore it. But that was not the feeling of the countries that have suffered from enemy occupation. Such a passive attitude would in itself have constituted appeasement of the Axis, and the root-and-branch recommendation is in much better accord with the determination of the United Nations to tolerate no institution that does not serve in the struggle for freedom and democracy.

The second resolution was designed to ensure the restoration to their rightful owners of property looted by Germany, Japan and their satellites. It supports the steps already taken by the United Nations and calls on the governments of neutral countries to facilitate the process of restoration. It is part of the United Nations program that the Axis and its Allies and agents should not be allowed to get away with any loot this time. This resolution implements that program and contributes to the strengthening of international law concerning international theft and banditry.

If I have dwelt at some length on the significance of the Bretton Woods program for international cooperation, it is because the subject has received less than its due attention and merit in the press, which has confined its discussions to the more purely monetary and financial aspects of the Conference. Its long-run political implications may be no less far-reaching than its economic achievements. For it is in our power to transform the Bretton Woods Agreements into an epoch-making precedent, a beacon of world progress.

January 1, 1945

My dear Mr. President:

During the last year I have discussed several times with Ambassador Harriman a plan which we in the Treasury have been formulating for comprehensive aid to Russia during her reconstruction period. We are not thinking of more Lend-Lease or any form of relief but rather of an arrangement that will have definite and long range benefits for the United States as well as for Russia.

Ambassador Harriman has expressed great interest and would like to see the plan advanced. I understand from him that the Russians are reluctant to take the initiative, but would welcome our presenting a constructive program.

You will recall that at Quebec Mr. Churchill showed every evidence that his greatest worry was the period immediately following V-E Day. We have now worked out a Phase 2 Lend-Lease program with the British after two months of very hard work.

I am convinced that if we were to come forward now and present to the Russians a concrete plan to aid them in the reconstruction period it would contribute a great deal towards ironing out many of the difficulties we have been having with respect to their problems and policies.

If a financial plan of this nature interests you at this time, I would appreciate an early opportunity to discuss it with you and Mr. Stettinius.

I am sending Mr. Stettinius a copy of this letter.

Sincerely,

(Signed) H. Morgenthau, Jr.

The President

The White House.

draft from which
typed copy written

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JM

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I am convinced that if we were to come forward now and present to the Russians a concrete plan to aid them in the reconstruction period it would contribute a great deal towards ironing out many of the difficulties we have been having with respect to their problems and policies.

I hope you will give me an opportunity to lay before you the work we have been doing on this subject.

I am sending Mr. Stettinius a copy of this letter.

Sincerely,

The President

The White House

[Signature]

draft from which
typed copy written

169

JM

My dear Mr. President:

During the last year I have discussed several times with Ambassador Harriman a plan which we in the Treasury have been formulating for comprehensive aid to Russia during her reconstruction period. We are not thinking of more Lend-Lease or any form of relief but rather of an arrangement that will have definite and long range benefits to the United States,

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I am sending Mr. Stettinius a copy of this letter.

Sincerely,

The President

The White House

[Handwritten signature]

Dictated by the Secretary 170

1-1-45

DRAFT

My dear Mr. President:

On several occasions during the past year, I have discussed with Ambassador Harriman a plan which we have been formulating in the Treasury for post-war reconstruction in Russia.

Ambassador Harriman has expressed great interest in this proposal. He has told me that he has never really been able to get the Russians to tell them just what they had in mind because the United States has never put forth a real post-war proposal to them.

At Quebec, Mr. Churchill showed every evidence that his greatest worry was the period immediately following V-E Day and you and he started the machinery in motion to work ^{out} a plan for a loan which was finally consummated after two months very hard work.

From bits of information which I pick up here and there and from the discussions that I have had with Ambassador Harriman, I am convinced that a great many of the difficulties which we have been having

-2-

vis-a-vis Russia during the past year have sprung from the fact that we have not advanced a plan for the reconstruction of Russia and I hope that you will give me an opportunity to present to you the work which we have been doing here in the Treasury over a period of a year on this subject.

I am furnishing Mr. Stettinius with a copy of this letter for his consideration.

Yours sincerely,

The President,
The White House.

January 1, 1945

Dear Ed:

I am sending you herewith a copy of a letter which I sent to the President this evening.

Yours sincerely,

(Signed) Henry

Honorable Edward R. Stettinius, Jr.
Secretary of State,
Washington, D. C.

Copy to Stettinius
173

January 1, 1945

My dear Mr. President:

During the last year I have discussed several times with Ambassador Harriman a plan which we in the Treasury have been formulating for comprehensive aid to Russia during her reconstruction period. We are not thinking of more Lend-Lease or any form of relief but rather of an arrangement that will have definite and long range benefits for the United States as well as for Russia.

Ambassador Harriman has expressed great interest and would like to see the plan advanced. I understand from him that the Russians are reluctant to take the initiative, but would welcome our presenting a constructive program.

You will recall that at Quebec Mr. Churchill showed every evidence that his greatest worry was the period immediately following V-E Day. We have now worked out a Phase 2 Lend-Lease program with the British after two months of very hard work.

I am convinced that if we were to come forward now and present to the Russians a concrete plan to aid them in the reconstruction period it would contribute a great deal towards ironing out many of the difficulties we have been having with respect to their problems and policies.

If a financial plan of this nature interests you at this time, I would appreciate an early opportunity to discuss it with you and Mr. Stettinius.

I am sending Mr. Stettinius a copy of this letter.

Sincerely,

(Signed) H. Morgenthau, Jr.

The President

The White House.

*Del'd by SS apt mail gateway
5:05 pm*

THE SECRETARY OF STATE
WASHINGTON

January 2, 1945

Dear Henry,

Thank you very much for sending to me with your note of the 1st a copy of your memorandum of the same date to the President relative to plans for financial aid to the Soviet Union during her reconstruction period. I will look into the matter and be glad to discuss it with the President and you at any time.

With best wishes,

Sincerely yours,



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

January 1, 1945

My dear Mr. Canfield:

I wish to acknowledge receipt of your letter of December 29th. I am looking forward to having a further discussion with you next Friday.

Wishing you a Happy New Year,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Cass Canfield,
Harper Brothers,
49 East 33rd Street,
New York, New York.

P.S.: I will be delighted to have you bring Mr. Fischer with you on Friday.

HARPER & BROTHERS
Publishers
NEW YORK AND LONDON

OFFICE OF THE PRESIDENT

49 EAST 33rd STREET
NEW YORK 16, N. Y.

December 29, 1944

Dear Mr. Secretary,

Yesterday I had a very good talk with Mr. White, DuBois and Luckman. From the Harper office there were present one of our editors, John Fischer, and Marguerite Hoyle, an assistant editor. I think that in the course of that conference and subsequent ones with DuBois and Luckman we developed a number of useful ideas about the book.

I would like to confirm what I said to you last week, that this firm is much interested in the book and believes in its importance and its possibilities. Furthermore, we are entirely willing to bear the cost, under any circumstances, of setting and making plates ready for the printer.

I understand that I am to see you again next Friday, and look forward to the occasion. I hope you will approve my bringing Mr. Fischer to the meeting. He is a very able editorial person and when I am away, as I expect will be necessary for a while, he will be well qualified to advise you and act for the firm. 2

Sincerely yours,



The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Treasury Department
Pennsylvania Avenue & 15th Street, N.W.
Washington, D.C.

Cass Canfield..H

MEMORANDUM FOR MRS. ROOSEVELT

I noted with interest the material which you forwarded to me on December 23, relating to the prevention of scientific research in Germany after the war.

It is our feeling that any program which strikes at the heart of Germany's war-making power - its chemical, metallurgical and electrical industries - must comprehend one of the basic elements of these industries, their research laboratories and related research activities wherever they may be conducted. In this connection, I am attaching for your information a copy of an Intelligence Report by G-2, Economic Section, SHAEF, regarding plans of German industrialists for post-war operations. I call your attention particularly to paragraph 3, relating to the establishment of research facilities.

Of course, it is conceivable that research in non-industrial fields (such as agricultural research or medical research) could be used for the development of powerful military weapons, say of a bacteriological or chemical nature.

Possibilities such as these serve to highlight to me the fact that it is impossible to devise a program for Germany today which will guarantee peace in the years to come. We cannot expect to find a panacea. There are certain minimum steps which we must take now. Developments in the next five or ten years may require that we take additional steps at that time. So long as the German people retain the will to wage war, we must be ever vigilant to see to it that they do not obtain the means to exercise this will.

N. M. J.

Attachment.

Enclosure No. 1 to despatch No. 19,489 of
Nov. 27, 1944, from the Embassy at London,
England.

S E C R E T

SUPREME HEADQUARTERS
ALLIED EXPEDITIONARY FORCE
Office of Assistant Chief of Staff, G-2

7 November 1944

INTELLIGENCE REPORT NO. EW-Pa 128

SUBJECT: Plans of German industrialists to engage in underground activity after Germany's defeat; flow of capital to neutral countries.

SOURCE: Agent of French Deuxieme Bureau, recommended by Commandant Zindel. This agent is regarded as reliable and has worked for the French on German problems since 1916. He was in close contact with the Germans, particularly industrialists, during the occupation of France and he visited Germany as late as August, 1944.

1. A meeting of the principal German industrialists with interests in France was held on August 10, 1944, in the Hotel Rotes Haus in Strasbourg, France, and attended by the informant indicated above as the source. Among those present were the following

Dr. Scheid, who presided, holding the rank of S.S.
Obergruppenfuhrer and Director of the Hecho (Hermsdorff & Schonburg) Company
Dr. Kaspar, representing Krupp
Dr. Tolle, representing Roehling
Dr. Sinderen, representing Messerschmitt
Drs. Kopp, Vier and Beerwanger, representing Rheinmetall
Captain Haberkorn and Dr. Ruhs, representing Bussing
Drs. Ellenmayer and Kardos, representing Volkswagenwerk
Engineers Drose, Yanchow and Kopphen, representing various factories in Posen, Poland (Drose, Yanchow and Co., Brown-Boveri, Herkuleswerke, Buschwerke, and Stadtwerks)
Captain Dornbusch, head of the Industrial Inspection Section at Posen
Dr. Meyer, an official of the German Naval Ministry in Paris
Dr. Strossner, of the Ministry of Armament, Paris.

2. Dr. Scheid stated that all industrial material in France was to be evacuated to Germany immediately. The battle of France was lost for Germany and now the defense of the Siegfried Line was the main problem.

From now on also German industry must realize that the war cannot be won and that it must take steps in preparation for a post-war commercial campaign. Each industrialist must make contacts and alliances with foreign firms, but this must be done individually and without attracting any suspicion. Moreover, the ground would have to be laid on the financial level for borrowing considerable sums from foreign countries after the war. As examples of the kind of penetration which had been most useful in the past, Dr. Scheid cited the fact that patents for stainless steel belonged to the Chemical Foundation, Inc., New York, and the Krupp Company of Germany jointly and that the U.S. Steel Corporation, Carnegie Ill., American Steel and Wire, and National Tube, etc. were thereby under an obligation to work with the Krupp concern. He also cited the Zeiss Company, the Leica Company and the Hamburg-American Line as firms which had been especially effective in protecting German interests abroad and gave their New York addresses to the Industrialists at this meeting.

3. Following this meeting a smaller one was held presided over by Dr. Bosse of the German Armaments Ministry and attended only by representatives of Hecho, Krupp and Roehling. At this second meeting it was stated that the Nazi Party had informed the industrialists that the war was practically lost but that it would continue until a guarantee of the unity of Germany could be obtained. German industrialists must, it was said, through their exports increase the strength of Germany. They must also prepare themselves to finance the Nazi Party which would be forced to go underground as Maquis (in Gebirgsverteidigungsstellungen). From now on the government would allocate large sums to industrialists so that each could establish a secure post-war foundation in foreign countries. Existing financial reserves in foreign countries must be placed at the disposal of the Party so that a strong German Empire can be created after the defeat. It is also immediately required that the large factories in Germany create small technical offices or research bureaus which would be absolutely independent and have no known connection with the factory. These bureaus will receive plans and drawings of new weapons as well as documents which they need to continue their research and which must not be allowed to fall into the hands of the enemy. These offices are to be established in large cities where they can be most successfully hidden as well as in little villages near sources of hydro-electric power where they can pretend to be studying the development of water resources. The existence of these is to be known only by very few people in each industry and by chiefs of the Nazi Party. Each office will have a liaison agent with the Party. As soon as the Party becomes strong enough to re-establish its control over Germany the industrialists will be paid for their efforts and cooperation by concessions and orders.

4. These meetings seem to indicate that the prohibition against the export of capital which was rigorously enforced until now has been completely withdrawn and replaced by a new Nazi policy whereby industrialists with government assistance will export as much of their capital as possible. Previously exports of capital by German industrialists to neutral countries had to be accomplished rather surreptitiously and by means of special influence. Now the Nazi party stands behind the industrialists and urges them to save themselves by getting funds outside Germany and at the same time to advance the Party's plans for its post-war operation. This freedom given to the industrialists further cements their relations with the Party by giving them a measure of protection.

5. The German industrialists are not only buying agricultural property in Germany but are placing their funds abroad, particularly in neutral countries. Two main banks through which this export of capital operates are the Basler Handelsbank and the Schweizerische Kreditanstalt of Zurich. Also there are a number of agencies in Switzerland which for a five per cent commission buy property in Switzerland, using a Swiss cloak.

6. After the defeat of Germany the Nazi Party recognizes that certain of its best known leaders will be condemned as war criminals. However, in cooperation with the Industrialists it is arranging to place its less conspicuous but most important members of its research and designing offices.

For the A.C. of 3., G-2.

WALTER K. SCHWINN

G-2, Economic Section

Prepared by

MELVIN M. FAGEN

Distribution:

Same as EW-Pa 1.
U.S. Political Adviser, SHAEF
British Political Adviser, SHAEF

67
THE WHITE HOUSE
WASHINGTON

181

December 23, 1944

Memorandum for The Secretary of the
Treasury

Dear Henry:

What does your group
think of this plan?

E.R.



Otto Eisenschiml

1637 South Kilbourn Avenue
CHICAGO

December 15, 1944.

Dear Mrs. Roosevelt:

DEC 18 1944

When Germany is beaten and disarmed, it is reasonable to assume that she will resort to the development of secret weapons with which to attack us in the midst of peace. I have prepared the enclosed papers in regard to this problem. If you wish to read them, please do so in the sequence in which they are marked:

1. Post-war Enemy Number One. (Reprinted from The Chemist)
2. A story from the current (January) issue of Esquire, in which I fictionized the idea.
3. Reprint from Chemical and Engineering News with marked paragraphs.
4. Announcement of a meeting in which this idea was discussed.

The plan which I have outlined deals only with the protection of the United States, and should be taken in conjunction with other peace plans that have been advocated. In my paper "Post-War Enemy Number One", I have discussed some of the objections which have been raised; there may be others, but I doubt if there is one which I have not thoroughly considered, and to which there is no solution.

I feel that, unless we want to live in constant fear of such a sneak attack for years to come, the idea which I have suggested should be given serious consideration.

Sincerely yours,



Encls.

Mrs. Eleanor Roosevelt,
White House
Washington, D.C.

Post-War Enemy Number One

Otto Eisenschiml, F.A.I.C.

WHEN Germany has been conquered, what plans shall we make to insure a lasting peace?

Scientists, technologists and engineers who have done so much to win the war should have a prominent voice in the winning of peace; for successful peace like successful war depends upon the proper application and evaluation of science. Scientists as well as others may disagree on the proper solution for controlling Germany, but an agreement may be reached or approximated by a thorough discussion of the issues involved.

To obtain suggested plans for peace terms from chemists and chemical engineers, THE CHEMIST is printing "Post-War Enemy Number One" in the hope that it will arouse a thoughtful and productive response.

THE Germans are not beaten yet but, barring a miracle, they can no longer win. It is time to think of peace terms.

When Rome was young, its army

once was captured by a neighboring tribe. The victorious general asked his father what to do. "My son," said the old man, "you can do either of two things. You can send the Romans home, and load them with presents, making them your friends; or you can cut off their heads and there will be no more Romans." The son, thinking himself wiser than his father, chose a middle course. He disarmed his prisoners, humiliated them by making them walk under a yoke and then had them whipped out of camp. The next year the Romans came back and annihilated him and his tribe.

The comparison with the Versailles peace treaty is too obvious for comment.

No one intends to repeat the mistakes of 1919. Everybody is more or less agreed that the Germans must be decapitated, not literally, but in the sense that they will no longer be able to instigate other wars for a long time to come. This aim is the acknowledged crux of the coming peace; only its attainment is a matter of dispute.

Shall Germany be dismembered? Separate the Prussians from their southern brothers? The idea sounds

intriguing and may work for a while. After that, ways can be found to re-establish unity. When Austria was denied *Anschluss* to the Reich, she lowered her customs barriers and adjusted her judicial system to parallel that of Germany. If customs and passports had been abolished and the German monetary unit been adopted, it would have completed a practical union between the two countries. Can a reunion of the German states be prevented if they should try it along similar lines, as they most likely will?

Supervision of Germany's schools? Yes; this will undoubtedly be beneficial, but only superficially so. The Allied nations may write future German schoolbooks, but they cannot place supervisors in every schoolroom, nor can they control the influence of millions of parents who may preach hatred, vengeance or plain Nazism to their children at home. It is well to remember that the losing side of a war never forgets. We in the north have long ceased talking about the War Between the States, but it still is easy to stir up a heated discussion on it south of the Mason-Dixon line.

