

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

January 20, 1945

5 p.m.

AMLEGATION

STOCKHOLM  
110

The following for Johnson and Olsen from Department  
and War Refugee Board is WRB 296.

Board understands that Swedish Minister in Washington,  
at the request of a private organization, is transmitting  
to the Swedish government the request that Sweden again  
appeal to the German Government to refrain from further  
extermination and persecution of the Jews remaining in  
German-occupied territory.

You may indicate to appropriate Swedish officials  
that this Government would welcome an appeal along such  
lines.

STETTINIUS  
(GHW)

WRB:MMV:RG  
1/20/45

NOE

cc: Miss Chauncey (For Sec'y), Ackermann, Akzin, Conn,  
Drury, DuBois, Gaston, Hodel, Marks, McCormack, Pehle,  
Files.

VMH-593  
Distribution of true  
reading only by special  
arrangement. (SECRET-7)

Stockholm

Dated January 20, 1945

Rec'd 3:35 p.m.

Secretary of State,

Washington.

246, January 20, 1 p.m.

Commissariat for Foreign Affairs, Foreign Office  
informs Legation, has given Swedish Legation in Moscow  
information which indicates Swedish representative in  
Hungary Wallenberg is safe and sound in that part of  
Budapest occupied by Russians. (This is our number 121  
for WRB supplementing our WRB 118 in reply to WRB 273).  
Swedish authorities accordingly suggest information  
given in Department's 2566, December 21, 8 p.m. be  
conveyed through American Embassy in Moscow.

JOHNSON

DU

cc: Miss Chauncey (For Sec'y.), Ackermann, Akzin, Cohn, Drury,  
DuBois, Gaston, Hodel, Marks, McCormack, Pehle, Files.

GEX  
Distribution of  
true reading only by  
special arrangement.  
SECRET W

January 20, 1945  
Noon

AMLEGATION

BERN  
330

The following for McClelland is WRB 371.

Reference is made to Department's 127 of January 9, 1945,  
paragraph 5.

A report on the situation of Jews in Hungary by Intercross,  
dated November 15, 1944, and transmitted to WRB through Intercross  
representative in Washington, states on page 10 (our translation  
from French) as follows:

QUOTE Our delegation in Budapest specifies that, in accord-  
ance with a declaration of Hungarian Minister of Interior, the  
Delegation of Intercross in Germany will have opportunity to  
exercise control over the working conditions of Hungarian Jewish  
workers placed under the supervision of Hungarian authorities.  
Intercross has immediately charged its Delegation in Germany to  
obtain opportunity to control the camps of Hungarian Jewish workers.  
A confirmation that German authorities accept such control has not  
yet been received to date. UNQUOTE

Please urge Intercross to follow up this matter until satis-  
faction is obtained.

WRB:MMV:KG  
1/19/45

WE

STETTINIUS  
(GLW)  
SE

CABLE TO HUDDLE AND MCCLELLAND, BERN, FROM DEPARTMENT AND WAR REFUGEE BOARD.

Board understands that Swiss Minister in Washington, at the request of a private organization, is transmitting to the Swiss Government the request that Switzerland again appeal to the German Government to refrain from further extermination and persecution of the Jews remaining in German-occupied territory.

You may indicate to appropriate Swiss officials that this Government would welcome an appeal along such lines.

THIS IS WRB CABLE TO BERN NO. 373.

1:00 p.m.  
January 20, 1945

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

January 20, 1945

6 p.m.

AMLEGATION

BERN

338

The following for Huddle and McClelland from Department and War Refugee Board is WRB 373.

Board understands that Swiss Minister in Washington, at the request of a private organization, is transmitting to the Swiss Government the request that Switzerland again appeal to the German Government to refrain from further extermination and persecution of the Jews remaining in German-occupied territory.

You may indicate to appropriate Swiss officials that this Government would welcome an appeal along such lines.

STETTINIUS  
(GHF)

WRB:MMV:KG  
1/20/45

WE

cc: Miss Chauncey (For Sec'y.), Ackermann, Akzin,  
Cohn, Drury, DuBois, Gaston, Hodel, Marks,  
McCormack, Fehle, Files.

DD-756

PLAIN

Bern

Dated January 20, 1945

Rec'd 11:45 p.m.

Secretary of State,  
Washington.

411, Twenty

FOR WRB FROM MCCLELLAND.

Kindly deliver following message from Freudenberg to Robinson of American Christian Committee: "I refer to your cable concerning remittance for cimade and our preliminary reply of January 5, regulation preventing transfers via Switzerland seriously handicaps all activities ecumenical Refugee Commission particularly our coordinating function and important work in Switzerland will be forced discontinue shipment medicines food to France. Do not know how office expenditures will be covered. This leaves us no margin for new tasks or emergency appeals such as those recently received from Rumania. How can we help in Shanghai and Italy if Swiss Swedish contributions must be used for other purposes. It is legally possible with agreement French Government and Swiss clearing office transmit funds to France at rate more than twice that of relation one dollar to fifty French Francs. Does this regulation also apply

cc: Miss Chauncey (For Sec'y.), Ackermann, Akzin, Cohn, Drury, DuBois, Gaston, Hodel, Marks, McCormack, Pehle, Files.

•2-#411, Twenty, from Bern

to church collections.

Grateful if you will advise Madeleine Barot hand over 200,000 French francs from your remittance to Pastor Toureille, refugee Chaplain, who urgently needs funds Toureilles. Fine work fully described in reports you must have received from Warnsuis.

Please send us further information this distressing question and substantial funds as soon possible." 27.60

HUDDLE

MJF

Bern

Dated January 20, 1945

Rec'd 11:05 p.m.

Secretary of State,  
Washington.

413, Twentieth.

FOR WRB FROM MCCLELLAND.

Please deliver following message from Marjorie  
McClelland to American Friends Service Committee,  
Philadelphia:

"Your inquiry regarding Erich and Emily Gans  
transmitted via Richie Lisbon. This couple and their  
two children Anita and Oswald found in good health  
at Vittel when camp liberated by Allies. According  
to thoroughly reliable report dated mid-October 1944,  
Gans family desires emigrate to USA as soon as possible.  
Their exact present location France unknown but probably  
Labourboule along with other Vittel survivors." 12.50.

HUDDLE

LMB

MR-727  
Distribution of true  
reading only by special  
arrangement. (SECRET-W)

Bern

Dated January 20, 1945

Rec'd IC:06 p.m.

Secretary of State

Washington

415, January 20, 2 p.m.

FOR WRB FROM MCCLELLAND.

Department's 272, January 17, WRB'S 366.

ICRC on its own initiative has filed two formal applications with German authorities in course of past three months to secure permission visit Bergen-Belsen as well as having made several "ad hoc" attempts to visit camp with view to exercising closer control over arrival and distribution of relief shipments. Committee was flatly refused authorization by Germans last in early December. To my knowledge ICRC has not relaxed its efforts. I shall, however, express Board's views to them on this subject.

HUDDLE

WMB

cc: Miss Chauncey (For Sec'y.), Ackermann, Akzin, Cohn, Drury, DuBois, Gaston, Hodel, Marks, McCormack, Pehle, Files.

AVH-736  
Distribution of true reading  
only by special arrangement  
(SECRET W)

Bern

Dated January 20, 1945

Rec'd 11 p.m.

Secretary of States,  
Washington.

416, January 20, 3 p.m.

FOR WRB FROM McCLELLAND. Department's 192  
January 13 WRB'S 360.

As reported in Legation's 6818 October 12  
Germans issued press denial of any intention to  
exterminate inmates of Tuwiecim and Birkenau follow-  
ing contrary report brought out by Polish circles  
in London that time.

I have never been able receive reliable con-  
firmation of reports circulated that general orders  
have gone out to S S controlling Jewish camps to  
kill all internees who cannot be evacuated in face  
of Allied advance.

Based on a great deal of fragmentary informa-  
tion collected during past several months regard-  
ing course of Nazi policy toward Jewish deportees  
in camps and more particularly on very recent  
statements

cc: Miss Chauncey (For Sec'y.), Ackermann, Akzin, Cohn,  
Drury, Dubois, Gaston, Hodel, Marks, McCormack, Pehle,  
Files.

-2- #416, January 20, 3 p.m. from Bern

statements of two intelligent Jewish women who reached Switzerland during late December having spent three months in Auschwitz (Oswiecim) August through October 1944 where they were deported from Drancy late July 1944 I think it can be reliably stated that Nazis have abandoned extermination of Jews as a general policy and certainly of those capable of working. On other hand they show tendency continue doing away on small scale with elderly people and children.

(2) Women from Auschwitz reported that sizeable convoys (from three to six thousand souls each) of Jewish women - they were unable to observe movements in men's camps - were transferred from Warsaw, Radom, Lodz and Kielce to Auschwitz and thence on to Germany proper as labor during early fall of 1944 in apparent effort on part of Germans to remove them from chance of capture in case of Russian advance.

Present rapid Russian advance will undoubtedly reveal whether SS exterminates Jewish internees  
they

-3- #416, January 20, 3 p.m. from Bern

they can't evacuate since whole upper Silesian industrial region of Katowice, Beuthen and Gleiwitz is apparently honeycombed with work camps of Jews deported from all occupied or formerly occupied countries.

These women themselves were transferred along with some 200 other Hungarian and 300 French and Dutch Jewish women from Auschwitz on October 31 to a work camp at Weisskirchen near Kratzay, Sudenland. This camp was part of another complex of Jewish work camps administered from concentration camp of Grossrosen near Breslau.

Transfer of similar group of 3500 Hungarian and Slovak Jewish women from Auschwitz to Bergenbelsen (reported Legation's 223, January 12) during late September 1944 constitutes further fragmentary evidence of this movement of Jewish deportees into Germany as labor.

Our two women reported that no indiscriminate shooting of internees occurred in Auschwitz, that they observed there as little wanton brutality in "selection" of ill for extermination and even some slight

-4- #416, January 20, 3 p.m. from Born

slight effort on party of camp authorities allow them to recover. Naturally mortality rate in all such work camps is high due mainly to under nourishment unhygienic conditions and especially to exposure for lack of sufficient clothing.

I shall continue to report any further reliable findings along this line which I can make.

HUDDLE

WSB

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

January 20, 1945

6 p.m.

**MEMBASSY**

**ANKARA**

95

The following for Katzki is WRB 138.

With reference to your 29 of January 6 the Board has not (repeat not) been able to obtain permission for you to proceed to Rumania and Bulgaria.

In view of this and in view also of the decreased possibilities for rescue in the Balkan area, the Board would appreciate your recommendations with regard to the closing of the War Refugee Board office in Turkey and your return to Washington for consultation. Andrews agrees.

In view of your 51 of January 11, it is assumed that if you decide to close the War Refugee Board office in Turkey, Miss Bixler will accept other employment in Turkey whereas Mrs. Henderson will return to the United States. The Board has no (repeat no) objection to Miss Bixler's accepting other employment provided that this is agreeable to you. It is the Board's understanding that no (repeat no) certificate of availability will be required for Miss Bixler to accept government employment with other American agencies in Turkey.

WRB:MMV:KG  
 1/19/45

NE

STETTINIUS  
 (GHL)

SE

cc: Miss Chauncey (For Sec'y.), Ackermann, Akzin, Cohn, Drury, DuBois, Gaston, Hodel, Marks, McCormack, Pehle, Files.

ELP-974

Distribution of terms reading only by special arrangement. (SECRET #)

Ankara

Dated January 20, 1945

Rec'd 2:40 p.m. 22nd

Secretary of State

Washington  
Washington.

102, January 20, Noon

FOR THE WAR REFUGEE BOARD FROM THE AMBASSADOR

I am in receipt of a telegram from Dr. Simon Bernstein of the Zionist Organization, 41, East Forty-Second Street, New York, inquiring as to whether Goldin has been able to secure passage to Turkey and Palestine for the Rismont family in Rumania. Please inform Dr. Bernstein that Goldin has communicated with the Palestinian officer of Immigration in Bucharest and has recommended that Rismont family. Goldin expresses the opinion that as soon as immigration from Rumania to Palestine is permitted, the Rismont family will be able to proceed to Istanbul and thence to Palestine. He states, however, that the entire matter is in the hands of the Palestinian officer of Immigration in Bucharest and that there is nothing that can be done by him to facilitate the family's departure from (\*)

STEINHARDT

LMS (\*) Apparent omission corrected.

DEPARTMENT  
OF  
STATE

INCOMING  
TELEGRAM

DIVISION OF  
CENTRAL SERVICES  
TELEGRAPH SECTION

250

MF-492

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

Chungking

Dated January 20, 1945

Rec'd 8:42 a.m.

Secretary of State

Washington

92, January 20, 4 a.m.

TO SECRETARY OF TREASURY FROM ADLER.

Bishop, Treasurer of United Clearing Board in  
Chungking, tells me that his New York office has  
informed him that Treasury has permitted Clearing  
Board to sell negotiable checks in China. Would  
appreciate your confirmation,

HURLEY

WSB

OPTREL NO. 23

Information received up to 10 a.m. 20th Jan. '45.

NAVAL1. Norwegian Waters

One of H.M. submarines on 11th torpedoes large escorted U-Boat on surface north of Trondheim and on 16th one 2,000 ton cargo ship which left sinking.

2. East Indies

One H.M. submarine is overdue and presumed lost.

18th. R.N. and R.A.F. Base Mauritius considerably damaged by cyclone but no naval casualties.

3. Enemy attack on shipping

18th. 3036 ton Norwegian ship mined off River Humber now in tow.

MILITARY4. Western Front

Southern Sector: North of Strasbourg troops of 7th U.S. Army regained some ground in enemy bridgehead West of Rhine while further north heavy fighting continues round Hatten and Rittershofen.

Central Sector: Third U.S. Army has now established bridgehead across River Sure which includes Diekirch. Further North U.S. First Army has made slight progress and now within four miles St. Vith.

Northern Sector: British attack North of Sittard has made further progress despite particularly severe weather and fairly heavy resistance.

5. Eastern Front. East Prussia Sector: Russian troops have continued advance and now 15 miles from Insterburg.

Central Sector: West of Warsaw advance continues on broad front and important industrial centre Lodz captured. Further South, German-Polish frontier reached 70 miles East of Bresgau. Cracow now occupied as also Tarnow (45 miles East Cracow).

Southern Sector: South of Szekesfehervar (S.W. Budapest) Russians report having to give ground in face strong opposition.

6. Burma. Arakan Sector: Commanding feature three miles North Myebon captured and determined counter attacks repelled.

AIR

7. Western Front. 19th. Bad weather continued restrict all operations. SHAEF (Air): aircraft 216 (missing 4) effectively attacked communication targets central battle area while aircraft 269 dropped 105 tons similar targets Southern sector.

Fighter Command Spitfires 23 successfully attacked rocket sites Holland.

8. Mediterranean Front. 18th. Medium bombers 176 (missing 2) attacked communications Brenner route with good results.

Light and fighter bombers and fighters 952 effectively attacked targets N.E. Italy and Po Valley destroying five bridges and cutting roads and railways many places.

Aircraft 141 successfully attacked targets Yugoslavia and shipping Dalmatian Coast.

FOR SECURITY to 7 a.m. 20th

9. Rockets. Night 19th/20th. Four incidents reported.



## SCRIPPS-HOWARD NEWSPAPERS

G. B. PARKER  
EDITOR IN CHIEF  
1019 THIRTEENTH ST., N. W.  
WASHINGTON, D. C.

January 21, 1945.

Dear Mr. Secretary:

This is just to acknowledge receipt of yours of January 19 which is very interesting, and for which I want to thank you.

I enjoyed the lunch very much.

Yours sincerely,

G. B. Parker

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

Henry D. Thoreau 253 ✓  
would be interested in seeing how  
Dunkley's works on the W. W. Foundation  
This program will be heard: *Curry's etc*  
*WCO-Opera.*

DISTRICT OF COLUMBIA: *S.F.M.*  
Station WINX - Washington *I think the*  
*could be*  
7:45pm January 21, 1945  
*much to the*

Compliments of the  
WOODROW WILSON FOUNDATION  
8 West 40th Street  
New York, N. Y.

THE WORLD WIDE BROADCASTING FOUNDATION  
in collaboration with  
THE CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

presents

"BEYOND VICTORY"

PROGRAM #78

"Dumbarton Oaks and Our Postwar  
Social Welfare"

-with-

Mr. Arthur Sweetser, Chairman of the  
United Nations Information Board

---

Program #78

**ANNOUNCER:** (In Clear) Beyond Victory!

**MUSIC:** (Fanfare--Bells)

**ANNOUNCER:** Are you looking "Beyond Victory"? When the guns are silent, when the lights go on again, when victory is ours, what sort of world shall we shape?

That is what "Beyond Victory" considers each week at this time, when outstanding speakers talk on our problems of tomorrow which must be faced today. "Beyond Victory" comes to you each week through the cooperation of the World Wide Broadcasting Foundation and the Carnegie Endowment for International Peace.

This week we bring you another discussion of the proposals for a general international organization recently suggested by the 4-power conference at Dumbarton Oaks. For this program we have the collaboration of the Commission to Study the Organization of Peace. On this program we present Mr. Arthur Sweetser, Chairman of the United Nations Information Board.

Mr. Sweetser, the Dumbarton Oaks proposals call for the formation of a Social and Economic Council. In view of your 25 years of experience, first with the American Peace Commission in Paris after the last war, then with the League of Nations in the inter-war period, and now with our own government, what part do you think such a Council would play in the organization of peace?

**SWEETSER:** This is, I think, far and away the most constructive part of the Dumbarton Oaks proposals. Our first job after the war obviously is to prevent another war. That job, however, is a somewhat negative one, and then we have to go on from there to make the peace really worth having and preserving. You have somewhat the same comparison in the city or town where obviously you must have a fire and police department to prevent disaster but having done that you want to go further ahead and have a school system, a public roads department, a community center and all the other things that make peace worthwhile. Thus the social work of the new agency is both immediately urgent and very promising over the long pull.

**HAILE:** I see the long-range aspect of it clearly, but I don't quite understand what you mean by the immediately urgent part.

....

**SWEETSER:** That is very simple. Take the question of disease or drug addicts which will flare up after this war as after every other social upheaval in history. Already, for instance, we have alarming reports of the beginnings of an influenza epidemic in Eastern Europe which could take an untold toll amongst our troops abroad if it were allowed to spread eastward. Microbes do not stop at national frontiers; they do not bother about visas. They can be met only by a combined attack by the organized health resources of the world.

**HAILE:** Didn't we have much the same situation with 'flu after the last war?

**SWEETSER:** Yes, but still more so with typhus in Eastern Poland, where the newly organized League of Nations Health Service did its first big job in building up a barrier for the protection of the Western countries.

**HAILE:** How much is left of that Health Service, by the way?

**SWEETSER:** There is a group of officials in Geneva still publishing the EPIDEMIOLOGICAL BULLETIN, some others in London who just a couple of months ago brought about a world-wide standardization of the new drug penicillin, and a Health Research Unit in Washington to cooperate with UNRRA and give it the benefit of a quarter century's experience without the need of duplication.

**HAILE:** What would happen to these agencies under the new organization?

**SWEETSER:** I should imagine they would certainly be taken over and merged with it as valuable assets from the past.

**HAILE:** You also mentioned drugs. Is that going to be much of a problem?

**SWEETSER:** Unfortunately, yes, a desperate one. After every great upheaval, the drug trafficker has an open season; moreover, hundreds of thousands of people have become accustomed to drugs, not only those wounded in battle, but also those unable to sleep. Here again two League of Nations agencies on anti-narcotics are continuing to operate, partly in London and partly in Washington. They have recently issued urgent warnings on this subject and have greatly aided the occupying military authorities to meet it.

HAILE: Could these services also be incorporated in the new agency?

SWEETSER: Yes, all the more so because they are partly based on separate international treaties already ratified by our Senate.

HAILE: I see. These functions are obviously urgent and important. But they all seem so negative.

SWEETSER: Yes, they are merely the preliminaries of safety and decency, so to speak. From there, it is essential to go on to more positive work. And there we have the very real possibility of a higher state of world health than ever before in the history of man. Studies during the past 25 years, particularly the world network of nutrition inquiries and committees set up by the League's Health Committee; have established standards of food and diet which, with very little effort, can make man healthier than he has ever been in his history. It is not at all surprising that the first general United Nations Conference to be called was that at Hot Springs, where an immense progress was made and invaluable groundwork laid for the future.

HAILE: That's awfully interesting. I can see this on the physical side of life, so to speak, but what about questions of a more social nature?

SWEETSER: I suppose the most important question here would be industrial and labor problems. We have the extreme good fortune of having available and functioning a great agency known as the International Labor Organization, which was created after the last War, in part on our own American initiative, and which has continued operating throughout this War, with its headquarters transferred from Geneva to Montreal, and two great international conferences held at New York and Philadelphia. The I.L.O. is an active, energetic, forward-looking agency, bringing together representatives of governments, of employers, and of workers, and constitutes a definite technical world agency of its own.

HAILE: But what would its relation be to the new agency?

SWEETSER: I think that is pretty clear. All present plans provide for the I.L.O. to be continued on as the United Nations agency in this field. It has a rich history and heritage, a skilled staff, and a whole network of treaties and conventions behind it.

HAILE: But I often hear it said that there is nothing in the Dumbarton Oaks proposals regarding the broader question of human rights in general.

4.

- SWEETSER:** Oh, that is not at all true. Chapter 10, Section 4, definitely provides that, and I quote: "The organization should facilitate solutions of international economic, social and other humanitarian problems and promote respect for human rights and fundamental freedoms."
- HAILE:** That seems broad enough, but it is also pretty brief.
- SWEETSER:** Yes, so is the Interstate Commerce clause and other provisions of the American Constitution which have been so widely developed by subsequent legislation and practice. This clause gives the organization the authority to go just as far in all these fields as the nations may be willing to go when they have time in the calmer moments and when the storms of war will have passed to consider these questions.
- HAILE:** That may be much or little.
- SWEETSER:** Yes, of course, human liberty is a very precious thing; it can be secured only by fighting for it every hour of the twenty-four. No document can assure it for all time; it is only the most ceaseless vigil and effort from one generation to another, that makes it possible.
- HAILE:** I do not see in the new proposals as much attention to dependent peoples, mandated areas, and minorities, as in the last settlement.
- SWEETSER:** No, those questions have not yet been spelled out in the same detail, partly because much of the system and law established during the past 25 years still remains in being, partly because the Dumbarton Oaks proposals aimed to lay out the whole general program rather than to complete all its details. These questions, however, are in the forefront of consideration for the forthcoming general United Nations conference, particularly the question of mandates, where the system established under the League of Nations still remains in force, even if it is not actively operating.
- HAILE:** Could this also be taken over by the new agency?
- SWEETSER:** Yes, I should presume so. Certainly some legal decision must be taken as regards the mandated areas, particularly Palestine, which is so much in the news, and the Japanese mandated islands, which our forces are now conquering at such cost.

HAILE: But is any progress likely in the still broad field of ideas and philosophy?

SWEETSER: Goodness, yes, and I should say that this was the greatest, though perhaps the most difficult, field to define. The League of Nations had an Organization, an Institute, and a chain of national committees around the world operating in this colossal field, and stimulated many useful ideas regarding education, the teaching of history, the use of press and radio in the cause of peace, etc. It is interesting that another of the earlier agencies planned by the United Nations has been one on education, which called forth a very important conference in London several months ago. The possibilities for human advancement in the vast realm of ideas are almost unlimited, and are growing ever wider with each technological advance of press, radio, cinema and now television. All of this can be put to the service of human advancement in a way which not only has never been possible before but has never even been dreamed of.

HAILE: Would this mean any kind of government control?

SWEETSER: No, indeed, quite the contrary; it would aim to take off government controls. At the present moment governments must, for obvious reasons of military security, exercise a very close control of news and information amongst them. Once peace is established, however, they can enormously aid the flow of news by removing impediments to access to it, facilitating travel through easy passports, special rates, etc. and by reducing the costs of transmission.

HAILE: All these various types of work which you have mentioned would, I understand, be part of the social activities of the new United Nations organization.

SWEETSER: Yes, a part, but only a part. These are but a few highlights which stand out as already set up in the past or actually in formation today. This is but the beginning of what this international social agency might do.

HAILE: It certainly looks as though it would not lack for work.

SWEETSER: On the contrary, it will be overwhelmed with responsibilities from the moment it starts. The world is being knit together so rapidly nowadays by the growth of population, the spread of commerce, and the rapidity of communications that neither a disease nor an idea can start in any part of it but what may have repercussions all over. We have things abroad, both

**SWEETSER:**  
(Cont'd.)

physical and moral from which we must protect ourselves, but when that negative function is performed, we have incalculable gains to secure from the development of mankind in all different countries. We can each learn from the other and add our own bit to the patrimony of mankind. The social organization of the new United Nations agency will serve not only to protect each and all of us from ills of either a physical or an ideological order which may threaten to arise in any part of the world, but, far more important still, will allow each and all of us to benefit from the experience and the knowledge of other peoples all over the world.

**HAILE:**

Well, what will the relation of this new organization be to the security organization?

**SWEETSER:**

The security section of the new United Nations agency is a primordial necessity for elementary safety against war, as is a police and fire department in a city against riot or conflagration, and the economic organization is equally essential on the bread-and-butter side of life, as is a department of commerce in national organization. But the social organization represents the final apex of the whole institution, calculated to give real substance and meaning to human life on this planet. It is thus one of the most vital elements to develop, just as it is a very difficult element to describe and forecast.

*I think  
he uses too  
many + difficult  
words for a  
Radio audience  
if he expects to have  
any sort of appeal*

**ANNOUNCER:**

Thank you, Mr. Sweetser. Another "Beyond Victory" program has brought you a discussion of tomorrow's problems. You have heard Mr. Arthur Sweetser, Chairman of the United Nations Information Board, discussing the Social and Economic Council as proposed in the Dumbarton Oaks plan.

Make it a habit to listen each week at this time to "Beyond Victory" brought to you over this station by the World Wide Broadcasting Foundation, a non-profit organization dedicated to international understanding in cooperation with the Carnegie Endowment for International Peace and the Commission to Study the Organization of Peace.

This is your future we are discussing; we want to hear from you. Write for a copy of this broadcast and for a booklet describing our program and purpose. Remember as a non-commercial organization we depend on your letters to encourage us and we are grateful for your suggestions as to what topics

**ANNOUNCER:** you want discussed. Write to the World Wide  
(Cont'd.) Broadcasting Foundation at 598 Madison Avenue,  
New York 22, New York, or to the station to which  
you are listening.

**SOUND:** (Carillon of Bells)

**ANNOUNCER:** Listen in again next week at this same time to--  
Beyond Victory!

---

**AIRGRAM**

**FROM**

**BERN**

**Dated December 21, 1944**

**Rec'd January 13, 5 p.m.**

**Secretary of State,  
Washington.**

**A-858, December 21, 1944, 11 a.m.**

**Chilean Interests - Germany**

**Department's telegram 3403 October 3 (URB No. 196)**

**Swiss note December 15 transmits copy of memorandum dated November 18 addressed by German Foreign Office to Swiss Legation Berlin. Latter states following in substance:**

**According to information received Mrs. Anna Frumkin and daughter and Mrs. Eugenie Gorlin are not at Bergen-Belsen or elsewhere in Germany. Mrs. Frumkin and her daughter and Mrs. Gorlin were not in possession of unquestionable documentation and were accordingly transferred on April 19, 1944, from the civilian internment camp at Vittel to Drancy, pending determination of their citizenship. Their return to Vittel could not be accomplished because of war developments and for the same reason further inquiries concerning their whereabouts and place of detention are not possible.**

**Swiss Foreign Office states that foregoing information also communicated to Chilean Legation at Bern.**

**HUEDLE**

**GE/TJE/hs**

NOT TO BE RE-TRANSMITTED

COPY NO. 4

SECRET

OPTEL No. 24

Information received up to 10 a.m., 21st January, 1945.

NAVAL

1. MEDITERRANEAN. Night 17th. Coastal craft engaged eight L-boats off Dalmatian Coast and sank one.

MILITARY

2. WESTERN FRONT. Southern Sector: 19th, 7th U.S. Army made slight withdrawals to defensive positions area Bischweiler. Central Sector: 3rd U.S. Army enlarged bridgehead over River Sure in area Diekirch. 1st U.S. Army were midday yesterday four miles west and three miles north St. Vith. Northern Sector: 2nd British Army advancing from Sittard captured Stevensveert and have reached Waldfeucht and Montfort. 1st Canadian Army after confused fighting eliminated enemy penetration west of Elst.

3. EASTERN FRONT. East Prussian Sector: Tilsit captured and some progress south of Allenstein. Central Sector: West of Warsaw Russians captured Wlocklawok, crossed River Warta and took Kolo (30 miles west Kutno). East of Breslau considerable progress made and point reached 50 miles from city. In the Carpathians capture of Nowy-Sacz, Presov and Kosice has been reported. Southern Sector: Germans claim to have broken Russian positions between Budapest and Lake Balaton and to have reached Danube. Russians claim to have stopped this breakthrough.

4. BURMA. Central Sector: On west bank of Irrawaddy our forward troops now 10 miles from Sageing (5 miles southwest Mandalay).

AIR

5. WESTERN FRONT. 20th. 674 escorted Fortresses (17 outstanding) attacked railway centres at Rheine (508 tons) and Heilbronn (487 tons), railway bridge at Mannheim (374 tons) and other targets 212 tons. Weather over targets cloudy. 722 fighters and fighter bombers (14 outstanding) attacked targets battle area and caused enemy casualties 5, 0, 0.

6. MEDITERRANEAN. 19th. 407 U.S. heavy bombers (2 missing) dropped 763 tons on north and south railway centres and road and rail bridge at Brod. Mustangs shot down five enemy aircraft Zagreb/Gyor area.

7. BURMA. 18th. Heavy bombers dropped 261 tons on four airfields Central Burma and 58 tons railway bridge in the South. Tactical aircraft 412 attacked variety targets mostly Central Burma.

HOME SECURITY

8. Up to 7 a.m. 21st. ROCKETS. 20th. Nine incidents reported. Night 20th/21st. Four incidents reported.

January 22, 1945  
9:30 a.m.

GROUP

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

H.M.JR: Good morning everybody.

MR. BELL: Dan had to go to the dentist at quarter to ten.

H.M.JR: Well, start out.

MR. BELL: He left this circular letter to be circulated.

H.M.JR: What is it?

MR. BELL: It is a certificate that is to be offered today.

H.M.JR: Oh, seven-eighths, is it, George?

He didn't greet you very well.

MR. BELL: No, sir.

H.M.JR: It is just five billion dollars. What the heck! (Signs Treasury Department Circular No. 763.)

- 2 -

MR. BELL: We lost one of our men in the Philippines, Reynolds North. We have his letter. He was a Comptroller man. Quite a few of those prisoners are dying out there.

H.M.JR: State Department said they wanted diplomats, so they couldn't come out?

MR. WHITE: I think he was--

H.M.JR: You wrote about three letters on that, didn't you?

MR. O'CONNELL: Yes.

MR. PEHLE: Do you know when he died--how soon you heard?

MR. BELL: October 19. There is a little letter to go out with wages. That is something that has been prepared to go with information on the back. When it is signed, it looks something like this (hands Secretary letter to Mrs. Reynolds North, dated January 19, 1945).

H.M.JR: It looks all right.

Herbert, have a look at this, and give it back to me by two o'clock (hands letter to Mr. Gaston).

MR. PEHLE: Couldn't the Treasury issue a release on that fellow today.

H.M.JR: Why?

MR. PEHLE: He was a Treasury man who went out to the Philippines and was working on Foreign Funds Control matters. Saxon was the one who got out, and the rest were caught there. I think it would be good for the Treasury and for civilian service generally to put out a dignified release.

H.M.JR: I have no objection.

MR. WHITE: It is sort of in the line of duty.

- 3 -

H.M.JR: You want me to say I would?

MR. BELL: About fifty people have died out there, John.

MR. PEHLE: These people weren't residents in the area; they went out there in the Government service. When a man in the State Department dies while he is in Government service, they put his name in gold over the entrance there.

H.M.JR: Rather than do that, why not bring up to date all of them who have died.

MR. BELL: That would hardly be up to us.

H.M.JR: Talk it over with Herbert Gaston; between the two of you decide.

What else, Charles?

MR. BELL: You wanted me to bring Friedman in. He is out there with Fitz. And you said you would probably see Shick sometime today.

H.M.JR: Let all that slide.

MR. BELL: That is all I have.

MR. LUXFORD: You inquired about Wallenberg. As far as we can ascertain informally, nothing has been done about it. It might be the kind of thing you would want to mention to Yost and see what has happened.

H.M.JR: Give me a little note on it. He comes in tomorrow morning.

MR. LUXFORD: All right. That is all.

MR. COYNE: I have nothing, sir.

H.M.JR: Harry?

- 4 -

MR. WHITE: Bill Clayton called this morning and is very eager to get your approval for a letter they want to send to Monnet saying that they are prepared to sign this Lend-Lease agreement similar to the British, but that they first are going to examine the gold. They copied practically the letter you sent in the communication to Monnet. In other words, it says that the first determination will have to be how much of their gold and dollars is to be used in payment.

H.M.JR: The thing isn't clear in my mind, this proposed Lend-Lease agreement with the French and the State Department--how much it is going to be.

MR. WHITE: No amount is stated; it is just the pattern, the same pattern as the British Lend-Lease. You can give any amount under it, or you can give very little or nothing.

H.M.JR: A formula?

MR. WHITE: Yes, a formula, but it commits you to Lend-Lease and doesn't say how much.

H.M.JR: How about unpaid bills to North Africa?

MR. WHITE: I think they did make a substantial payment. I will find out about it; and if the assumption is that before we move on anything they ought to clear up on their debts--

H.M.JR: Stettinius is still in town. You tell Will Clayton I want Stettinius to sign first, the protocol.

MR. WHITE: Sign the letter?

H.M.JR: First.

MR. WHITE: I don't think he is asking you to sign it at all. They have asked for your approval, but I don't know whether you will sign the letter, because it is a letter from either State--I think it is from State to the French.

-5-

H.M.JR: I think on a thing like this, at least if they are going to ask for our approval, they ought to give me something in writing, in view of the discussion that took place at Cabinet, the President's hesitancy, and Stettinius' hesitancy.

MR. WHITE: Stettinius' hesitancy--they have been pushing it very hard in State.

H.M.JR: At Cabinet if I hadn't been backing him, Crowley wouldn't have got anything. Stettinius did nothing to help.

MR. WHITE: I saw Crowley Friday night. I will get a copy of it.

H.M.JR: You saw Crowley when?

MR. WHITE: Friday night.

H.M.JR: Did he try to talk you into--

MR. WHITE: He told me he has very happy because of your support, and he told me you were the only one who came to his support.

H.M.JR: I did, but rather than just a telephone conversation, State ought to give us something in writing.

MR. WHITE: I have asked for something.

H.M.JR: Will you bring it to me?

MR. WHITE: Yes.

H.M.JR: One thing, Harry, I don't like to--I have a letter here. I don't know how old it is, but it is from you; it is undated. It refers to a report on Jay Gould's wife opening a bank in Monaco.

MR. WHITE: Yes.

H.M.JR: It is undated, and there is no indication on it that there has been required action taken on it. Some of these memos are for me to read. I have been way behind, but those things you want action on, I can give you action the same day.

-6-

MR. WHITE: I thought that was merely for--

H.M.JR: It said down at the bottom that it was for my approval. You wanted it approved that we inform the French we don't want Jay Gould to get any special treatment because he is an American citizen. You asked for my approval in the corner, but there is no indication-- there are all kinds of White memos here that are just cooking, you see? But this--if you just tell somebody--

MR. WHITE: Well, there is a constant struggle in one's mind whether we should put something that is immediate when there really isn't great urgency--

H.M.JR: If you want some action on something for me to read--if you want my approval, I will tell you now I approve. I am telling you that so that the others can follow suit.

MR. WHITE: We had a meeting Friday afternoon. I don't know whether the boys told you.

H.M.JR: I am waiting for Glasser's writeup on that.

MR. LUXFORD: Taylor's.

H.M.JR: You said Glasser, didn't you?

MR. DuBOIS: Taylor.

H.M.JR: Yes.

MR. WHITE: We had this all-day meeting yesterday with CED. It remains to be seen how successful it was. I will see when their report comes out.

H.M.JR: Did you see the Chairman?

MR. WHITE: Yes, I spent a couple hours with him.

H.M.JR: What luck?

- 7 -

MR. WHITE: Some luck, but I think I was too late. I think I made a mistake when I saw him a month or two ago and got the report signed, but it may not be. We may be able to modify it.

H.M.JR: Is your assumption right that he has a personal feeling of animosity toward me?

MR. WHITE: I think he was very happy to be reassured about that point. No, I should be inclined to say that if he had it, it was mild.

H.M.JR: Do we retreat, or fight them, the bank?

MR. WHITE: It is a little early to say yet. I think that we may be able to modify their report, but I don't know.

H.M.JR: You know what General Foch said?

MR. WHITE: We don't have to either retreat or fight yet.

H.M.JR: Yes. You may be delayed, but if you indicated you were going to attack, maybe they would retreat.

MR. WHITE: I left no doubt in their minds on that score.

H.M.JR: How did you leave it?

MR. WHITE: I told him it was an Administration measure, an important measure, and if the Federal Reserve Bank of New York was going to take any kind of a position-- a public position against it--they were letting themselves in for what was going to be possibly a bigger fight than they thought.

He said they were not going to make it public, although he said he wouldn't be surprised, which is another way of telling me he thinks that is going to happen. The Committee will ask Sproul. He said there was one fellow on the Board

- 8 -

who spoke rather disparagingly--Brown from General Motors.

H.M.JR: And Brown is the fellow that Stettinius talked about as being one of the two or three spearheads in American Manufacturers.

MR. WHITE: He is the same fellow.

H.M.JR: He is the same fellow from General Motors, and Stettinius talked in this very loud voice and mentioned Brown, among others.

MR. WHITE: Brown is also a trouble-maker on this?

H.M.JR: You know. I would like to have you think it over. I think that if we showed signs of beginning to move in now, we would be in a far better position than if we tried to move after they attacked us on Bretton Woods.

MR. LUXFORD: Can Marriner do anything on this at all?

H.M.JR: I think if you looked over some of the things--if you could talk to Marriner, I would say, "You know, Marriner, there is too great a concentration in New York, and with the danger of the V-2 bombs--how do we know a V-3 bomb wouldn't fall on the Federal Reserve Bank, and we are worried."

MR. GASTON: We are worried?

H.M.JR: And we are thinking of moving some of the stuff to Chicago, and spread the rest.

MR. HAAS: Up in New York there is the whole financing problem; but if you didn't have Bretton Woods as your real problem up there--

H.M.JR: I think there is a possibility of too much being concentrated there. We had better spread the rest, I think, on financing, too.

MR. HAAS: We haven't gotten anywhere at all on that certificate business. They talk about something else. There is a real problem there, too.

MR. WHITE: There wasn't much to find out, but I found it out. I was asked very strongly not to say how I found out. A letter went to the Federal Reserve Board stating the position of the bank, and we could give a complete answer to that letter, so that we would be in a position either to stop; or if it were published or printed, we could print our answer along with the letter. That letter was received several weeks ago, and I am surprised we didn't hear of it.

H.M.JR: On what?

MR. WHITE: Bretton Woods--the Federal Reserve Bank of New York's edition of Bretton Woods.

H.M.JR: You fellows do your own digging. When it becomes visibly Eccles, I am going to handle it myself. I will indicate we are going to take some of the stuff away from them.

MR. WHITE: I was thinking of this letter.

H.M.JR: I do these things in such a gentle manner. All right, Harry?

MR. WHITE: You sent me a note about Twitty's article in the Tribune and said, "Get Bob McConnell and find out what Twitty has done--find out what Bob McConnell has done on Twitty."

H.M.JR: What had Bob McConnell done?

MR. WHITE: He has presented one report in which he goes into considerable detail about special plants--the number of plants within Germany. Dan Bell said he was preparing another report which has not been received.

Now, those reports which he has--

H.M.JR: What I meant was--I will explain what I meant, the result of what he told me about Twitty. If we have anybody in the Treasury who would sit down who knows industry by industry, equipment, engineering, manufacturing--I don't think we have anybody like that.

-10-

MR. WHITE: We have no engineers.

H.M.JR: And I just wondered if Bob McConnell--how far he has gone. If we are going to study these things by industry--

MR. WHITE: I doubt if at this stage, that this is called for. Maybe a little later.

The next step is to characterize the particular industries that we want to include and I don't think that takes an engineer.

H.M.JR: It takes so long to get this stuff.

MR. WHITE: There is a tremendous amount of material which FEA has--they have had any number of people working on this for over a year. I understand they have, literally, hundreds.

H.M.JR: Have we ever tapped them for it?

MR. WHITE: Not yet. We are--

H.M.JR: Is it available?

MR. WHITE: This meeting opened the door to the next step, and the next step is to outline specifically the industries that we want to include.

H.M.JR: Can't we be one step ahead?

MR. LUXFORD: We are asking FEA in on this meeting to get down what industries we want to include so there will be an exchange of views on these industries with FEA now.

MR. WHITE: The next step after that--where there is some difference of opinion, or where they want to go into greater detail, then it might be useful to have the sort of person you want. But I don't think the nature of the problems we have--

-11-

H.M.JR: I don't agree with you, but I will talk about that a little later. Just let me ask you this. On that front, the material OSS sent us--was that any good?

MR. WHITE: We are still looking through it. A good deal of it we had. I can't answer that question yet.

H.M.JR: I won't press it. Anything else, Harry?

MR. WHITE: That's all.

MR. DuBOIS: Nothing.

MR. PEHLE: Here is a memo on the Russian Refinery thing. I haven't seen any letter or had any word from Crowley.

(Hands Secretary memo for the Secretary's file, dated January 20, 1945)

You were going to call him maybe later in the day.

H.M.JR: If you stay a minute right now, I will do it then. I will do it at the end of this meeting.

MR. PEHLE: I have nothing else.

MR. HAAS: I have nothing.

MR. BLOUGH: Mr. Gaston, Mr. O'Connell, and I talked about this question, should we try to agree with the leaders, chairmen, and Senator George on no tax legislation. I think we all agreed now is a good time to have a free hand and not to tie them, because we want to keep a pretty close eye on developments. They may call for legislation we want to sponsor in which case our hands will be tied if we agree not to have anything.

H.M.JR: Let me have a talk with them with the idea that there is nothing imminent.

-12-

I had a chance to speak to the President last night. He was quite in tune with that--no tax bill this year. We don't have to say anything publicly.

MR. LUXFORD: The way the war is going, it seems to me it would end up to our advantage to have an announcement that there will be no tax bill.

MR. O'CONNELL: There doesn't seem to be much apprehension in anybody's mind that there isn't going to be any major tax legislation, at least until after the end of the war with Germany. George and Doughton said that a couple of months ago, when we went down to talk to them at the Secretary's suggestion. I don't see any basis for a public statement because the only thing that it might do is, as Roy says, tie our hands. Suppose we want to increase taxes?

H.M.JR: Who are you kidding? There is a better chance of decreasing taxes.

MR. O'CONNELL: Both Houses said no decrease until the end of the war with Germany, and maybe not then.

MR. LUXFORD: The Secretary said this year.

H.M.JR: I am not in a very argumentative mood, so let's drop it. I haven't changed. We will take it up again. Let's drop it.

MR. BLOUGH: I don't have anything.

H.M.JR: The most important thing I have is two things. Will you contact somebody and see whether White's name comes up this morning?

MR. O'CONNELL: It will. I have that in the hopper. It will come up presumably this afternoon. We ought to know about twelve-thirty or a quarter of one, and if it happens as usual, I am sure it will be confirmed less than an hour after they meet. It is due to come up today with a number of others.

-13-

H.M.JR: I saw John McCormack at one of these receptions, and he wants me to see the Speaker today with him. I think he wants to get this thing started, so I thought I would put in a call for the Speaker and say I could come up on the Hill and see him.

MR. O'CONNELL: This is on Bretton Woods? Well, you are going to see Spence on Wednesday.

H.M.JR: I can't help it, McCormack is just rushing me.

He wants us to come up there.

MR. O'CONNELL: I think that's good. I think it should be understood that we have not agreed on the form of our legislation yet.

H.M.JR: That's all right, Spence will tell them that, but you can't tell Congressman McCormack we are not ready. Let Spence tell him he is not ready. Let Spence tell him. When a fellow is watching for legislation, I am not going to drag my feet in it. I said, "I'll come up Monday and see you," and let Spence tell him what the situation is.

MR. O'CONNELL: The fact is Spence doesn't know. Spence is waiting for us to give the suggestion of what legislation--

H.M.JR: I supposed Harry White had it in the pocket now.

MR. WHITE: What's holding it up between Dean and you now? What promises are being made?

(The Secretary holds a telephone conversation with Sam Rayburn)

January 22, 1945  
10:01 a.m.

277 ←

HMJr: Hello.

Operator: Speaker Rayburn. Go ahead.

HMJr: Hello.

Speaker  
Rayburn: Yeah.

HMJr: Hello, Sam.

R: Henry.

HMJr: How are you?

R: Fine.

HMJr: Sam, John McCormack has talked to me twice,  
now, about bringing up that Bretton Woods  
legislation.

R: Yes.

HMJr: And he suggested that I call you and ask you  
whether you wouldn't -- when it would be con-  
venient for you to see a couple of us from the  
Treasury and ....

R: Well, Henry, I can see you any time.

HMJr: .... and Spence.

R: Any time you want to see me.

HMJr: Hello?

R: Any time. I would suggest -- of course, I get  
in the chair ....

HMJr: Yes.

R: .... at twelve and sometimes it's -- now when  
there's not much legislative program, I get out  
at one or two or three, or something like that.

HMJr: Get out when?

R: I can see you at four o'clock this afternoon very  
handily.

HMJr: Well ....

R: Any time -- any time you say, Henry.

HMJr: .... that's my -- the time that I see the press.

R: Yeah.

HMJr: Would three o'clock be all right?

R: Well, I have another engagement ....

HMJr: Oh.

R: .... at three, but ....

HMJr: Two-thirty? Or is that bad?

R: Two-thirty would be fine.

HMJr: What?

R: Two-thirty would be fine.

HMJr: Two-thirty would be fine.

R: Yeah. Now, you want Brent Spence there and John McCormack?

HMJr: Yeah.

R: All right, and I'll see you at two-thirty, then, Henry.

HMJr: You're sure that's all right?

R: Yes, indeed.

HMJr: Well, I'll be there and I'll bring a couple of our boys with me who know something about it.

R: Fine.

HMJr: And you can decide afterwards whether you want to ...

R: All right.

HMJr: .... say to the public why we're there.

R: All right, Henry, fine.

HMJr: I'll ....

R: We'll be there at two-thirty; I'll have McCormack  
and Spence there.

HMJr: I thank you.

R: All right.

H.M.JR: No I don't.

280

MR. O'CONNELL: Two-thirty this afternoon?

-14-

H.M.JR: Yes. Shall we take Acheson? We'll take Dean along. You boys get together between now and twelve-thirty. The question is a very simple one. I talked to Dean Acheson--

MR. WHITE: Do you always have the other fellow yield to you?

H.M.JR: I don't know what the hell you are arguing about!

MR. O'CONNELL: The general question is to form legislation. I believe we should yield, but I don't believe anybody else in our shop does.

MR. LUXFORD: I don't think we should yield, Mr. Secretary.

H.M.JR: I don't know anything about it, but when I go up there at two-thirty, somebody has got to be together on this.

I go over and see Stettinius and the President on the Acheson memo and the Treasury memo. I only have one memo, and it wasn't Acheson's. The President agreed to the Treasury memo. What more do you want? I am not going to go up and have an argument between them.

MR. O'CONNELL: As far as I am concerned we should separate the theory of the State Department legislation, which is we could not ask Congress to authorize the President to sign these agreements, but rather that we have the Congress enact a bill which indicates the sense of the Congress that the President should enter into such agreements and have the legislation include substantive legislation, the things on which Congress must enact something, taxation provisions, authorization of appropriations, and so forth.

(The Secretary holds telephone conversation with Miss Barbara Evans, Mr. Acheson's Secretary)

January 22, 1945  
10:05 a.m.

HMJr: Hello.

Operator: Mr. Acheson just left to attend the hearings at the Capitol and they thought he would be at the Capitol for lunch.

HMJr: Well, let me talk to somebody in his office.

Operator: I have his secretary on the wire.

HMJr: What hearings?

Operator: Mexican Waterways.

HMJr: What?

Operator: Mexican hearings.

HMJr: Mexican, all right. Hello.

Operator: Miss Evans. Go ahead.

HMJr: Hello.

Barbara Evans: Good morning.

HMJr: Hello, Miss Evans. Miss Evans, Mr. -- Congressman McCormack has asked me to come up on the Hill and talk to them about Bretton Woods legislation, and I have an appointment at Speaker Rayburn's office at two-thirty.

E: Speaker Rayburn's office at two-thirty today?

HMJr: Yeah.

E: Uh huh.

HMJr: And I'd like Mr. Acheson to go there with me.

E: All right. I will -- I'll get hold of him.

HMJr: Will you?

E: And let him know that.

HMJr: Now, there's -- I understand there are some little differences between our people and Mr. Acheson and they've got to get together between now and two-

HMJr:  
Cont'd.

thirty. I don't -- I'm not taking any sides because I don't know enough about it.

E: All right.

HMJr: But I don't want to go up and have an argument in front of the Speaker.

E: No, of course, not.

HMJr: So, will you tell him?

E: Yes, I'll get word to him and have him -- he'll probably call you, before he goes into ....

HMJr: Because I always lean a little bit toward the Treasury, but -- I'm a little bit prejudiced that way.

E: (Laughs) All right, sir, I'll try and get -- catch him before he goes into the -- I can catch him, I think, before gets started on these hearings.

HMJr: And if he would ....

E: Yeah.

HMJr: Wait, let me ask -- (Talks aside.) If he'd talk with Joe O'Connell, our General Counsel.

E: If what -- if he would talk with ....

HMJr: Joe O'Connell.

E: You want Mr. Acheson to get in touch with Mr. O'Connell?

HMJr: If you please.

E: All right. Fine.

HMJr: Thank you.

E: Yeah.

MR. WHITE: How about leaving the decision that we are not supposed to shape it finally--leave the decision with Wagner and Spence, and talk with Wagner and Spence?

MR. O'CONNELL: It would be so much better if we were not in the position of having disagreement at the outset with respect to the form of legislation, because neither Wagner nor Spence will have an intelligent view as to which way it should be. It is a question of strategy and tactics. And the reason I think we should defer to the State Department is that they are attempting to evolve, rightly or wrongly, a pattern for the presentation of legislation governing five or six different fronts, some of which is treaty legislation, and some of which is executive agreement legislation. Their interest on that level is broader than ours, however strongly we may feel.

It is much easier to have Congress say, "We authorize the President to sign Exhibits A and B." If they feel it is better form from the standpoint of making a distinction between treaty legislation and executive agreement legislation, that they adopt a little different form, I don't think this is something we should bleed and die for, not the difference between winning or losing legislation.

H.M.JR: I haven't time to learn this. Go out somewhere, take off your coats and vests, and put on gloves and settle it. And may the best man win!

MR. WHITE: If there is a difference of opinion, Mr. Secretary, within the Treasury as to its significance to Bretton Woods, rather than compromise and have it their way, I am suggesting that we leave the issue with Senator Wagner and Congressman Spence.

MR. LUXFORD: That's the type of issue it is. It is one of Congressional reaction.

MR. O'CONNELL: This is the question Mr. Acheson suggested that he and I sit down with Judge Vinson on, and we said no.

-16-

H.M.JR: Maybe it doesn't have to come up today.

MR. O'CONNELL: It doesn't with you, but we will have to settle it before--

H.M.JR: Wednesday at lunch.

MR. O'CONNELL: I hope so.

H.M.JR: It's just a question of a day as to timing.

(Mrs. Klotz enters the conference)

This afternoon--say the legislation is practically ready now? You go along with me, see, and when I go up there, you and John and me--

MR. HAAS: You haven't forgotten the Federal Reserve ratio business, have you?

H.M.JR: No, no! But--

MR. O'CONNELL: I have talked with Mr. Eccles on the telephone about the Federal Reserve Board legislation. I tried to make arrangements to see him and we could not. He didn't have an opportunity to see me.

H.M.JR: Oh, you meant legislation?

MR. HAAS: Yes.

H.M.JR: I thought you meant the whole Reserve question.

MR. HAAS: That's vital to the Treasury.

MR. O'CONNELL: On legislation, Mr. Eccles took a much more definite interest with respect to legislation than when he talked to you on the phone. He took the position that this Federal Reserve ratio legislation is must legislation and it should not be--

- 17 -

H.M.JR: I am not going to be in that position and have everybody dragging their feet. I am going up there this afternoon, and if John McCormack says he wants this to go up, it's going to go up.

MR. O'CONNELL: The Bretton Woods legislation is must legislation. The question is how much should we do to try to persuade the Banking and Currency Committee that they should hold hearings on Bretton Woods legislation before they hold hearings on Federal Reserve ratio legislation.

H.M.JR: Don't be noble.

MR. O'CONNELL: It hasn't anything to do with being noble. I am trying to make the point that the question is which is handled first in the Committee, and either legislation may be introduced tomorrow or the next day, and that would not decide the order in which the legislation would be in fact handled.

Mr. McCormack is thinking of the Floor, but he has nothing to do with which way it would be considered in Banking and Currency.

H.M.JR: I am going up there this afternoon and I am going to talk about this thing, and it's your job to see that everybody is happy, including me.

MR. O'CONNELL: That's quite an assignment.

H.M.JR: You have got it now, and I am going to move awfully fast. When John McCormack tells me he wants something, I am not going to sit back and say Treasury and Acheson can't get together, and Treasury and Federal Reserve can't.

MR. O'CONNELL: Neither has to be mentioned today. I only mentioned Eccles because I thought that was what you and George were talking about.



January 22, 1945  
10:10 a.m.