Disarmament? Or course. But disarmament was tried after the First World War and failed. Forbidden to build battleships larger than 10,000 tons, the Germans built their famous pocket-battleships, which are still considered among the most formidable instruments of war. Their army was reduced to a police force of

100,000 men, but it was recruited exclusively from former commissioned and non-commissioned officers, and thus formed the nucleus of the best army the world had seen up to the outbreak of the present conflict.

Alliances? Not worth the paper that bears the signature. *Treaties?* They are contracts without a judicial arbiter to enforce them.

If we force on our enemies dismemberment, supervision of schools, disarmament and any number of other things that have thus far been proposed, we still have not eliminated their lust for revenge, and there is no apparent way in which this can be accomplished. By shutting off their obvious channels for a military comeback, we shall only drive the German efforts underground. Manacled on hands and feet, caged within the confines of a small territory, they will use against us the only thing we cannot fetter, their brains.

German scientists will work day and night to perfect some new and terrible weapon, to be employed either for conquest, or, if that is not feasible, for revenge. *If we want to be certain that German genius, the existence of which no one denies, is held in bondage, we must close the scientific laboratories of our enemies, thereby making it difficult, if not impossible for them to hurt or destroy us by startling scientific discoveries.*

The argument will be raised at once that if we did this we would not only

inflict grave injustice on a conquered foe, but ruin his chance to re-establish himself in the world. Well, what of it? The German have not hesitated to close the Czech University of Prague and to burn the one at Naples. What they have done to other institutions of higher learning is not so well known, but it is certain that neither freedom of thought nor freedom of research has lately been included in their curriculae.

For years before the outburst of this war, the freedom of universities in Germany itself was severely restricted. Since there is no way of controlling the work done within the walls of laboratories, the only prevention against their being used against us is their abolition. Such a procedure is not dictated by a desire for punishment, but by the simple law of self-preservation.

What weapons could the Germans develop in secret if we left them to their own devices? No one can be sure of the answer to this question. Science has made such rapid progress under the pressure of war necessities that what looked impossible a year ago may be commonplace tomorrow. New avenues for scientific accomplishments have been opened that are bewildering. If the Germans, for instance, could beat us to a successful disruption of the atom, thus releasing undreamed quantities of energy, we might become as helpless as if they discovered the much talked about

death-ray.

Those who believe that to deprive German youth of university training in chemistry, physics and related sciences would mean depriving them of the opportunity to develop their minds, may feel at ease. The Germans would still be permitted to attend courses in mathematics, philosophy, medicine and poetry. This is more than the Nazis have conceded to the nations on whom has fallen Hitler's heavy hand. If the further question is raised as to how Germany can exist without chemical industries or others based on scientific control and research, we shall reply that this is Germany's problem.

There are two ways open to us: Either our merciless verdict will be that after this war Germany is not to be allowed such industries. Let her people turn to agriculture, weaving, or the export of fancy vests. This is the fate they decreed for France and other conquered countries.

Or, we may allow them industries which require control laboratories; but in that case these laboratories should be manned by chemically trained officers of Allied armies, whose allegiance is to their own governments, and who will furnish the industries to which they are assigned no more information than is vital to keep their plants in proper working order. No German should be allowed inside these laboratories.

That clandestine laboratories would

POSTWAR ENEMY NUMBER ONE

spring up in Germany in defiance of official prohibition may be taken for granted. The difficulties of equipping and maintaining them, however, would be enormous, both in regard to men and apparatus. It is one thing to conduct experiments in the open within the wide, well-equipped halls of an internationally known, richly-endowed college, and another to carry on important work by subterranean methods, without friendly contact with other scientists, without scientific journals, without meetings, and when the acquisition of every glass tube, every book, every foreign journal is a hazardous undertaking.

One may blend whiskies in a basement speakeasy, but to bring world-shaking discoveries to successful fruition there is well-nigh impossible. But even if German scientists were able to work out plans of destruction, in spite of all obstacles, the quantity and quality of their scientific output would be only a small part of what Germany could accomplish if we left their laboratories in full operation for a pursuit of vengeance.

Even high school laboratories should be taboo. In the hands of a desperate prisoner, locked up in his cell, a small saw and a monkey-wrench may become potent instruments. All scientific laboratories in Germany, without exception, will have to be abolished if

we are to have peace for a reasonable length of time. If we decree that German youth shall be denied the study of chemistry, physics, bacteriology and other sciences necessary for modern or future warfare, there will be no need for these laboratories. It may even be advisable to deport present German scientists to places where their talents could be directed or, if necessary, forced into inoffensive channels.

If we do all this, the Germans would not only be handicapped in preparing for a new war, but they would soon be hopelessly outdistanced if such a war would occur. Laboratories, scientific staffs, and chemical industries cannot be created with Aladdin's lamp. No matter how good the German armed forces were, they would not be able to cope with an enemy backed up by superior technical brains and equipment. This superiority, moreover, would grow during the hostilities in proportion to the power of scientific forces engaged on both sides.

If we, our children, and grandchildren are not to live in constant dread of a new secret weapon, German science must be completely sterilized. A peace treaty overlooking this factor will be as faulty as the one of 1919, and may lead to serious, perhaps disastrous consequences.

(Reprinted from THE CHEMIST, September, 1944)

The War of the Rheingold

Psychiatrists had neither remedy nor explanation for the plague of criminal insanity that spread chaos in New York

by OTTO EISENSCHIML

FICTION
R

"ANYTHING doing?" asked the police captain as he sauntered over to the desk sergeant, who sat at his desk, idly playing with his pencil.

"No, Captain. What do you expect in the dog days but a couple of mad dogs? Or a man beating his wife? Lord, but it's hot." He wiped the perspiration from his face with the back of his hand.

The telephone rang and the captain picked up the receiver.

"Now a man's gone mad, too," he announced. "Call the squad car. Man running wild in Central Park. Slashed a woman and two kids. A block north of Columbus Circle." He walked slowly back to his private office.

In a minute the phone rang again. The sergeant answered it, and a puzzled frown appeared on his forehead.

"Another guy gone crazy. Broadway and Fifty-sixth," he radioed the squad. "Killed a fruit peddler with a baseball bat and tried to brain the crossing cop."

A few moments later the sergeant stormed into the captain's room. "The whole town seems to have gone nuts," he cried. "Five more cases, two men and three women since you walked in here. They're attacking people with whatever they've got handy. I can't answer the calls as fast as they're coming in."

The captain stirred uneasily. "Get all the squad cars out," he commanded. "Looks as if somebody's selling a new brand of bootleg alcohol." But to judge from the tone of his voice, he was not convinced that this was the real cause of the murder wave.

The early afternoon edition of the *Evening Bugle* was about to go to press. Four times the news editor had ordered the searhead changed, and he sighed deeply when the deadline was passed and no further changes were possible.

"What do you think's gotten into all these people?" he asked one of the old reporters, who was staring at his shoes, a neglected cigarette dangling from his mouth.

"Boss," said the reporter. "I don't like the looks of this. There's something uncanny about all these killings, and attempted killings. Five in one precinct within one hour, six in another, eight here, ten there. I have never heard of anything like it in all my twenty-seven years of newspapering."

The editor glanced at the latest Associated Press report. "Holy Moses," he exploded. "Stop the presses. All hell has broken loose in Philadelphia, too. Seventy people attacked on the streets, twenty-two dead. And listen to this: two of the crazy fellows were policemen in uniform."

Worse news was to come from Washington. The national capital reported a record of over one thousand cases of violent insanity up to the time the wire was filed. Philadelphia and New York had a smaller casualty list, but even they found it impossible to house all the maniacs in their psychopathic wards. Police stations were crowded with raving men, women and children. The hospitals could not handle the number of the injured, and churches were made to serve as temporary morgues. Phy-

sicians, psychiatrists and psychoanalysts stood aghast and helpless in the face of the catastrophe. The only theory they advanced was that the heat must have affected the minds of the afflicted. But the heat was no worse than usual at this time of the year. Moreover, Boston, Providence, Trenton, Newark and other nearby cities had failed to register a single killing, although the temperatures there had ranged as high as those of the areas affected.

The next day brought such an intensified outbreak of violence in the three stricken cities that the authorities gave up all attempts to cope with it, especially as policemen, doctors and hospital attendants by the score also fell victim to the strange scourge. By noon thousands of insane people were running amuck. Mobs of

madmen attacked peaceful pedestrians or each other. Crews of streetcars, buses and subways not yet bereft of their senses left their posts and fled to the nearest places of safety. Soon all streets were deserted. Stores closed and locked their doors, women and children barricaded themselves in houses quickly turned into fortresses. The radio blared out messages of wanton wholesale slaughter, with no one to stop the killers. And still the madness remained confined to the three big Eastern cities. Travelers who had gone to other places had not carried the disease with them. The experts were too perplexed to offer advice or venture predictions. Behind the doors of their offices or homes they were as panicky as the rest of the population.

The cabinet, called by the President, met in a solemn mood.

"Gentlemen," the President said, "you have read the papers and listened to the radio broadcasts. The whole country is in a paroxysm of terror. Business in Washington, Philadelphia and New York is paralyzed. The stock market has had such a slump that its governors have voted to close it. The medical department of the Army acknowledges its inability to diagnose or stem the terrible epidemic which has descended upon us. Outside experts likewise have failed us. We have to meet a worse catalysis than an enemy invasion, because we have no one to surrender to, even if we were inclined to do so. Has any of you gentlemen a suggestion?"

He stopped and patted his forehead with a silken handkerchief. The silence in the big room remained unbroken.

"I have had a call from the German Ambassador," the President continued. "He desires to see me on what he calls a most urgent matter. I have asked him to make his call now, and in this room. I want all of you to hear what he wishes to say. It may have a bearing on our present situation."

He rang a bell, and in a few moments a servant ushered in Baron von Taggerbach. The German Ambassador was a tall man of military posture with a face like a stone mask. He bowed stiffly, but ignored the President's invitation to be seated.

"Mr. President," the ambassador began, "your country has



"H, by, ahem! The Navy is joining us!"

been visited by a calamity greater than the plague of the medieval ages. I am here to offer my help."

"Your help?" the President asked, raising his eyebrows. "What can you do?"

"It occurs to me," the ambassador continued, "that our scientists may know how to stop the disease against which you are now battling in vain."

The President gave the Baron a searching look. "And why, pray, would they want to help us?"

There was an almost imperceptible pause before von Paggerbach answered, "Perhaps they hope that by rendering you a signal service the severe conditions of the Paris Peace Treaty will be modified."

"Impossible. The Paris Peace Treaty was signed by other powers besides ourselves," the President replied.

"I think they, too, can be brought into line," the ambassador said, and an enigmatic smile flitted over his face.

The President rose. "I thank you for your offer, Baron von Paggerbach, and we shall consider it. If you will be good enough to await our decision in the next room..."

The German Ambassador clicked his heels, bowed and withdrew. The door had scarcely closed behind him when the Secretary of War was on his feet.

"The scoundrel," he cried, "the inhuman, unspeakable scoundrel! This is blackmail in its lowest form. Do we have to submit to it?"

"What else can we do?" the Secretary of the Treasury asked. "Wait until our entire population has been turned into murdering lunatics? If the Germans have a remedy, let's get it at all costs."

"If they have a remedy," sneered the Secretary of the Navy.

"Well, that is one thing we can easily ascertain," the President decided. "I propose to ask the German ambassador for proof before we consider his proposition. Do I hear any objections?"

The cabinet members agreed that the experiment was worth trying. Baron von Paggerbach, called back into the conference room, received the decision without emotion. The proof, he promised, would be forthcoming and would be utterly convincing.

During the next day not a single case of the new insanity was reported from any place in the United States. But cables and radio messages from Europe showed that the mysterious affliction had now started to play havoc in London, Paris and Moscow. English, French and Russian medical men were as helpless as their American confreres. In desperation they tried every known pharmaceutical product; they tried hypnosis, shock cold-water treatment, artificial fever, sedatives, even blood-letting. Nothing seemed to check or even mitigate the violence of the sickness. The scourge swept through Europe like a searing flame, leaving thousands of de-

mented people in its wake, and its end was not in sight.

The President of the United States sat in his study, immersed in somber thoughts. The German ambassador, who had again asked for an audience, was announced and shown in. His stony face bore a sardonic expression, but his attitude was correct and respectful.

"Mr. President," he asked, "have I proved my case?"

The President shook his head. "I am not certain that you have. Our experts doubt the ability of your scientists to control the disease over such a wide distance."

"Mr. President," Baron von Paggerbach said, "it is time to

talk what you in America are pleased to call cold turkey. Have you ever read or seen Wagner's *Rheingold*?"

The President lifted his head in surprise. "No, sir," he replied. "But what possible bearing can that have on our subject?"

"A great deal. Of course, you Americans think of culture as an exclusively English trait. Our German *Kultur* is mentioned only with contempt. But if your representatives at the Peace Conference had known our Wagner as well as they knew their Shakespeare, you would not find yourselves in your present position."

"I do not think I follow you," Baron von Paggerbach seated

himself on a velvet-covered chair before he spoke again. "Let me tell you the story of *Das Rheingold*," he said. "I assure you it will be worth your while to listen."

"Alberich, the king of the dwarfs, had accumulated a fortune in golden trinkets, all hewn from the bowels of the earth. Wotan, chief of the gods, visited Alberich for the purpose of robbing him to appease the giants with wealth for building Valhalla. Now it so happened that Alberich's brother had forged some of the gold into a helmet which would transform the wearer into any shape he pleased; a secret weapon, shall we say? His most precious possession, however, was a

Continued on page 132



"I'm sorry, lady, but that isn't for sale—that's my hat!"

The War of the Rheingold

Continued from page 63

golden ring—the ring of the Nibelungs—which made its owner the all-powerful ruler of the universe; for by merely twisting it he could have every one of his wishes come true. Am I boring you, Mr. President?”

“No, Go on.”
 “Wotan called on Alberich and conquered him by getting the helmet from him. As a price for peace he demanded all the gold the dwarf had accumulated. Alberich agreed. Inwardly, he gloated at the stupidity of his conqueror, for did he not still have the ring, by means of which everything he had lost could be reproduced in time? But Loge, Wotan’s cunning adviser, knew the potency of the ring and made Wotan tear it from Alberich’s finger by brute force. This ended Alberich’s power forever. It even killed all his hope for a future comeback.”

The President straightened up in his chair. “Continue, please,” he said.

Von Paggerbach jumped to his feet. His features suddenly seemed to become alive, and he towered over the President like a vengeful demon.

“Your peace commissioners didn’t know the story of Alberich, did they? So they took from us our army, our navy, our industries. We lost everything, everything. But you forgot to take from us our ring. Fools that you were—you left us our research laboratories. All our scientists had to do was to make history repeat itself.”

The ambassador stopped. “You don’t understand me, Mr. President? I shall make myself clearer. After the first world war you took our navy and restricted our new warships to ten thousand tons in size. Well, we abided by your specifications and built the best pocket battleships ever known. You reduced our army to a hundred thousand men, and we created out of it the best army the world has ever had to reckon with. After the second world war you took from us our army, navy, manpower, even our industries.

You made us rebuild what war had destroyed. Our men are now working as slaves in foreign countries. Our factories are closed. But you neglected to take from us our research laboratories. And so, without soldiers, without navy, without guns, we set out to beat you through science. While you made automobiles and television sets and used science to fight disease, our scientists created new diseases. Now they can turn a knob and presto! a thousand men in New York, Washington, Paris or Moscow become homicides. A thousand today, tomorrow a million or the whole world. Mr. President, I have had my say. It is your move.” He bowed and sat down.

The President rose from his chair. Standing erect, he faced his caller. “And if I give an order, a million men will march into Germany within twenty-four hours, with no one to oppose them.”

“To be transformed into a mob of insane beasts who will slaughter each other. And remember this, Mr. President. The German government has nothing to do with all this. It does not even know the whereabouts of these research laboratories.” The baron smiled cynically as he watched for the President’s reaction.

The President sat down with a weary gesture. “What are your conditions?” he asked.

Von Paggerbach’s eyes shone. “*Their* conditions, if you please. The Peace Treaty of Paris must be torn up. Germany must regain her supremacy. The details are contained in this proposal.” He took a document from his briefcase, glanced at it a moment and extended it to the President.

The President took it and held it in his hand, unread. He seemed to have aged years in the last hour and it was an effort for him to answer.

“I shall call a cabinet meeting tonight,” he declared in a low voice, after a moment or two, “and you will have my decision tomorrow.” #

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BACKSTAGE WITH ESQUIRE



Jack Benny

JACK BENNY began playing his now famous violin at high school dances in Waukegan, Illinois, and later, teamed with a pianist, toured the vaudeville circuit. Joining the Navy during World War I, he was assigned to entertainment, discovered that the gobs enjoyed his patter more than his music; hence, he became a comedian. In 1928 some M-G-M executives caught his vaudeville act in Los Angeles and signed him for a role in *The Hollywood Revue*. Movie stardom came in 1936 with *Broadway Melody*. Meanwhile, after playing the lead in *Earl Carroll's Vaudeville* on Broadway, he had begun to hit his stride in radio. Writers Bill Morrow and Ed Beloin assist him with his radio scripts, which depend more on humorous situations, like his eternal feud with Fred Allen, than on individual gags. His Crossley rating has been consistently tops. He lives in Beverly Hills with his wife (Mary Livingstone on the air) and their adopted daughter.

FRANK ELKINS writes a daily column, *Ski Slopes and Trails* for the *New York Times*, where he started as a copy boy in 1927, giving up the post of physical instructor at the late Artie McGovern's gymnasium while attending N. Y. U. He keeps skiers apprised of weather conditions on a weekly



Frank Elkins

radio program and is the author of a book called *The Complete Ski Guide*. His harmonica playing, singing and yodeling are familiar to every mountain goat in the ski country. His two-and-a-half and eleven-year-old sons are fanatic skiers, as is Mrs. Elkins. During his scholastic years he boxed at N. Y. U., swam the breast stroke, played goalie in soccer and ran the 440 and 880. He once worked across to Europe in the steerage of the old *President Harding*, confined to the bowels of the liner for "having addressed a superior officer, the captain, without having been spoken to first."

IRA WOLFGERT, a veteran reporter for the North American Newspaper Alliance at thirty-six, got his most gratifying scoop when he was the only correspondent to cover the Fighting French expedition to St. Pierre and Miquelon, off the coast of Newfoundland. Sent by the N.A.N.A. to Guadalcanal in '42, he saw the action described in his *Battle for the Sol-*



Ira Wolfert

mons, which won a Pulitzer Prize. His second book, *Torpedo 8* is the story of the bomber squadron which, following the Midway disaster, adopted the motto: "Attack—and Vengeance." He has also written a novel about the numbers racket, entitled *Tucker's People*, which he calls "the story of American business from Rockefeller to Hitler." His wife, Helen, is a poet; they have a son and a daughter.

BRENDAN GILL (*A Home with the Latest Gadgets*, page 70) writes: "I was born on October 4, 1914, in Hartford, Connecticut, which I regard as the Athens of America, the Hub of the Universe and a fine place to live. As it happens, however, I don't live there. I graduated from Yale in 1936, and remain a shameless admirer of my fostering mother. I sold my first piece to the *New Yorker* in 1936 and have been more or less attached to that magazine ever since. Also in 1936 (a fine, dry

year), I married Anne Barnard of Asheville, North Carolina. She, our children and I live in an eighteen-foot-wide house in New York in winter and a seventy-foot-wide house in Norfolk, Connecticut, in summer, and in general enjoy the easiest and most agreeable way of life you ever heard of. Don't bother to knock on wood. I just did."

JOHN L. E. PELL and CLAY PERRY are co-authors of two historical novels and are working on a third, from which *Greatest Gold Strike in America* is taken. Mr. Pell's father was a forty-niner in the California gold rush and he himself did some prospecting for silver in Northern Ontario sometime after the rush to the Porcupine area.

While MAX SHULMAN was attending the University of Minnesota he wrote a flippant column in the student newspaper and was editor of the campus humor magazine. His writing struck the ris-



Max Shulman

ibility of Doubleday Doran and he was commissioned to write *Hardfoot Boy with Cheek*, a satire on college life which they published in 1943. He disclaims any memory of having written his second book, *The Feather Merchants*. "Last year," he says, "I used to practice nightly on my typewriter trying to get my speed up to fifty words a minute. My wife, an economical young woman who knows 275 ways to fix left over meats, would save the pages as I tore them out. This book must be there."

CHARLES EDWARD GRAY, author of *Episode at a Nazi Chess Club* writes: "I'm afraid I'm a hodge-podge sort of person. I own number of copyrights on things I've invented or designed, ranging from an automatic accounting system for small businesses to architectural plans for a war memorial. A year ago, while engaged in abortive experiments with three-dimensional moving pictures,



Charles Edward Gray

discovered a phenomenon of light projection which physicists thus far haven't been able to explain. In collaboration with Pfc. Joseph R. Hoeker, I am developing a 'different' type of Shakespearean presentation for post-war exploitation. Awhile back I resigned from the accounting department of a California gas company to devote myself to full-time writing. I am thirty-two, a bachelor, a confirmed Los Angeleno and, as a chess player, a dub!"

OTTO EISENSCHIML was born in Vienna, Austria, as an American citizen. He has had a distinguished business life as a chemist with the Carnegie Steel Company in Pittsburgh, the American Linsced Company in Chicago and as owner of the Scientific Oil Compounding Company, also in Chicago. He is co-author of the Eisenschiml-Copthorne method of determining fish oils in vegetable oils; was founder and first president of the National Soybean Oil Manufacturers' Association. His writings have been chiefly concerned with the life of Abraham Lincoln; they include *In the Shadow of Lincoln's Death* and *Why Was Lincoln Murdered?*, which was dramatized by Paul Horgan as *Mr. President* and presented at the Shubert Theatre in New York in 1942. #



Otto Eisenackiml

Reprinted from **CHEMICAL AND ENGINEERING NEWS**, AMERICAN CHEMICAL SOCIETY,
Vol. 22, Page 1721, October 10, 1944

Japan's Secret Weapon. Barclay Newman. Current Publishing Co., New York, N. Y. Price, \$2.50.

THE American scientist has done well in helping win this war; now it is his duty to help win the peace. The invasion of Poland by Germany on September 1, 1939, and our own tragedy at Pearl Harbor have taught us that the word "peace" has lost its old meaning. Our defeated enemies may strike back at us without warning at any time in the future, peace or no peace, and it is up to the American scientist to protect his country against such a catastrophe.

The author, who is a science analyst, a graduate of Phillips Exeter Academy and Princeton University, and who has worked on antimalaria drugs and other problems in the U.S. Public Health Service, points out one possibility against which we should be prepared. He believes that Japan has laid out a program of oligodynamic warfare—the warfare that deals with bacteria, viruses, and fungi. He thinks that Japanese scientists have gone far in the art of spreading diseases through these media, and that they will attack us suddenly when they have developed antibiotics to prevent a flashback at their own people, and while our own medical men are still ignorant of any remedies.

So far, the author is on solid ground. Peace-loving nations always have suffered through their lack of imagination regarding military matters. The first gas attack the Germans made in 1915 should not have come as a surprise to the Allied forces, because their High Command was fully informed by spies and deserters of what the Germans in-

tended to do. Utter lack of imaginative power made them shake their heads and refuse to believe that this new type of warfare could happen. There is no need to repeat the story of General Mitchell, who had enough vision to foresee the consequences of aerial warfare but was unable to convince his superiors. It is well, therefore, that someone should point out at this time the possibilities of what the author terms "oligodynamic warfare".

Unfortunately, Mr. Newman is not satisfied to treat this possibility as a future contingency; he wants to prove that the Japanese are already active along these lines, but he has not sufficient proof to substantiate his contention. The only actual facts at his disposal are contained in an official report of the Chinese Minister of Information, describing several Japanese air raids which spread bubonic plague in Chekiang Province. Rice and wheat grains mixed with infected fleas were dropped on a peaceful population, although with meager results. Mr. Newman is of the opinion that the Japanese do not intend to use bubonic plague as their final weapon, because our medical men know how to combat this scourge, but that these raids were a ruse to throw us off the track; their real attack, he thinks, will come from an entirely different and unexpected direction.

Most of the book is devoted to a detailed description of the role which fungi, viruses, and finely divided chemicals can play in spreading black fever, leprosy, malaria, dysentery, sleeping sickness, infantile paralysis, influenza, and cancer. Mr. Newman then adds some other diseases, now practically

unknown in our climates. He also indulges in some speculation as to whether our enemies have already used malaria infection against our troops, and to what extent the influenza of the last war was due to their experimental activity.

The book is not well written, and its message, with few exceptions, is not fully authenticated. If the author had limited himself to pointing out what may happen in the future, he would have been more effective than by trying to point out things that may or may not already have happened in the past. His pictures of the great "Professor Dr." Miyagawa and his student Vio are ultramelodramatic and very much like serial movies of the horror type. The imaginary conversations between these cruel, inhuman Japanese scientists are slightly ridiculous. Mr. Newman evidently does not believe in the efficacy of understatement.

It is only fair to record, however, that the author acknowledges the counteractivities of our own Government against this kind of warfare. It is too bad that a valuable idea, which rates the length of a magazine article, should have been blown up into a book for which there was not enough data on hand.

The conclusion which Mr. Newman does not draw, but which seems justified, is that it will not do to lower our guard against any and all possible secret weapons, whether based on new discoveries in bacteriology, chemistry, or physics. Neither our scientists nor our War Department must again relapse into a state of complacency after our present enemies have been beaten.

OTTO EISENSCHL

4

AMERICAN INSTITUTE OF CHEMISTS

CHICAGO CHAPTER

OPEN MEETING

WHAT SHALL WE DO WITH GERMANY?

Speakers: Dr. Otto Eisenschiml, President
Scientific Oil Compounding Company

Mr. E. Gordon Fox, Vice President
Frey Engineering Company

Dr. A. J. Carlson, Professor Emeritus of Physiology,
University of Chicago President, American Association
for the Advancement of Science

Dr. Eisenschiml in his "Post War Enemy Number One" is already on record as favoring the prohibition of scientific laboratories in Germany. He will present the arguments in favor of this method for keeping Germany impotent.

Mr. Fox will discuss the engineers' viewpoint and various technical ways of insuring a peaceful Germany.

Dr. Carlson will present "The Essentials of an Enduring Peace as Viewed by a Biologist."

DECEMBER 8, 1944

HUYLER'S RESTAURANT
310 SO. MICHIGAN AVE.

Dinner 6:00 P. M. (\$1.70, including tips). Make reservations with Dr. C. L. Thomas, Universal Oil Products Co., Riverside, Ill. Telephone Lawndale 3340.

The program will begin about 7:15 p. m. If you cannot attend the dinner you are invited to attend the talk.

CABLE TO AMERICAN LEGATION, LISBON, FROM WAR REFUGEE BOARD.

Please deliver following message to Joseph Schwartz, care of Robert Pilpel, from M. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE AFTER CAREFUL CONSIDERATION YOUR BUDGETARY REQUEST FIRST QUARTER COMMITTEE FELT NECESSARY BUDGET ONLY FIRST TWO MONTHS SINCE ONE MONTH WOULD NOT GIVE YOU SUFFICIENT LATITUDE AND THREE MONTHS WAS TOO MUCH UNDER PRESENT CONDITIONS. COMMITTEE ESTIMATED MAXIMUM INCOME FOR 1945 AT \$24,000,000 WHICH VERY OPTIMISTIC. ON THIS BASIS QUESTION AROSE WHETHER ADVISABLE BUDGET LARGE SUMS FIRST QUARTER WITH INEVITABLE NECESSITY MAKE DRASTIC REDUCTIONS LATER IN YEAR. COMMITTEE FELT THIS MUST BE PRESENTED TO YOU FOR YOUR CONSIDERATION. IF URGENTLY REQUIRED COMMITTEE PREPARED TO APPROVE FOLLOWING ITEMS MONTHLY IN THOUSANDS FOR JANUARY FEBRUARY: PORTUGAL 37, SPAIN 80, TANGIERS 17, FRANCE 250 PLUS ONETIME GRANT CONSISTOIRE 100, BELGIUM 50 PLUS ONETIME GRANT 200, GREECE 75, LIBERATED ITALY 30, NORTH AFRICA 15, SWEDEN 1 PLUS HACHSCHARAH FIRST HALF 3 1/2, LIBERATED POLAND 150, TURKEY 10, EMIGRATION 50, THROUGH SWITZERLAND ONE THOUSAND, NON-LIBERATED POLAND 100, PARCELS SERVICE TEHERAN 50, IN ADDITION MAGNES MAKING COMMITMENTS 300 FOR SHOES OTHER SUPPLIES PURCHASEABLE PALESTINE MAKING TOTAL TWO MONTHS \$4,743,500 WHICH INCLUDES FOLLOWING MONTHLY GRANTS. SOUTH AMERICA 40, CULTURAL 30, ADMINISTRATION 60, MISCELLANEOUS 25. WE REALIZE MANY EMERGENCY SITUATIONS WILL NECESSITATE EXTRAORDINARY ONETIME GRANTS FOR WHICH NO PROVISION IN ABOVE BUDGET. WE MUST THEREFORE LEAVE YOUR JUDGMENT WHAT REDUCTIONS POSSIBLE IN ABOVE MONTHLY AMOUNTS FOR JANUARY FEBRUARY ORDER PROVIDE FOR SUCH EMERGENCY SITUATIONS FIRST TWO MONTHS. ALSO PLEASE CABLE SOONEST WHAT REDUCTIONS YOU CAN MAKE AFTER FEBRUARY IN ORDER BRING US WITHIN INCOME POSSIBILITIES FOR 1945. WE HOPE PARTICIPATION OF COUNTRIES LIKE ENGLAND SOUTH AFRICA SOUTH AMERICA AUSTRALIA WILL BE MUCH MORE SUBSTANTIAL IN 1945 TO SUPPLEMENT WHAT JDC CAN DO AND RESULT IN MEETING MORE ADEQUATELY OUR REQUIREMENTS. UNQUOTE

THIS IS WRB LISBON CABLE NO. 124.

10:45 a.m.
January 1, 1945

Norms 12/30/44

RA-875
Distribution of true
reading only by special
arrangement. (SECRET W)

Lisbon

Dated January 1, 1945

Rec'd 11 a.m.

Secretary of State

Washington

3, January 1, 11 a.m.

THIS IS WRB-282 UNITARIAN OR CHARLES JOY FROM
LOUISE PAYSON.

Would like transfer funds remitted in May for
relief Spain to Bryan account. Number these refugees
increasing constantly. In greater danger than ever.
140 men, women, children now on relief. Medical
clothing expenses heavy.

NCRWEB

WRB

NOT TO BE RETRANSMITTED

SECRETCOPY NO. 3OPTEL NO. 424

Information received up to 10 a.m. 1st January '45.

1. NAVY

Home Waters. Night 30/31st. One of H.M. destroyers mined or torpedoed west of Orkneys has now reached port.

2. MILITARY

Western Front. On Southern flank of Ardennes salient United States forces have reached right bank of Sauer River most of way between Echternach and Diekirch. Further west strong enemy pressure being met in Bastogne sector.

Northern flank of salient situation relatively quiet and regrouping in progress.

Further north sharp exchanges took place north of Geilenkirchen and north of Tilburg.

Eastern Front. Russians made further progress south of Lucenec and have cleared frontier from north west of Budapest for 100 miles to the east. During fighting north west of city, 5,000 prisoners taken.

Burma. Our forces now 19 miles northwest of Ye-U on River Mu. In Arakan one of our patrols reached Rathedaung.

Greece. Although opposition remains strong in western Piraeus there has been general decrease in rebel resistance in south east Athens. ELAS forces now disposed in two main groups in the north of the city. One in districts of Averof and Kipseli north of Mount Likavittos and the other in Akadhimia platonos further west.

In Western Greece evacuation of forces of General Zervas from Preveza is complete.

3. AIR

Western Front. Night 30/31st. 1744 tons dropped Cologne (Kalk) railway centre and 507 tons Houffalize; bombing through cloud but reported concentrated.

Day 31st. 153 Lancasters (3 missing) dropped 741 tons on marshalling yards Vohwinkel (near Solingen). Mosquitoes successfully attacked Gestapo H.Q. at Oslo. 1233 escorted U.S. heavy bombers dropped total of 3110 tons oil targets and aircraft factories north west Germany and communications centres behind area of enemy counter offensive; good results on two oil targets Hamburg and on aircraft factory Wezendorf. Otherwise results mainly unobserved. Enemy casualties 86:11:21 for loss 3 heavy bombers, 10 fighters (5 believed safe).

578 aircraft operated Northern section of front 695 central section and 217 Southern section while further 237 provided fighter cover; 19 enemy aircraft destroyed, 23 Allied outstanding; large number road and rail vehicles destroyed or damaged including 39 AFV.

18 Spitfires attacked rocket sites Hague area. Coastal Command Halifaxes attacked 4 ships off the Skaw damaging one of 1,000 tons. Mosquitoes set on fire 2 vessels 2/3,000 tons Flekke Fiord.

Night 31/1st. 368 aircraft (4 missing) despatched; 166 Osterfeld marshalling yard, 73 Berlin, 28 Oslo (shipping), 101 other operations.

Mediterranean Front. On 30th adverse weather restricted operations. 644 aircraft attacked close support and communication targets North Italy.

Burma and Siam. Night 29/30th. 16 Liberators (2 missing) laid sea mines Rangoon River and off Bangkok.

Day 30th. 21 Liberators attacking Taungup road destroyed 2 bridges, 150 miles North West of Rangoon.

4. HOME SECURITY

Night 31/1st. 6 rocket incidents reported.

January 2, 1944
10:45 a.m.

HMJr: Hello.

Operator: Congressman Doughton.

HMJr: Hello. Hello.

Robert
Doughton: All right, Henry.

HMJr: How are you?

D: Well, fairly good, thank you. How are you?

HMJr: I'm pretty good, Bob.

D: Well, you came through in flying colors on your Bond Drive and everything else and I congratulate you in the splendid work you've been doing and I appreciate your fine cooperation and I want to say that I hope this New Year brings you every blessing, including peace to the world, yourself, family and everybody else.

HMJr: Well, that's mighty fine and I wish you the same....

D: Thank you, Henry.

HMJr: and the more of it. Now, Bob

D: Yeah.

HMJr: you most likely saw Jimmy Byrnes' statement.

D: Yeah, I read the headlines and read down part of it; didn't have time to read it all. I just got in this morning and I found my desk covered -- I didn't get in until up in the morning a little, and found my desk covered with important mail, but I read the headlines and read down some of it.

HMJr: Well, I just wanted to let you know that we, over here in the Treasury, were not consulted on that part of the message that has to do with taxes. See?

D: Well, I didn't get to that. What did he say?

HMJr: Well, he's got quite a lot to say about taxes.

D: Has he?

HMJr: Yeah.

D: Well

HMJr: And I just wanted to let you

D: does that mean now that you -- you might not be in full accord on that point?

HMJr: Well, I notice he said at the press conference that he's not -- that he's -- that Byrnes has also not consulted the President.

D: That what?

HMJr: I'm quoting from the front page of the Post.

D: Yeah.

HMJr: At a press conference on the report Byrnes told reporters that the President had not seen the report, "which represents my own views and my recommendations to him." That is Byrnes speaking, you see?