RUSSIAN REFINERIES

Present: Mr. Pehle  
Mrs. Klotz

H.M.JR: What did you tell Crowley?

MR. PEHLE: You wrote him on January 16, for the need of higher priority on the extension of Russian refineries, and told him you would like an answer right away.

H.M.JR: When did I write him?

MR. PEHLE: On January 16. I am getting the file. You will need a priority on the extension of Russian refineries.

H.M.JR: He fixes that.

MR. PEHLE: He goes to WPB and OSS for it.

H.M.JR: It is an FEA project.

MR. PEHLE: It's Lend-Lease, and is up to FEA to ask for higher priority.

H.M.JR: I wrote a letter on the 16th?

MR. PEHLE: You wrote to Krug at the same time.

(Discussion off the record.)

MR. PEHLE: Mr. Secretary, we enjoyed the inaugural very much. We were right smack up in front. It was a beautiful ceremony.

- 2 -

H.M.JR: It would be a shame to be within a stone's throw and not be able to take it in.

MR. PEHLE: Didn't you think the President looked tired?

H.M.JR: He looked fine.

MRS. KLOTZ: You haven't seen him John, in a long time.

(Mr. Pehle hands Secretary copy of letter to Mr. Crowley from the Secretary, dated January 16, 1945.)

(The Secretary holds a telephone conversation with Mr. Crowley, as follows:)

January 22, 1945  
10:15 a.m.

HMJr: Hello.

Operator: Mr. Crowley.

HMJr: Hello.

Leo  
Crowley: Hello, Henry.

HMJr: How are you, Leo?

C: Fine. And you?

HMJr: Okay.

C: That's good.

HMJr: Leo, I'm calling you in regard to a letter I wrote you on the 16th of January in regard to a couple of oil refineries that the Procurement of the Treasury is trying to get through for the Russians.

C: Yeah.

HMJr: And the Russians feel we aren't moving fast enough and I wrote you a letter asking whether we -- you couldn't increase their priority.

C: I'll check it, Henry, and let you hear from me right away.

HMJr: Would you do that?

C: You bet.

HMJr: Because, as I say, they -- oh, they're quite determined about it. With this meeting coming along and all that, I think it's a good time ....

C: Sure, and I don't think there's -- I think we should -- with the President going to meet him, we should give him all the help we can.

HMJr: That's the way I feel.

C: I'll check it and call you.

HMJr: If you please.

- 3 -

H.M.JR: Shall I keep that?

MR. PEHLE: Yes, sir. Thank you very much.

January 22, 1945  
10:40 a.m.

HMJr: Hello.

Leo  
Crowley: Hello.

HMJr: Yes, Leo.

C: I checked that and we've speeded up as fast as we can. Most of that will be out by June 30th but I've asked them to get it all out by that time.

HMJr: Well ....

C: And that's what the Russians wanted.

HMJr: Yes. Could you give me a little note on it so I'll know just where we stand?

C: You bet. I'll send you over a note on it.

HMJr: Well, will you send me a note?

C: Right away.

HMJr: Today?

C: You bet.

HMJr: I thank you.

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

January 22, 1945

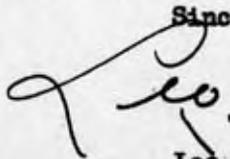
Dear Henry:

Thank you for your letter of January 16th urging that steps be taken to obtain the necessary priority ratings for oil refinery equipment for Russia in order to accomplish delivery by June 30, 1945.

For your information, General Rudenko forwarded a copy of his letter of January 9th to General Wesson, Chief of the Russian Division in FEA. I am enclosing a copy of General Wesson's reply to General Rudenko under date of January 16th.

In the light of your letter, I have again discussed the matter with General Wesson and instructed him to re-examine the situation and see what, if anything, can be done to expedite delivery.

Sincerely yours,



Leo T. Crowley  
Administrator

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

January 16, 1945

BA-823

Lt. Gen. L. G. Rudenko  
Soviet Government Purchasing Commission  
of the U.S.S.R. in the U.S.A.  
3355 Sixteenth Street, N. W.  
Washington, D. C.

Dear General Rudenko:

Thank you for sending me a copy of your letter of January 9, 1945, addressed to Secretary Morgenthau. So that there may be no misunderstanding I would like to clarify a point raised in the letter.

As I indicated to Mr. Lukashev in my letter of September 27, 1943 and November 5, 1943, this Third Protocol refining project was undertaken on terms quite different from those of the Second Protocol refining project. While it was our intention to press the project as vigorously as possible, it was impossible to assign a high urgency rating to it without upsetting many other urgent programs for the production of high octane gasoline. You will note, therefore, that my letters stated that the program was introduced into the schedule without a special directive and with priorities which would not exceed those assigned to similar plants in the program of the United States. No commitments of a more definite nature have been assumed subsequently. We shall make every effort to see that no negligence occurs in the scheduling and manufacture of the Third Protocol refineries, but I do not feel that we can justifiably press for priorities or directives which would upset other urgent programs. From an examination of the reports on the progress of construction of the Second Protocol refineries in the U.S.S.R., I do not believe that the Third Protocol refinery project, even with current delays will reach the U.S.S.R. at so late a date that there will be a gap between completion of the Second Protocol projects and commencement of the Third Protocol project.

Sincerely yours,

(Signed) C. M. Wesson

Major General, U. S. Army  
Director, Division for Soviet  
Supply

January 22, 1945  
11:12 a.m.

HMJr: Hello.

Speaker  
Rayburn: Hello.

HMJr: Henry talking.

R: Henry.

HMJr: Yeah.

R: Don't you think we should have Jess Wolcott  
in here? He's been cooperating pretty well  
about this whole thing.

HMJr: Oh, wonderful.

R: All right. Fine.

HMJr: Wonderful.

R: I'll have him here. Thank you.

January 22, 1945  
3:55 p.m.

PRE-PRESS

Present: Mr. O'Connell  
Mr. White  
Mr. Blough  
Mr. D. W. Bell  
Mr. Gaston  
Mr. Shaeffer  
Mrs. Klotz  
Miss Chauncey

H.M.JR: Good morning, Dan.

MR. BELL: Good morning.

H.M.JR: How are you all?

We went up on the Hill and I did just what Blough wanted me to do. Doughton said, "Now, Henry, no tax bill this year," and I said, "No tax bill while the war is on."

MR. BELL: Did Blough want you to do that?

H.M.JR: He was urging me to get out a release on that.  
(Laughter)

MR. BLOUGH: Hold your leg out so he can pull it easier.

MR. GASTON: He worked it, huh?

H.M.JR: If these boys are smart they are going to say how long the two hundred and ten million lasted.

MR. WHITE: How long did it last?

H.M.JR: Over what period did it extend?

MR. WHITE: Well, from the beginning until recently.  
(Laughter)

-2-

H.M.JR: Has he been confirmed?

Mr. Shaeffer?

MR. SHAEFFER: Yes, sir.

H.M.JR: What should I know?

MR. SHAEFFER: I don't know of a thing coming up, aside from this.

H.M.JR: All right.

MR. SHAEFFER: They may ask you if you are going to see the President?

H.M.JR: I had Twitty in this morning and I complimented him on that article, and I said if he would write anything, please submit it, but in no way attach it or credit it to me. So he said, "There is no use writing it then." Did he come up to see you?

MR. SHAEFFER: Yes. His clothes are up there, his overcoat and hat.

H.M.JR: So there's a slight clew. So he's going to write it.

MR. SHAEFFER: I think so, yes, sir.

H.M.JR: Somebody said there is something coming out in the Christian Science Monitor.

MR. SHAEFFER: It came out last Friday, but I can't get a Monitor for Friday yet.

H.M.JR: You better join the church.

MR. WHITE: This story that's coming out about the use of invasion currency that you are going to submit to the Appropriations Committee, is an excellent story of the Treasury, and I don't know what publicity you intend

-3-

giving, but I think you ought to give the maximum, because as one reads it, it is a very good story.

MR. GASTON: Whose is that, Harry's?

MR. WHITE: Whose?

MR. BELL: The Secretary's testimony before the Appropriations Committee.

H.M.JR: What Mr. Gaston was inferring was whether the story was written by Mr. White?

MR. GASTON: No, I thought some newspaper man had written it up.

H.M.JR: Mr. Bell, did you have anything you want me to lie about this afternoon?

MR. BELL: No, sir.

H.M.JR: You know you are down for tomorrow?

MR. BELL: No.

H.M.JR: I just thought you and I would start out alone at ten-thirty and talk about financing. I have an hour for you.

MR. BELL: Good. I think I'll call off that meeting Wednesday with Fed, delay it a little.

H.M.JR: That's up to you.

MR. BELL: First get our own thinking in the hopper a little.

I haven't a thing.

(Indicating the Inaugural Medal) It costs ninety-five cents to make them and they get a dollar and ninety-five cents for it.

-4-

H.M.JR: The President didn't like it.

MR. BELL: He didn't? He approved it.

H.M.JR: Last night he spoke about it first. He said he didn't like it.

MRS. KLOTZ: He didn't like it?

H.M.JR: No, and somebody hoped the President would never look like that.

MR. BELL: It makes him look very old, but I understood it was taken to him in a sketch and he approved it, because I told them we could not be responsible for that. How do you like the other side?

H.M.JR: That, the President said he likes.

MR. BELL: Sinnack did that. Davidson didn't do that.

H.M.JR: The President liked that very much.

MRS. KLOTZ: Did Davidson do this?

MR. BELL: He did the head and Sinnack did the other side.

H.M.JR: All right.. Herbert, do you have anything?

MR. GASTON: I haven't anything.

## TREASURY DEPARTMENT

WASHINGTON

FOR IMMEDIATE RELEASE,  
Monday, January 22, 1945.

Press Service  
No. 44-81

The U. S. Treasury Department has just completed transfer to the Republic of China of \$210,000,000 in settlement for advances of local currency and for supplies, services and military construction furnished the U. S. Forces in China.

This excludes certain aid furnished to the United States by the Chinese Government in the form of reciprocal aid.

A portion of the settlement came from U. S. funds already in China, a portion from funds previously placed to China's credit in the United States and the remainder in the form of a check for approximately \$150,000,000 which Secretary Morgenthau gave to Dr. H. H. Kung here.

oOo

301

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 22, 1945

TO Secretary Morgenthau

FROM Mr. Shaeffer *CS*

The strangers at your press conference today included Joseph Chiang of the Chinese News Service; Shu-ming Tsao of the Chinese Central Daily News; a Mr. Owen of the Associated Press who was substituting for Max Hall; Doug Larsen, an understudy to Pete Edson; and the strange lady was an observer from OWI.

January 22, 1945  
5:01 p.m.

John  
Pehle:

Mr. Secretary, if you have no objection, I am going to send over to Stettinius a suggestion that if it was possible for Churchill, Stalin and the President to issue another statement it would be a wonderful thing, with a suggested statement. You know we've never been able to get the Russians to say anything since 1941 ....

HMJr: Yeah.

P: .... on the atrocities. And it is just possible that it would come up in such a way he could get it done.

HMJr: Try it.

P: Okay. I wanted you to know.

HMJr: Now, the letter from Crowley has not yet come over.

P: Right.

HMJr: And when that comes over in the morning, we'll try to do something about it.

P: Yeah.

HMJr: All right.

P: Right.

HMJr: Thank you.

January 22, 1945.

Memorandum

TO: Secretary Morgenthau  
FROM: Mr. Gaston

The C.I.O. has just put up to E. M. Bernstein the idea of having you take part in a radio program next Saturday (Saturday of this week) at 8:45 P.M. They have 15 minutes weekly and they have announced that the program for this week will be on Bretton Woods. The program will consist of 11 minutes of colloquy or interview and a 4-minute talk which they ask you to make. This you can do from Washington, although the program originates in New York. It is a 135-station hookup on the Blue. This is very short notice, but I have no doubt the script could be prepared in time. They have a man at work on it in New York.

If you agree to go on they will wire special notices to the 50 or 60 cities where they have Councils.

Copies to:

Mr. Gaston  
Mr. Gamble  
Mrs. Morgenthau  
Four children

304

NEW YORK  
**Herald Tribune**  
230 West 41st Street, New York

January 22, 1945,

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

Dear Mr. Secretary:

It was very thoughtful of you to write me about the editorial, "Home Front Victory" of December 18th.

Apart from the fact that such commendation is always gratifying, I was glad to get your note for a rather special reason. It gives me the opportunity to say something that I have wanted to say for a long time, namely, that I think you have been a grand sport about the criticism which, by virtue of your office, you have had to accept from the Tribune. Your gracious note about the editorial confirms and reinforces that opinion.

I sincerely wish we could be on the same side of the fence oftener than we are. Certainly, it is much more satisfying to write pieces such as "Home Front Victory" than it is to criticize the tax policies of the Treasury. But if we can't be, then at least it is reassuring to know that you realize there is no personal animus behind such criticism.

Sincerely yours,

*Edward H. Collins*

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

Country -  
306

DATE Dec. 22, 1944

TO: Secretary Morgenthau

FROM: S. George Little

Re: Herald Tribune editorial.

*Mrs. M. wants to see copy of this Editorial*

After discussing the Herald Tribune editorial of December 18 with Ted Gamble and Frank Tripp, we decided to reproduce and distribute it through the following channels.

Frank Tripp is sending a copy of it to all newspaper editors with the attached letter.

It is being circulated by Mr. Coyne to our entire War Finance field organization. It is also being scheduled to appear in the earliest possible edition of the Minute Man.

This program will, I believe, give the editorial the complete and thorough coverage you desire.

*(sent to Mrs. M. - 12/30/44)*

December 27, 1944

TO NEWSPAPER EDITORS:

You will, I believe, be interested in the attached editorial from The New York Herald Tribune reviewing the Sixth War Loan Drive.

The Treasury has done a magnificent job and Secretary Morgenthau is most appreciative of the excellent cooperation newspapers have given this vital effort.

We are now sure that the overall quota will be exceeded by a larger margin than ever before, and the "E" Bond quota, as well as the total individual quota, will both be oversubscribed by a substantial margin. Final figures will be available about January 2nd.

Thanks for your swell support.

Sincerely,

Frank E. Tripp, Chairman,  
Allied Newspaper Council.

DEC 18 1944

### Home-Front Victory

Speaking on behalf of the armed forces on the eve of the launching of the Sixth War Loan four weeks ago Fleet Admiral Ernest J. King reminded his listeners that "the Army and Navy have not let the country down," and expressed his confidence that the country would not "let the Army and Navy down" in providing the means with which to carry on.

That Admiral King's confidence was not misplaced is abundantly demonstrated in the figures released by the Treasury on the termination of the public phase of the loan drive Saturday night. The Treasury had asked for \$14 billions in this operation. Its tabulations showed total subscriptions on hand of \$17.6 billions. This itself would represent a very satisfactory response on the part of the public, but it does not tell the whole story. Pay-roll subscriptions between now and the end of the month are not included, while other subscriptions are still to be tabulated. When the final returns are in, it is estimated, they will show a total for the entire drive of \$19 billions.

Secretary Morgenthau's statement that final figures will show a handsome over-subscription of the \$5 billion quota set for individuals is particularly gratifying. It lends special force to his observation that "the whole drive has been a magnificent demonstration of home-front solidarity," and that it "should carry to the men overseas a ringing declaration of unlimited confidence and unstinted support."

The success of the loan effort is by no means a testimonial alone to those who bought bonds. It is a testimonial also to the organization, composed mostly of volunteer workers which sold the bonds, and to the newspapers, radio stations, theaters, stores, banks, clubs, labor unions, chambers of commerce and civic organizations who so generously contributed their time and effort to the campaign.

It should be added, perhaps, that the success of the loan is a testimonial to Mr. Morgenthau himself and his confidence in the voluntary method of raising war funds. Treasury borrowing to date has totaled approximately \$127 billions, which represents more than half the cost of the war effort, and of this about \$107 billions have been raised in the six loan drives. The success of these loans has become so well established that it is now almost forgotten that not so many months ago the desirability of instituting compulsory loans was being widely urged, and that retention of the voluntary system is attributable largely to the insistence of Mr. Morgenthau, who resolutely maintained that this process was the only one "consistent with the American way of life."

THE SECRETARY OF THE NAVY  
WASHINGTON

370  
*Placed to  
Mr. Gault*

January 22, 1945

Dear Henry:

Thank you for your note about the motion pictures which were produced by the Navy for the Sixth War Loan Drive.

Lieut. Grant Leenhouts, USNR will be in charge of the production unit assigned for the Seventh War Loan Drive, and his services will be available to you for any field operation which will follow the production of the films.

Sincerely,

*James Fowental*

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

Prepared by: Mr. Turner 310  
Mr. Tickton  
Mr. Murphy  
Mr. Haas

317  
Lance

**TREASURY DEPARTMENT**

INTER OFFICE COMMUNICATION

DATE January 22, 1945

TO Secretary ~~Morgenthau~~

FROM Mr. Haas

Subject Current Developments in the High-grade Security Markets

**SUMMARY**

- (1) Prices of long- and medium-term taxable bonds have risen to about their post-Pearl Harbor highs, as compared with the pattern of rates. There has been considerable comment to the effect that this rise foreshadows a reduction in the coupon rates of the securities to be offered in the next drive. Present prices, however, are not particularly out-of-line with the possibility of a continuation of the present pattern of rates.
- (2) The curve of yields for certificates of indebtedness has risen (weakened) slightly during the past week, after recovering about 1/3 of its September-December deterioration in the preceding two weeks. Each of these moves has been without benefit of any active open market policy on the part of the Federal Reserve System.
- (3) The average cost of borrowing to the Federal Government has risen substantially in the past year as a result of the decreasing proportion of short-term securities issued. If short-term securities could be sold directly or indirectly to the banks, in lieu of some of the medium-term securities which they are now acquiring, it would be a clear gain both to the Treasury and to the economy.

Secretary Morgenthau - 2

I. Marked Rise in Treasury Bonds Since Sixth War Loan

Since the closing of the books, December 16, on the marketable securities offered in the Sixth War Loan, prices of restricted, 2-1/2 percent, taxable Treasury bonds have advanced about 3/4 point on the average. During the same period, 2 percent taxable Treasury bonds have advanced more than 1/4 point on the average. The 2-1/2's offered in the Sixth Loan are currently quoted at 100-27/32, and the 2's offered then are quoted at 100-26/32. Current prices for both the 2 percent and the 2-1/2 percent sectors of the market are about equal to their previous post-Pearl Harbor highs, as compared with the pattern of rates.

The rise in long-term taxable bonds has aroused comment in the press because it has carried their prices well above recent highs. The explanation most commonly offered is the possibility that future issues of 2-1/2's may be available only in distinctly longer maturities, if at all.

Current prices of the restricted 2-1/2's do not seem to be greatly out of line, however, with an expectation that the Seventh War Loan will include a 2-1/2 of approximately the same maturity as was offered in the Sixth Loan. The four longest-term issues of restricted 2-1/2's are currently quoted at 100-27/32. An investor with liquid funds for long-term investment, weighing the alternatives of investing temporarily in certificates, or buying outstanding 2-1/2's, would probably not find this price excessive. The interest-carry on a 2-1/2 percent bond, until June 1, 1945, is about 29/32. An investor could, however, buy the certificates due June 1, 1945, on a 0.71 percent yield basis and receive the equivalent of 8/32 in interest by June 1. He should be willing to pay a premium

Secretary Morgenthau - 3

equal to the difference between this return and the interest-carry on a 2-1/2 percent bond to June 1 to acquire an outstanding 2-1/2. This calculation would justify a price of about  $100-21/32$ , even if the identical issue of 2-1/2's offered in the Sixth War Loan were expected to be reopened in June.

It should be noted, however, that essentially the same potentialities for a rise in the price of the restricted 2-1/2's have existed in previous inter-drive periods. What makes the present price rise notable is the fact that this is the first time since the interval between the Second and Third War Loans that these potentialities have been even approximately realized.

Commentators who have attempted to explain the rise in the prices of 2-1/2's have tended to associate it with the possibility of a downward revision of the pattern of interest rates for Government securities. When the British government, in November 1944, suspended the offering of its 2-1/2 percent tap securities and substituted a 1-3/4 percent tap issue of somewhat shorter maturity — but not enough so for the coupon rate to fit the yield curve of outstanding issues — it was hinted in press comment and in other unofficial circles that the United States Treasury might adopt a similar policy of adjusting its interest rate pattern. This would mean, of course, that no more 2-1/2's, with maturities comparable to outstanding issues, would be available after the Sixth War Loan (which was already announced when Britain made the change). The value of outstanding 2-1/2's would consequently be enhanced. The difference between the actual quotations on the outstanding 2-1/2's and the "reasonable" price computed above may, therefore, reflect some discounting of the possibility that 2-1/2's may not be offered in the next Loan; or that, if offered, their maturity will be materially lengthened as compared with previous issues.

The rise in the taxable 2's has likewise been explained by many commentators as being due to the likelihood that in the next war loan a 1-3/4 percent bond will be offered in lieu of a 2 percent bond.

Long-term partially tax-exempt Treasury bonds have also risen sharply in price since the end of the Sixth War Loan. The average rise for the four longest of such issues — those with ten years or more to run to earliest call date — has been just over 3/4 point. This rise is probably in part in

Secretary Morgenthau - 4

sympathy with the rise in taxable securities, and in part based upon the expectation that the excess profits tax will be in effect for a sufficient time to make the purchase of such securities well worth while for all banks subject to excess profits taxation.

## II. Slight Weakening of Certificate Pattern

Within the past week the pattern of rates on certificates of indebtedness suffered a slight setback after a fairly substantial recovery in the first two weeks of January. The attached chart compares the yields of certificates on Saturday, January 20, and on January 13, with their yields on December 30, 1944, which represents about the maximum departure from the pattern, and with September 1, 1944, when the yields were in approximate conformity with the pattern. During the first two weeks of this month there was a marked decline in certificate yields, which recovered about one-third of the maximum deterioration in the certificate pattern, although there was no active purchasing of certificates by the Open Market Committee. During the week ended January 20, the curve of certificate yields rose again, however.

## III. Average Cost of Money to the Treasury Increasing

Under the present structure of interest rates -- in which rates for short-term securities are much lower than those for long-term securities -- the net cost of money to the Treasury is partly a function of the rate of interest at which funds of each maturity are borrowed, and partly a function of the distribution of borrowing among securities of different maturities.

As you know, interest rates on each maturity of securities have been held within a remarkably narrow range of fluctuation ever since the summer of 1942, and -- with the exception of short-term securities -- ever since Pearl Harbor. The principal factor in determining the average cost of money to the Government during this period has, therefore, been the maturity distribution of the new securities issued.

The following table shows the computed interest rates on net increases in borrowing by 6-month periods since the beginning of 1942. These figures have been adjusted to

Secretary Morgenthau - 5

eliminate the influence of windfall gains and losses in interest cost to the Treasury resulting from the refunding of pre-war issues.

	<u>Computed interest rate on new borrowing (percent)</u>
January-June 1942	1.80
July-December 1942	1.60
January-June 1943	1.72
July-December 1943	1.87
January-June 1944	1.89
July-December 1944	1.92

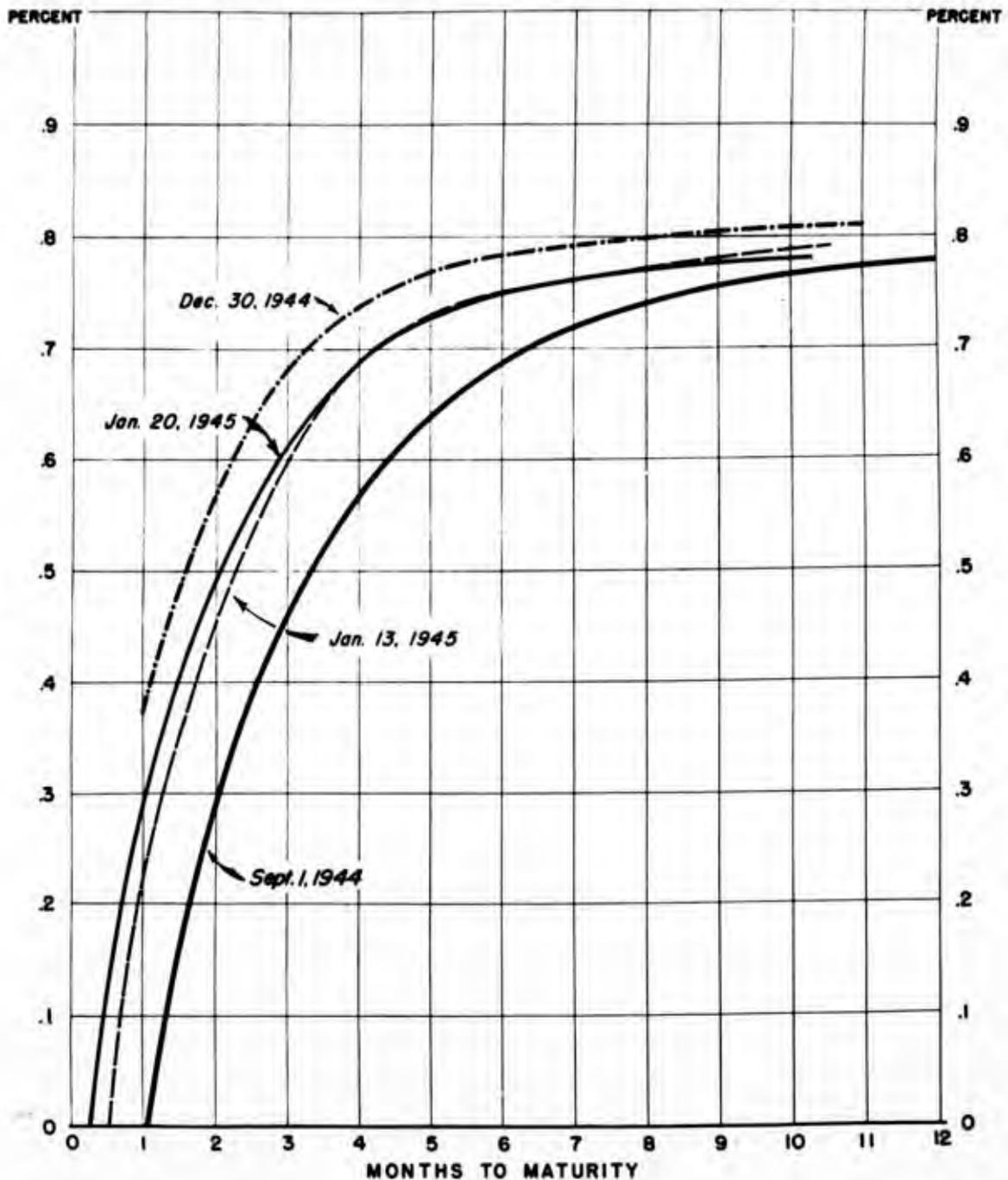
It will be noted that the average cost of borrowing dropped sharply toward the middle of 1942. This was caused by the large issues of bills and certificates which commenced at that time. Since then, as the proportion of new money raised from Treasury bills has been reduced sharply and that from new certificate issues somewhat less sharply, the average cost of money has tended to rise. The average cost for the past 6-month period, on the basis shown on the table, was 1.92 percent. This increased the cumulative cost for the entire period from 1.77 percent to June 30, to 1.80 percent to December 31.