D: Yes.

HMJr: That's on the front page of the Post.

D: Well, now, when -- when will your views be out?

HMJr: Well, the President is going to say something on taxes in a Budget Message, you see?

D: One thing that Byrnes did say that I was in full accord with and want to talk to him about and congratulate him on and that is calling these 4-F fellows under draft and putting them to work somewhere. They're just loafing around down home.

HMJr: Yeah. Well, I agree with him on that.

D: It's a disgrace. And I'll tell you another thing, Henry.

HMJr: Yeah.

D: A lot of these -- I'm not talking about you, for I don't know anything about it, and I guess it's all right, but a lot of these Departments here -- and Bureaus -- are overstaffed with fellows wearing a uniform, just hanging around doing nothing.

HMJr: Well, that's not true in the Treasury.

D: How's that?

HMJr: That is not true

D: Well, I've not -- haven't any right to believe or even think it is in the Treasury, but I was down here -- I've been down to several of them and the fact is one secretary admitted to me that the -- said the executive departments are much better staffed than the legislative.

HMJr: Yeah.

D: Well

HMJr: Well, I didn't know that you might read this part about taxes

D: Well, I'll certainly read that today....

HMJr: and

D: just as soon as I can.

HMJr: Because we've got

D: Does he talk like he wants tax legislation now?

HMJr: Well, he -- you'd better read it -- but there are a number of things in there and evidently he did not consult the President and he certainly didn't consult us.

D: Yeah.

HMJr: And I -- because I didn't want you to get the feeling that after the fine work we've been doing with the Joint Committee, you see? -- that we'd sort of jumped the gun on you.

D: Well, I won't think that. Well, I -- if I thought that, you'd be the first one I'd take it up with.

HMJr: Well, I just wanted you to know.

D: Yes. Well, I'm sorry if he's thrown anything in it that will embarrass any of us about it, but I -- I just imagined when I read -- saw he had made a statement that he wouldn't have issued it without submitting it to the Chief.

HMJr: Well, evidently he did not. He says he did not.

D: Uh huh. Well, I may want to make some comment on it when I see it. I don't know.

HMJr: Well, I

D: Somebody called me a while ago to know what I thought of his statement and I told him that I had just read the headlines, as usual, and I was in accord with what Byrnes did -- I had great respect and confidence for him but I hadn't read all of his statement.

HMJr: Yeah.

D: Somebody called -- newspaper called me a while ago....

HMJr: Yeah.

D: about it.

HMJr: Well, I just wanted to be sure that you and I were straight.

D: Well, we're straight and we'll be straight and if anything cooks, I'll call you first.

HMJr: Thank you.

D: And you do me the same, and I want to see you sometime, too.

HMJr: That I do, also.

D: Thank you, Henry.

HMJr: Eye.

D: Thank you for calling. Good bye.

January 2, 1944
10:51 a.m.

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Harold
Smith:

How are you?

HMJr:

Fine. I sent you a message through Jones yesterday and I don't know whether he had time to give it to you.

S:

No, I haven't seen him yet.

HMJr:

Well, the message was: I appreciated the full cooperation that we were getting from you and your Bureau on the Message, and that I thought that it would be very helpful. And then this morning -- the reason I'm calling you -- I picked up this newspaper and for the first time I saw this -- that Eyrnes went out on the end and had lots to say about taxes and bonds and fiscal matters and I was not consulted.

S:

Yeah.

HMJr:

And I wondered if you saw it in advance.

S:

No. No, I didn't know a thing about it. I was asking the boys here in the office this morning the same question you're asking me. We -- I find that on some of their figures -- I think it involves Lease-Lend -- that they were wrong and I don't know whether they got them corrected or not.

HMJr:

Well, the amazing thing is because -- I think what's-his-name -- Jones was over here about six hours yesterday.

S:

Yeah.

HMJr:

And we went over very, very carefully anything which we felt was of interest to us.

S:

Yes.

HMJr:

Particularly the tax part.

S:

Yes.

HMJr:

And we decided we'd cut it right down to a minimum.

S:

That's right.

HMJr: And as a matter of fact, I said to Jones, "What about this accelerated depreciation?" So he said, "Well, we don't like it over there in the Budget."

S: That's right.

HMJr: "We don't want to say anything about it." Well, Byrnes has got about five hundred words on that.

S: Yeah.

HMJr: I'm just using that as an example.

S: No, Jones -- Weldon Jones, here, or any of the other boys that I know of are -- are against the idea and I think your staff people agree with them on that

HMJr: Yeah.

S: and we agree with them.

HMJr: But I'm just using that as an example.

S: Yeah.

HMJr: I don't see how -- I mean, I don't see how the Administration can function if one person is going to go out in advance of the President's Budget Message

S: Yeah.

HMJr: and make

S: Of course, I think the set-up is wrong. I have no hesitancy in saying so because I think that the law gives -- I always feel I'm working for the President, but here's a law giving Byrnes power independent of the President, doesn't it? I -- we sent around even on reports, you see, recently at the request of the President, a bulletin which said that any annual reports recommending legislation should be properly cleared as all other reports are cleared

HMJr: Yeah.

S: and here's one that so far as I know there's been no clearance on.

HMJr: Well, after all Mr. Byrnes told

S: I don't know, you see, he may have talked to the President about these things.

HMJr: Well, not according to the press. On the front page of the Post he said that the President had not seen the report "which represents my own views and recommendations to him".

S: Well, if we all did that, it would be a nice mess, wouldn't it?

HMJr: Yeah. Well, I -- I'm in the process of writing him a letter -- the President -- on this thing.

S: Yeah.

HMJr: Because I can't function that way. Either he holds me responsible or he doesn't.

S: Yeah.

HMJr: Because we've been getting along beautifully with Congress with the Joint Committee on Tax Legislation, and this just cuts right across us.

S: Yeah.

HMJr: Well

S: Well, we didn't know anything about it.

HMJr: Well, I didn't either. Thank you.

S: All right.

January 2, 1944
10:59 a.m.

HMJr: Hello.

Operator: Senator George.

HMJr: Hello.

Senator
George: Hello, Henry. How are you, sir?

HMJr: Fine. A very happy New Year to you, Walter.

G: Thank you, sir, thank you. Same to you.

HMJr: I hope that this will be better for all of us.

G: I hope so, Henry. I certainly hope so.

HMJr: It couldn't have been worse.

G: What did you say?

HMJr: Last year could not have been worse.

G: No, this year is -- it isn't starting so good right now but somehow or another I hope that as it grows worse it may speedily come -- turn better.

HMJr: Well, I hope you're right.

G: Yes.

HMJr: Walter, the reason I'm calling you is this: as you know, we've gotten along splendidly all summer and fall with the Joint Committee on Tax Legislation.

G: Yes.

HMJr: I think that we had the best -- we feel the best cooperation on both sides we've ever had.

G: Well, that's good.

HMJr: Then this morning Jimmy Byrnes comes out with this statement making recommendations on taxes. Hello?

G: Yes.

- HMJr: And I just wanted you to know that I was not consulted and had not seen it in advance.
- G: Well, I didn't think so. Now, of course, there have been certain of the -- certain of the Aircraft people and others have been pressing me along the same -- part of the same lines. They want to get the ten percent with reserves that's been held up and make it immediately applicable.
- HMJr: Yeah.
- G: And some other things, but I'm surprised that Jimmy would say anything about it. The first of that statement is all right -- that there can't be any general revision until the war gets over.
- HMJr: Yeah.
- G: And if he'd stand on that I think it would be much better.
- HMJr: Well, he made a lot of definite recommendations. Of course, in his statement he said he didn't submit it to the President in advance.
- G: Yes.
- HMJr: And he certainly didn't submit it to me.
- G: Yes.
- HMJr: But I want you to know, and I just talked to Bob Doughton -- as far as I am concerned before I make any recommendations on taxes, I'm going to sit down with the Joint Committee on Taxation.
- G: That's fine and I think that's the attitude we should all have, Henry, this year.
- HMJr: And I thought that we had made more progress during the fall than we ever had.
- G: Uh huh.
- HMJr: And I wanted you to know that what Byrnes said evidently doesn't in any way commit the President or me. Now, as a matter of fact, for your own private ear, we spent most of yesterday with the Bureau of the Budget on the tax part in the President's message....

G: Yes.

HMJr: with the result that it really says nothing.

G: I see.

HMJr: And I was under the impression that the President's Budget Message took precedence over everything else.

G: Well, it does.

HMJr: And

G: It does.

HMJr: we had six hours yesterday. We're in complete agreement with the Bureau of the Budget.

G: Yes.

HMJr: And with the result it just says that -- well, they're in favor of minor changes. Now that's just for you.

G: Yes.

HMJr: Which says nothing, you see?

G: I see.

HMJr: And then the next -- then I pick up the paper in the morning and out come these recommendations.

G: Yes, I saw that.

HMJr: So

G: Well, I -- I thought that I could see what that meant -- some of them would have to be very careful -- all of them would have to be very carefully thought through before we could start in that much revision because once they start in that deep, we'd be overwhelmed with demands, you know, from all sides.

HMJr: Well, I'm repeating myself, before I make any moves of any kind on the tax front, I will ask for a chance to sit down with you and Bob.

G: All right, Henry. You'll have it. All right.

HMJr: Thank you.

G: All right. Thank you.

January 2, 1945
11:13 a.m.

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HMJr: Hello.

Dorothy
Brady: Mr. Secretary.

HMJr: Speaking.

B: I've just checked and find that that nomination is all signed and it's just going up when the President says it's okay to go.

HMJr: Well

B: I imagine that means as soon as the Congress is in session and what not.

HMJr: Well, if you'll look up his memorandum to me, he said it would go up on the first day, as I understand it.

B: Yes, I saw that.

HMJr: Well, now, do you have

B: Well, I -- Mr. Hopkins over here said something about he thinks it usually -- they usually wait until after the President's message to Congress has gone over or something like that.

HMJr: Which Mr. Hopkins?

B: Mr. Latta's assistant.

HMJr: Oh. Well, I think that Grace just felt that Mr. Latta or somebody, or she would just say -- I know the President has in mind sending up some other names -- Senator from Iowa

B: Uh huh.

HMJr: and why Grace -- I don't know why she has any doubt, but there is some doubt, so let's clear it up and get the President to say, "Well, we will send it up with this Senator Gillette -- that's the one.

B: Well, this one, I know, is all ready to go.

HMJr: Yes.

B: I think one word in it has to be changed or something like that.

HMJr: One word?

B: Yes.

HMJr: Well, I mean, do you need a green light from the President.

B: Oh, no. No, it's all ready and waiting.

HMJr: Oh. You don't -- I mean, it's all ready -- it's all ready to go.

B: It's all ready to go and the President has signed it. As soon as he gives word to Mr. Latta to let it go, which means probably in the next day or two, it will go up.

HMJr: I'm a little dull, maybe, because I don't understand. The President has signed something?

B: Yes, he signed the nomination.

HMJr: Oh, he has?

B: Uh huh.

HMJr: Well, I didn't know that. Then the only thing is just

B: Is what day that it's going, you see?

HMJr: Fine.

B: That's the only thing.

HMJr: Fine. Now, I understand.

B: All right, sir.

HMJr: Ever so much obliged.

B: You're welcome.

January 2, 1945
12:20 p.m.

HMJr: Hello. Hello.

Operator: There you are, sir.

White House
Operator: Judge Rosenman is coming on in just a moment.

Samuel I.
Rosenman: Hello.

HMJr: Hello, Sam.

R: Yes, Henry.

HMJr: How are you?

R: All right. How's Ellie?

HMJr: She's better, thank you.

R: Good. Are you feeling all right?

HMJr: I'm all right. Sam, I want to ask you whether you would care to advise me or not on a letter which we have in preparation to the President in view of the Byrnes statement today.

R: Sure.

HMJr: You would be?

R: Sure.

HMJr: Well, then I'll tell you what I'd like to do -- what time after lunch could you receive a delegation?

R: (Laughs)

HMJr: Well, I mean, there will be a couple of the men -- there would be

R: A

HMJr: Bell and Gaston and maybe Luxford and DuBois. They're all working

R: Do you mean in actually getting it up?

HMJr: Well, the letter is in draft form now.

R: Uh huh.

HMJr: And I'd just like to have your advice on it. But it has been drafted. Or would you rather just see -- well, you tell me how you'd like to -- the reason I'm -- I'd come myself but I'm going up to Baltimore to meet my father.

R: How is he?

HMJr: He's all right. He's going to go down -- he's going through to the South and I want to ride with him from Baltimore to Washington.

R: That's nice.

HMJr: And I'm going to leave at -- a little after half past twelve to go up to meet him.

R: Well, now, Henry

HMJr: Otherwise, I'd do it myself.

R: Just as I'm sitting here talking to you I'm beginning to feel a little embarrassed about it. I'll tell you why: I'm going to send over to you as soon as it's typed, the draft of the annual message.

HMJr: Yes.

R: Most of it you're not interested in. Some of it you're very much interested in.

HMJr: Yes.

R: And at the President's direction I've been talking with Jimmy about some of his things -- and putting some of the things in.

HMJr: Yeah.

R: I would rather talk with you about the message than about that letter. Do you understand what I mean?

HMJr: I get you. I get you -- at least I think I do.

R: Yes, I mean, I think it might be embarrassing -- if I was just talking with you alone

HMJr: Yes.

R: I think it would be embarrassing for me talking to these fellows and then talking with Jimmy and it

HMJr: Well, I just didn't know.

R: I would rather -- I would rather talk with you about the message and leave me out of the letter.

HMJr: All right.

R: I would prefer it, because I think it might get back to him and it -- it would be misconstrued I know.

HMJr: Well, let me -- are you alone now?

R: Yeah.

HMJr: Well, let me just take a minute now.

R: All right.

HMJr: The point that I'm making in this letter is that -- that we should have been consulted on matters that have to do with taxes and fiscal matters.

R: Well, when I read the report, I assumed that you would be disturbed by it. He -- I talked to him about that this morning.

HMJr: Yes.

R: Not about your being disturbed by it, but when we were talking about what ought to go in the message about taxes, I -- I said, of course, I'm going to -- we're going to send this over to the Treasury.

HMJr: Yeah.

R: And he said, "Well, of course, that's right." He said, "I tried to make it clear in my report."

HMJr: Yes.

R: He says, "I quoted from the language of the Congress to indicate that no sensible recommendations could be made carrying out the order of Congress; namely, to advise as to the best means of reconversion and so forth; that no sensible recommendations could be made complying with that direction which didn't cover taxes and fiscal policy. And the statute says that the Director of War Mobilization and Reconversion should give to the Congress and to the President his recommendations. And those are my recommendations and nobody else's. They're not the President's unless he adopts them."

HMJr: Well, that doesn't keep him from doing what the Bureau of the Budget does or the President of the United States does -- to consult with us.

R: Yes.

HMJr: I mean the President has never said anything up on the Hill on taxes without consulting....

R: No.

HMJr: - I mean, he isn't above the President.

R: Well, he

HMJr: Or is he?

R: (Laughs) Sometimes when you read some of the things, you're not sure.

HMJr: No, I mean, after all, there's no reason why in -- on a Cabinet level that he should go ahead -- after all he is subject to the President's appointment, no matter

R: You're right in this regard completely that once he sends recommendations up, that even though they are his recommendations, that he ought to make an effort to see that so far as taxes are concerned that insofar as possible they're consistent with Treasury policy, and if there's any dispute, maybe there ought to be some meeting with the President to iron it out. But he takes the position that this is a statutory duty that -- that he sends recommendations not only to the Congress but to the President. It's a strange statute, you know. It's the damndest statute -- it provides that

R:
Cont'd. every four months -- three months -- he should send a report not only to the Congress but to the President.

HMJr: Yes, but just as a matter of common decency, as working between gentlemen, there's no reason in the world why he shouldn't consult with me or the Bureau of the Budget.

R: Well, I -- I can't argue against that. I think so far as consultation goes that he should have.

HMJr: Well, that -- that's the only point I'm making.

R: But if he disagreed with you on any tax policy, under this statute he is supposed to tell the President publicly, apparently, what he thinks about it. It's the strangest -- it's the strangest sort of legislation.

HMJr: Well, after all, as a matter of just relationship, he would normally -- if it was anybody else, he would consult with Budget and me.

R: Oh, yes.

HMJr: Now, as a matter of fact, you take yesterday, we spent six hours with Budget, mainly on taxes and fiscal matters.

R: Uh huh.

HMJr: And we came to complete agreement.

R: Uh huh.

HMJr: Budget took the same position a couple of years ago.

R: Yeah.

HMJr: And now -- I mean, they were over here actually about six hours -- and the interesting thing, in the budget message on taxes, it says practically nothing because that's what we thought the President should do, in view of the fact that between the Treasury and the Joint Committee on Taxation there has been six months' study and at the moment we have agreed we should do nothing.

R: I see.

HMJr: Now, we've spent all this time working with the Joint Committee of the Senate and the House on taxation, and along comes Byrnes and tells the Congress what they should do on this particular front.

R: Yeah.

HMJr: I mean, it's a wholly -- a different approach from what's been going on and which Doughton and George say has been the best they've ever had.

R: Well, now, he tells me that he has been consulting with -- with the Congress people. I think he -- I think he said Stam, on all of these.

HMJr: With Stam?

R: Yes.

HMJr: Well, then it's all the more discourteous that he would go and talk to Stam and wouldn't talk to me. Then it becomes strictly personal if he's done that.

R: Yes.

HMJr: If he'll talk with Stam but he won't consult with me

R: I think he was getting technical guidance.

HMJr: Well

R: He certainly should have -- I should think he would have talked to Treasury.

HMJr: Well, if he'll go to Stam but he won't come and talk to me about it

R: I -- I think he should have.

HMJr: Well, I -- I know damn well he should have.

R: Yes. Well, I

HMJr: Well, that's going to be the purport of my letter.

R: Yeah. I -- well, I don't see any reason why you shouldn't send it.

HMJr: You don't?

R: No.

HMJr: It's going to be perfectly calm, judicial, but not pulling my punches.

R: Yes. Henry, I wish you wouldn't mention the Stam thing, because

HMJr: Well, I won't mention any of this.

R: No.

HMJr: But it's

R: I think it was -- I know he did talk with Stam.

HMJr: Well, to me that would be even more -- but I won't mention it if you don't want me to.

R: No, because

HMJr: Well, it makes -- then it makes it all the more personal, doesn't it?

R: No, I don't -- I think he was just -- he knows -- he knows Stam and I think he was just looking for some guidance to technical things myself. I don't think -- I don't think there was anything personal in it.

HMJr: Oh, sure.

R: I doubt it because I don't think he consulted with anybody else on other things. I know he's got some stuff in there on housing which -- Dorothy said to me last night, "Where in the world did he get that from? I'm sure, nobody in Housing Authority." And I asked him and he said, "No". That's his own.

HMJr: Well

R: He didn't get it from Housing Authority because some of his housing recommendations, Dorothy says, are terrible.

HMJr: Well, I'd rather take her word than Byrnes'.

R: Well, at any rate he -- I talked to him today and he said they were his own. He didn't get them from National Housing. So I don't think there's anything personal. He -- he just feels that this statute is -- puts him in the position where he's got to make a report on his own -- his own ideas but it's a great mistake. It's a crazy statute.

HMJr: Well, after all, he is appointed by the President and -- after all, we have some unusual things, too, we can report directly to the Congress.

R: Yes. Well, that's the same thing. You're supposed to, aren't you?

HMJr: Yes.

R: Well, that's the same thing. I should -- you remember he made a point, Henry, in his -- in his press interview that the President has not seen this.

HMJr: I know.

R: "That this is entirely my own and not his."

HMJr: Yeah. Well, anyway, thanks -- and then this will be coming over -- the annual message?

R: It's coming over this afternoon.

HMJr: Well, do you mind

R: Should I -- I'll send it to you. I'll send it over to your office and you do with it

HMJr: Well, I'll have Bell and Gaston look at it.

R: Okay.

HMJr: Right?

R: Fine.

HMJr: How much hurry is there?

R: Well, he wants to send it in on Friday.

HMJr: Fine. Well, we'll go right at it.

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R: Yeah. I think you'd better.

HMJr: Has he got something in on Bretton Woods?

R: I got something in -- I had said to the President, "I've got something in on Bretton Woods. Do you think you want it in? Henry suggested it ought to go in."

HMJr: Yeah.

R: And he said, "Well, let me think about it a bit." And he said, "I don't think I want to get as specific as that."

HMJr: I see.

R: But there'll be a decision on that before you get this draft.

HMJr: I see. Thank you very much.

R: Fine.

HMJr: Thank you.

January 2, 1944
4:57 p.m.

Senator
Murray: Fine, thank you.

HMJr: Senator, in regard to this bill, I'd like awfully to sit down and have a good frank talk with you. I'm very much interested in it.

M: Yes.

HMJr: And I just don't know how you're fixed for time and all that sort of thing.

M: Well, I can make time for you any time you say.

HMJr: I see. You're not by any chance free for lunch tomorrow?

M: Well, tomorrow is the opening session.

HMJr: Oh.

M: And I'll be up on the floor there for that probably during all the noon hour.

HMJr: I see.

M: I could see you right after that.

HMJr: Well, I start in

M: Did you want me to come down there to your office?

HMJr: Whatever way would be convenient for you.

M: Well, now, how would it be if I came down to your office about four o'clock in the afternoon?

HMJr: You couldn't make it three-thirty?

M: Yes, I could make it at three-thirty.

HMJr: Could you make it three-thirty?

M: I think so, yes. I'll make it three-thirty.

HMJr: That will be wonderful.

M: Yeah.

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HMJr: That will be wonderful.

M: All right, sir.

HMJr: That's tomorrow.

M: Tomorrow.

HMJr: I'll be looking forward to seeing you.

M: All right, thank you, I'll be glad to be there.

HMJr: Thank you, Senator.

M: Good bye.

January 2, 1945
5:10 p.m.

LETTER TO THE PRESIDENT

Present: Mr. D. W. Bell
Mr. Gaston
Mr. O'Connell
Mr. Blough
Mr. Luxford
Mr. DuBois
Mrs. Klotz

H.M.JR: (Reading draft of letter to the President, attached) "My dear Mr. President: I could not let the report issued by Mr. Justice Byrnes"--he is not Mr. Justice Byrnes.

MR. O'CONNELL: He is called that; he always will be called that even after he retires completely.

H.M.JR: At least we are being over-polite.

"I could not let the report issued by Mr. Justice Byrnes this morning pass without indicating to you my concern at the way the matter was handled. Although the report included specific tax recommendations, no one in the Treasury was consulted or informed in advance.

"I realize that Mr. Byrnes may have been technically within his legal rights in making a public report to you and Congress dealing with matters within the jurisdiction of the Treasury without consulting the Treasury. However, it seems to me that this represents poor coordination and bad tactics if we wish the Administration to exercise leadership and to retain the respect of Congress.

"It has been your practice in the eleven years that I have been Secretary of the Treasury not to make public recommendations concerning matters of vital interest to the Treasury without first consulting me. Your action

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in sending to me your pending message on the State of the Union is in sharp contrast with the action of Mr. Byrnes.

"In fulfillment of my responsibility for tax policies under your supervision we have spent many months working on transition and postwar tax plans in close cooperation with representatives of other Executive Departments, including the office of Mr. Byrnes, and with the Congressional Joint Committee on Taxation. Mr. Byrnes brushes all this aside to come forward with suggestions of his own.

"This to my mind is far from the kind of united action we need in these difficult days. It seems to me that coordination of Mr. Byrnes' activities with those of members of the Cabinet and his consultation with them on matters within their sphere would not be inconsistent either with the Act creating his office or with good administration."

That is the the only part I really like.

MR. D. W. BELL: You mean the last paragraph?

H.M.JR: The last sentence. You fellows got me down. Why do you put in what you said that I was spoiled by the President?

MR. BELL: We didn't think you had been spoiled.
(Laughter)

H.M.JR: It would be nice to tell him so. I have been spoiled in what I said to you that he has never said anything on taxes or finances without first consulting me.

MR. D. W. BELL: We thought he had on one or two occasions, and for all practical purposes that was a true statement, but not exactly.

H.M.JR: "I could not let the report issued by Mr. Justice Byrnes this morning pass without indicating to you my concern at the way the matter was handled. Although the

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report included specific tax recommendations, no one in the Treasury was consulted or informed in advance.

"I realize that Mr. Byrnes may have been technically within his legal rights in making a public report to you and Congress dealing with matters within the jurisdiction of the Treasury without consulting the Treasury. However, it seems to me that this represents poor coordination and bad tactics if we wish the Administration to exercise leadership and to retain the respect of Congress.

"It has been your practice in the eleven years that I have been Secretary of the Treasury not to make public recommendations concerning matters of vital interest to the Treasury without first consulting me. Your action in sending to me your pending message on the State of the Union is in sharp contrast with the action of Mr. Byrnes." That hasn't come in?

MR. BELL: No, it hasn't come in.

H.M.JR: Maybe they decided not to send it.

H.M.JR: "In fulfillment of my responsibility for tax policies under your supervision--"?

MR. BLOUGH: Direction, guidance--

MR. GASTON: The legal word is direction. That is the way it appears in all the statutes. "He shall perform these duties under the general direction of the--"

H.M.JR: "You have enough lawyers around here; why didn't you use one of them? I don't like "supervision," but I don't mind "direction."

MR. BLOUGH: As a matter of fact, it hasn't been under his supervision; it really isn't right.

MR. BELL: I take it the whole Cabinet is under--

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H.M.JR: What is the legal word?

MR. GASTON: The word used in the Statutes is direction.

H.M.JR: I don't like that for some reason or other. There is a difference; he can direct me.

MR. BLOUGH: Supervision means he is standing over your shoulder and sees what you are doing.

H.M.JR: I don't mind direction.

(The Secretary holds a telephone conversation with Miss Gilligan.)

H.M.JR: Where are we, anyway? "Your action in sending to me your pending message on the State of the Union is in sharp contrast with the action of Mr. Byrnes."

You wouldn't go in the same Budget Message?

MR. BELL: No.

H.M.JR: Just once! God, I haven't got a chance with this crowd. I did get one word in, though.

"In fulfillment of my responsibility for tax policies under your supervision"--again?

MR. O'CONNELL: You are reading the same one.

H.M.JR: "...we have spent many months working on transition and postwar tax plans in close cooperation with representatives of other Executive Departments, including the office of Mr. Byrnes, and with the Congressional Joint Committee on Taxation. Mr. Byrnes brushes all this aside to come forward with suggestions of his own." That is all right; that is good and sharp. Is that you, Gaston?

MR. O'CONNELL: Very definitely.

H.M.JR: It sounds "Gastonian."

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MR. GASTON: North Carolina--It is the name of a town in North Carolina.

H.M.JR: I still like it. This, to my mind, is the first white child in the Willamette Valley. Is that right?

"This to my mind is far from the kind of united action we need in these difficult days. It seems to me that coordination of Mr. Byrnes' activities with those of members of the Cabinet and his consultation with them on matters within their sphere would not be inconsistent either with the Act creating his office or with good administration."

That is "Gastonian" too.

MR. BLOUGH: That is right, "pure Gaston."

H.M.JR: It is all right; I like it.

MRS. KLOTZ: I think so.

MR. BELL: Give him the poem, Joe.

MR. DuBOIS: In case you can't get that on one page, we have a better one (hands the Secretary poem which Secretary reads). "My dear Mr. President: James, James, Morrison, Morrison, Weatherby George Dupree, Took good care of his mother, Though he was only three. James, James said to his mother, 'Mother,' he said, said he, 'You must never go down to the end of the town, Without consulting me.'" (Laughter)

MRS. KLOTZ: Oh, that is marvelous. Let's send it to him.

MR. BELL: Isn't there another one?

MR. LUXFORD: There's another sentence.

H.M.JR: "But whom does Jimmy consult before going to the Hill?"

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MR. BELL: We thought there might be a typographical error. (Laughter)

MR. BLOUGH: You mean the "I" in Hill? (Laughter) That is a very famous poem; possibly the President has seen it.

H.M.JR: Has he got a middle name?

MR. GAMBLE: This is a nursery rhyme.

MR. BLOUGH: That is Milne's Christopher Robin, a nursery rhyme.

H.M.JR: I had better sign this.

MRS. KLOTZ: He will love it.

H.M.JR: Just to show you I still have a sense of humor, I have written across the top "very personal."

MRS. KLOTZ: Let me read it.

MR. LUXFORD: They make a good combination.

H.M.JR: Enough is enough.

My dear Mr. President:

I could not let the report issued by Mr. Justice Byrnes this morning pass without indicating to you my concern at the way the matter was handled. Although the report included specific tax recommendations, no one in the Treasury was consulted or informed in advance.

I realize that Mr. Byrnes may have been technically within his legal rights in making a public report to you and Congress dealing with matters within the jurisdiction of the Treasury without consulting the Treasury. However, it seems to me that this represents poor coordination and bad tactics if we wish the Administration to exercise leadership and to retain the respect of Congress.

It has been your practice in the eleven years that I have been Secretary of the Treasury not to make public recommendations concerning matters of vital interest to the Treasury without first consulting me. Your action in sending to me your pending message on the State of the Union is in sharp contrast with the action of Mr. Byrnes.

direction
In fulfillment of my responsibility for tax policies under your supervision we have spent many months working on transition and postwar tax plans in close cooperation with representatives of other Executive Departments, including the office of Mr. Byrnes, and with the Congressional Joint Committee on Taxation. Mr. Byrnes brushes all this aside to come forward with suggestions of his own.

This to my mind is far from the kind of united action we need in these difficult days. It seems to me that coordination of Mr. Byrnes' activities with

those of members of the Cabinet and his consultation with them on matters within their sphere would not be inconsistent either with the Act creating his office or with good administration.

Faithfully,

The President

The White House.

11

January 2, 1945

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Faithfully,

(Signed) Henry Morgenthau, Jr.

The President

The White House.

Handwritten initials: JRO, SWB, JGC, RB, MJ

Handwritten note: delivered by S. A. Sgt Rodham 5:40 pm

Jan 2 1945

This was enclosed
in envelop containing
ltr to Pres, 1/2/45, com-
plaining that Mr Byrnes
did not consult ideas
on the tax features in
his first message to Congress.

very personal

My dear Mr. President:

**"James, James, Morrison, Morrison
Weatherby George Dupree,
Took good care of his mother,
Though he was only three.
James, James said to his mother,
Mother, he said, said he,
You must never go down to the end
of the town,
Without consulting me."**

**But when does Jimmy consult before
going to the Hill?**

Yours faithfully,

(Signed) Henry.

*P.S. Just to show you that I
still have a sense of humor*

**The President
The White House**

*delivered by
SSA of Rodham
.542 pm*

DRAFT DICTATED BY SECRETARY MORGENTHAU.

January 2, 1945.

My dear Mr. President:

Most of yesterday the Treasury spent in consultation with the Bureau of the Budget going over matters of joint interest in your Budget Message. I think you will be pleased to know that the Bureau of the Budget and the Treasury have been cooperating fully.

Among those matters discussed were tax and fiscal policies. On opening this morning's papers I was amazed to find that Mr. Byrnes had sent a message to Congress making definite recommendations to the Congress on both tax and fiscal matters. Mr. Byrnes did not have the courtesy or the consideration to consult anybody in the Treasury and I am advised by Mr. Harold Smith that he likewise was not consulted. I am also informed by Mr. Elmer Davis that Mr. Byrnes' speech was not referred to him for the usual clearance with other Departments.

I have taken it for granted that you hold me responsible to you for tax and fiscal policies of

-2-

your Administration and also for the preparation of tax and fiscal legislation to be submitted to the Congress. Aside from the discourtesy of Mr. Byrnes, it is most unfortunate as far as the relationship of your Administration with Congress is concerned that at this time he has seen fit, in advance of your Budget Message and your Message to the Nation, to make firm recommendations to the Congress on tax matters because we have been working with the Joint Committee on Taxation all summer on tax proposals and Mr. Doughton has advised me that at no time since I have held office have the relationships between the Joint Committee on Taxation and the Treasury been so close and so effective. Not only am I confused by Mr. Byrnes making these recommendations on taxes and fiscal matters, but I am sure that Chairman Doughton and Chairman George will also be as well as the public.

As late as _____, you sent me a memorandum saying that I was responsible for tax and fiscal matters. I most respectfully ask you that in view of Mr. Byrnes'

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public statement that you promptly clear up this matter publicly that you hold the Secretary of the Treasury responsible for the administration of tax and fiscal matters and for the presentation to Congress of tax and fiscal matters. It is unfortunate that in these difficult times where we have so many enemies to fight on so many fronts that we cannot have team-play at Cabinet level. I have honestly tried for this and believe I have been successful in every case except with Mr. Byrnes.

Yours sincerely,

The President

The White House.

D R A F T

Gastou

January 2, 1945

My dear Mr. President:

On opening the papers this morning I was amazed to find that Mr. Byrnes had made public a message to you and to Congress which includes definite recommendations on tax and fiscal matters. Mr. Byrnes did not consult the Treasury about his recommendations and I am advised by Harold Smith that the Budget Bureau was not consulted.

I have considered it a settled matter that you hold me responsible for tax and fiscal policies under your supervision and direction and also for the preparation of tax and fiscal legislation to be submitted to Congress.

I recognize that broad jurisdiction was conferred on Mr. Byrnes by the recent act which gave legislative recognition to his office. But these powers are to be exercised

- 2 -

subject to your direction and it had never occurred to me that Mr. Byrnes would seize upon the provisions of this act to justify his undertaking independently and without consultation with you or anybody else to lay before Congress recommendations on tax and fiscal policy and other matters which normally are in the jurisdiction of the Executive Departments.

This course seems to me not only discourteous but disruptive of any kind of harmony/^{or} of united action by your administration. It seems all the more surprising in view of the fact that it anticipates your message on the State of the Union, ^{and your Budget message} both of which may be expected to deal with matters he has chosen to cover in his report. Only yesterday we spent a great deal of time discussing recommendations for your Budget Message with the Bureau of the Budget.

Mr. Byrnes' isolated action ^{on} ~~at~~ the tax front is

in harmonious partnership 272

especially disturbing to me because we have spent many months working ~~by agreement~~ *on Post War and Transition Tax Plans* with representatives of other Departments of the Government ~~in harmonious partnership~~ *and* with the Committees of Congress as represented by their Chairmen and the Staff of the Joint Committee, ~~on Post War and Transition Plans~~. By agreement and in cooperation with Mr. Stam and the Chairman we have also brought ⁱⁿ representatives of many outside organizations representing business, labor and the public generally, and have obtained their detailed views ~~on~~ these problems. Some of them have ^{gone} ~~gone~~ to great trouble to carry on ~~research~~ research and to work up programs for presentation to us, understanding that they were appearing before authorized representatives of the Administration and Congress.

Mr. Byrnes disregards all this concerted effort in making his independent proposals which, on their face and

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in view of his direct responsibility to you, would seem to convey the policy of this Administration -- unless, indeed, the Administration is to have not one but several conflicting policies which it will be the function of Congress to reconcile.