The rise in the average cost of money to the Treasury has been largely due to a growing preference of banks for bonds and notes (bought principally from persons who originally acquired them in drives) over bills and certificates. If the securities so purchased indirectly by banks could be replaced by additional bills or certificates acquired either directly by the banks or (in the case of certificates) indirectly through drive procedures, it would, of course, be a clear gain both to the Treasury and to the whole economy.

Attachments

# YIELDS OF CERTIFICATES OF INDEBTEDNESS ON SELECTED DATES

Based on Mean of Closing Bid and Asked Quotations



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 22, 1945

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: The Business Situation,  
Week ending January 20, 1945.

Summary

Employment: Nonagricultural employment in December showed the largest gain for that month since 1940, and rose 549,000 above the previous month. A heavy seasonal expansion in trade was the principal factor in the rise, but factory employment increased more than 50,000 in reflection of the intensified war production program. Employment in the durable goods industries showed the first gain since November 1943.

Steel operations: The steel industry has been unable to regain pre-holiday operating levels due in part to the adverse effects of severe weather, which has hampered transportation and caused temporary fuel shortages. Steel operations in the Pittsburgh district are scheduled to start the current week at the lowest level since October 1940 with the exception of Christmas holiday and strike periods. Steel ingot production in 1944 rose to a new record high of 89.6 million net tons as compared to 88.8 million net tons in 1943 and only 67 million net tons in 1940.

Commodity prices: Favorable war news tended to weaken commodity futures last week but spot prices showed little change. While Dow-Jones futures index declined 1.5 percent, the BLS spot index of 28 basic commodities was practically unchanged.

Civilian food supplies: Civilian food supplies during the first three months of 1945 will be somewhat lower than during the corresponding period of last year. Smaller supplies of meat, butter, other fats and oils, potatoes, and fresh vegetables will be available, but larger supplies of milk, cheese, and deciduous fruits are expected.

Stock prices: Stock prices declined sharply last week as sweeping Russian gains induced selling of "war" stocks. Railroad securities were particularly weak. At the close on Saturday railroad stocks were 5 percent below week-earlier levels while second-grade railroad bonds were at the lowest level since late December.

- - - -

- 2 -

### Nonagricultural employment gains

The intensified war production program is apparently beginning to show some effect on employment. Reflecting this factor, together with a heavy seasonal expansion in trade and increased Government employment, total nonagricultural employment in December showed a substantially larger gain than in December 1943 and larger than in any December since 1940. A rise of 549,000 above November levels carried total non-agricultural employment up to 38.9 millions, the highest figure attained since last January. (See Chart 1.) Nevertheless, the December total was still almost 1.3 millions below year-earlier levels. This decline, however, was accompanied by a net expansion in the armed forces of 1.6 millions.

Although by far the greatest expansion in nonagricultural employment in December occurred in trade, evidence of the recent step-up in war production is seen in a rise of over 50,000 in manufacturing employment. (Refer to Chart 1.) The number of workers employed in the durable goods industries showed a gain for the first time since November 1943, when the wartime peak was reached. All but 2 of the 9 major durable goods groups reported gains in employment, with noticeable increases reported in the shell loading, heavy ammunition and gun industries, and at automobile plants converted to aircraft and tank production. Increased employment at plants producing explosives, small arms ammunition and rayon caused the chemical industry to show the largest employment gain in the nondurable goods group. Despite the increase which has already occurred in employment at small arms ammunition plants, it was recently reported that around 46,000 additional workers will be needed in this industry within the next few months.

### Severe weather hampers transportation and accentuates fuel difficulties

In contrast to last month's gains in employment in industry and trade, employment in soft coal mining showed a further decline, continuing a trend that has been under way since the last quarter of 1941. While manpower shortages have been a contributory factor in the reduction of coal supplies to levels which have aroused official concern, the dominant factor in the tight East Coast Fuel supply situation appears to be transportation difficulties. Heavy snows and severe weather conditions have seriously hampered railroads in northern areas in recent weeks, and the Director of the ODT has authorized the railroads to discontinue temporarily some passenger trains and to halt non-war freight movement into affected areas.

- 3 -

In an effort to cope with freight congestion, which has been particularly acute in the Buffalo area as a result of unusually heavy snows, the Association of American Railroads last week ordered an embargo on the loading of coal consigned to Cleveland, Erie, and the entire Buffalo-Niagara frontier area. However, coal consigned to retail dealers or for railroad use was exempt from the embargo.

Recent transportation difficulties also have slowed up the movement of oil supplies to the East Coast, and the Petroleum Industry War Council last week warned that the area may suffer serious shortages of petroleum before the winter is over. Tank car movements were reported to be running about 50,000 barrels per day below anticipated levels. At the same time, barge movements have been curtailed by freezing weather, and tanker movements have been below program levels, apparently due to urgent military requirements in other areas.

In addition to measures being taken to relieve congestion in railroad coal traffic, a further step in conserving coal supplies was taken by the WPB last week in ordering a nationwide "brownout" in outdoor electric lighting. The order, which will become effective February 1, is expected to save around 2 million tons of coal per year by practically eliminating the use of electricity for outdoor advertising and ornamental lighting. Compliance with the order will not be required where a reduction in electric lighting will not result in a reduction in fuel consumption, as in areas served by hydro-electric plants.

#### Steel operations hindered by adverse operating conditions

The disruption of transportation by severe weather has hampered steel mill activities in recent weeks, and the industry thus far has been unable to restore operations to the level prevailing before Christmas. Last week, operations were scheduled to improve slightly, but the operating rate was still only 93.6 percent of capacity as compared with 96.3 percent in the week before Christmas. (See Chart 2.) Preliminary reports indicate that steel operations in the important Pittsburgh district are slated to start the current week at only 86.5 percent of capacity. This represents a decline of 2.5 points from the previous week and is the lowest operating rate since October 1940, with the exception of Christmas holiday and strike periods. In addition to repair difficulties and manpower shortages, steel production has been cut by temporary fuel shortages growing out of transportation tie-ups and severe weather. At the same time, the steel scrap supply situation has tightened considerably as adverse weather conditions and labor shortages have greatly slowed up yard activities.

- 4 -

### Steel ingot production at record high in 1944

Despite operating difficulties, figures recently released by the American Iron and Steel Institute indicate that steel ingot production last year reached a new high for the fifth consecutive year. Output in 1944 totaled 89.6 million net tons as compared with 88.8 million net tons in 1943 and only 67 million net tons in 1940. The steel operating rate last year actually averaged only 95.4 percent of capacity as compared with 98.1 percent in 1943, but the tonnage produced increased as a result of the intervening expansion in the industry.

Meanwhile, heavy demand for steel is putting further pressure on mills and extending delivery dates for many types of products. The Chairman of the WPB stated last week that the entire war production program has been expanded so rapidly that "we are going to be short again of all the basic materials--as short as we have been at any time during the war." In view of the existing heavy pressure for war production the "spot authorization" program for civilian goods production has undergone a sharp de-emphasis in recent weeks. Denials of applications to produce civilian goods under the program have tended to increase recently. Thus 291 out of 539 applications submitted under the program in the ten-day period ending January 5 were denied.

### Futures weaken but spot prices show little change

Favorable war news had a bearish effect on commodity futures last week, but spot prices showed little change. (See Chart 3.) The Dow-Jones futures index declined 1.5 percent from the high reached at the end of the previous week. Meanwhile, Moody's spot index was down very slightly and the BLS index of 28 basic commodities was practically unchanged. (See Chart 4.)

May futures for wheat were off about 2 percent last week following a smaller decline in the preceding week. In addition to war developments, a Government forecast of a 400 million bushel carryover on July 1, 1945 was a weakening influence. Corn, oats, and rye futures, however, showed even more pronounced declines last week. Cash grain prices, however, were practically unchanged. Cotton futures declined 1 to 2 percent and spot cotton was off 0.5 percent.

Steer prices declined further to the lowest level since last March, but hog prices firmed slightly with most hogs selling at ceiling prices. The OPA action raising the ceiling

- 5 -

price of green coffee by 2 percent on sales of 26 bags or more resulted in an increase in coffee prices. The price of roasted coffee is not affected by the ceiling revision, since the increase must be absorbed by the processor.

The BLS general index of wholesale prices advanced 0.1 percent in the week ended January 13, and is back to its recent high of 104.7 percent of the 1926 average, 39.6 percent above the pre-war August 1939 level. Higher prices for grains, potatoes, hogs, and sheep contributed to the latest advance. Moreover, the effects of several upward revisions of ceiling prices on industrial products were noted in the index, with higher prices quoted for steel rails, paperboard, nainsook and toweling, silica brick, sand, gravel, and lime, and for gasoline in the California area.

#### Smaller civilian food supplies expected

Civilian food supplies during the first three months of 1945 are expected to be somewhat smaller than last year, according to the Bureau of Agricultural Economics. As a result of a material decline in hog production, relatively small stocks of meat, and larger war requirements, civilian meat supplies may not be much above the 1935-39 average. Butter supplies will be significantly smaller, since production has been running about 11 percent below year-earlier levels and Government takings will be much greater. Supplies of other fats and oils for civilians will also be smaller, due largely to the decline in lard production. The resumption of rationing of lard and other salad and cooking oils was announced last week.

A potato shortage appears to be developing, in contrast to the surplus of last spring. Not only was the 1944 late crop of potatoes about 18 percent below the large 1943 crop, but a considerably larger proportion of the total 1944 crop has already moved to market than normally would move by this time. Fresh vegetable supplies will be smaller than last year, due to an estimated 12 percent reduction in tonnage, but they are expected to be above the pre-war level.

On the other hand, civilian supplies of fluid milk, cheese, and non-citrus fruits during the first quarter of 1945 are expected to be larger than last year. Milk production in recent months has been about 5 percent above the levels of a year ago. Despite the Florida hurricane, the citrus crop this season is expected to be almost as large as last season, while supplies of apples and pears this

- 6 -

winter are substantially larger than last year. Although egg production may fall below that of a year ago, supplies will continue large during the coming months.

#### Cold storage holdings decline

Smaller stocks of food in storage now as compared with a year ago contributes to the less favorable food outlook. Freezer space in public warehouses was only 80 percent occupied on January 1 as compared with 89 percent on January 1 a year ago. Cooler space, however, was 72 percent occupied (excluding apple houses) as compared with 68 percent on January 1 last year.

During December most commodities showed an out-of-storage movement. (See Table I.) Butter and shell egg stocks declined sharply, while holdings of beef, which normally increase in this period, were moderately lower. Despite the decline in beef stocks, total meat holdings rose somewhat due to increases in pork and other meats. Storage holdings of butter, shell eggs, meats, and lard on January 1 were sharply lower than a year ago, and holdings of cheese and frozen vegetables were noticeably lower. On the other hand, stocks of dried and frozen eggs, and of frozen fruits and poultry were considerably higher.

#### Apple and pear stocks at all-time high for January

Cold storage stocks of apples and pears on January 1 stood at an all-time high for that date, with stocks approximately 20 percent above the five year (1940-44) average. Despite the record level of stocks now, apple holdings declined about 7 percent during December and pear holdings almost 40 percent. The following table shows cold storage holdings of apples on January 1 for the past five years in the three most important producing states and for the country as a whole:

January 1	Virginia	New York	Washington	United States
	(-----Thousands of bushels-----)			
1941	3,491	4,216	9,855	28,816
1942	2,843	3,844	10,363	25,778
1943	3,404	4,889	10,532	30,577
1944	1,440	3,437	8,772	20,847
1945	3,804	5,904	10,647	32,649

### Egg situation in sharp contrast to year ago

Egg prices have been firm at ceiling levels in recent weeks, with market supplies relatively tight in contrast to the sharp price breaks and glutted market conditions of a year ago. A seasonal reduction in price ceilings lowered the wholesale prices of fresh standard eggs at Chicago about 3 cents per dozen during December and the first two weeks of January, but in the same period last year the price of fresh standards at Chicago dropped almost 10 cents per dozen. (See Chart 5, upper section.)

In the week ending January 13 prices of fresh standards at Chicago averaged 39.2 cents per dozen as compared with 34.3 cents in the corresponding week of 1944. Egg receipts at the four leading markets (Boston, New York, Philadelphia, and Chicago) in late December and early January fell substantially below those of a year earlier, but increased in the second week of January to about the 1944 level. (See Chart 5, lower section.)

Egg prices have been strengthened in recent weeks by an unusually heavy demand and by the effect of severe weather on production. The smaller meat supplies this year may be partly responsible for the increased demand for eggs. Moreover, hatchery demand for eggs has increased recently, stimulated by the high prices for eggs and poultry. The output of chicks by commercial hatcheries in December was at record levels for the month, 15 percent larger than the output in December last year.

### Final farm goals call for continued full production

The final farm production goals announced by the War Food Administrator last week call for continued full output of practically all farm commodities. These goals represent the total of State goals recommended by farmers, farm leaders and State agricultural officials. The total crop acreage recommended is nearly 3 percent larger than the 1944 planted acreage.

Acreage goals for flaxseed and sugar beets have been materially increased over the 1944 acreage, and moderate increases are shown for dry beans, potatoes, and tobacco. The goals call for a small increase in milk production, larger slaughter of cattle, and an increase in the spring pig crop. Because of recent changes in needs, the 1945 egg goal has been increased by about 10 percent over the preliminary goal, but is still slightly below the 1944 production level.

- 8 -

Stock prices decline

War sentiment among stock traders appeared to be undergoing another change last week, as sweeping Russian gains again raised hopes of an early German collapse. During December and early January railroad stocks and bonds had led an upswing in prices, which seems to have been due in part to a belief that heavy wartime traffic and industrial activity might be prolonged for a considerable period.

With war news last week running heavily in favor of the Allied Powers, and many stocks vulnerable to selling as a result of extended gains, stock prices moved sharply lower, with railroad stocks showing the widest drop in a net decline of 5 percent. (See Chart 6.) Industrial and utility stocks also declined, and the Dow-Jones average of 65 stocks on Saturday was nearly 3 percent lower than a week earlier.

Weakness in railroad stocks was accompanied by a substantial drop in prices of lower quality railroad bonds, with the Dow-Jones average of second-grade railroad bonds showing a net decline of 3 percent for the week. As a result of last week's declines, all of the earlier January gains in railroad stocks and second-grade bonds were erased.

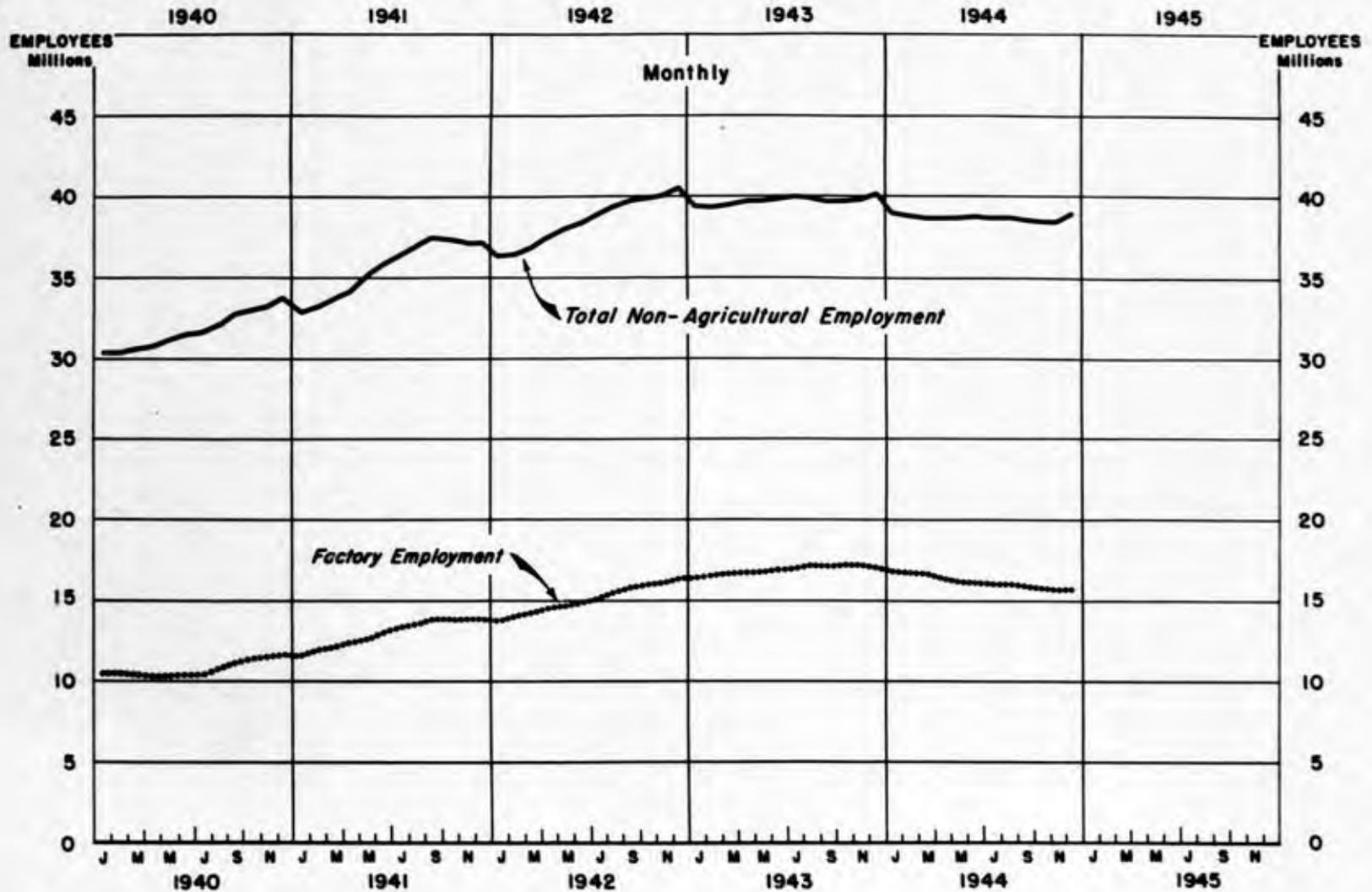
Table I

Cold storage stocks of selected items January 1, 1945 compared with December 1, 1944 and January 1, 1944

Item	Percentage change	
	January 1, 1945 over	December 1944 : January 1944
Frozen fruit and vegetables:		
Fruit	- 7.6	+ 18.5
Vegetables	- 8.1	- 9.6
Meats and lard:		
Beef	- 5.5	- 53.2
Pork	+17.3	- 27.4
All meats	+10.4	- 36.2
Lard and rendered pork fat	+10.9	- 37.9
Dairy and poultry products:		
Butter	-33.0	- 60.8
Cheese	- 4.4	- 17.5
Eggs	-13.2	+ 95.0
Shell	-60.2	- 38.4
Frozen	-24.3	+ 62.9
Dried	- 2.7	+133.7
Frozen poultry	0.0	+ 18.6

Source: War Food Administration.

# NON-AGRICULTURAL EMPLOYMENT



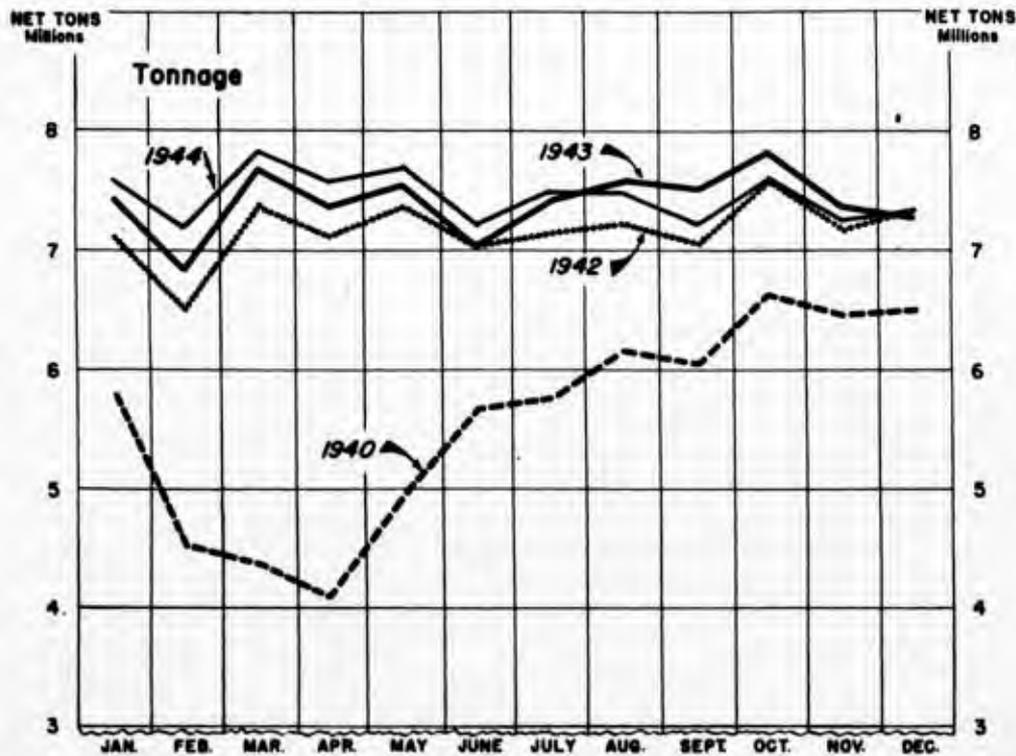
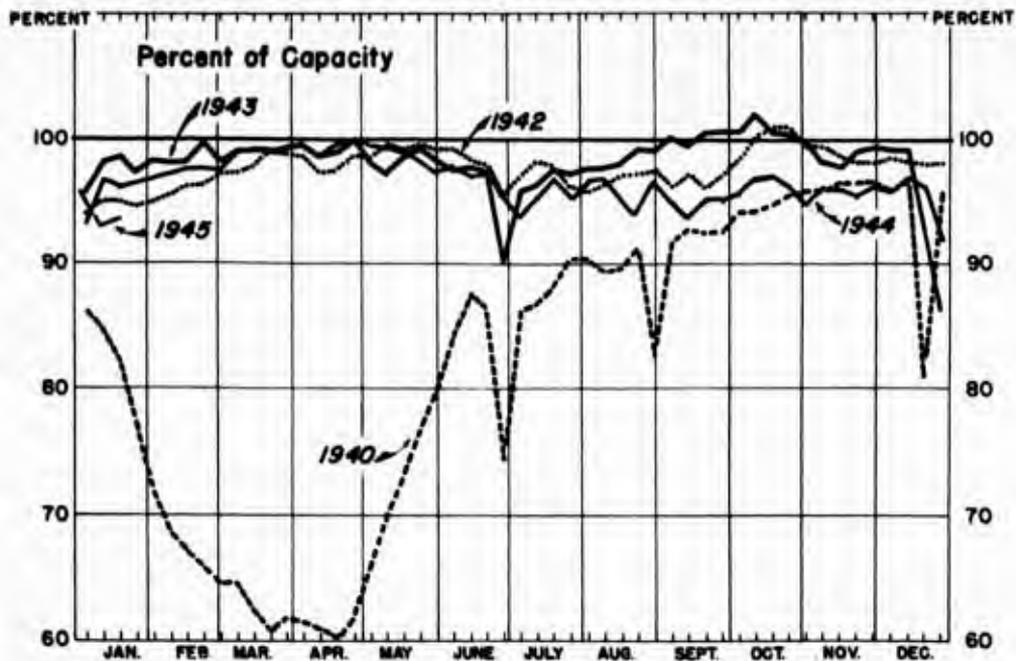
Office of the Secretary of the Treasury  
Division of Research and Statistics