It seems to me unfortunate, to state it mildly, that in these tragic times ⁱⁿ which we have so many enemies ^{to} to fight on so many fronts and such terrifically important problems for you to weigh, we can not have team play at the Cabinet level. So far as I am concerned, I have sincerely tried for ^{this} and I believe I have been successful in every case ~~x~~ except with Mr. Byrnes.

Sincerely,

Surford

DRAFT

January 2, 1945

My dear Mr. President:

Most of yesterday the Treasury spent in consultation with the Bureau of the Budget going over matters of joint interest in your Budget Message. Among those matters discussed were tax and fiscal policies. I think you will be pleased to know that the Bureau of the Budget and the Treasury have been cooperating fully.

I have always taken it for granted that you hold me primarily responsible to you for tax and fiscal policies of your Administration and also for the preparation of tax and fiscal legislation to be submitted to the Congress. While there has been difficulty between Mr. Byrnes and me on this issue before, I thought that the matter was settled by you on September 9, 1943. At that time, in the presence of Messrs. Byrnes and Vinson, you stated that all of us were to work together to formulate tax policy for you. At the same time you made it clear that the Treasury was the manager of the tax programs and that others interested should cooperate fully with the Treasury in working "behind the scenes." You also made it clear that

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any tax program which was presented to the Congress should be presented by the Treasury Department.

On that basis we have been working for months with representatives of Messrs. Byrnes and Vinson and representatives of Budget, Federal Reserve and OPA to formulate a tax program. We have been working with the Joint Committee on Taxation all summer along the same lines. This procedure had proved most effective. In fact, Mr. Doughton has advised me that at no time since I have held office have the relationships between the Joint Committee on Taxation and the Treasury been so close and so effective.

You can therefore imagine my amazement on opening this morning's papers to find that Mr. Byrnes had sent a message to Congress making definite recommendations to the Congress on both tax and fiscal matters. Mr. Byrnes did not consult anyone in the Treasury and I am advised by Mr. Harold Smith that he likewise was not consulted.

Whatever interest Mr. Byrnes may feel he has with respect to tax and fiscal policies, the making of a public report to the Congress on this matter without even consulting with the Treasury Department is to suggest

that Mr. Byrnes has now assumed unto himself a position in the Government which even you as President have never purported to assume. There has never been a case to my knowledge where you as President have sent a message to the Congress with respect to tax and fiscal matters without consulting with me beforehand.

Aside from the discourtesy of Mr. Byrnes, it is most unfortunate as far as the relationship of your Administration with Congress is concerned that at this time he has seen fit, in advance of your Budget Message and your Message to the Nation, to make firm recommendations to the Congress on tax matters. Not only am I confused by Mr. Byrnes making these recommendations on taxes and fiscal matters, but I am sure that Chairman Doughton and Chairman George will also be as well as the public.

I assume that Mr. Byrnes may be able to point to one authorization or another to justify technically the action he has taken. But there is not even technical justification for Mr. Byrnes acting without consulting me and others interested in this field.

I most respectfully ask that in view of the position that Mr. Byrnes has taken that you reaffirm the position which you took in September of 1943 and that you make it clear that you hold the Secretary of the Treasury responsible under you for the administration of tax and fiscal matters and for the presentation to Congress of tax and fiscal matters.

It is unfortunate that in these difficult times where we have so many enemies to fight on so many fronts that we cannot have team-play at Cabinet level. I have honestly tried for this and believe I have been successful in every case except with Mr. Byrnes.

Yours sincerely,

The President,

The White House.



THE SECRETARY OF THE TREASURY
WASHINGTON

*Leaford
+
Subs*

My dear Mr. President:

Most of yesterday the Treasury spent in consultation with the Bureau of the Budget going over matters of joint interest in your Budget Message. Among those matters discussed were tax and fiscal policies. I think you will be pleased to know that the Bureau of the Budget and the Treasury have been cooperating fully.

On opening this morning's papers I was amazed to find that Mr. Byrnes had sent a message to Congress making definite recommendations to the Congress on both tax and fiscal matters. Mr. Byrnes did not consult anyone in the Treasury and I am advised by Mr. Harold Smith that he likewise was not consulted.

I have considered it a settled matter that you hold me primarily responsible for tax and fiscal policies under your supervision and direction and also for the preparation of tax and fiscal legislation to be submitted to the Congress.

Whatever interest Mr. Byrnes may feel he has with respect to tax and fiscal policies, the making of a public report to the Congress on this matter without even consulting with the Treasury Department is to suggest that Mr. Byrnes has now assumed unto himself a position in the Government which even you as President have never purported to assume. There has never been a case to my knowledge where you as President have sent a message to the Congress with respect to tax and fiscal matters without consulting with me beforehand. Thus, I have just reviewed the tax and fiscal portions of your pending message on the state of the Union. We have been working for months with representatives of Messrs. Byrnes and Vinson and representatives of Budget,

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
WDSLOPP

- 2 -

Federal Reserve and OPA on the formulation of post war and transition tax plans. We have been working with the Joint Committee on Taxation all summer along the same lines. By agreement and in cooperation with Mr. Stam and the Chairmen of the Congressional Committees we have also brought in representatives of many outside organizations representing business, labor and the public generally, and have obtained their detailed views on these problems. Some of them have gone to great trouble to carry on research and to work up programs for presentation to us, understanding that they were appearing before authorized representatives of the Administration and Congress.

This procedure had proved most effective. In fact, Mr. Doughton has advised me that at no time since I have held office have the relationships between the Joint Committee on Taxation and the Treasury been so close and so effective.

Aside from the discourtesy of Mr. Byrnes in failing to even consult with the Treasury and other interested agencies, it is most unfortunate as far as the relationship of your Administration with Congress and the public is concerned that at this time he has seen fit, in advance of your Budget Message and your Message on the state of the Union, to make firm recommendations to the Congress on tax matters. Not only am I confused by Mr. Byrnes making these recommendations on taxes and fiscal matters, but I am sure that Chairman Doughton and Chairman George will also be as well as the public.

I assume that Mr. Byrnes may be able to point to one authorization or another to justify technically the action he has taken. But there is not even technical justification for Mr. Byrnes acting without consulting me and others interested in this field.

I most respectfully ask that in view of the position that Mr. Byrnes has taken that you reaffirm that you hold the Secretary of the Treasury responsible under you for the administration of tax and fiscal matters and for the

- 3 -

presentation to Congress of tax and fiscal matters. We, of course, will continue to consult fully with all of the other interested agencies, including Mr. Byrnes, in a formulation of your tax program.

It is unfortunate that in these difficult times where we have so many enemies to fight on so many fronts that we cannot have team-play at Cabinet level. I have honestly tried for this and believe I have been successful in every case except with Mr. Byrnes.

Yours sincerely,

The President

The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

FROM Mr. Shaeffer *S.P.*

January 2, 1945

The attached appeared in the 9 Star local Times-Herald. This edition comprises a very small percent of the local city circulation. The INS was supplied with one specific quote - Secretary Morgenthau was not consulted, and knows nothing about it - and nothing more. The girl reporter phoned only this quote to her office, and the over-all story was written there. The office thought my complaint was based on a triviality, and declined to change the story.

Of course the heading is not consistent with the text.

January 2, 1945 (9 Star)

Treasury Repudiates Byrnes

Morgenthau Assails Taxation Proposals

By International News Service

Secretary of the Treasury Morgenthau, obviously incensed by the tax portion of War Mobilization Byrnes' report to Congress, today authorized a "Treasury spokesman" to state that he had "not been consulted" on the proposed revisions of the revenue law.

Reporters were given to understand that the revisions proposed by Byrnes "do not represent Treasury views" on what should be done with the tax laws by the new Congress.

It was the second time since creation of an economic high command for war purposes that Morgenthau has clashed with the agency over tax policy.

During the drafting of the most recent tax law, Morgenthau's authority to recommend tax programs to Congress was invaded by Economic Stabilizer Vinson, who conferred lengthily with congressional tax committee leaders and proposed changes in the law without consulting the Treasury head.

Byrnes' Proposal

Byrnes, in his first quarterly report to Congress as director of the Office of War Mobilization and Reconversion, called upon Congress to make three changes in the tax law to "materially aid business recovery and expansion." These were: Accelerated depreciation, immediate availability of postwar refund bonds, and increasing the specific exemption for excess-profits tax purposes from \$10,000 to \$25,000.

Byrnes told Congress that it was his opinion that "wartime taxation should end with the war," but said that there should be no general revision of the revenue laws until the fighting has ended on all fronts.

The news from the battle-for Belgium continues to be good. There still is a definite belief (in military circles here), that von Rundstedt will try to strike out again in force. But it is felt that General Patton holds the initiative now — and while the fighting will go on being bloody for longer than a lot of us think, General Eisenhower has the situation in hand. But perhaps the ^{main} war news comes not from the battle field, but rather from the office of our Director of War Mobilization, from the pen of Mr. James F. Byrnes. Byrnes wants to make certain that any more prolonging of the war by some new Nazi offensive — that any feeling of smug complacency and over-optimism — does not become the responsibility of a lack-a-daisikal home front. Byrnes chose this New Year's Day of 1945 to release one of the toughest — more realistic war reports to come out (on the home front), since the day of Pearl Harbor. Byrnes wants the President to ask Congress to crack-down. He wants authority to draft all 4-Fs — to put them into the Army where they can give limited service to the war effort — or to draft them to fill jobs which must be filled in war plants. Byrnes wants authority for the War Manpower Commission to walk into a company's plant, and say, "See here, you have too many men working here. Cut your employees in half and release the other half to a war plant." Byrnes wants more authority for the War Labor Board. He believes the War Labor Board must have its own power to enforce its decisions — and he wants a labor law under which the government can do the same thing to James Caesar Petrillo — who even denied a White House request — that the government has done to Sewell Avery.

Byrne's most important recommendation, of course, is his plan to draft 4-Fs. Beginning today, the Army and Navy are stepping-up their calls on Selective Service for draftees. Instead of 60-thousand men a month, the armed services will take 80 thousand. But Byrnes told us this afternoon that this number may have to be increased still more. Even then, as Byrnes sees it, we will not have enough men to

supply the battle fronts and keep up war production here at home. So, Byrnes is out with this new plan to force 4-Frs either to go into the Army (to do limited service work), or to force them into war effort jobs. There have been between three and a half and four million men (of fighting age) deferred because of physical defects of one kind or another — and that is the group Byrnes' feels Congress should get into the war. As Byrnes sees it personally, all 4-million of our 4-Fs should be drafted into the Army. Then, they could be channeled into whatever war industry needs them. But, he points out, that is a question for Congress to decide and he is making no specific recommendation on this point. The main question Byrnes raises is whether the 4-Fs assigned to war factories should be in Army uniform and whether they should draw a buck private's pay while they work along-side civilian workers making much more money.

Another point here is this: This new manpower program will cut very deeply into our supply of manpower on the farms. Talking over this plan with Byrnes this afternoon, he admits that more farm sons and more farm hands undoubtedly will be drafted. Farm youths now deferred make up our one big reservoir of young men physically fit for combat. So any stepping up of the draft — a direct result of the current battle-in-Belgium — is bound to take away a big portion of farm labor now available — and farm labor is scarce enough already.

Byrnes admits this is handing the farmers of the country a real head-ache — since he is also asking them to keep up their record levels of production. The War Mobilizer sees two possible remedies — more volunteer farm help by those who live in the cities — and the production of more labor-saving farm machinery. It appears virtually certain that Byrnes' program — if Congress approves — will hit professional sports such as football, and baseball. Byrnes has no plan to outlaw football and baseball for the duration (as he has banned horse racing.) But, in calling for the drafting of 4-Frs, Byrnes would obviously hit all professional sports heavily. It is clear that Byrnes has little or no worry on this score. He told us that he had seen 4-Frs playing professional football and that he couldn't understand it. He admitted

that a football player may have a trick knee, but if the man's knee doesn't get tricky on the football field, Byrnes is unable to see why the knee would get tricky at Verdun or in Belgium. Byrnes also told about a football player who was put in 4-F because of a bad ear drum. But, (Byrnes pointed out), the player could hear the quarter-back calling signals alright — and there is the type of 4-F Byrnes believes should be in the Army — if not in the Army, in a war plant.

In effect at least, Byrnes is practically asking the President to ask Congress for a "national service law". Byrnes says he has favored the principle of national service since Pearl Harbor. He knows, however, that Congress opposes it. So Byrnes is asking for national service piece-meal. By recommending that our four million 4-Fs be drafted into the Army and then be assigned to essential war work: — that amounts to "national service" — at least for the 4-Fs.

Yet, far-reaching as Byrnes' recommendations are — he believes they are necessary. He feels that too few 4-Fers are doing essential war work, since they have already been turned down by the Army or Navy. And, Byrnes says, meeting our war production goals will not be enough in 1945. We need more tanks, more super-fortresses, more heavy artillery ammunition, more mortars, more tents, more communication wire, and more ship repairs than we can possibly turn out in the near future. So, while total arms production will not increase in the first half of this new year, Byrnes says we must meet every requirement on those critical items I have given you. Byrnes' work-or-fight plan is entirely his own. He told us that he had not submitted it to the President as yet, that Mr. Roosevelt has not even seen it. So, there is no telling this evening how the President will like it — whether the Chief Executive will take it to the new Congress and ask for its passage, or whether he will table it as being too drastic. But Byrnes' timing in releasing his win-the-war program, is significant. The President will send his annual message to Congress sometime this week, perhaps next Saturday at a special joint session — and by picking just this time to issue his recommendations, Byrnes certainly is making a bid for the President's full personal

support. It is speculation too, to try to say how the Senate and House will look on telling 4*Fr's to go into the Army or into a war plant. The Republican leader in the House, Representative Martin of Massachusetts, is opposed to any hasty action on universal peace-time training, and he believes that revision of our tax laws should wait as well. But agree with it or not, Byrnes' program is an urgent one -- one to be considered immediately if it is to be considered at all.

Along with being Director of War Mobilization, Byrnes is also Director of Post-war Reconversion. But he said today that at least until the day we defeat Germany, we must wipe out any hope, and any plan, of reconversion. In his report today, Byrnes did ask Congress to get to work immediately on a post-war tax bill for American business. His chief thought here is a tax bill to help little business. As his first point, Byrnes wants Congress to increase the exemption on excess profits tax. This exemption is 10-thousand dollars now, and Byrnes believes the figure should be raised to 25-thousand. As he sees it, the present exemption, of only ten thousand dollars, actually discourages small and new companies. But if they were exempted up to 25 thousand dollars, Byrnes feels many of these little companies will be able to get going ahead and that new firms will be able to start up in the post-war period between war production and production of peace-time goods. Byrnes feels too, as his second point, that the Government should make bigger tax allowances for depreciation. In other words, Congress should shorten the time in which a manufacturer may recover the cost of his plant, or, of some new equipment he has installed. Byrnes suggests, that larger tax deductions be permitted in the early years of the life of a plant -- to let a new company get going before its tax bills are raised.

For his third point to help business, Byrnes said that as soon as the war is over in Europe, the Government should pay companies post-war refunds of their excess profits taxes. This will give these firms capital for quick reconversion. In conclusion, War Mobilizer Byrnes feels our problem of war production is immediate and urgent.

-5-

He believes the Governor has insufficient authority in the field of manpower and in labor relations. So, he is urging that the President ask Congress to make all 4-Frs subject to a work draft. Agree with his plan or not, War Mobilizer Byrnes is giving the country leadership.

This is Richard Harkness wishing you a victorious New Year, and saying good-night until tomorrow.

January 2, 1945

My dear Mr. President:

I received unusually nice letters from Sir John Anderson and Lord Cherwell and I thought that you would enjoy reading them. I am sending you copies enclosed herewith.

With kind regards,

Yours sincerely,

(Signed) Henry

The President,
The White House.

22nd December, 1944.

My dear Mr. George Han,

Having now had a full report from Lord Keynes of his mission to Washington, may I express to you the warm thanks of myself and of His Majesty's Government - and in particular the Prime Minister has asked me to associate his name specially with this message - for the very great, and indeed indispensable, help we have had from you in the task of adjusting the Lend-Lease programme to the new circumstances which will exist after V-E day? We are, in particular, well satisfied with the new understandings about export policy and especially appreciate the part you played, as I have heard from Lord Keynes, in securing so satisfactory a final outcome.

Our financial problems do not get easier or their future settlement less perplexing as time goes on and the magnitude of the sums at issue increases. Only on the basis of complete frankness on both sides about the difficulties with public opinion and with Parliament and Congress which each of us has to face, can we hope to reach understandings and arrangements which are fair and advantageous to all parties. We have done our best, and will continue to do so, to let you know the factual position in full detail; and the frankness with which you have let us know how your mind is moving in these matters and in all that concerns the future of Europe, as reported to me by Lord Keynes as a result of the many talks he has had with you, makes our task easier.

The Hon. Henry George Han, Jnr.

The prospects of Europe today are obscure and startling; those of the Far East not less so. The right settlement of these issues, or at least as right a settlement as human wisdom or the lack of wisdom allows, transcends in lasting importance the (as one hopes) transitory financial adjustments which inevitably preoccupy our minds. To know how intensely you feel this is a real support and encouragement.

In the course of the coming year we shall have to pass on to the question of Stage (or, as I believe you call it, Phase) III. I hope that you and I will have the opportunity of discussing that personally. My present feeling is that it would be a mistake to take up this matter before the defeat of Germany. Meanwhile I hope we may continue to keep in close touch on current matters through Mr. Brand, to whom I am entrusting this letter. There are a few points which were not quite tied up when Lord Keynes left Washington, and it is possible that I may be asking Mr. Brand to invoke your counsel and assistance, should it prove necessary.

My wife joins me in the very best wishes for the coming year to you and your wife, who, I was very sorry to hear, has been unwell - I much hope she is better.

Yours very sincerely
Walter Dill Scott



*I had almost slipped into
the more friendly
French "Cher ami"
but my nerves failed
me.*

GREAT GEORGE STREET,
S.W. 1.

20th December, 1944.

Dear Mr Secretary,

I hope this letter will arrive in time to convey to you and Mrs. Morgenthau and if I may be allowed to do so, to any members of your family who are with you my very best wishes for Christmas and the New Year. Especially do I hope that there may be an opportunity in 1945 of seeing you again. Not only am I grateful for all your help which has resulted in finalising our agreement; but quite apart from your assistance in this matter I feel particularly indebted to you for the personal kindness you showed to me in my endeavours to assist in solving these complicated questions. Nor shall I easily forget the very friendly reception Mrs. Morgenthau and you extended to me in your home and the most delightful evening we spent at one of the best plays I have seen in very many years. I only hope I may have the pleasure of seeing you over here and even the privilege after the war of entertaining you at Christ Church though I can never hope to extend one tith of the hospitality to you which you offered to me.

It is not for me to speak on the broader issues, but you may well believe that I share the feelings of my colleagues in my gratitude to you for your appreciation of our difficulties and your readiness to help in solving them. I am sure that there should be no obstacle in our two countries working together for the benefit of all, given good sense and good will.

The Hon. Henry Morgenthau, Jnr.,
Treasury,
Washington, D.C.

Unfortunately, as you must have observed on your side as well as we do on ours, these attributes are not quite as universal as one might hope. It is easy for a few grains of sand to bring a big machine to a standstill. It is not always easy to get rid of the grains of sand. I am sure that at any rate you, and I in my small way, will do our best to eliminate them.

The sudden German resistance which has now developed into a counter attack together with the bad weather has set back the probable date of the end of the war in Europe. This appears to have held up for the moment decisions on the treatment of German industry. I gather from Keynes that the President takes the same view as he did when we discussed it, and I hope, though the matter has not been discussed, that there is no reason to fear a change over here. In the meanwhile our bombers are taking their own measures which may well prejudice the issue, which would solve many problems and salve many ultra sensitive consciences.

I need scarcely tell you even at risk of some impropriety how delighted I was at the result of the election. It is wonderful how the President always seems to be able to pull something out of the bag at the critical moment. I only hope that he will find expedients to surmount the post-war difficulties which are already beginning to emerge. If our action in Greece, which we only entered to bring order and help at the request of the All Party Government, can be so misunderstood it makes one despair of the future. It is a pity we did not announce that we had to cut off supplies to E.L.A.S. because they were co-operating with the Germans when it happened a long time ago. But the amount of

public support for the rule of the tommy gun is none the less disheartening.

We must hope that all these things will be cleared up in due course but I fear it will be some time before public opinion the world over, especially in the countries which have suffered from the Nazis, becomes normal again.

Once more with warmest regards to Mrs. Morgenthau and yourself and the best of good wishes.

Believe me

yours very sincerely

Cherwell.

7.5.

I very much enjoyed both the book and the candy. If conditions are anything like those pictured in the book I understand your anxiety about the Argentine.

January 2, 1945

FROM: Secretary Morgenthau

TO: Mr. Daniel W. Bell

I wish you would talk to me about this luncheon on Thursday, January 4. I think you should act as host to the bankers here in my place. We could set up a lunch for them in my dining room.

photostat
of Mr. Fletcher's letter
att to memo
to Mr Bell.

THE SECRETARY OF STATE
WASHINGTON

December 30, 1944

Dear Henry,

As agreed in my conversation with you this afternoon, I have made the necessary arrangements and we will expect you and your associates at the Blair House on Thursday, January 4th, at one o'clock for luncheon, rather than on Tuesday the second.

Looking forward to seeing you at that time,

Sincerely yours,



The Honorable
Henry Morgenthau,
The Secretary of Treasury.

January 2, 1945

Dear Mrs. Nisonger:

Thank you for your letter of December 28, which speaks of the record made in my home district during the Sixth War Loan.

I very much enjoyed my visit to your home and meeting those who were cooperating with you in launching the drive. You are all to be congratulated on the splendid record that was made.

I was most interested to know that you had met my father some years ago. He served as Ambassador to Turkey under President Wilson, and I believe it must have been during that time that you met him in Boston.

Thank you for your good wishes for the holidays. Mrs. Morgenthau joins me in hoping that the New Year may be a happy and successful one for you.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Virginia L. Nisonger
East Fishkill
Hopewell Junction, New York

GMF:mn



OFFICE OF STATE CHAIRMAN

TREASURY DEPARTMENT

WAR FINANCE COMMITTEE

E. Fishkill
Hopewell Junction, N.Y.

Dec. 28, 1944

Secretary Henry Morgenthau
Treasury Department
Washington, D.C.

Dear Mr. Morgenthau:

I want to thank you for cooperating with our district of East Fishkill in this 6th War Loan Drive. I am confident that it was the good will and support of neighbors like you that put us in number one position in the County, on December 16th. You will no doubt be pleased to learn that on that date your district was 212% of it's over-all quota, and 107% of it's "E" bond quota.

Also, at this time, I want to again thank you for coming to my home to open the Drive for us in such a nice way. After your talk, the Boy Scouts, 4-H Club, The Grange, stores, churches, and all our people showed a marked interest in seeing that we had more than a Quota Victory. We all appreciate the encouragement you gave us.

Incidentally, when I was a little girl I met your Father at the home of Mr. Edward A. Filene in Boston. He was Ambassador to Russia at the time, I believe. Now, if I ever have the pleasure of meeting your children I will have known the Morgenthaus for three generations (instead of three months).

I hope that this Holiday Season finds you and Mrs. Morgenthau in good health and spirit, with my personal regards to you both.

Yours for victory

Virginia L. Nisonger
Virginia L. Nisonger
Chairman

January 2, 1945

Dear Jim:

Now that we have completed the Sixth War Loan Drive and do not contemplate having another until late May or early June, I wonder if in certain localities our War Bond organization could be of any assistance to you on the production front.

Your Department has been so helpful to us during the various Drives that we would like to offer whatever assistance we have to you in furthering production of war materials at this time.

If you are interested, I shall be glad to have our War bond people get in touch with whomever you designate.

Yours sincerely,

(Signed) Henry

The honorable James V. Forrestal,
Secretary of the Navy,
Navy Department,
Washington, D. C.

January 2, 1945

Dear Harry:

Now that we have completed the Sixth War Loan Drive and do not contemplate having another until late May or early June, I wonder if in certain localities our War Bond organization could be of any assistance to you on the production front.

Your Department has been so helpful to us during the various Drives that we would like to offer whatever assistance we have to you in furthering production of war materials at this time.

If you are interested, I shall be glad to have our War Bond people get in touch with whomever you designate.

Yours sincerely,

(Signed) Henry

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

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 1,
1945

TO: Secretary Morgenthau

FROM: R. W. Coyne *RWC*

We have discussed your suggestion concerning offering the War Bond organization to trouble-shoot any situations on the production front that concern the War and Navy Departments and feel that it is entirely feasible and that the folks in the field would welcome such assignments. We feel, therefore, that you should feel free to offer Secretary Forrestal and Secretary Stimson this cooperation. Lane, Engelsman, and myself will constitute the committee to consult with you on any steps to execute the idea if the War and Navy Departments wish to take advantage of your offer.

OSTEY
of Mr Patton
of R - My 41
Connell

next meet. 260

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date

January 2, 1945

TO Secretary Morgenthau

FROM J. J. O'Connell, Jr.

did we answer Patton

I suggest that the attached somewhat non-committal letter be sent to Mr. Patton in answer to his letter of December 20, 1944, suggesting that David Bazelon of Chicago, Illinois, be appointed Assistant Commissioner of the Bureau of Internal Revenue.

I know little about Mr. Bazelon other than such information as I have gleaned from Mr. Patton's letter and from a short talk with Mr. Bazelon himself. He is something of a perennial candidate for a top job in the Bureau of Internal Revenue, having been suggested from time to time for one job or another over the past three or four years.

Although he is undoubtedly a competent lawyer and has had a substantial amount of tax experience, I am not persuaded that we cannot do better. In any event, I hope that we will be able to avoid making a decision on him until we have had a little more time.

I believe Mr. Gaston is generally in accord with this.

J.J.O.C.
I agree
J.J.

Attachment

JAN 3 1945

Dear Mr. Patton:

This is in further reply to your letter of December 20, 1944, suggesting that Mr. David Bazelon, of Chicago, Illinois, be appointed Assistant Commissioner of the Bureau of Internal Revenue.

No decision has as yet been made with respect to this matter, as several alternatives are still under consideration. In any event, I am glad to have your appraisal of Mr. Bazelon and to know that you believe him well qualified for the job.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. James G. Patton
President
National Farmers Union
3501 East 46th Avenue
Denver, Colorado

follow up.

JJO'G:mv 1/2/45

25

December 28, 1944

Dear Mr. Patton:

In the absence of the Secretary, who is away from Washington, I am acknowledging your letter of December 20.

Mr. Morgenthau will be back at his desk early next week, and as soon as he is here, I shall be very glad to call this letter to his attention.

Sincerely,

(Signed) H.S. Klots

H. S. Klots
Private Secretary.

Mr. James G. Patton
President
National Farmers Union
3501 East 46th Avenue
Denver, Colorado

GHF:mn

FARMERS EDUCATIONAL AND COOPERATIVE UNION

of America

3301 EAST 46TH AVENUE

DENVER, COLO.

December 20, 1944

OFFICE OF THE PRESIDENT

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

Dear Secretary Morgenthau:

I enjoyed saying hello to you at the White House tea the other day. I am sorry that I could not arrange a mutually satisfactory time before I left Washington for a visit with you.

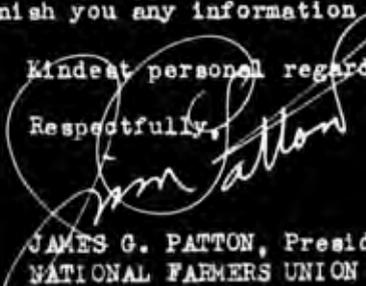
I talked to your General Counsel, Mr. O'Connell, regarding David Bazelon of Chicago, Illinois, whom I would like to see appointed Assistant Commissioner of the Bureau of Internal Revenue. David Bazelon has been a very good friend of the National Farmers Union and has assisted us very constructively on a number of important matters. I have found him to be a very public spirited person. He has the support of Scott Lucas and Mayor Kelly's organization. He was Assistant U. S. District Attorney from 1935 to 1940 in charge of tax matters.

Bazelon is a member of the firm Gottlieb and Schwartz. You probably recall that Ulysses Schwartz was a member of this firm before he went to the Bench. He is 35 years old, classified 4-F by the Selective Service.

If you would like to have any additional information regarding Bazelon, David Niles has his complete file and he will, I am sure, be glad to furnish you any information you wish.

Kindest personal regards,

Respectfully,


JAMES G. PATTON, President
NATIONAL FARMERS UNION

JGP/gk
uopwa/14

WAR DEPARTMENT
WASHINGTON 25, D. C.

Carbon copy to
Dr. White 1/2/45- 284

JAN 2 1945

The Honorable,

The Secretary of the Treasury.

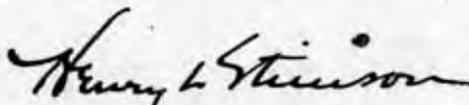
My dear Mr. Secretary:

I was indeed pleased to learn from your letter of December 19, 1944, that you had brought to a successful conclusion the protracted negotiations with Dr. H. H. Kung with respect to U. S. Army obligations to the Chinese Government.

The four officers whom you mentioned have been notified of your appreciation for their assistance.

The War Department has taken cognizance of the quarterly adjustments and settlements which your Department will make for the U. S. Army obligations incurred in China. On December 17, 1944, in anticipation of the forthcoming settlement of obligations incurred during the last quarter of this calendar year, a memorandum was sent to the Commanding General, U.S. Forces, China Theater of Operations, by the Budget Officer for the War Department. This memorandum, a copy of which has been supplied to your Department, not only reviewed the general background leading to the settlement of all claims through September 30, 1944, but also requested information which will be useful in future settlements. This information will be sent to you as it is received from time to time in order that your Department may have it available when further negotiations are renewed.

Sincerely yours,



Secretary of War.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 2, 1945

TO Secretary Morgenthau

FROM Mr. White

WOW

You inquired yesterday about the status under the freezing Order of French funds within the United States.

French assets in the United States, at the time of liberation, totaled approximately \$1,500,000,000. Of this amount, approximately \$725,000,000 was held for official account and approximately \$775,000,000 for private account.

Some time ago we informed the French Government that we were prepared to issue to it a broad license authorizing it to make free use of official funds held in the United States subject to the proviso that we be notified and be given an opportunity to pass upon payments to foreign countries in excess of \$25,000. This arrangement was readily agreed to by the French, and such a license has already been issued with respect to funds held by the Bank of France with the New York Federal Reserve Bank. Similar licenses will be issued with respect to funds held in other official French accounts in this country as soon as arrangements for the certification by the State Department of these accounts have been completed.

From official funds in this country the French have already transferred approximately \$224,000,000 to the Bank of Belgium in settlement of the gold attachment, and \$50,000,000 to F.E.A. for Lend Lease account. An additional \$19,000,000 will shortly be transferred to the French Paymaster General in the United States for his use in meeting current French expenditures here.

Private French funds in the United States are still frozen and we have been discussing with the French a program for relaxing our controls over these assets in a manner which will protect American interests and carry to completion the wartime objectives of Foreign Funds Control. The French are in agreement with the basic program and both Saxon and Hoffman report that the French officials in Paris are anxious that our controls over French private assets be maintained until their own controls have been established. Once this has been done, we expect to issue a broad general license permitting the relatively free use of French private assets.

Personal remittances to France are already permitted under general license and we anticipate no difficulty in handling transactions incident to the restoration of private trade between the United States and France and other current transactions.



BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON 6, D. C.

TELEPHONE DECATUR 9000

PLEASE QUOTE

REFERENCE NO.....

2nd January, 1945.

With the compliments of British Air Commission
who enclose statements nos. 167 and 168 --
Aircraft Despatched -- for the weeks ended
December 8th and December 15th respectively.

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

January 2, 1945.

STATEMENT NO. 167

Aircraft Despatched From the United States
Week Ended December 8, 1944.

BRITISH/U. S. SECRET

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA.</u>
<u>CONSOLIDATED</u>					
Liberator B VI	M.E.	M.E.		17	
Liberator GR VI	India	India		8	
Liberator GR VIII	U.K.	U.K.		3	
Liberator GR VIII	Bahamas	Nassau		1	
<hr/>					
<u>GLENN MARTIN</u>					
Marauder III	M.E.	M.E.		1	
<hr/>					
<u>NORTH AMERICAN</u>					
Mitchell II	Canada	Canada			2
Mitchell III	U.K.	U.K.		8	
Mustang	N.W. Africa	Casablanca	9		
Mustang	U.K.	U.K.	5		
<hr/>					
<u>DOUGLAS</u>					
Dakota IV	U.K.	U.K.		13	
Dakota IV	M.E.	M.E.		3	
Dakota IV	S. Africa	S. Africa		2	
Dakota IV	Canada	Canada			1
<hr/>					
<u>REPUBLIC</u>					
Thunderbolt	M.E.	Alexandria	5		
Thunderbolt	India	Karachi	16		
<hr/>					
<u>NOORDUYN</u>					
Harvard	M.E.	Alexandria	3		
Harvard	U.K.	U.K.	8		
<hr/>					
<u>VOUGHT-SIKORSKY</u>					
R-4-B Helicopter	U.K.	U.K.	1		
*Corsair	Australia	Brisbane	16		
<hr/>					
<u>CURTISS</u>					
Kittyhawk	Australia	Brisbane	4		
<hr/>					
<u>GRUMMAN</u>					
*Hellcat	Australia	Brisbane	2		
<hr/>					
<u>STINSON</u>					
Reliant	Australia	Brisbane	10		
<hr/>					
<u>BEECH</u>					
UC-45 Beechcraft	India	Karachi	2		
<hr/>					
			Total:	81	56
					3

* with radio equipment.

Movements F 1, Raffel
 December 22, 1944.

mmh
 File V-17

STATEMENT NO. 168

Aircraft Despatched from the United States
 Week Ended December 15, 1944

BRITISH/U. S. SECRET

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Liberator B-VI	M.E.	M.E.		10	
Liberator GR-VI	U.K.	U.K.		1	
Liberator GR-VI	India	India		5	
Liberator C-IX	Canada	Canada			1
<u>GLENN MARTIN</u>					
Marauder III	M.E.	M.E.		1	
<u>NORTH AMERICAN</u>					
Mitchell II	Canada	Canada			1
Mitchell III	U.K.	U.K.		12	
<u>BOEING</u>					
Catalina II	U.K.	U.K.		3	
<u>NOORDUYN</u>					
Harvard	U.K.	U.K.	5		
<u>REPUBLIC</u>					
Thunderbolt	India	Madras	18		
<u>BEECH</u>					
UC-45 Beechcraft	India	Karachi	6		
UC-45 Beechcraft	Australia	Sydney	1		
<u>CURTISS</u>					
Kittyhawk	Australia	Sydney	39		
<u>GRUMMAN</u>					
*Hellcat	Australia	Sydney	4		
<u>VOUGHT-SIKORSKY</u>					
*Corsair	Australia	Sydney	9		
<u>FAIRCHILD</u>					
Argus	N.W. Africa	Algiers	51		
			Total:	133	32
					2

* with radio equipment.