C-606

Chart 1

226

# STEEL INGOT PRODUCTION

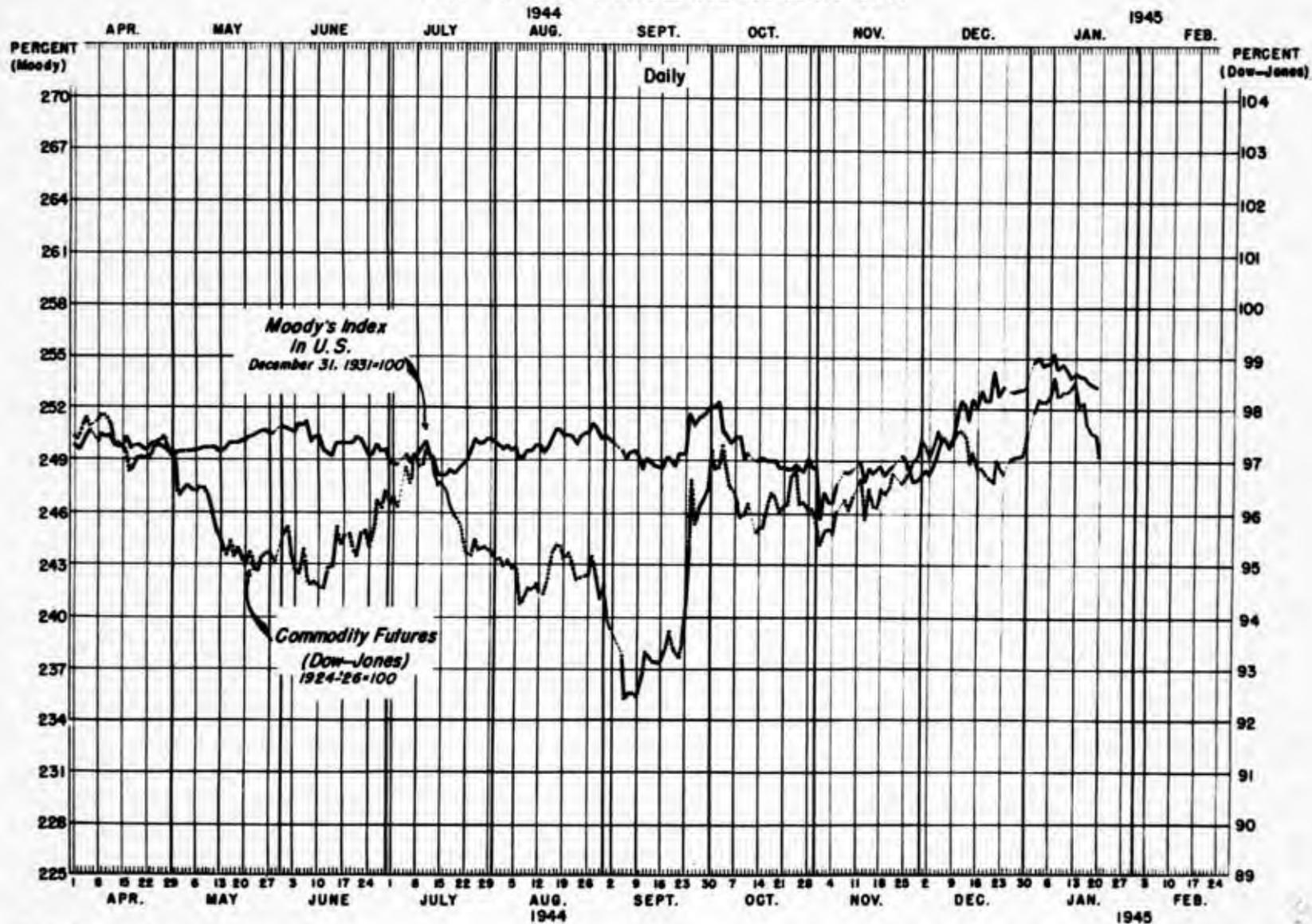


Office of the Secretary of the Treasury  
Division of Research and Statistics

Source: American Iron and Steel Institute

C-53E

# COMMODITY PRICE INDEXES IN U.S.

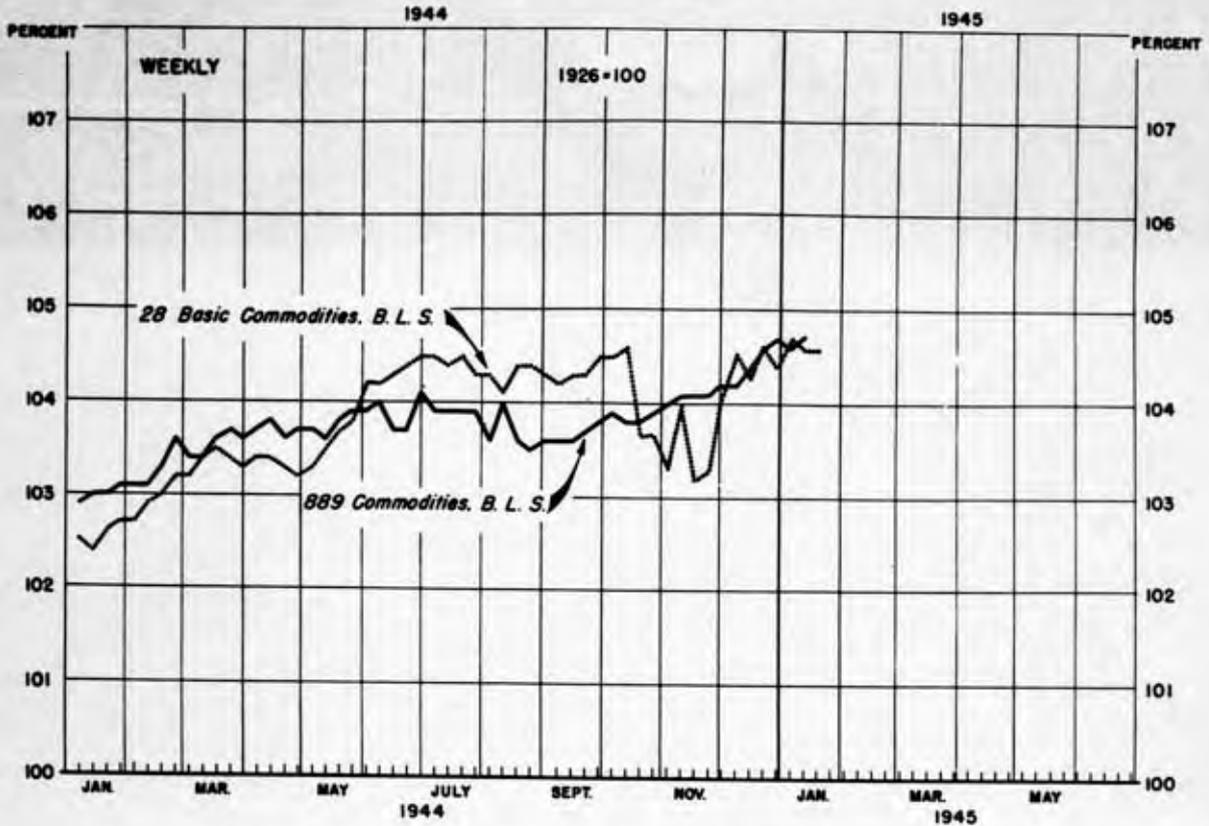


Office of the Secretary of the Treasury  
Bureau of Economic Warfare

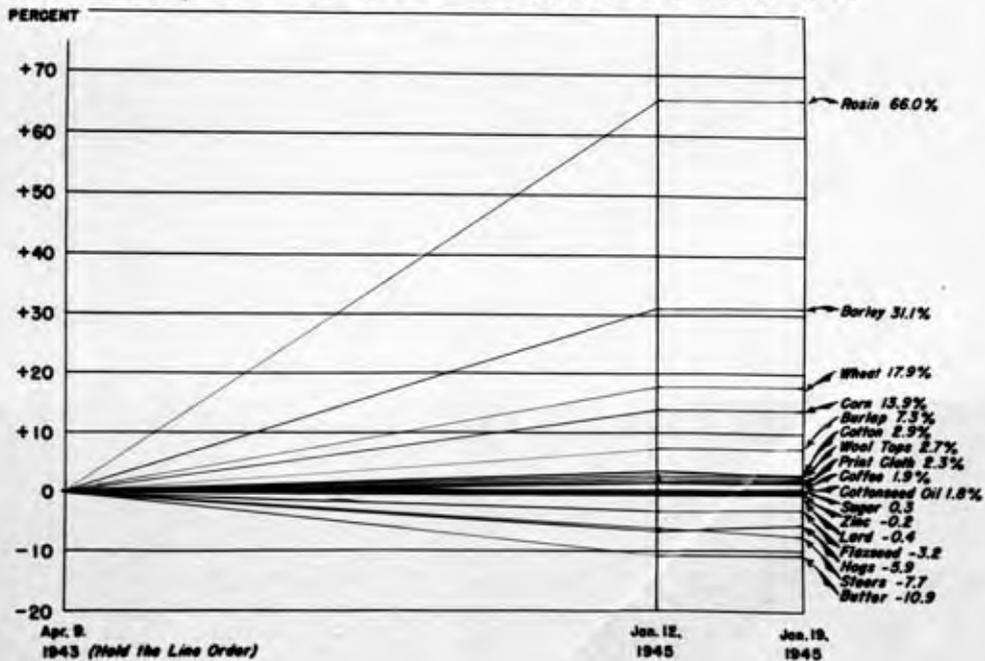
P-148-M

Chart 3

# WHOLESALE COMMODITY PRICES



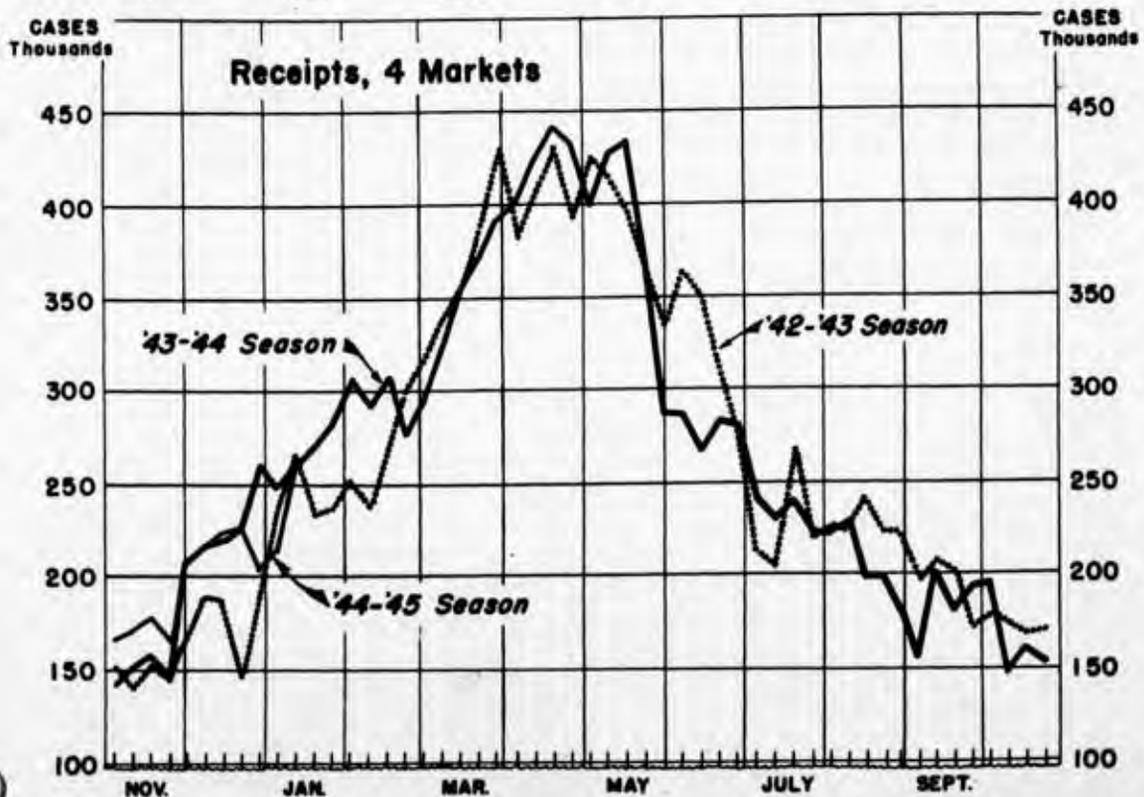
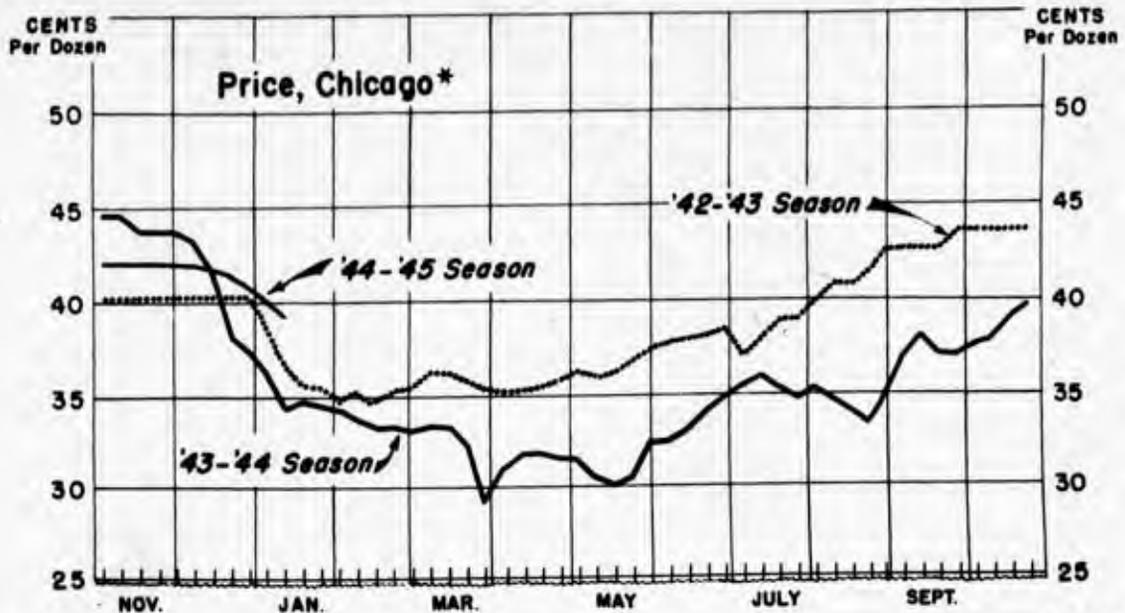
SELECTED BASIC COMMODITIES  
Percentage Change April 9, 1943 to Jan. 12 and Jan. 19, 1945



329

# EGG PRICES AND RECEIPTS

## Year Beginning in November



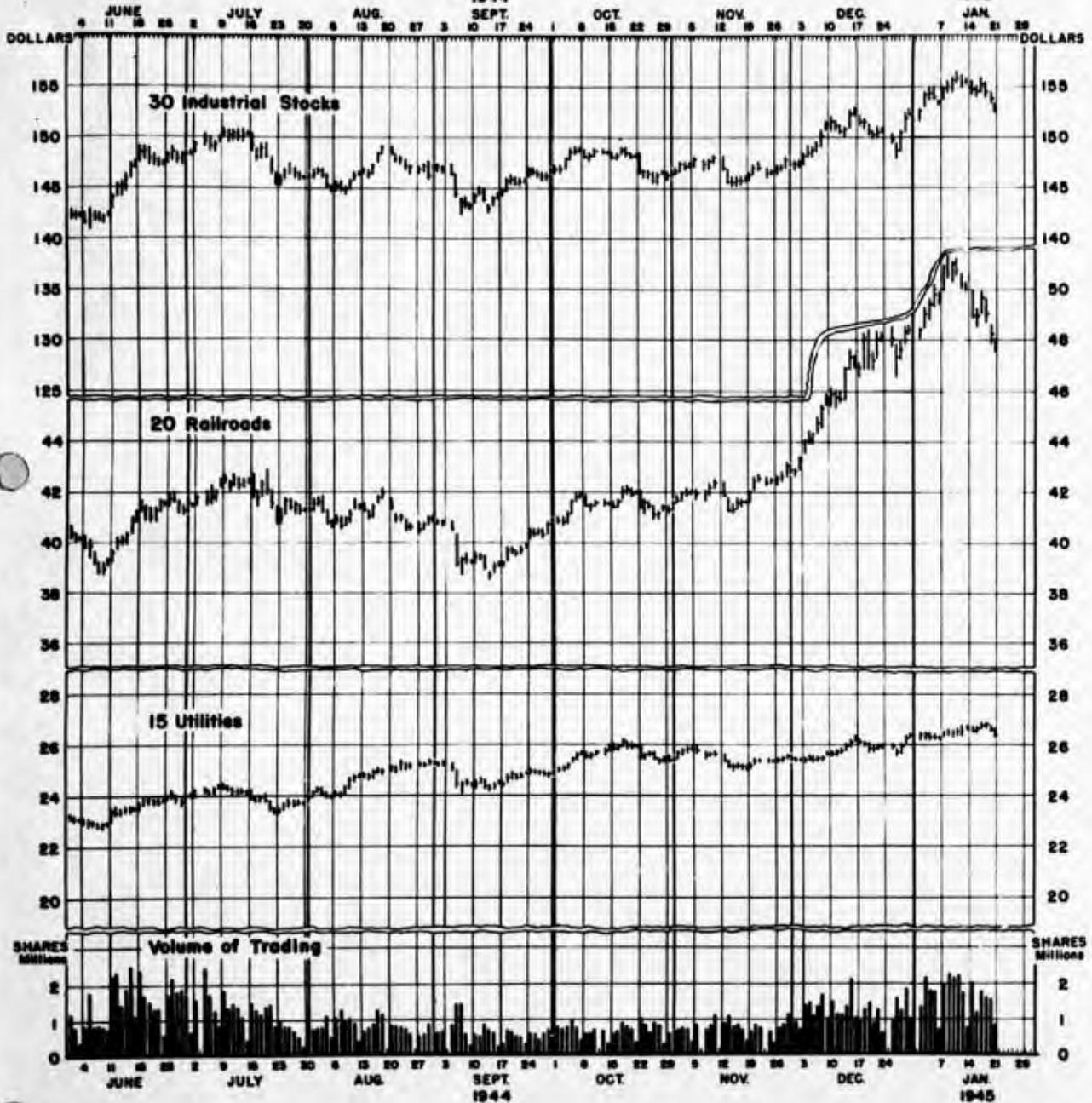
\* Weekly average, fresh standards. Previous to July 17, 1943 certain comparable grades used.

# STOCK PRICES, DOW-JONES AVERAGES

Daily

1944

1945



U.S. Department of the Treasury  
Bureau of Economic Research and Statistics

P-144-L-2

Treasury Department  
Division of Monetary Research

332

Date.....Jan. 29, 1945<sup>19</sup>

To: **Memo for the Files;**

I took this up orally with the  
Secretary and he approved Treasury  
position that a moratoria should not be  
granted on these loans.

H.D.W.

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

333 ✓

# TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Jan. 22, 1945

**TO** Secretary Morgenthau

**FROM** Mr. White

**Subject:** Moratoria on Chinese Export-Import Bank loans.

1. The Export-Import Bank has under consideration the granting of two-year moratoria on the payments of principal on the \$25 million tungsten loan granted in 1940 and the \$50 million metals loan granted in 1941.
2. The moratoria involve about \$17 million made up as follows:
  - (a) payment of about \$12.5 million on the tungsten loan which would complete payments on this loan, and
  - (b) payment of about \$4.5 million on the metals loan. This payment represents the amount scheduled for the 4th year of the seven years which China has been given to pay off this loan. The Chinese have drawn only about \$34 million of the \$50 million credit and have repaid about \$7 million.
3. The Export-Import Bank has already suggested informally to the Chinese that these two loans could be consolidated. This would avoid the necessity of making comparatively large payments this year and would spread the burden over the next few years. However, the Export-Import Bank is seemingly prepared to grant these moratoria, if the Chinese continue to request them.
4. It is felt that these moratoria should not be granted because the Chinese have ample U. S. dollar resources with which to meet these payments and because it would be in China's best interests to maintain its good credit standing.
5. It is therefore suggested that the Export-Import Bank be informed that a moratoria should not be granted but that there is no objection to a consolidation of the two loans. Moreover, it might be desirable at the first suitable occasion to suggest informally to Dr. Kung that it would be in the best interests of China to maintain its credit standing by meeting all outstanding obligations to the U. S. Government.

*Home*

**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

DATE January 22, 1945

TO Mr. White

FROM Mr. Glasser *W.G.*

Information

Subject: Status of negotiations with the British on amending the armistice terms for Italy.

1. The British have refused to consider the U.S. proposal for a partial peace settlement with Italy at this time.

The refusal came in the form of a telegram to Lord Halifax which said that Eden and Churchill had discussed the matter and had reached the conclusion, in effect, that the Italian Government would be gratified but would not be strengthened by a partial peace settlement. They said that they would not consider the suggestion, using as one argument the fact that the Italian Government is not representative of the whole of Italy and cannot be until after Germany has been defeated and the whole of Italy liberated. They went on to say that they would be prepared to make a peace settlement with Italy prior to the peace settlement with Germany in order to give the Italians the feeling that they were being distinguished from the Germans.

When asked by the State Department officials whether this last concession could be conveyed to the Italians now, the British were quick to respond no, absolutely not.

2. The British have refused to accept the proposal that we begin negotiations with the Italians on setting in order our financial relations (they have, in effect, refused to do on a combined basis what we have promised the Italian Financial Mission we would do on the U.S. side).

3. State and War feel very strongly that they should put their protest against the British decisions in writing if they accept the directive as the British want it. This is being done with the hope that, if the U.S. protest is put in writing, the British might recede from their position.



DEPARTMENT OF STATE  
WASHINGTON

*copy to Mr. White  
by [unclear]  
1/24/45*

335  
*Hings gone  
copy to  
Crawley 1/29/45*

January 22, 1945

Dear Mr. Morgenthau:

Your letter of January 18, addressed to the Secretary, expressing your view that lend-lease for France, both in munitions and in non-munitions generally should rest on the same principles as lend-lease for Great Britain, has been referred to me.

I agree entirely with your views and believe that we are all ready to proceed with discussion of a Master Lend-Lease Agreement with the French. I have accordingly asked Mr. Clayton to call together Mr. White and Mr. Oscar Cox to go over a text which could be presented to Mr. Monnet early this week.

Sincerely yours,

*Joseph E. Green*

Under Secretary

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



25

JAN 18 1945

Dear Sir:

This is in reply to the letter of January 13 from the Acting Secretary of State confirming that the French Lend-Lease document which was before the President at Quebec has been superseded and stating that your Department awaits the Treasury's views on the appropriate type of Lend-Lease program for France.

It is the Treasury's view that Lend-Lease for France, both in munitions and in non-munitions generally should rest on the same principles as Lend-Lease for Great Britain. In working out the non-munitions program for the French the criterion of the amount of aid to be rendered should be the status, actual and prospective, of their gold and dollar balances. The United States should determine the extent to which we deem it appropriate that the French should use their gold and dollar exchange resources in meeting their non-munitions requirements and Lend-Lease aid should be programmed accordingly.

Naturally it should be understood that any Lend-Lease program for the French worked out in advance at this time will not constitute a firm commitment but that actual delivery will be subject to the changing demands of strategy, to supply and transport considerations and the usual considerations of procurement and allocation.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of State.

LMO:as 1/27/45

January 22, 1945

Harry White

Secretary Morgenthau

There is an article in Sunday's New York Times by Harold Callender out of Paris which says that the difference between Mendes-France and Pleven is that one is for inflation and one is against it. Please get a cable off at once to ~~the vice consul~~ <sup>write Hoffmann</sup> in Paris and tell him to send me a cable describing in more detail what the differences are. *White answered 1/27/45 -*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 22, 1945

TO Secretary Morgenthau  
FROM Mr. White *HW*  
Subject: Economic and Financial Views of M. Mendes-France and  
M. Pleven.

In respect to your inquiry of January 22 re the differences in view between M. Mendes-France and M. Pleven on the subject of inflation, I am attaching a letter that recently arrived from Mr. Hoffman in Paris. This letter covers the ground very well. Important passages have been marked.

Also attached is a subsequent letter of January 8 which indicates that though Pleven won the first round in obtaining a regularization of salary increases for civil servants, Mendes-France won the second in having a substantial portion of civil servants' salaries paid into blocked bank accounts bearing interest at the rate of 1 percent per annum.



UNITED STATES OF AMERICA  
TREASURY DEPARTMENT



AIR MAIL

Office of the Treasury  
Representative

Embassy of the United States  
Paris

Air Pouch  
No. 65

January 4, 1945

Dear Mr. White:

From time to time we have had occasion to refer to differences within the French Government on matters of fiscal policy and economic policy closely connected therewith. You may be interested in some recent developments in this general field.

It is becoming increasingly evident that there is a sharp difference of view on almost every important point of policy between the Ministry of National Economy, headed by M. Mendes-France, and the Ministry of Finance, headed by M. Pleven. It is not too much to say that this split between these two important Ministries is doing more than anything else to impede the resumption of economic activity. Neither one is able to make its policy effective without the concurrence of the other, and as a result there is no governmental policy.

In the first place there is a difference on the general question of price and wage policy. Mendes-France has always been of the "hold-the-line" school of thought. He wanted to hold prices and to hold the exchange rate. Pleven is inclined to feel that to maintain legal prices at such a great disparity with black market prices is impossible. He seems to be influenced by Istel's view that real enforcement of price control is impossible under circumstances in which the French people have the habit of using the black market to the extent prevalent today, unless the disparity between legal and black market prices is reduced. He points out, quite correctly, that in fact the price control authorities (under Mendes-France's jurisdiction) are not preventing the diversion of goods to the black market.

The Finance Ministry has recently approved an increase in the regular wages of public servants which has the effect of increasing the actual wage and of regularizing various increases which up to now had been granted as exceptional allowances, bonuses, etc. This has put the wages of functionaires at roughly two and a half times their prewar level. This step was violently objected to by Mendes-France on the ground that it represents a crystallization of an undesirable situation which is due to wholly exceptional circumstances

(the lack of transport, etc.) which will disappear. The step taken with respect to salaries, on the other hand, cannot be reversed and represents, in effect, an admission that the price line cannot be held. In this connection the Government has just adopted a program calling for an increase in railroad rates of 40 percent for passengers and 70 percent for freight. It is announced in the communique that this measure will not have a noticeable effect on the cost of living and the communique brings forward, in order to convince the public, the time-honored fallacy that the percentage which railroad rates bear to the market price of goods is so small that the effect on prices will be negligible. Thus, four basic groups of prices have, since the liberation, been substantially raised - wages of industrial workers, railroad rates, wages of civil servants, and the price of bread.

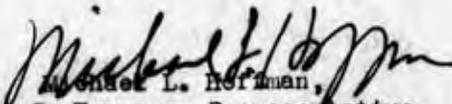
The answer of Mendes-France to the charge that prices cannot be controlled, and to the argument that upward adjustments of wages and salaries are a political necessity, is that neither of these things would be true if a stiff program of soaking up excess purchasing power were followed by the Ministry of Finance. He (and his advisors) point out that all these augmentations of prices and salaries accomplish nothing except to aggravate the very situation they are supposed to relieve. There are no more goods available to the functionaires whether they have the old salary or the new, and to give additional money merely provides the illusion of temporary improvement in the situation while actually increasing the competition for goods. Furthermore, the situation of employees is getting steadily worse, and it needs no great prescience to see what will be the result of the continual lack of activity in manufacturing industry at the same time as increased wages have to be paid. Already there is much unemployment and it is clear that the financial burden of the increased wages will fall to a large extent on the Treasury. The Ministry of National Economy, therefore, accuses the Ministry of Finance of failing to take the measures which would make it possible to operate a controlled economy under the present difficult conditions. Specifically, Mendes-France insists that it is necessary to impose promptly a heavy tax of the capital levy type which will scale down the volume of spendable funds. If this were done, it is further argued, the policy of permitting certain prices and salaries to rise might not be entirely self defeating inasmuch as it would be much easier to force goods to flow in rationed channels.

Another important element in this situation is the policy of deGaulle to build up the French Army and French Military production as a matter of first priority. There is a general belief that he is sacrificing the possibility of restoring minimum economic life in the country in order to do this. In this connection your attention is invited to Harold Callender's despatch to the New York Times on or about December 30 in which he criticizes deGaulle for failing to

do the maximum to restore economic activity in France. The view reflected in this despatch is, I believe, to a considerable extent that of the Ministry of National Economy, and the article is, on the whole, a good evaluation of the present position, although not accurate in all details.

Because of the differences between the two most important Ministries in the economic field, the Government is rightly accused of not having any policy. I have learned that either today or tomorrow deGaulle is holding a dinner for all the Ministers dealing with internal economic problems and their principal advisors. It is hoped that at this time he can be influenced to take a position on some of the points of conflict, and also that he can be impressed with the seriousness of the situation facing the country in the next two or three months. At best, the difficulties are enormous. As you doubtless know, the allocation of shipping for the next few months was set at 60,000 tons for France. When one considers that in North Africa there were 30,000 tons a month for civilian supplies, it is clear that only the barest minimum of essential supplies can be expected to arrive from abroad during this period unless this allocation is increased. I am not familiar with the details of French requirements or with the situation of particular industries, but those in the Embassy who deal with these matters do not see how an extremely serious situation can be avoided unless transport equipment and essential raw materials can be brought in soon. I believe an effort is being made to get an increased allocation of shipping. However, the continued lack of agreement within the Government concerning financial and control measures is, in my opinion, no less important than the physical limitations in supplies in holding up progress in economic reconstruction. Actually I cannot personally see how any improvement can be expected until both the policy and the supply limitations are removed, but this may be an over-pessimistic view.

Sincerely,

  
Michael L. Hoffman,  
U. S. Treasury Representative.

Mr. Harry D. White,  
Assistant to the Secretary,  
Treasury Department,  
Washington 25, D. C.

RECEIVED  
DIVISION OF MONETARY RESEARCH  
TREASURY DEPARTMENT

JAN 16 1946  
RECEIVED



UNITED STATES OF AMERICA  
TREASURY DEPARTMENT



AIR MAIL

Office of the Treasury  
Representative

Embassy of the United States

Paris, 8 January 1945

AIR POUCH  
NO. 70

Dear Mr. White:

In connection with the recent increase in the salaries of Civil Servants, the French Government has applied a system of forced saving to employees of the State. By an Ordinance of 8 January 1945 the following deductions are to be made from the salaries of Civil Servants:

- 20 per cent of the amount in excess of 100,000 and less than 150,000 francs;
- 25 per cent of the amount in excess of 150,000 francs and less than 200,000 francs;
- 30 per cent in excess of 200,000 francs and less than 300,000 francs;
- 40 per cent of the amount in excess of 300,000 francs and less than 400,000 francs;
- 50 per cent of the amount in excess of 400,000 francs.

The amounts so deducted are to be deposited in an account opened in the name of the employee on a "comptable public" on which interest at the rate of one per cent per annum will be paid.

The deduction will be reduced by 25 per cent for one dependent child and an additional ten per cent for each additional dependent child.

Very truly yours,

RECEIVED  
JAN 10 1945  
MICHAEL L. HOFFMAN  
U. S. Treasury Representative.

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

2-Tree 343 ✓

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris  
TO: Secretary of State, Washington  
DATED: January 22, 1945  
NUMBER: 298

① White  
② Lifford  
③ [unclear]  
④ Return to  
M. M. McHugh

CONFIDENTIAL

Repeated to Moscow as no. 8 and to London as no. 40.

Today Bidault repeated to me the capital interest of France in seeing the Ruhr, et cetera, taken over by an autonomous international organization and in seeing German war industries and near war industries eliminated. Also, he observed that France is interested in seeing severe punishing meted out to all German war criminals. Though he has said many times before, Bidault, in a conversation with Leon Henderson and me, repeated the above today.

Incidentally, Henderson has made an excellent impression on the many French officials with whom he has spoken on the subject of Germany's economic control.

DAFFERY

*At*

**PARAPHRASE OF TELEGRAM RECEIVED**

**FROM:** American Embassy, Athens (via Army)  
**TO:** Secretary of State, Washington  
**DATED:** January 22, 1945 (received Jan. 23, 4:35 pm)  
**NUMBER:** 83

**CONFIDENTIAL**

The following message is from Patterson for Secretary of Treasury and has been repeated as No. 11 to London.

With reference to message No. 476 dated January 19, the statement has been made privately and publicly recently by Sideris that the economic and financial problems of Greece cannot be solved unless she receives a foreign loan. Hugh Jones was advised by Sideris today that he plans to request a large foreign loan early next month, at which time he hopes to have ready a general outline of the budget. In addition, Sideris said he would resign unless this loan were made available. His state of mind is indicated by this threat of resignation, which I believe, however, is an empty one.

As of this morning the price of gold sovereigns here was 3600 drachmas (a recession from the January 19 price of 4400 drachmas). Although during the past week prices of feedstuffs produced locally have declined by some 15%, on an average, such prices are still very high.

We are informed by Sideris that the stock exchange will open shortly.

**MACVRACH**

**DC/L:GPW**

**1-24-45**

cc: 1/26/45 Messrs. Glasser-Gold-Taylor, DuBois, Schmidt (3), Gunter-Kamarek-Mrs. Baum, Miss Mikulich, Bronx (3)

**ACTION: MR. GUNTER**

*(Please return to Rm 2218)*

CABLE TO AMEMBASSY, QUITO, ECUADOR

Reference Department's 988 of December 18, 1944.

Information received by this Government emphasizes imminent danger to 147 individuals interned in Camp Belsenbergen, near Hanover, Germany, and holding passports issued in the name of Ecuador, since the term of validity of such passports has expired or is near expiration. To avoid tragic loss of life, please transmit to Ecuadoran officials this Government's urgent request that the protective power of Ecuador be notified that the validity of the passports of the above-mentioned group at Belsenbergen has been extended and that these individuals are to be accorded protection.

Please advise telegraphically of the success of your efforts.

January 22, 1945

SH-1092  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

London

Dated January 22, 1945

Rec'd 8:30 p.m.

Secretary of State,

Washington.

770, January 22, 7 p.m.

FOR FEHLE FROM MANN.

World Jewish Congress Here has been informed by its representative in Switzerland that Theresienstadt is being transformed into extermination camp. Eye witness is said to have reported that 200 to 250 Jews are dying each day at Theresienstadt and that a crematorium was erected there at a place called Nakrete.

In broadcast from Moscow on January 17 former member Czecho-slovak parliament is reported to have stated that Germans are transforming Theresienstadt into an extermination camp on lines of Maidanek.

REYNOLDS NEWS of January 21 carries a brief news item from Associated Press to the effect that American Seventh Army discovered "Nazi gas chamber containing the bodies of 6000 people of Alsace" at the entrance of Hatzville.

WINANT

WMB

217  
CABLE TO AMLEGATION DUBLIN, IRELAND, FROM DEPARTMENT AND WAR REFUGEE BOARD

URGENT

Reference your 9 of January 17.

Please express to Irish authorities this Government's appreciation of their humane initiative in the matter of threatened Jewish inmates of German camps.

In this connection, Department and WRB would greatly appreciate it if Irish government could inform German Government that the reply of German authorities to Ireland has been noted by the Government of the United States, and that this Government accordingly expects that Jewish and other survivors of these and other concentration, detention and labor camps in Germany and German-controlled territory will be kept alive by German authorities.

In view of the nearness of Oswiecim and Birkenau to the front, it is urgent that the above communication reach German authorities with the greatest possible speed.

January 22, 1945

PARAPHRASE OF TELEGRAM SENT

FROM: Secretary of State, Washington

TO: American Legation, Dublin

DATED: January 22, 1945

NUMBER: 20

SECRET

URGENT

From Department and War Refugee Board

Reference your 9 of January 17.

Please express to Irish authorities this Government's appreciation of their humane initiative in the matter of threatened Jewish inmates of German camps.

In this connection, Department and WRB would greatly appreciate it if Irish government could inform German Government that the reply of German authorities to Ireland has been noted by the Government of the United States, and this Government accordingly expects that Jewish and other survivors of these and other concentration, detention and labor camps in Germany and German-controlled territory will be kept alive by German authorities.

In view of the nearness of Oswiecim and Birkenau to the front, it is urgent that the above communication reach German authorities with the greatest possible speed.

STETTINIUS

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Jerusalem  
TO: Secretary of State, Washington  
DATED: January 22, 1945  
NUMBER: 19

SECRET

Noted below is paraphrase of message received from Herbert Katski Ankara by Magnes. He asks that Joint Distribution Committee New York be given this message. (Reference Department's cable of January 9, No. 3.)

The request of Jabotinsky for authority for SS BARI or any other Turkish ship to embark emigrants destined for Palestine at Constanza was refused by Turkish Ministry of Transports. His Washington principals have been advised of the refusal by Jabotinsky.

Ambassador in Ankara and War Refugee Board in Washington are fully advised concerning this matter and you may wish to suggest that permission to examine boards files be requested by JDC.

No transportation of immigrants from Constanza to Haifa is planned by Jabotinsky.

PINKERTON

BC/L:GPF

1-23-45

LF-1140

PLAIN

Lisbon

Dated January 22, 1945

Rec'd 10:55 p.m.

Secretary of State,  
Washington.

148, Twenty-second

WRB 291, JDC 152 FOR LEAVITT FROM PILPEL

Cabled Joseph Schwartz Paris Ragnar Gottfarb

Stockholm advises local capable relief organization experienced shipping food clothing to Poland willing assign portion their export license for Jewish purpose 8000 kilos Swedish rye bread, pot barley, dehydrated vegetables 9100 Swedish crowns 2500 kilos clothing 25000 crowns 200 kilos shoes 5000 crowns. Gottfarb inquires whether Joint wishes purchase whole or part for shipment to Warsaw via Lublin, also asks name address our representative Czechoslovakia.

CROCKER

WRB

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

January 22, 1945  
10 p.m.

US URGENT

AMERICAN

BIRM

368

The following for Huddle and McClelland is from Department  
and War Refugee Board.

Reference Department's 192 of January 13, Irish Department of  
External Affairs confirm that it inquired of German authorities  
concerning the rumor that Germans intended to liquidate the inmates  
of camps Oswiecim, Hoes and Birkenau, and that the Germans replied  
that the rumor that it is their intention to exterminate the Jews  
in these camps is pure invention devoid of all foundation and that  
if the camps were to be abandoned their inmates would be evacuated.

Please request Swiss Political Department to inform German  
Government that the above reply of German authorities to Ireland  
has been noted by the Government of the United States, and that this  
Government accordingly expects that Jewish and other survivors of  
these and other concentration, detention and labor camps in Germany  
and German-controlled territory will be kept alive by German authori-  
ties.

In view of the nearness of Oswiecim and Birkenau to the front,  
it is urgent that the above communication reach German authorities  
with the greatest possible speed.

REDAWNT:KO  
1/22/45

STETTINER  
(GHW)

WE

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

January 22, 1945

11 p.m.

AMLEGATION

BERN

369

The following for McClelland is WRB 374.

Please refer to your 213 of January 12 regarding the evacuation from Switzerland of 1672 refugees from Bergen Belsen.

Inasmuch as it will probably take some time before it can be determined whether these refugees will be admitted to Palestine, it has been decided to move the entire group of 1672 to Philippeville pending a final decision regarding their ultimate destination. UNRRA has been requested to make arrangements for the reception of the entire group in Philippeville. SHAEF will arrange for their transportation.

It is suggested that you communicate with the American Embassy at Paris for communication with G-5 of SHAEF concerning the details of this movement.

STETTINIUS  
(GHW)

WRB:MMV:KG  
1/22/45

WE

CABLE TO HUDDLE, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Please refer to your 213 of January 12 regarding the evacuation from Switzerland of 1672 refugees from Bergen Belsen.

Inasmuch as it will probably take some time before it can be determined whether these refugees will be admitted to Palestine, it has been decided to move the entire group of 1672 to Philippeville pending a final decision regarding their ultimate destination. UNRRA has been requested to make arrangements for the reception of the entire group in Philippeville. SHAEF will arrange for their transportation.

It is suggested that you communicate with the American Embassy at Paris for communication with G-5 of SHAEF concerning the details of this movement.

THIS IS WRB BERN CABLE NO. 374.

1:15 p.m.  
January 22, 1945

MJM:hd 1/22/45

CABLE TO AMERICAN LEGATION, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Please deliver the following message to Isaac Sternbuch, St. Gall,  
from Vaad Hahatzala Emergency Committee:

QUOTE ANNUAL CONFERENCE APPROVES YOUR RESCUE ACTIVITIES.  
WILL SUPPORT YOU FULLEST MEASURE INCLUDING NECESSARY FUNDS.  
ONLY MOMENTS REMAIN RESCUE OUR UNFORTUNATE BRETHERN. DO EVERYTHING  
RESCUE MAXIMUM NUMBER. UNQUOTE

THIS IS WRB BERN CABLE NO. 375.

2:15 p.m.  
January 22, 1945

RD:FH:hd 1/22/45

DCG-912  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Bern

Dated January 22, 1945

Rec'd 10:32 a.m.

Secretary of State,  
Washington.

454, January 22, noon.

Substance your 256, January 17 communicated  
Foreign Office January 19 except penultimate  
paragraph.

Neither Legation nor McClelland has list  
Salvadoran document holders who were at Marianka.  
Hundred such documents were sent to Slovakia during 1944.  
Identity of 164 persons Marianka unknown. Among this  
group 13 claimed United States citizenship and unknown  
number of others supposedly has Paraguayan documents.  
McClelland endeavoring obtain desired list from Red Cross  
delegate Bratislava but does not anticipate positive  
results since Dunand only arrived there after Marianka  
group had been largely deported.

HUDDLE

WFS

SH-1055  
Distribution of true  
reading only by special  
arrangement. (SECRET W)

Bern  
Dated January 22, 1945  
Rec'd 6:14 p.m.

Secretary of State,  
Washington.

455, January 22, 1 p.m.

FOR WRB FROM MCCLELLAND.

In view rapid deterioration internal rail transport  
in Germany I am becoming increasingly concerned about  
dwindling possibilities of getting our WRB parcels to  
men and women in German concentration camps.

Germans are progressively more disinclined to  
make RR freight cars available to ICRC for all parcel  
services into Germany even that for POWS. Amcross  
representative Geneva tells me our Army officials plan  
induce Germans under Geneva Convention supply transport  
for POW parcels; but we can hope for no such leverage  
in case of shipments to unassimilated persons for whom  
Nazis only tolerate parcel distributions. I should  
therefore like to submit to Boards serious considera-  
tion proposition that four or five five to seven ton  
trucks be made available to me which could in turn be  
lent to ICRC Division of Special Relief for delivery  
WRB parcels to <sup>the</sup> assessible camps.

-2- #455, January 22, 1:00 p.m. from Bern

Recently for instance ICRC delegate working out of their headquarters at Uffing near Munich obtained admission to hitherto unvisited and unknown camp of Lands Bergamlech in Eastern Bavaria. This camp housed some fifteen thousand internees eighty per cent Jewish deportees. Commander was unusually accomodating and if ICRC man had had any means of transportation or supply of parcels available at Uffing there would have been no difficulty about delivering them personally directly to this camp.

The same applies to Dachau which is just outside Munich.

Situation regarding accessibility all camps particularly Jewish in Vienna area to ICRC is developing most favorably.

SS group there in charge of these camps is headed by an Austrian Nazi named Ebner and includes a German SS named Krusey who is specifically in charge of all Hungarian Jewish deportees in Austria and is man directly responsible for physical delivery of two groups from Bergen Belsen to Switzerland. These two are displaying all signs of willingness to collaborate certainly in any relief activities if not in more interesting work.

This situation was first mentioned in Legation 7575 November 16, 1944 and was discussed at length about two weeks ago with Dr. Tudicum, ICRC delegate

-3- #455 January 22, 1:00 p.m. from Bern

in Vienna. If trucks were available this area great deal of good work could be accomplished.

I cite these two examples of Landsberg and Vienna to show that as Germany internally becomes more disorganized transportation breaks down but also camp commanders and isolated SS groups become increasingly independent and open to making of valuable local working arrangements.

Availability of trucks to ICRC delegates for actual delivery of parcels to camps has further important advantage of offering far superior control possibilities as to safe reception by intended beneficiaries than obtainable via German railroads when it is frequently most difficult trace freight cars which may be held up for weeks and even months on sidings completely unknown to ICRC as recently occurred in Warnemuende affair.

It may be possible rent buy or otherwise acquire trucks here in Switzerland although Swiss Army is very strict about any transport equipment leaving country. In event trucks could be acquired provision would doubtless have to be made supply fuel and perhaps tires from outside.

I should most welcome expression Board's opinion this proposition as I would conservatively estimate time still available to us for this invaluable work at not more than four to five months.

HTM

HUDDLE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: The American Legation, Bern  
 TO: Secretary of State, Washington  
 DATED: January 22, 1945  
 NUMBER: 459

Please refer to message dated December 16 from the Legation, No. 8177.

The Legation is informed by the Foreign Office, with regard to people on the several lists mentioned in telegram under reference from the Legation who were last known to be living in Hungary, that the Swiss Legation in Budapest has reported as follows with regard to them:

It is believed to be impossible that the people of Jewish origin in question will ever receive authorization to leave Hungary for the United States due to the current situation in Hungary. The names and addresses mentioned on the lists were regularly communicated to the Hungarian Foreign Office by the Swiss representatives, but its views on the subject were never expressed by the Foreign Office. In addition the people concerned are not living at the addresses given any longer. Since the persons concerned are probably in hiding the Swiss representative believes that investigations by the Hungarian authorities could have unfavorable results only. Henceforth the Swiss representative proposes not to communicate lists to the Hungarian authorities but merely to retain them at the Legation which, if the people call there, will do everything possible to aid them. Since some of the people last reported as being in Hungary have without doubt been moved to Germany, the Legation is requesting the Foreign Office in Switzerland to have the Swiss Legation in Berlin classify these people as being exchangeable in accordance with the message of December 30 from the Department, No. 4398.

HUDDLE

DC/LICW:CAM  
 1/23/45

CABLE TO AMBASSADOR HARRIMAN, MOSCOW, FROM DEPARTMENT AND WAR REFUGEE BOARD

URGENT

1. It is feared that, in line with the record of their past cruelties, Germans will massacre Jewish and other survivors in camps Auschwitz (Oswiecim) and Birkenau near Kattowitz and other camps in that area prior to retreat. Please suggest to Soviet authorities the urgency of addressing suitable warnings by radio and pamphlets to Germans in those localities. In view of the nearness of Soviet forces it is felt that such warnings by them would be helpful and effective. Please also raise with Soviet authorities the feasibility of their taking direct measures for the protection of the camp inmates.

2. As indication whether Germans continue their policy of exterminating remaining Jews previous to retreat, WRB is anxious to hear whether 60,000 to 80,000 Jews reported in Lodz a few months ago were found alive. Please inquire and report to Department and WRB.

January 22, 1945

## PARAPHRASE OF TELEGRAM SENT

FROM: The Secretary of State, Washington  
TO: The American Embassy, Moscow  
DATED: January 22, 1945  
NUMBER: 134

SECRET

URGENT

From the Department and War Refugee Board.

It is feared that, in line with the record of their past cruelties, Germans will massacre Jewish and other survivors in camps Auschwitz (Oswiecim) and Birkenau near Kattowitz and other camps in that area prior to retreat. Please suggest to Soviet authorities the urgency of addressing suitable warnings by radio and pamphlets to Germans in those localities. In view of nearness of Soviet forces it is felt that such warnings by them would be helpful and effective. Please also raise with Soviet authorities the feasibility of their taking direct measures for the protection of camp inmates.

As indication whether Germans continue their policy of exterminating remaining Jews previous to retreat, WRB is anxious to hear whether 60,000 to 80,000 Jews reported in Lodz a few months ago were found alive. Please inquire and report to Department and WRB.

STETTINIUS

SECRET

OPTEL No. 25

Information received up to 10 a.m., 22nd January, 1945.

NAVY

1. HOME WATERS. 21st. In the channel One of H.M. Destroyers engaged in collision with A/S trawler which later sunk.
2. MEDITERRANEAN. 20th. German Hospital Ship GRADISCA intercepted by one of H.M. Destroyers in Aegean now under escort to Alexandria. An LST mined near Patras but reached port.
3. ANTI-SUBMARINE OPERATIONS. 21st. One of H.M. Destroyers off Lands End probably sank U-boat which had previously torpedoed ship in coastal convoy. One survivor from U-boat picked up.
4. ENEMY ATTACK ON SHIPPING. A 7176 ton U.S. ship torpedoed off Lands End in coastal convoy but reached port.

MILITARY

5. WESTERN FRONT. Southern Sector: French attack against Southern edge Colmar pocket made slight progress along wide front between Mulhouse and Thann. North of Strasbourg Allied line withdrawn slightly but U.S. troops though isolated still control village Drusenheim. Central Sector: 3rd U.S. Army made further progress in advance north of Diekirch despite difficult weather conditions. Unconfirmed reports state left flank this army has advanced nine miles N.E. from Houffalize in direction St. Vith. Northern Sector: British attack from Sittard made further progress and reached several points within three miles Heinsberg despite stiffened enemy resistance and bad weather conditions.
6. BURMA. Arakan Sector: We have landed on Ramree Island (60 miles south Akyab). Central Burma Sector: our advance toward Mandalay continues. Northeastern Sector: our troops now 23 miles north of Mongmit.
7. EASTERN FRONT. East Prussian Sector: Russians report Gumbinnen (70 miles east Koenigsberg) captured also advance northwards on 50 mile front across southern frontier East Prussia. North Central Sector: Russian troops now 12 miles from important communication centre Torun. South Central Sector: German frontier crossed on 55 mile front S.E. of Breslau and penetration of nearly 20 miles made. Southern sector: Germans continue attacks in area S.W. of Budapest.

AIR

8. WESTERN FRONT. 21st. 730 escorted U.S. heavy bombers (28 outstanding of which 10 believed safe) attacked railway centres and A.F.V. works Aschaffenburg (833 tons), Mannheim (735 tons), Heilbronn (155 tons) and Pforheim (120 tons). Pathfinder technique employed with results unobserved. SHAEF (Air): 615 aircraft (including 226 mediums) operated successfully Northern Sector. 331 fighters and fighter bombers operated Central and Southern Sectors. Over 260 M.T. destroyed.
9. MEDITERRANEAN. 20th. 345 escorted U.S. heavy bombers (25 missing) successfully attacked five railway centres in Austria including Linz (236 tons) and oil installations Regensburg (201 tons). 842 aircraft (5 missing) attacked communications Po Valley and battle areas destroying or damaging over 130 M.T.

HOME SECURITY

1. ROCKETS. 7 incidents reported. One further incident reported for previous period.

January 23, 1945

At 7:15 last night I called Mrs. Roosevelt and told her that I had gotten the suggestion that Senator Kilgore was willing to be Secretary of Labor. She said she would tell the President about it. I said I didn't know anything about what was going on about the position of Secretary of Labor, and that all I could say was that I thought Kilgore was a very fine man and that he had the backing of A.F.of L. and C.I.O. She said that the President felt that the only man who could fill that position was Gil Winant, and that Winant didn't want to leave London until after V-E Day, but she would pass my message on to the President.

January 23, 1945  
11:11 a.m.

Bert  
Sarazan: Hello. How are you, sir?

HMJr: Fine.

S: That's good.

HMJr: Did they send over to you and ask you to design a War Bond for me.

S: They certainly did. I have it on my desk right in front of me -- a V-Mail.

HMJr: Yeah, they sent over four designs and they were all lousy.

S: Yeah. I think that's a gross understatement.

HMJr: And I said send them over to you and I wanted one like -- oh, that ash tray.

S: I know what you have in mind but I was just wondering how we're -- I'm just wondering how I'm going to do it and still keep the bond in it, which ....

HMJr: Well ....

S: .... I think is essential.

HMJr: Well ....

S: I'll have to do a little skull work on it, I'm afraid....

HMJr: Well ....

S: .... for a few days ....

HMJr: .... I'm sending it to a good man.

S: .... and see what I can do. A bond -- you feel the bond must be in there, don't you?

HMJr: Oh, yes. Wouldn't ....

S: As a matter of supplemental decoration.

January 23, 1945  
11:11 a.m.

Bert  
Sarazan: Hello. How are you, sir?

HMJr: Fine.

S: That's good.

HMJr: Did they send over to you and ask you to design a War Bond for me.

S: They certainly did. I have it on my desk right in front of me -- a V-Mail.

HMJr: Yeah, they sent over four designs and they were all lousy.

S: Yeah. I think that's a gross understatement.

HMJr: And I said send them over to you and I wanted one like -- oh, that ash tray.

S: I know what you have in mind but I was just wondering how we're -- I'm just wondering how I'm going to do it and still keep the bond in it, which ....

HMJr: Well ....

S: .... I think is essential.

HMJr: Well ....

S: I'll have to do a little skull work on it, I'm afraid....

HMJr: Well ....

S: .... for a few days ....

HMJr: .... I'm sending it to a good man.

S: .... and see what I can do. A bond -- you feel the bond must be in there, don't you?

HMJr: Oh, yes. Wouldn't ....

S: As a matter of supplemental decoration.

HMJr: No, not necessarily -- I don't think so. The whole idea that I had was, in between drives they would -- parents could let the boys know they're buying a bond and the boy would know there's a bond waiting for him. Now, how to get that thing over, I don't know.

S: Well, will you let me play around with it?

HMJr: That's the idea.

S: What I'm going to do -- I'm going to kick it around for a few days and see if I can make some sense out of it.

HMJr: Now, Mr. Sarazan, you remember we called you up a month or two ago about furnishings?

S: That's right.

HMJr: Well, we signed a lease today. (Aside: Where is it? What's the address?) We got an apartment in 2029 Connecticut Avenue.

S: 2029 ....

HMJr: Yes.

S: .... Connecticut.

HMJr: And we would like to have you do it for us.

S: We will do it.

HMJr: And who ....

S: I'm going to put my Merchandise Manager of the furniture department with the decorator to handle it because it may require the purchasing, or the shipment of merchandise -- to expedite the goods. You want it more or less quickly ....

HMJr: That -- more or less quickly is right.

S: If I simply sent a decorator over there, we won't get done what you want done, and I want -- I want to get it done for you.

HMJr: Now, let me ask you this: who -- who are the people so that we can -- it will be some time Thursday -- and who are the people that ....

S: The Merchandise Manager is Jack Blau --  
J-a-c-k B-l-a-u.

HMJr: B-l-a-u.

S: He's our merchandise man.

HMJr: And we should call him?

S: No, I'll have him get in touch with you.

HMJr: No, that's not necessary.

S: Well, I'd prefer it because Jack is in New  
York and I believe he'll be back Thursday  
morning.

HMJr: Well, it's Thursday morning that Mrs. Morgen-  
thau would like to do this.

S: All right. Now, may I call her or you Thursday  
morning?

HMJr: No, I'll tell you -- Charles Bell -- I have  
assigned him to help Mrs. Morgenthau -- in  
the Treasury here.

S: Charles Bell.

HMJr: Yeah. He's my Administrative Assistant.

S: All right. Now, suppose I call Mr. Bell then.

HMJr: Yes.

S: Thursday morning.

HMJr: Yes.

S: And tell him whether Jack's in town or not....

HMJr: And if he's not ....

S: .... and make an arrangement where they should  
meet.

HMJr: And if he's not in town, would your decorator  
be available?

S: Of course. I'd prefer to have Jack in on it ....

HMJr: Fine.

S: .... because he will -- he will see that the merchandise that's needed be brought here no matter where we have to -- from where we have to get it.

HMJr: Fine.

S: And that may take his good offices to do.

HMJr: And as I told you, I don't mind their saying it's for me, if that's of any use.

S: I understand.

HMJr: When you go to the manufacturer you can say it's for me.

S: I understand. We're going -- if you don't mind, we will do that.

HMJr: That's all right.

S: And I know we'll get it.

HMJr: I'm sure you will.

S: I usually have a good man -- I don't like to send a boy out to do a man's job.

HMJr: No, and you'll be interested, Mrs. Morgenthau inquired around and everybody talks so highly of that department in your store.

S: Well, they do -- we do a pretty good job.

HMJr: Somebody said Sloan's is -- oh, he said, "Hecht's is so much better than Sloan's."

S: Well, we think so but, after all, we're a little bit prejudiced.

HMJr: And you did a job, evidently, in that apartment house very recently.

- 5 -

S: At 2029, yes. A couple of them, I think.

HMJr: Yes.

S: Uh huh.

HMJr: So I'm going to ....

S: You will forget about it then and let me contact Mr. Bell.....

HMJr: Right.

S: .... Thursday.

HMJr: Right.

S: And -- Thursday morning.

HMJr: Charles Bell.

S: And if Jack is not in town, I'll have one of the decorators go ahead of Jack and get in touch with Mr. Bell and Mrs. Morgenthau and go ahead. Is she out of the hospital now?

HMJr: Yes.

S: Is she feeling better?

HMJr: Better but she's still not well.

S: Uh huh.

HMJr: But definitely better.

S: Well, I'm awfully glad that she's better.

HMJr: Thank you.

S: Now, we'll go to work on it and you can -- you quit worrying.

HMJr: I will.

S: Okay.

HMJr: Thank you.

S: Thank you for calling. Good bye.

January 23, 1945  
11:50 a.m.

RUSSIAN REFINERIES

Present: Mr. Pehle  
Mr. White  
Mrs. Klotz

H.M.JR: That came this split second. I had to send my own messenger to get it. (Indicates letter from Mr. Crowley to the Secretary, dated January 22, 1945.)