Movements F 1
 R.A.F. Delegation
 December 27, 1944

mmh
 File V-17

January 2, 1945

My dear General Marshall:

In the weekly summary of the United States Joint Intelligence Committee, No. 103, December 28, 1944, on Page 15, there is an article entitled "German Economic Measures in Threatened Areas".

May I have your permission to discuss this article with my own people in the Treasury? I would like to use it as background material in discussions that I am having with Mr. McCloy and General Hilldring.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff,
United States Army,
Washington, D.C.

SECRET

*By messenger 4:30 p.m.
1/2/45*

Letter to General Marshall.

(Dictated on the dictaphone)

January 1, 1945

My dear General Marshall:

In the weekly summary of the United States Joint Intelligence Committee, Number 103, 28 December 1944, on page 15, there is an article entitled "German Economic Measures in Threatened Areas". May I have your permission to discuss this article with my own people in the Treasury? I would like to use it as background material in discussions that I am having with Mr. McCloy and General Hilldring.

Yours sincerely,

OK. (M)

WAR DEPARTMENT
THE CHIEF OF STAFF
WASHINGTON

December 4, 1945.

*Wyr said he is 272
not going to do
any thing
about this - file -*

Dear Mr. Secretary:

I have your letter of January 2nd requesting permission to use the article GERMAN ECONOMIC MEASURES IN THREATENED AREAS in discussions with personnel of the Treasury Department and with Mr. McCloy and General Hilldring. The War Department has no objection to this use of the article provided that a classification of CONFIDENTIAL be maintained.

Faithrully yours,



The Honorable

The Secretary of the Treasury

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD
WASHINGTON 25, D. C.



OFFICE OF THE
EXECUTIVE DIRECTOR

JAN 2 1945

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 December 18 to 23, 1944.

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. W. Penle".

J. W. Penle
Executive Director

The Honorable,

The Secretary of the Treasury.

Enclosure.

Report of the War Refugee Board
for the Week of December 18 to 23, 1944

SITUATION IN HUNGARY

It was reported by our Embassy in Madrid that the Spanish Charge d'Affaires has left Budapest and that, since there is now no Spanish diplomatic representative in Hungary, protection of Spanish interests there has been turned over informally to the Swedish Legation. We cabled this report to our Legation in Stockholm and requested that efforts be made to convey to Swedish representatives in Budapest information concerning 2,870 Hungarian Jews in possession of Spanish letters of protection and visas for Spain and Spanish Morocco and the authorization given to the Spanish Legation in Budapest to grant visas to 700 other Budapest Jews. We pointed out that, with the exception of one family of three persons, none of the Jews with Spanish papers or visas are mentioned in a recent report from Budapest as being accorded the special treatment which it is indicated is being granted to several categories of Budapest Jews in possession of foreign protective documents and visas, and that any action which the Swedish Legation in Budapest can take to obtain such special treatment and protection for all Jews with Spanish papers and visas will be greatly appreciated.

According to a report received from a private source through our Legation in Bern, there are still in Budapest approximately 75,000 Jews, most of whom are children and elderly and sick people, who urgently need help.

SITUATION IN ITALY AND YUGOSLAVIA

Another report from a private source which reached us through our Legation in Bern indicates that all of the Jews in camps in Northern Italy have been deported except about 70 in one camp and prison. All of the other Jews of Northern Italy were reported to be in hiding, but their numbers are not known. There are 1,200 Jews in camps in Croatia, and 800 are believed to be at large.

Ambassador Kirk advised us that an army officer who recently returned from Slovenia and Croatia reported that there are about 1,000 Jews at Glina, of whom about 200 are not Yugoslavs. The new air strip is at present unusable, but it is now planned to evacuate these people overland. It was indicated that these refugees are well supplied and are still in no danger.

GERMAN CONCENTRATION CAMPS

A representative of a private organization reported through our representative in Bern that one of the group of Hungarian Jews who recently reached Switzerland from Bergen Belsen stated that at least 4,000 men and girls from 15 to 50 years of age arrived at Bergen Belsen from Auschwitz about two or three months ago. It was presumed that they were gradually sent to various German work camps. The Hungarian group at Bergen Belsen was completely segregated and personal contact with the deportees from Auschwitz was impossible. However, a written statement indicated that all extermination activities in Auschwitz were stopped a few months ago. The women from Auschwitz were of the opinion that the children and elderly persons there were sent to other camps.

Although the attempts of a private organization to locate some 16,000 persons deported from Lithuania have been unsuccessful, it is believed that the young people were taken to work camps in Germany. This belief is based upon receipt of a postcard from a camp near Munich written by a young man who was deported from Kaunas. Efforts to locate this camp and to obtain additional information are being made. In this connection, it was stated that only a few of the larger camps in German-controlled territory are known and that there are many other camps which are not accessible, repeated intercessions having failed to bring from the German authorities any information concerning them or permission for representatives of the International Red Cross to visit them.

RELIEF FOR UNASSIMILATED INTERNEES IN GERMAN CONCENTRATION CAMPS

In connection with the Board's food parcel program, Representative McClelland advised us that the International Red Cross Committee is willing to try to send collective test shipments to several specified localities in Poland. It was pointed out, however, that guarantees concerning control of the safe arrival and distribution of the parcels cannot be given as there is not the slightest prospect of securing permission for Intercross delegates to visit these camps. McClelland indicated his view that, if it is possible to obtain authorization for the forwarding of test shipments to Poland, it will be well worth making an attempt to get some relief through to the many thousands of persons who are living under frightful conditions in these camps. We cabled our agreement with this suggestion and authorized McClelland to arrange for test shipments to be forwarded to Poland

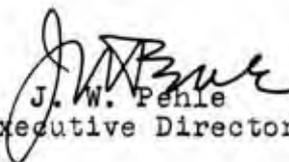
under the best obtainable distribution guarantees, but urged that no repeat shipments to Poland be made until reasonable assurance is obtained that supplies from the test shipments have reached the intended beneficiaries.

With regard to the food parcel program in general, we emphasized that arrangements for distribution of the 224,328 parcels now enroute to Gothenburg and 60,672 parcels awaiting shipment to Toulon should be made on an equitable basis motivated solely by need and accessibility. To this end, we urged that the term "camps" be interpreted by the International Red Cross to mean all places where unassimilated persons are confined, detained, or otherwise forcibly congregated and where some reasonable assurance can be obtained that the parcels will reach the intended beneficiaries.

UNITED STATES VISAS FOR PERSONS IN ENEMY TERRITORY

Our Legation in Bern advised us that lists of persons eligible for inclusion in the special visa programs developed by the Board have been received and transmitted to the Swiss. The Swiss Legation in Berlin has requested that, before notification of these lists is made to the German Government, consideration be given to the fact that, on the basis of previous experience, it is felt that the representations which the Legation would make to the German authorities in this connection would contribute nothing to assure the effective protection of the individuals concerned so long as they cannot participate in American-German exchanges. The Swiss Legation pointed out that communication of these lists could only create confusion which would be prejudicial to the smooth conduct of negotiations for the forthcoming American-German exchange and that it would therefore appear preferable to refrain for the present from notifying to the German Foreign Office the lists of non-exchangeable persons to whom the American Government is prepared to extend its hospitality. The Swiss Foreign Office inquired as to whether persons eligible for the benefit of the special visa programs could be assimilated to a category of persons whose eligibility for inclusion in exchange negotiations has been established, and if not, whether the Swiss Legation in Berlin may be authorized to defer transmission of the lists in question to the Germans until negotiations for the forthcoming exchange are completed.

We were advised that, incident to the Board's visa programs, the question of authorizing Swiss entry visas individually or collectively is still under consideration by the Swiss Federal Police. The Chief of Police, in a preliminary discussion, expressed doubt as to the protective value of authorizing Swiss visas to a large number of persons whose present whereabouts is completely unknown and whose last addresses are several years old. His experience with German police has led him to believe that they would take very little action on the basis of the lists in question and, since the persons concerned are Jews, would disclaim any knowledge as to their whereabouts. It was suggested by our Legation that classification of these persons as exchangeable would afford a better possibility of according them protection than could be achieved by the authorization of Swiss entry visas.


 J. W. Penie
 Executive Director

CABLE TO AMERICAN EMBASSY, LONDON, FOR MANN, FROM WAR REFUGEE BOARD

Please transmit following message to Albert Guigui, 12 Avenue
Hebert, Beauchamp (S&D), Paris, from Suzanne LaFollette of Labor League:

QUOTE IF YOU ARE COMING SHORTLY PREFER WAITING TO DISCUSS
WHOLE RELIEF MATTER WITH YOU. IF NOT PLEASE CABLE US PRECISE WHERE-
ABOUTS OF PRESENT FUNDS AND AT WHOSE DISPOSAL. UNQUOTE

THIS IS WRB LONDON CABLE NO. 32.

2:00 p.m.
January 2, 1945

CABLE TO WINANT, LONDON, AND MANN FROM WAR REFUGEE BOARD

The War Refugee Board was recently advised by McClelland in Bern that approximately 1355 refugees from Bergen-Belsen arrived in Switzerland on December 7 and are temporarily being housed in Caux under control of the Swiss army. McClelland has been advised by the chief of the Swiss Federal Police that the majority of these refugees are Hungarians, including persons from Transylvania, but that there are also a few Poles, Slovaks and Yugoslavs. The Swiss stated further to McClelland.

QUOTE All these refugees intended to go to Palestine some as young workers others as veteran Zionists or prominent members of Jewish organizations, still others to join relatives already there. Most of them had been assured that they would be admitted although none of them actually possess Palestine certificates or equivalent document. On other hand they all hold documents issued by Hungarian Red Cross or an international Jewish organization stating that a Palestine certificate in their name is available at Istanbul. These documents were for most part issued shortly before occupation of Hungary by Germans. For past few years it appears that several thousands of Hungarian Jews have gone to Haifa via Istanbul on basis of such documents. All these Hungarians who recently arrived in Switzerland originally intended to pick up their Palestine certificates in Istanbul and once in possession of them to proceed to Haifa. Almost all of them have relatives in Palestine. They do not know whether the certificates supposedly available for them at Istanbul are still valid or whether the Zionist organizations have taken any steps to assure their emigration. UNQUOTE

Although it is not certain that this is the same group referred to in our WRB-19 of November 3 and your 9736 of November 9, it is hoped that you will be able nevertheless to obtain the consent of the British to the admission of this group of refugees to Palestine. The Swiss are extremely anxious and consider it imperative (repeat imperative) that this entire group of refugees be removed from Switzerland as soon as possible. This is an excellent opportunity to demonstrate to the Swiss our good faith in promising to find temporary havens for all refugee Jews arriving in Switzerland from Hungary, particularly since the Swiss have indicated their willingness to permit 8,000 more Hungarian Jews to enter Switzerland on a temporary basis.

AFHQ and UNRRA have agreed to hold the Philippeville Camp in Algeria open to meet emergency needs such as that created by any possible movement of Hungarian Jews. However, it is the Board's feeling, in view of the above-quoted communication by the Swiss to McClelland, that efforts should be made to have this group admitted

to Palestine rather than to Philippeville.

Please take this matter up with the British and reply urgently. If the British consent to admit these refugees to Palestine, the United States Government will of course cooperate in arranging transportation.

THIS IS WRB LONDON CABLE NO. 33.

2:00 p.m.
January 2, 1945

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

Please deliver following message to Joseph Schwartz from M. A.

Leavitt of American Jewish Joint Distribution Committee:

QUOTE PLEASE CONTACT DANA HODGDEN AMERICAN EMBASSY PARIS REGARDING GROUP FIFTY TO SEVENTYFIVE PEOPLE BEING EXCHANGED FROM GERMANY DUE MARSEILLE END JANUARY. NUMBER PROBABLY HOLD PALESTINE CERTIFICATES OTHERS SOUTH AMERICAN PASSPORTS. WILL BE NECESSARY THAT MAINTENANCE BE PROVIDED AND FURTHER ARRANGEMENTS MADE THEIR TRANSPORTATION ONWARD. ASSUME YOU CAN HAVE REPRESENTATIVE MARSEILLE HANDLE SITUATION THERE. UNQUOTE

1:30 p.m.
January 2, 1945

MF-1262

PLAIN

Lisbon

Dated January 2, 1944

Rec'd 6:58 a.m., 3rd

Secretary of State

Washington

11, Second.

WRB 283 JDC 144. FOR LEAVITT FROM PILPEL.

Joseph Schwartz recommends appropriation \$10,000 for purchase medicines Sweden for shipment Lublin. Lusa advises shipments Swedish organizations made arrived Lublin within five days via air. Please advise type quantities medicines.

NORWEB

WSB

CABLE TO AMERICAN CONSULATE GENERAL, JOHANNESBURG, SOUTH AFRICA, FROM
WAR REFUGEE BOARD.

Please deliver following message to Secretary, South African
Jewish War Appeal, Shakespeare House, Johannesburg, from Drs. Stephen S.
Wise, Nahum Goldmann, World Jewish Congress, 1834 Broadway, New York:

QUOTE SWEDISH COMMITTEE PRESIDENT CHIEF RABBI EHRENPREIS
OBTAINED THROUGH SWEDISH CHANNELS FACILITIES SEND FOOD PARCELS
JEWISH CONCENTRATION CAMPS EUROPE. SCHEME REQUIRES INITIAL
AMOUNT 25,000 POUNDS FIRST PARCELS ALREADY DISPATCHED.
URGENTLY REQUEST YOUR COMMUNITY CONTRIBUTE 5,000 POUNDS THIS
ESSENTIAL RELIEF PROJECT. CABLE UNQUOTE

1:30 p.m.
January 2, 1945

CABLE TO HUDDLE, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Please refer to your 8379 and 8380 of December 28 regarding the evacuation from Switzerland of the 1352 refugees who recently arrived from Bergen-Belsen.

The War Refugee Board advised the War Department at the time your 7269 of November 1 was received of the possible need of transportation and accommodations for Jewish refugees from Hungary. The Board has since been advised by the War Department that AFHQ and UNRRA have agreed to hold the Philippeville Camp in Algeria in reserve for emergencies arising from any possible movement of Hungarian Jews.

However, in view of the description of this group of 1352 refugees in the communication to you from the Chief of the Federal Police, the Board has cabled Mann in London, requesting him to seek the consent of the British Government to the admission of this group to Palestine. If Mann is unsuccessful in obtaining the consent of the British to this, the Board will undertake to make arrangements to have them moved to Philippeville. Although the Board will do all possible to hasten the evacuation of this group from Switzerland, there can be no assurance that this can be accomplished within the next few weeks.

If necessary, arrangements can be made to provide funds for the maintenance of this group for the period of their stay in Switzerland.

You will be advised as soon as a reply is received from Mann.

THIS IS WRB BERN CABLE NO. 343.

2:00 p.m.
January 2, 1945

NOT TO BE RE-TRANSMITTED

COPY NO. 4

SECRET

OPTEL No. 3

Information received up to 10 a.m., 2nd January, 1945.

1. NAVAL

MEDITERRANEAN. Situation at Corfu reported quiet. Greek Destroyer standing by to evacuate Zervas troops from Livkas.

2. MILITARY

WESTERN FRONT. Enemy has launched attack on 30 mile front from village 5 miles north of Reichshofen to Sarreguemines. Little news received but it is known that in centre of line a U.S. armoured division is holding the attack at Bitsche. Troops of 3rd U.S. Army have advanced on west flank of Bastogne Corridor and have increased its width and shortened it.

ITALY. 8th Army has beaten off three enemy raids - one near Alfonsine and two near Fusignano. Elsewhere only patrol activities.

GREECE. 31st December. Further progress made clearing southeast suburbs of Athens. Good progress also made in Piraeus where suburb of Eryenia has been cleared. ELAS attack on wireless station at Kallini, 7 miles east of Athens, was repulsed and our detachment there later successfully evacuated by relief force.

BURMA. Rathedoug was entered by patrols on 30th. Occupation completed 31st in Saladan Valley. Night attack by Japanese against forward positions repulsed.

3. AIR

WESTERN FRONT. Night 31st/1st. 809 tons dropped Osterfeld Railway centre, 82 tons on Berlin.

1st. 93 escorted Lancasters (3 missing) dropped 430 tons on Dortmund-Ems Canal at Ladbergen. Bombing concentrated. Reconnaissance aircraft reports large breach in West Wall. 694 escorted U.S. heavies (29 outstanding) attacked 3 oil installations at Magdebourg, Ehmen and Dollbergen, east of Hanover - 183 tons; railway centre Cassel - 613 tons; 6 railway bridges and 11 other targets - 706 tons. Bombing mainly by Pathfinder technique. Enemy casualties so far reported 40,1,2. 7 fighters outstanding. Some 260 enemy aircraft attacked 13 Allied airfields in Holland and Belgium. 167 Allied aircraft destroyed or seriously damaged on ground. 392 Allied medium bombers and 1422 fighters and fighter bombers operated over battle areas. Over 60 AFV destroyed in central sector. Enemy casualties 66,9,25 in combat and 19 by A.A.

Night 1st/2nd. 597 aircraft despatched (4 missing): Mittelland Canal (Gravenhorst) 157, Vohwinkel Railway Centre 146, Dortmund (Minister Stein) Coking Plant - 139, Hanaw and Hanover - 55 Mosquitoes; Bomber support - 100.

MEDITERRANEAN. 31st. 1127 aircraft (7 missing) attacked communications in Po Valley. Direct hits on 2 railway bridges and ammunition dump, Bologna.

4. HOME SECURITY

To 7 a.m. 2nd. 2 rocket incidents reported.

CORRIGENDUM

For OPTEL No. 424 read No. 1
OPTEL No. 2 not sent to Washington.