MR. PEHLE: He didn't do what he said he did. This is a refusal, too. Instead of doing what he told you, as I understood, that he was going to do--that is, ask for a higher priority--he encloses a copy of this letter which we have from General Wesson, who is his Soviet Desk Command, saying they weren't going to ask for a higher priority. He said he asked General Wesson to see what could be done to speed it up.

H.M.JR: (Speaking to Mrs. Klotz) Get my conversation with Crowley, please, the one where he said he was going to get this thing through on a certain date. He told me he would get it through on a certain date.

(Mrs. Klotz leaves the conference temporarily.)

MR. PEHLE: Wesson's letter, in the middle, said, "I do not feel we can justifiably press for priorities or directives--." Your claimant agency here, FEA, is trying to make a decision as to whether a priority should be assigned where in my judgment their job is to press--

H.M.JR: Underline the part that is important.

He told me he was going to finish it by June 30th.

MR. PEHLE: You saw what Krug's letter said about that, sixty percent by June 30, ninety by November 1, completion by next January.

- 2 -

(Mrs. Klotz re-enters the conference, and hands the Secretary two telephone conversations he held with Mr. Crowley on January 22, 1945.)

H.M.JR: How did you get copies of Krug's letter?

MR. PEHLE: He sent copies to Byrnes, Rudenko, Major General York, Wesson, Clifton Mack, Badger and Deutch.

H.M.JR: (Reading conversation with Crowley.) "I checked that and we've speeded up as fast as we can. Most of that will be out by June 30th but I've asked them to get it all out by that time."

MR. PEHLE: They won't do that without a higher priority, Mr. Secretary.

H.M.JR: I will call them up.

MR. PEHLE: Will FEA ask for a higher priority? That's the real issue. Until they do, you are not in a strong position to ask Krug for anything.

H.M.JR: Which do you think is more important in Washington, the word "know-how" or "run-around"? (Laughter)

MR. PEHLE: "Run-around."

H.M.JR: They are the two favorite words in this town.

MRS. KLOTZ: I never heard the first one. What does it mean, "know-how"?

H.M.JR: "Know-how"?

MR. PEHLE: The technique for doing things. If you have a patent--the Germans used to have patents which they used to take out in this country, but if you followed the instructions of the patent, you couldn't get anywhere,

- 3 -

because you didn't have the "know-how," the inner-secrets.

H.M.JR: You could read the booklet, but you wouldn't know how actually to produce these things.

MR. PEHLE: The trouble is, here it is FEA. Crowley at the top level doesn't understand this or follow it. In Krug's shop Deutch is doing this. He wrote that letter.

(The Secretary holds a telephone conversation with Mr. Crowley, as follows:)

January 23, 1945  
11:56 a.m.

Operator: Mr. Crowley.

HMJr: Hello.

Leo  
Crowley: Hello, Henry.

HMJr: Good morning. Leo, I think there must be a little misunderstanding somewhere down the line in your shop as a result of the conversation that you and I had in regard to this Russian business.

C: Yeah.

HMJr: When I talked to you on the morning of the 22nd, you said that -- you checked this thing up and you said that you'd get most of it out by the 30th of June.

C: That's right.

HMJr: Well, then, you forwarded me a letter from Wesson, you see.

C: Yeah.

HMJr: And in -- the key sentence in Wesson's letter is, "I do not feel that we can justifiably press for priorities for Russia which would upset other urgent programs."

C: That was -- you understand, that was what Wesson had written to him before we had talked with him. That's what Wesson had written him, as I understand it, some few days before that.

HMJr: Well, the date on this is the 16th.

C: That's right. Now, then, after I talked with Wesson, after talking with you -- I talked with Wesson ....

HMJr: Yes.

C: .... and he said he would make every effort to move immediately on the thing.

HMJr: Well, what -- what John Pehle tells me, the only thing that will move it is a higher priority than what they have now.

C: Well, we'll go after -- I told him that and we'll get a higher priority if we possibly can, Henry.

HMJr: Well ....

C: We may have to have your help on the thing.

HMJr: Well, that's the whole -- that's the whole point, and I'm ready to do anything within reason.

C: Fine. Let me see, now, and if we have any -- if we hit any snags, I'll call you and have you help me on it.

HMJr: The thing that they need in order to get this thing moving is a higher priority than they have now.

C: That's correct. That's my understanding on it.

HMJr: Now -- and if you would let me know because, as I said the other day, you seem wholly in sympathy with us that this is a good time to help them.

C: That's right. I agree with that.

HMJr: Right.

C: And I'll call you.

HMJr: Thank you.

- 4 -

(Mr. White enters the conference.)

H.M.JR: I said you might as well sit in here while I finish with Pehle.

At least your coming over here cleared it up so I could telephone him.

MR. PEHLE: Yes.

H.M.JR: He told me on the telephone, "I checked that and we've speeded up as fast as we can. Most of that will be out by June 30th but I've asked them to get it all out by that time. They have got to get a higher priority." He sent me a letter from Wesson, and Wesson said he can't do anything. I called him up on the phone and said, "I talked with Wesson and he said he would make every effort to move immediately on the thing. I know you are wholly in sympathy with us." He said, "Fine, but I may need your help." He just doesn't know what is going on in his own shop.

MR. PEHLE: You told the Russians you would let them know.

H.M.JR: Supposing you call them up for me and tell them I have talked with Mr. Crowley, once today and twice yesterday, and that the battle of papers is going on, and that I am hitting it two or three times a day, and that that is all I want to do now.

MR. PEHLE: That finishes it.

H.M.JR: I couldn't have done it unless you came over.

MR. PEHLE: I am glad to do it. It is important. Unless you push Leo, you will never get any place.

H.M.JR: Will you call him up?

MR. PEHLE: The Captain, the interpreter?

H.M.JR: Tell him I am on the thing.

- 5 -

MR. PEHLE: I will tell him the whole story.

MRS. KLOTZ: Is he a Captain or Cap?

MR. PEHLE: I am talking about the Russian interpreter.  
The other fellow is Cap.

MRS. KLOTZ: We call him Captain Krug and he isn't  
Captain Krug.

January 23, 1945  
12:05 p.m.

RUSSIAN LOAN  
ITALIAN MISSION

Present: Mr. White  
Mrs. Klotz

MRS. KLOTZ: That is the Assistant Secretary of the Treasury, Harry Dexter White.

H.M.JR: But the President still hasn't signed his commission.

MR. WHITE: It's hard after that long period of artificiality.

H.M.JR: I spoke to him last night. He said, "Didn't anybody attack me in the Senate? It's terrible. I got through without being attacked."

MRS. KLOTZ: He prepared himself for defeat.

MR. WHITE: That was explained to me this morning. My name was included under a blanket.

H.M.JR: Like at Bretton Woods?

MR. WHITE: No, not that kind.

MRS. KLOTZ: Not that kind of a blanket.

H.M.JR: What do you mean?

MR. WHITE: A blanket approval.

H.M.JR: What does that mean?

- 2 -

MR. WHITE: They don't know me from the other boys.

(Discussion off the record.)

H.M.JR: Go ahead. What is it you want?

MR. WHITE: Clayton called last night and said they received a cable from Harriman, in which Harriman strongly urged them not to make it over to the Russians, which the Treasury had recommended, which you had recommended, on no interest on Section C loan. He said that he agreed with the State Department in its views. You remember Dean Acheson stressed that the Russians will think we don't know what we are doing, changing our minds back and forth, and he thinks it would be a serious mistake in negotiations.

We have talked it over here, and either they didn't present the matter properly in our judgment--because the reason we had suggested the no interest was because the Russians had demanded a twenty percent reduction in the price of the goods which they would buy when the war ended. We didn't wish to accede to that, and they were standing their ground, so this reduction of interest is a counter-proposal, which they would probably find even more favorable than their twenty. So it's not a question of changing our minds; it is a question of meeting a demand to open a deadlock, and we still think that it should be presented in that manner, and it is desirable to the President.

However, they take the position either you think they make a mistake unless you go anyway they want, or you can proceed.

H.M.JR: You heard what Acheson said. I don't care, Harry. Let me just put it this way. I would like to this time--I don't want the State Department to be able to put the Treasury in the position that we are holding up something which they say is favorable to the Russians, see? I don't want to be put in that position, so if it isn't important, I would let State have their own way.

- 3 -

MR. WHITE: Why don't we tell them--

H.M.JR: You asked to see me on one thing. I don't want to have the State Department put me in the position, via the Russians, that I am holding up something the State Department had go through the Treasury.

MR. WHITE: We think they won't go through unless we make some concessions. They are being awfully tough.

H.M.JR: I am giving you the net result, if you would deal within that panel.

MR. WHITE: Yes. If you don't mind, I would like to tell them we don't agree with their position, but we don't want to recede from ours in order to let them go ahead with their negotiating it.

H.M.JR: We would recede?

MR. WHITE: Withdraw ours in order for them to go ahead with their negotiations, but not to stop them, not disapprove.

H.M.JR: I'll give you another minute.

MR. WHITE: The second thing is the British have insisted on seeing me before the Italians were seen by you, and they are urging a delay until their government can make up its mind, so I said I would submit that to you and I thought you would delay it for a week or two.

H.M.JR: What do you tell the Italians every time you put them off?

MR. WHITE: We just tell them the matter is still being discussed, but I think they probably get the general idea.

Another matter--

H.M.JR: No, no! I have a headache.

- 4 -

MR. WHITE: You are having lunch. You left Glasser out. Do you think you could include him in on this discussion on Germany?

H.M.JR: Sure, I have invited Bernstein.

MRS. KLOTZ: You did?

H.M.JR: I told him outside.

MRS. KLOTZ: You didn't tell me.

LUNCHEONTuesday, January 23, 1945

Dr. William Langer

Mr. Ed S. Mason

Emile Despres

Lieutenant (j.g.) Carl Schorske

Mr. Gerold T. Robinson

Mr. Moses Abramovitz

Lieutenant (j.g.) Edwin J. Putzell

Mr. Herbert E. Gaston

Dr. Harry D. White

Mr. Josiah DuBois

Mr. Ansel Luxford

Mr. Yost

*Col. Bernstein*  
*Harold Glasser**15*

January 23, 1945

MEMORANDUM FOR THE SECRETARY'S FILES:

Memorandum of conference held in the office of Speaker Rayburn at 2:30 p.m., January 22, 1945.

Present: Speaker Rayburn  
Secretary Morgenthau  
Assistant Secretary of State Acheson  
Majority Leader McCormack  
Congressman Spence, Chairman of the  
House Banking and Currency Committee  
Congressman Wolcott, Ranking Republican  
Member of the House Banking and  
Currency Committee  
Harry White  
Joseph O'Connell

The meeting was held at the suggestion of Congressman McCormack for the purpose of discussing Bretton Woods legislation. Mr. McCormack, as Majority Leader, pointed out the desirability of having this and other important legislation introduced and considered in Committee at the earliest possible moment so as to avoid, as much as possible, a situation that ordinarily develops of having a tremendous flood of important legislation reaching the Floor late in the session.

Speaker Rayburn was of the same mind, and wanted some information as to when the legislation would be ready for introduction.

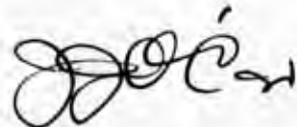
It was explained by Dean Acheson and Mr. O'Connell that we had been working on the legislation, with the understanding of the Chairmen of the Banking and Currency Committees of the Senate and House, that as soon as we have something we will make our suggestions available to Senator Wagner and Congressman Spence and will hold ourselves in readiness to go over it with them and with the Legislative Counsel in the House and Senate. It was indicated that we hope that

we will have reached that stage within the next few days, although there are a couple of points which have not yet been cleared up.

Mr. Wolcott made it clear that, while the Congress will be very glad to have our suggestions as to the form and content of the legislation, the bill will be a "Congressional" bill as distinguished from one prepared in the Executive branch. There was, of course, no disagreement on this point, and it was made clear that we were merely trying to get ourselves in a position to be as helpful to the Congress as is possible.

Reference was made by Mr. Spence to the fact that his Committee has Commodity Credit legislation to consider soon, probably in advance of anything else, but that this will not in all probability take very long. The Secretary mentioned the fact that the Federal Reserve Board had some legislation which would presumably go to the Banking and Currency Committee which they would probably be wanting to have introduced shortly, but since neither Mr. Spence nor Mr. Wolcott knew anything about it, the subject was not pursued further.

The meeting ended with agreement that the legislation should be introduced as soon as its form has been agreed upon, and that we would have our suggestions as to its form in the hands of the congressional leaders as soon as possible -- preferably within a week.

A handwritten signature in dark ink, appearing to be 'J. C. Spence', is located in the lower right quadrant of the page.

303 -  
January 23, 1945  
2:45 p.m.

Mrs.  
Klotz: Stettinius.  
Operator: Right.  
HMJr: Is he on the wire? Hello?

2:46 p.m.

HMJr: Hello.

Secretary  
Stettinius: Hello, my pal.

HMJr: How are you?

S: I'm good, sir. Just -- just cleaning up and phoning to say, "Good bye", and see if there's anything still pending between us, or anything you wanted me to do for you while I was away.

HMJr: Well, the principal thing, Ed, that's pending is this question of how we're going to get started on this legislative committee.

S: Yeah.

HMJr: Now ....

S: Did the President want that public or not? What do you think?

HMJr: I don't know. Remember, I asked you -- I don't -- I really don't know. It -- it isn't an Executive Order; it's just in the form of a memorandum.

S: Well, why isn't -- why isn't the normal, proper thing for you to -- for me to -- I've already told Acheson that it was signed.

HMJr: Yes.

S: And for you to call Acheson and Harold Smith in and have an organization meeting.

HMJr: Well, it's all right with me. You want Acheson -- you don't want ....

S: Grew.

HMJr: Grew.

S: I think -- yes, I think Grew ought to come and bring Acheson with him inasmuch as Acheson is following stuff for me on the Hill now.

HMJr: For the first meeting -- and then do you want Grew on after that or not?

S: No, I would think the first meeting, Grew, and then after that, Acheson. Wouldn't you think?

HMJr: Yeah.

S: I mean, the organization meeting....

HMJr: Right.

S: .... let Grew come.

HMJr: All right.

S: And then from there on, let him -- let him put it in Acheson's hands. To save time, you might ask Grew to bring Acheson with him.

HMJr: Well, I think I'll do that.

S: That's what I would do if I were doing it.

HMJr: We went up on the Hill together yesterday -- Acheson and I -- on Bretton Woods. We had a good meeting with the Speaker.

S: Good.

HMJr: You're off Thursday, aren't you?

S: Well, I might have to go sooner.

HMJr: Oh, you do?

S: Yeah, depending upon weather and there is something else that's come up for me to do on the way.

HMJr: I see.

- 3 -

S: So I'm actually cleaning up here tomorrow. I'm cleaning up here this evening.

HMJr: I see.

S: And we have to be ready for to move anything from tomorrow morning on.

HMJr: Well, the best of luck. There's nothing that I have in my mind other than wishing you success.

S: Well, sir, I thank you and I have -- somehow I have a great faith and confidence that the three men are going to solve many things this time in the proper way.

HMJr: I hope so for everybody's sake.

S: Right, Henry.

HMJr: Best of luck.

S: Thank you, sir.

HMJr: Bye.

House

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date

January 23, 1945

TO Secretary Morgenthau

FROM J. J. O'Connell, Jr.

For your information

Marriner Eccles and I met with Congressman Spence and Congressman Wolcott this morning at 11 o'clock. The purpose of the meeting was to discuss the legislation sponsored by the Federal Reserve Board reducing the reserve requirements behind Federal Reserve notes and deposits, and extending the authority (which will otherwise expire June 30, 1945) of the Federal Reserve banks to use Government obligations as collateral security for Federal Reserve notes. Both Congressmen were quite sympathetic to the purpose of the legislation, and indicated that they would hardly think it would either be very controversial or would involve extended hearings. Both Mr. Eccles and I indicated that you were very anxious that nothing cut across the "No. 1 priority" that all are agreed the Bretton Woods legislation should have. Neither Spence nor Wolcott seemed to feel that we need have any worry on that score, and both indicated that we can cross that bridge when and if we come to it.

Mr. Eccles left with both Congressmen a draft of bill which would reduce the reserve requirements from 40 and 35 percent to 25 percent, and would extend indefinitely the authority expiring June 30, 1945 with respect to the use of Government obligations as collateral behind Federal Reserve notes. He also left with them a short statement explaining the bill.

It is not proposed that the bill be introduced in the House until we have had an opportunity to talk to Senator Wagner and someone from the Republican side of the Senate Banking and Currency Committee, so as to be sure that identical bills will be introduced in both Houses. Senator Wagner will not be back until next week, but no time will be lost in the meantime, since the new House Committee on Banking and Currency has not yet been organized (since the new Republican committee assignments have not been confirmed by the House, and will probably not be before next week).

*Joseph J. O'Connell*

House 307

January 23, 1945

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Meeting of Joint Committee on Internal Revenue Taxation, Tuesday, January 23, 1945.

(For your information; no action required)

The Joint Committee met today from 10 a.m. to 12 Noon. The report "Outlook for Federal Revenues" was read to them. (This is Part 2 of Studies in Postwar Taxation, being prepared by the Treasury staff and the Joint Committee staff.) The report was well received.

The Committee again indicated a desire to have estimates of postwar expenditures after the end of the reconversion period. We expect to work on this problem and report progress in a week or two. Senators George and Taft especially were desirous of securing these figures. Senator Taft indicated that only by looking beyond the transition will expenditures appear low enough to justify tax reductions during the transition. (This is a clew as to how tax reduction during the transition will be justified while the budget continues seriously out of balance.)

The next meeting is scheduled for Tuesday, January 30, at 10 a.m., at which time Part 3 "General Economic Outlook in the Postwar Period" will be presented. A copy of this study is attached.

Present at today's meeting were Senators George, Barkley and Taft, and Representatives Doughton, Cooper, Dingell, Reed and Woodruff. Absentees included Representative Knutson and Senators Walsh, LaFollette, and Vandenberg.

Attachment



[CONFIDENTIAL]

*No part of this print to be released or published by any person unless specifically authorized by the Joint Committee on Internal Revenue Taxation.*

PRELIMINARY PRINT  
**STUDIES IN POST-WAR TAXATION**

---

Pursuant to resolution of the  
**JOINT COMMITTEE ON INTERNAL REVENUE  
TAXATION**

By the Technical Staffs of the  
**JOINT COMMITTEE ON INTERNAL REVENUE TAXATION  
AND TREASURY DEPARTMENT**

**PART 3**



**JANUARY 1945**

---

**UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1945**

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION FOR  
POST-WAR TAXATION

*House of Representatives*

ROBERT L. DOUGHTON, North Carolina,  
*Chairman*  
JERE COOPER, Tennessee  
JOHN D. DINGELL, Michigan  
HAROLD KNUTSON, Minnesota  
DANIEL A. REED, New York  
ROY O. WOODRUFF, Michigan

*United States Senate*

WALTER F. GEORGE, Georgia, *Vice Chairman*  
DAVID I. WALSH, Massachusetts  
ALBEN W. BARKLEY, Kentucky  
ROBERT M. LA FOLLETTE, Jr., Wisconsin  
ARTHUR H. VANDENBERG, Michigan  
ROBERT A. TAFT, Ohio

ii

TABLE OF CONTENTS

	Page
The present situation.....	1
The peacetime economic potential of the United States.....	2
Magnitude and speed of reconversion.....	4
Period of the Pacific war.....	5
After final victory.....	7
The problem of demand in the post-war economy.....	8

APPENDICES

1. National production and income, 1929-44.....	15
2. Composition of the labor force.....	16
3. A comparison of national income models.....	17

(iii)

### PART 3. GENERAL ECONOMIC OUTLOOK IN THE POST-WAR PERIOD

The analysis of prospective economic conditions is an important element in the formulation of tax policy. On the one hand economic conditions affect the operation of the fiscal system through their influence upon public expenditures and revenue yields. On the other hand, taxes, borrowing, and expenditures exert a direct influence upon economic conditions through their impact upon incentives and purchasing power. The appropriateness of any fiscal policy, therefore, can hardly be judged without reference to the kind of environment within which it is expected to operate. Part 3 of this report contains a general appraisal of the factors likely to determine the levels of employment, income,<sup>1</sup> and business activity during the next several years.

#### THE PRESENT SITUATION

Under the swell of war production, national income and income payments to individuals have risen to unparalleled levels. It is estimated that income payments will approximate \$155 billions in the calendar year 1944, as compared with pre-war figures of \$83 billions in 1929 or \$76 billions in 1940. Some of this increase in money income represents merely an increase in prices, but most of it is the result of increased production. Since 1940, income payments have doubled, whereas the rise in cost of living has been estimated at about 25 percent and in wholesale prices at about 30 percent by the Bureau of Labor Statistics.

Total civilian employment in this country has risen from 48 millions in July 1940 to 54 millions in July 1944.<sup>2</sup> In the same period, the armed forces have grown from approximately one-half million to 11½ millions. Thus, there are 6 million more people in civilian employment and 11 million more people in the armed forces, or a total increase of 17 millions in gainful employment. This increase is accounted for by a reduction in unemployment of 7½ millions and an increase in the labor force of 9½ millions, of which 2½ million persons represent normal increase and 7 millions are extra persons drawn in by the war. (Labor force figures are given in appendix 2.)

<sup>1</sup> Throughout this report, the concept of income which is emphasized is income payments to individuals, as defined by the Department of Commerce. This is the sum of all income received by individuals in this country in any given year and includes salaries and wages, dividends, interest, rents and royalties, net income of proprietors, and relief. The Department of Commerce also uses two other aggregate concepts: national income and gross national product. National income is the net value of all goods and services produced in the country in the given year. It differs from income payments in that it includes undistributed profits of corporations (after taxes) and social insurance contributions by employers and employees, and excludes payments for items such as relief, since they do not represent the production of goods and services. Gross national product is the gross value of all goods and services produced in the given year, and differs from national income in that it includes business allowances for reserves for depreciation, depletion, bad debts, etc., and business taxes. For historical data on the statistical relationships of these concepts, see appendix 1.

<sup>2</sup> July figures represent the seasonal peak. The yearly averages would be somewhat lower—for 1944, about 52 millions.

## THE PEACETIME ECONOMIC POTENTIAL OF THE UNITED STATES

In appraising the economic outlook for the next several years, it is useful to estimate the potential productive capacity of the American economy. The astonishingly high level of production achieved by the American economy during wartime is convincing evidence that the economic potential of the United States far surpasses anything previously attained. However, it may not reasonably be inferred that the wartime record, accomplished under conditions of abnormal demand, is a realistic measure of peacetime capacity. In peacetime, the American people will not want to work as intensely or for as long hours as they have during wartime. Moreover, the demand for high production will be much less impelling when the need for war goods largely disappears. Thus, the peacetime capacity of the economy must be thought of, not as the amount of product or income which could conceivably be produced, but rather as the amount which would be practicable with reasonably full employment of the expected labor force.

The wartime market differs from the market likely to prevail after the end of the war. During the war, businessmen have enjoyed an almost unlimited demand for their products. The Federal Government has taken all the war goods that could be produced, and nonwar industries have found a consumer demand—stimulated by war-swollen incomes—more than adequate to take up what they could produce with their limited facilities. At the end of the war, the situation will be different. Most manufacturers will be back to producing what they think they can sell to consumers scattered over hundreds and thousands of local markets. This will be a very significant change, resulting in increased uncertainty for businessmen. In addition to this, and partly because of it, there are several factors likely to cause potential income to be considerably lower in peacetime than in wartime:

1. *The labor force.*—During the war, about 7 million extra persons have been drawn into the labor force in addition to the normal increase of 2½ millions, thus raising the total labor force from about 57 millions (50½ million civilian; ½ million military) in July 1940 to 66½ millions (55 million civilian; 11½ million military) in July 1944. It is fairly certain that many of the extras (women, retired persons, and young people of school or college age) will withdraw from the labor force after the war. On the other hand, the reentry of returning veterans into private employment constitutes an increase in the civilian labor force. This latter factor will not, however, make possible a proportional increase in income payments, since the services of the soldiers and sailors are already included at an amount equal to their compensation and cash allowances. Their shift from military to civilian employment would add only any increase in their earnings over their wartime compensation.

2. *Working hours.*—Average weekly hours of work have increased significantly—in manufacturing, for example, from 38 in 1940 to 45 in 1944. It is assumed that overtime caused by the war will be eliminated shortly after final victory.

3. *Value of product per man-hour.*—During the war, the value of product per man-hour has risen considerably above the pre-war level. This has been due in part to the expansion and more intensive utilization of plant and equipment. There have also been other reasons for the rise in product per man-hour, however, among which are: (a) The drawing of many workers from agriculture and the service industries, in which value of product per man-hour is relatively low, into heavy war industries in which it is relatively high—although this has been offset in part by the transfer of many of the most efficient workers into the armed forces; (b) the transfer of many individuals remaining in the same industry into positions of higher grade than they previously held; and (c) the increase in the intensity of labor due to special wartime incentives. Since, with the end of the war, most of these changes will tend to be reversed, product per man-hour may decline below the wartime level, but it will still be above the pre-war level.

4. *Frictional unemployment.*—During the war, unemployment has been reduced to less than 1 million persons. This figure is low considering that there are always a number of persons in the process of changing jobs. In peacetime, because the waiting period between jobs will tend to be longer in a less active labor market, frictional unemployment might be allowed for, on the average, at 2 or 2½ millions.

Taking these factors into consideration, it is likely that the level of income payments reached during the war is considerably higher than will be practicable, even under full employment, in the transition period. Nevertheless, the potential income of the transition period greatly exceeds the potential income of pre-war years. This is due to three factors aside from price changes. First, the labor force has been steadily growing at the rate of about 650,000 per year, and in addition some of the extra persons drawn into the labor force during the war may be expected to remain. Second, due to the progress of technology and the increase in plant and equipment, product per man-hour has been increasing during the war years.

To be sure, there is some doubt as to the extent of technological progress during the war. It is agreed that amazing progress has occurred with respect to war production, but the degree to which this can be transferred to peacetime activity is uncertain. It is generally agreed that there will be some retardation in technical progress and in the application of known technical advances during the period of reconversion. Thereafter, however, extraordinarily rapid progress may be expected for a few years, so that the long-term trend in labor productivity will tend to be reestablished.

A number of different estimates of the amount of income required for full employment after the war have been made. (See appendix 3.) They range from \$120 billions to \$165 billions of national income.<sup>3</sup> However, the differences are more apparent than real; the estimates of post-war potential turn out to be similar when placed on a comparable basis. The lowest figure applies to the transition year 1946,

<sup>3</sup> In terms of income payments, some of these estimates would be changed slightly.

and is expressed in 1942 prices, whereas the highest figure applies to the year 1950, after reconversion is completed, and is stated in 1944 prices. When the several estimates are expressed in terms of the 1944 price level, and when estimates for equivalent years are compared, it is found that, for full employment, most of the estimates examined are in general agreement on a figure of \$140 billions for a transition year (1946 or 1947) or \$165 billions for a later post-war year (1950).<sup>4</sup>

Analysis of the nine estimates points to the reasonableness of \$140 billions of income payments (in 1944 prices) as a measure of a full-employment economy in 1947, with the amount increasing to perhaps \$165 billions by 1950.

It should be emphasized that these are not forecasts of the expected actual levels of income payments, but rather estimates of potentialities if full employment is reached. It is reasonable, however, to expect a higher actual level of income payments in the post-war period than in pre-war years, because of the growth in the labor force, technological progress, and higher prices. For example, if the percentage of unemployment existing in 1940 were transplanted to the post-war year of 1950, income payments would be in the neighborhood of \$145 billions, instead of \$76 billions as they actually were in 1940.<sup>5</sup>

#### MAGNITUDE AND SPEED OF RECONVERSION

Reconversion of the economy from a wartime to a peacetime footing requires a major reorganization of our productive facilities and manpower. The large share of our national productive effort now devoted to war goods must largely be shifted into the production of peacetime goods. Moreover, radical changes must be made in the relative proportions of various kinds of civilian goods.

The coming reorganization of our economy will be accomplished in part by transferring existing plant to peacetime uses. This by no means implies, however, that all firms producing for the war effort will be required to undertake major shifts in the nature of their activities. Many, such as food processors or producers of basic materials, will continue to produce commodities similar or identical to those provided in the war effort. Others, such as textile manufacturers, will find it necessary to make only minor changes in character of product. Only a relatively small proportion of firms—chiefly in the metals trades—will be required to make major shifts in type of product involving elaborate retooling and reorganization of facilities. In addition to the reconversion of existing plant, some firms will find it necessary to close down all or part of their plant, however, and others will add new plant. Moreover, new firms may be expected to be organized and to bring new facilities into the economy.

<sup>4</sup> Three of the nine full employment estimates examined are somewhat lower. In the study by the Brookings Institution the assumptions with respect to the price level and physical productivity are not apparent. The second estimate, that of the Twin Cities group, is in terms of a lower increase in productivity than is generally assumed. It is frankly presented as a minimum estimate of potential income. The third estimate, that of Sumner H. Slichter, makes no allowance for any increase in the productivity of members of the labor force released from the armed forces. If such an allowance is made, the estimate appears consistent with those in general agreement.

<sup>5</sup> Gross national product in 1940 was \$97 billions and would become \$175 billions in 1950, assuming the same percentage of unemployment as in 1940. This assumes an increase in prices of about 25 percent, a growth in the labor force of about 6 1/2 million persons, and an increase in the value of product per worker of about 2 1/2 percent a year.

The reconversion of the economy will require adjustments in the distribution of jobs. There will be a shift of workers from those industries where production is reduced to expanding industries. Moreover, in those industries having problems of physical reconversion, the number of jobs may decline temporarily while the task of preparing for peacetime production is in progress, though reconversion of plant may itself provide many jobs. On the whole, the process of reconversion will entail enormous shifts of workers, including members of the armed forces, from wartime to peacetime jobs. The basic problem of employment during reconversion is whether new jobs will appear rapidly enough to offset the disappearance of war jobs.

The task of physical reconversion of plants will be relatively easy in most lines of production. In industries where reconversion does take time, the physical or technical task of preparing for peacetime production can be completed for the most part within 1 year.

There may be other than purely physical obstacles to reconversion, however. Delay in contract settlement and in the removal of Government-owned facilities or inability to secure materials priorities would impede reconversion. Since reconversion may require capital outlays, lack of capital might delay the process. Although current data on the financial position of corporations suggest that large amounts of capital are available in the aggregate, nevertheless, there will be some firms whose capital position will be a barrier. Also the process of shifting workers from areas and industries of surplus labor to those of relatively scarce labor may require considerable time, especially if there is a disposition on the part of workers to remain where they now are. Price and wage movements of certain types may impede reconversion. Finally, the restoration of civilian production requires the reestablishment of sales organizations which have frequently been permitted to lapse during the war.

Despite the possible obstacles to reconversion, relatively rapid liquidation of war production and resumption of peacetime business activity seem likely. The orderliness of the process will tend to be enhanced by the fact that the cut-backs in war production are not likely to occur all at once but rather in two waves, the first at the end of the European war and the second after final victory.

#### PERIOD OF THE PACIFIC WAR

The situation during the interim period between the end of the war in Europe and final victory will differ from that in 1943 and 1944 because of two primary factors: (1) cut-backs in war production, and (2) possible reduction in the size of the armed forces. These factors will tend to cause a reduction in employment and income payments, but at the same time will free facilities, materials, and labor for peacetime production and thus lead to new job opportunities. The basic questions that need to be analyzed, then, are: How rapidly will the cut-backs occur? To what extent will a reduction in the armed forces be possible? How fast can reconversion take place? Are the underlying demand for peacetime goods and the underlying confidence of businessmen sufficient to induce rapid reconversion?

1. *Cut-backs.*—It may be assumed that munitions production will be cut in the aggregate by about 40 percent by the end of the year after victory in Europe—more in some lines, less in others.

The cut in munitions production does not, of course, involve a proportional reduction in the total output of the economy. Along with the cut-back in munitions production, however, will come a curtailment of other types of war production and of retail and service industries serving the plants in which employment is reduced.

2. *Employment and unemployment.*—It is estimated that there are about 27 million persons in the armed forces or engaged in munitions industries, transportation, and other industries directly involved in war activity. After victory in Europe, millions of these persons will be available for peacetime production. In addition, some members of the armed forces will return to civilian life. Altogether, it is reasonable to assume that a total of perhaps 7 million persons, now in war jobs or in the armed forces, will be released for peacetime production during the Pacific war. Perhaps 1 million of this number will be taken up through a general reduction in working hours in nonwar industries. Perhaps 1 million more will voluntarily withdraw from the labor force. Still another 1½ million of these persons may be added to frictional unemployment, which has been low during the war. Thus, on these assumptions, half of the 7 million potential job seekers will have been accounted for, leaving perhaps 3½ millions, exclusive of frictional unemployment, seeking civilian jobs. This measures the magnitude of the employment problem during the interim period. (For total labor force figures, see appendix 2.)

3. *Underlying demand for goods and services.*—An analysis of the interim period suggests that there will be no shortage of effective demand by consumers and business. There are considerable pent-up demands for all forms of durable goods and an immense accumulation of liquid savings available to fulfill these demands. On the basis of estimates in parts 1 and 2 of this report, a deficit of at least \$40 billions is indicated for the first year after victory in Europe. Under these circumstances incomes will be generated substantially in excess of available civilian goods and services.

4. *Business confidence.*—Since the preparation for peacetime production involves large-scale commitments for the future, the question arises as to whether the optimism of businessmen and investors is sufficient to induce them to forge ahead. There is evidence that businessmen are anxious to proceed in order to establish themselves through early entry into the civilian market. It is known, for example, that many of the larger business firms have well-developed post-war plans. However, some businessmen have stated that their willingness to make commitments for the future would be influenced by the removal of wartime controls and by the adjustment of taxes at an appropriate time.

In view of the large underlying demand and the incentives of businessmen to go forward with peacetime plans, it would appear that there is a good chance for jobs to be created for most of the 3½ million persons expected to need them. Thus, reasonably full employment may be achieved within a few months after the initial shock of large cut-backs. Such employment levels would be attained, however, with a smaller labor force (military and civilian), shorter working

hours, and larger frictional unemployment than during the period of the war on both fronts. Income payments may be expected to drop from \$155 billions in 1944 to about \$140 billions during the interim period.

The inflationary pressures existing in 1944 may be expected to continue—though with possible abatement in particular industries—throughout the interim period. Although the reduction in incomes and the increased supply of civilian goods will tend to lessen the inflation problem, aggregate demand will undoubtedly greatly exceed the amount of civilian goods that can be produced.

#### AFTER FINAL VICTORY

Although a considerable start toward reconversion will have been made before the end of the Pacific war, much of the task cannot be undertaken until after final victory. It may be expected to proceed then at an accelerated rate.

As in the period of the one-front Pacific war, the dominating factors influencing economic conditions will be cuts in war production, releases from the armed forces, shortened hours, voluntary withdrawals from the labor force, and the underlying demand for civilian goods and services. The influence of depressing factors will, however, be much stronger than in the interim period. Munitions production may be cut from about \$40 billions to about \$10 billions for the first year after the defeat of Japan and to perhaps \$4 billions for the second year; Federal expenditures may be cut from about \$85 billions to perhaps \$50 billions for the first year and to \$35 billions for the second year. Whereas only a relatively small number of men may be released from the armed forces during the interim period, discharges after final victory are likely to proceed rapidly. Hence, there is a threat of unemployment in the years immediately following the Japanese war, though deferred demand, voluntary withdrawals from the labor force, and reductions in hours will be mitigating factors.

Most of the civilian jobs in war industries remaining after the German defeat will disappear when military production approaches peacetime levels. In addition, millions of men will be demobilized from the armed forces during the years following final victory. Perhaps as many as 17 million persons must be transferred from wartime to peacetime activity. Of these, 2 to 3 million persons may voluntarily withdraw from the labor force, and about 2 millions may be taken up through shortened hours, leaving perhaps 12 or 13 millions who will be unemployed unless their present jobs can be converted to peacetime activity or new jobs can be found for them in expanded civilian production.

These jobs will be available only if the large volume of goods which can be produced with full employment can be marketed. Unless the expenditures of business, consumers, and government are great enough to take off the market all the goods that can be produced, full employment cannot be achieved.

It is certain that there will exist at this time a considerable backlog of potential demand on the part of both consumers and business concerns, and that this demand will be backed up by large purchasing power in the form of accumulated savings. But whether this, together with current demand, will be sufficient to create 12 or 13 million jobs

is by no means certain. The magnitude of the problem itself may introduce the element of fear and uncertainty into the calculations of consumers and businessmen and tend to deter them from bold spending. The next section of this report, therefore, is devoted to an analysis of the factors likely to influence aggregate demand after the end of the war in the Pacific.

The years under consideration may be divided into two periods. The first, referred to as the catching-up period, is the period during which deferred demands and wartime accumulations of purchasing power are expected to have potent influence in the market and the period during which production is temporarily retarded by the process of reconversion. The second, referred to as the ultimate post-war period, is a later period when these influences will have largely disappeared.

#### THE PROBLEM OF DEMAND IN THE POST-WAR ECONOMY

In the calendar year 1944, it is estimated that income payments to individuals amounted to \$155 billions and the gross national product to \$198 billions. This gross product is made up of four types of expenditures: (1) Federal Government expenditures for goods and services of \$91 billions; (2) State and local expenditures for goods and services of \$7 billions; (3) expenditures of individuals for consumers' goods and services of \$97 billions; and (4) expenditures of business for capital goods of \$3 billions. As any one of these categories of expenditure is reduced in the future, the gross national product will also be reduced unless one or more of the other categories is correspondingly increased. In other words, total production cannot be maintained in excess of total expenditures.

In 1947, if we are at peace, it is estimated that about \$140 billions of income payments or \$170-\$175 billions of gross national product (in 1944 prices) will be required for full employment.<sup>6</sup> In a later year, say 1950, about \$165 billions of income payments or \$195 billions of gross national product (in 1944 prices) will be required.<sup>7</sup> This estimate for 1950 represents a greater than normal increase over the 1947 estimate. It is based upon the assumption that the estimate for 1947 is somewhat lower than might be expected on the basis of past trends, because technological progress may be temporarily retarded during the transition period. The long-term trend of technological progress is assumed to be reestablished by 1950.

The proportions of the main expenditure categories will undergo enormous change in the post-war years. Federal Government expenditures will shrink, and expenditures of business, consumers, and State and local governments may be expected to grow. No one knows exactly what these proportions will be after the war, just as no one can be sure of the size of the gross national product in the post-war years. However, on the basis of past experience and reasonable expectations for the future, the possible magnitude of each category is indicated under various assumed conditions.

In the remainder of this section, an attempt is made to estimate the possible amount of each category of expenditures, assuming gross

<sup>6</sup> The relationship between gross national product and income payments is affected by a number of factors that vary from year to year, among them the tax system. For purposes of this analysis the existing Federal tax law is assumed, except for the repeal of the corporate excess profits tax.

<sup>7</sup> This assumes Federal taxes and expenditures of about \$25 billions.

national product at full employment, for a transition year (1947), and a later post-war year (1950). These estimates are then added together. They are then compared with the amounts of total gross national product needed for full employment after the war. It should be recognized that the estimate for the various expenditure categories are not intended to constitute a forecast, but rather to serve as a rough guide in appraising the outlook for employment in the transition and post-war years. Throughout the discussion, the estimates are based upon the assumption that final victory will occur about the middle of 1946. If major hostilities continue somewhat longer, the estimates would apply to later periods.

#### Expenditures of the Federal Government for goods and services.

Federal expenditures for goods and services (excluding expenditures for such items as veterans' pensions, aids to the unemployed, and tax refunds, which are not expenditures for goods and services) may be expected to decline from \$91 billions in 1944 to perhaps \$29 billions in 1947. In the ultimate post-war period, when military outlays have reached a peacetime level, total Federal expenditures might be \$20 to \$30 billions, of which expenditures for goods and services might be \$17 to \$25 billions.<sup>8</sup> These estimates, it should be emphasized, are based generally on the assumption of the continuation of existing law. Legislation which would curtail or expand Federal activity would correspondingly affect the amounts.

#### Expenditures of State and local governments for goods and services.

Expenditures of State and local governments for goods and services amounted to about \$8 billions per year before the war. They may reasonably be estimated at about \$10 billions per year after the war if allowance is made for changing price levels and other factors.

#### Consumers' expenditures.

Expenditures of consumers in the past have been closely related to the level of disposable income available to them. Disposable income is defined as total income payments less direct taxes<sup>9</sup> paid by individuals.

With income payments at the estimated capacity level of \$140 billions in 1947 and with direct individual taxes under present law estimated at about \$20 billions, disposable income in the hands of individuals would be about \$120 billions. On the basis of past relationships, consumers' expenditures with this level of disposable income

<sup>8</sup> Federal expenditures for goods and services as related to Federal expenditures, budgetary and corporations, are estimated as follows:

(In billions of dollars)

	Calendar years		
	1944	1947	1950
Federal expenditures for goods and services	91	29	17-25
Plus expenditures other than for goods and services	7	10	2-5
Equals Federal expenditures, budgetary and corporations	98	39	20-30

<sup>9</sup> Composed of individual income taxes and estate and gift taxes.

might be expected to be in the neighborhood of \$100 billions—say between \$97 billions and \$103 billions.<sup>10</sup>

During the catching-up period, consumers' expenditures will be influenced by the pent-up demands for consumers' goods and by the amount of savings accumulated during the war.<sup>11</sup> The greatest effect of these accumulations will probably be in providing individuals with a sense of security and thus persuading them to use a greater part of their current incomes than formerly for the purchase of goods and services. Of course, it should also be noted that if people feel pessimistic about the future, their accumulations will have much less influence in stimulating demand, since they will be more likely to hold them to provide for personal contingencies. On the whole, it is reasonable to assume that consumers' expenditures will be increased by about \$3 to \$5 billions a year during the catching-up period, giving a range of total consumers' expenditures of \$100-\$108 billions.

In a more distant post-war year, say 1950, the gross national product associated with full employment might be expected to rise to \$195 billions. This would increase the amount of income in the hands of individuals. Moreover, with a large reduction in government expenditures following the war, it may be assumed that tax rates will be lowered.<sup>12</sup> With income payments of \$165 billions, and with some reduction in taxes, disposable income would rise even more, perhaps to \$150 billions. Of this amount, consumers' expenditures of \$120 to \$130 billions might be expected.

It should be pointed out that the estimates of consumers' spending, both for the catching-up period and for the ultimate post-war period, are highly tentative. Consumers' spending depends on a number of factors for which predictions are difficult. Among these factors are:

1. *The distribution of income.*—The proportion of disposable income which is spent is affected in an important degree by the distribution of income by income size classes. The larger a person's income, the greater the share of it that is saved rather than spent on consumers' goods and services. The smaller the income, the greater the share that is used for living expenses. The estimates of consumers' expenditures given above are based on the assumption that there will be no important change in the distribution of income in comparison with the distributions of past years. If the concentration of income should for some reason change, then the proportion of disposable income spent by consumers would in all probability also change.

<sup>10</sup> In 1929 disposable income was about \$80 billions and consumers' spendings about \$71 billions, or about 89 percent. In 1940, disposable income was \$73 billions and spendings \$66 billions, or about 90 percent. In 1941, disposable income reached \$99 billions, and consumers' spendings amounted to \$75 billions, or about 74 percent. In 1944, disposable income was estimated at \$135 billions with consumers' spending of about \$97 billions, or 72 percent, but the spendings would obviously have been higher if wartime shortages had not existed.

<sup>11</sup> Individuals as a group have accumulated well over \$100 billions in new savings since the beginning of 1940, and the amount will undoubtedly be considerably larger by the end of the Japanese war. About \$25 to \$30 billions of these savings are in housing, insurance, and debt repayment, and would not be used to swell deferred demand, except to the extent that the improved credit position of consumers would increase their willingness to borrow for future purchases. The remainder is more liquid and is composed of over \$60 billions of Federal Government securities, over \$20 billions in checking accounts, another \$17 billions in currency, and about \$12 billions in savings accounts. As any of these accumulated funds are spent on new automobiles, houses, radios, and the many other items of durable goods, which have been scarce or unobtainable, and also on such things as vacations and clothing, they will inject extra demand into the market. The question of how much of these funds will be spent and how much people will tend to hold as permanent capital will depend to a large extent on whether the accumulations are concentrated in the lower income groups, where spending is more likely, or held by the more well-to-do where retention is more likely. Unfortunately, information on the distribution of wartime savings by income classes is scanty.

<sup>12</sup> Federal taxes and expenditures are assumed to be about \$25 billions.

2. *The disposition to consume at a high level of income.*—The proportion of disposable income spent depends in part upon the aggregate level of disposable income. It may be anticipated that when the aggregate income is generally high, the proportion spent for consumption will tend to be less than when aggregate income is low.

Also, a large increase in disposable income over customary levels is especially likely to be associated with a reduction in the proportion spent, because consumption habits do not adjust immediately. In the longer run, consumption may be expected to approach income more closely, but even after all adjustments, the proportion of disposable income spent at a high level of income is likely to be less than at a low level.

3. *Consumers' expectations.*—The amount of consumers' spending at a high level of disposable income depends in part upon the expectations of consumers regarding their security. If they expect a continuation of high incomes or if, for other reasons, they feel secure for the future, they will be disposed to spend more out of a given income than otherwise.

#### *Business expenditures for capital goods.*

Business expenditures for capital goods are here defined to include expenditures for producers' durable equipment, nonresidential construction, residential construction, net increases in inventories, and net exports. It is useful to examine individually the possible amounts of these expenditure categories using past experience as a guide.

1. *Producers' durable equipment.*—Investment in producers' durable equipment reached a peak of \$9 billions in 1941; the previous high in 1929 was only \$7 billions. However, with higher levels of income, we may expect it to be higher than ever before. Moreover, in the transition years a backlog of deferred demand for equipment may temporarily swell the figure, although this might be partially offset by the sale of surplus equipment used in war production. During the catching-up period, as much as \$8 to \$11 billions a year might be expected, and in the long run a reasonable range might be \$7 to \$10 billions.

2. *Nonresidential construction.*—Private nonresidential construction exceeded \$4 billions per year only during the period from 1926 to 1929. The peak since then was in 1941, when it was only \$2.5 billions. No more than moderate expansion may be expected in the post-war period. In some industries, plant capacity has been expanded during the war to a point far beyond what is necessary for peacetime even under conditions of full employment. Moreover, some Government war plants are convertible to civilian use. In the long run, \$2 to \$5 billions would be optimistic as an annual estimate. In the catching-up period \$1 to \$4 billions is as much as could reasonably be expected.

3. *Residential construction.*—Private residential construction during the peak period 1924-27 averaged \$4.5 billions a year. During the thirties, it never exceeded \$2.5 billions a year, although it did reach \$2.9 billions in 1941. It is generally believed that there is a large backlog of demand for residential construction and that extensive private housing development is in sight. In the immediate post-war years construction of new housing might be

expected to amount to \$4 to \$7 billions a year, but it is doubtful if it can be maintained at more than \$3 to \$6 billions in the long run.

4. *Net increases in inventories.*—Increases in business inventories provided a considerable stimulus to economic activity after World War I. In the 2 years 1919 and 1920 combined, the volume of business inventories increased by over \$8 billions. After the present war, business inventories of civilian goods will certainly require considerable replenishment, but it is difficult to estimate the amount involved. Inventories of civilian goods have not declined during the war as much as had been anticipated. Many war inventories will be convertible to peacetime use. Stock piles of strategic materials may be drawn upon and surplus commodities will be useful in replacing depleted inventories. It should be remembered that once replacement has been completed, inventory accumulations are likely to be of negligible importance. In the catching-up period, they might be as much as \$2 to \$4 billions yearly, but in the long run it would be optimistic to assume that annual additions to inventory will be more than \$1 billion.

5. *Net exports.*—Since 1921, annual net exports have exceeded \$1 billion in only 4 years. After the war, net exports may be expected to be larger than in pre-war years, rising to perhaps \$5 billions a year in the early post-war period. Later, they may be expected to decline to a level of about \$2 billions.

The estimates of various types of business expenditures may be summarized as follows:

(In billions of dollars)

Item	Catching-up period		Ultimate post-war year	
	Low	High	Low	High
Producers' durable equipment . . .	\$8	\$11	\$7	\$10
Non-residential construction . . .	1	4	2	5
Residential construction . . .	4	7	3	6
Net increases in inventories . . .	2	4	0	1
Net exports . . .	3	5	2	2
Total . . .	18	31	14	24

These amounts are high in comparison with pre-war experience and may be regarded as optimistic. The highest pre-war amount was \$19 billions in 1941, and since 1920 it has exceeded \$15 billions only in 1923, 1925-29 and 1941.

#### Summary.

It has been indicated that in the catching-up period (e. g. 1947), income payments of \$140 billions and a gross national product of \$170-\$175 billions will be needed to maintain full employment, and that in an ultimate post-war year (1950) income payments of \$165 billions and a gross national product of about \$195 billions will be required. We may now summarize (in the accompanying table) the amounts of the various categories of expenditures, estimated for each of these periods, to determine whether they are sufficient to give the full employment levels of gross national product. It should be emphasized that the

figures are rough, based in part upon past relationships and in part upon special factors which affect these relationships. For items for which ranges have been indicated, the midpoint of the range appears in the table.

(In billions of dollars)

	Catching-up year (1947)	Ultimate post-war year (1950)
Federal expenditures for goods and services . . . . .	20	21
State and local government expenditures for goods and services . . . . .	10	10
Business expenditures for capital goods . . . . .	25	19
Consumers' expenditures . . . . .	104	125
Total . . . . .	168	175

According to these figures the estimated annual gross expenditures in the catching-up period are not likely to fall far short of the amount of gross national product required for full employment. The figures suggest that neither heavy unemployment nor extreme inflation is likely to develop during this period if, as has been assumed, the transition problems are successfully handled during these critical years. The major problem in transition is not likely to be a failure of demand but rather one of readjusting to a peacetime basis the economic life of a nation and a world distorted by war.

It should be stressed, however, that the favorable employment situation indicated for the transition period will only be achieved if, as has been optimistically assumed, the readjustment to peacetime production should encounter no major obstacle from the operation of domestic or foreign economic policies. If frictions of serious dimensions should develop in any one of a number of important economic areas, reasonably full employment would probably not be achieved despite the otherwise favorable factors that will operate in the transition years.

In the later post-war period, when the fulfillment of most deferred demands has been completed and Federal expenditures have reached peacetime levels, gross expenditures are estimated at about \$175 billions. This falls short, by about \$20 billions, of the \$195 billions of gross national product required for full employment. However, in this estimate, the expenditures of business and consumers were determined on the assumption that gross national product would be about \$195 billions. Thus, if the gross national product were actually to be as low as \$175 billions, it is clear that business expenditures and especially consumers' expenditures would be much lower than indicated; and with these lower expenditures, the gross national product in turn would be less than \$175 billions—perhaps less than \$150 billions. Since a gross national product of about \$195 billions would be required for full employment in 1950, a gross national product of \$150 billions (in 1944 prices) might mean unemployment (including frictional) of considerably more than 10 million persons.

From the foregoing it is apparent that a high level of national income and employment can be maintained in the post-war period only

if consumers, the Government, and businessmen together spend or invest currently the entire amount of income generated by production at full employment. In the past, we have frequently failed to attain our full potentialities in production because of a tendency on the part of consumers and businessmen alike to withhold from the markets some of the purchasing power that is generated by current production. To overcome this tendency in the future is one of America's greatest problems.

The level of national income affects the yield of the tax system, and the tax system in turn is a factor determining the level of national income. For this reason it should be a major objective of tax policy to arrange the tax system so that it will have the least possible deterrent effect upon business activity and so that it will give the greatest encouragement to employment. Full employment cannot be achieved by tax policies alone, however; tax policies must be made to work in harmony with other governmental policies and with all other phases of governmental action.

## APPENDIXES

## APPENDIX I

## NATIONAL PRODUCTION AND INCOME, 1929-44

TABLE 1.—Gross national product, national income, and income payments, 1929-44

[In billions of dollars]

Year	Gross national product	Business tax liabilities	Business reserves <sup>1</sup>	Inventory revaluation adjustment, etc. <sup>2</sup>	National income (column 1 minus columns 2, 3, 4)	Transfer payments <sup>3</sup>	Corporate undistributed profits	Contributions to social insurance funds	Income payments (column 5 plus column 6 minus column 7 minus column 8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1929.....	99.4	7.0	8.6	0.5	83.3	0.7	1.2	0.2	82.6
1930.....	85.2	6.8	8.8	2.7	68.9	7	-3.9	.2	73.3
1931.....	72.1	6.2	8.6	2.6	54.5	1.9	-0.8	.2	62.0
1932.....	55.4	6.1	8.1	1.2	40.0	1.3	-0.4	.2	47.4
1933.....	54.8	6.6	7.8	-1.9	42.3	1.4	-2.8	.2	46.3
1934.....	63.8	7.5	7.7	-9	49.5	1.5	-2.1	.2	52.9
1935.....	70.8	8.1	7.6	-6	55.7	1.8	-1.3	.2	58.6
1936.....	81.7	8.8	8.3	-3	64.9	2.9	-9	.6	68.1
1937.....	87.7	9.0	7.9	-7	71.8	1.7	-8	1.7	72.3
1938.....	80.6	8.3	7.2	-9	64.2	2.4	-1.5	1.9	66.2
1939.....	88.6	10.4	7.7	-4	70.8	2.4	.4	2.0	70.8
1940.....	97.1	12.4	8.0	-8	77.6	2.6	1.8	2.1	76.2
1941.....	119.6	18.5	9.1	-4.9	95.9	2.5	4.0	2.6	92.7
1942.....	152.1	23.6	9.6	-2.7	121.6	2.7	4.4	3.2	115.6
1943.....	186.6	27.7	9.8	1.0	147.9	3.2	4.9	3.8	142.3
1944 <sup>4</sup> .....	196.4	(7)	(7)	(4)	158.0	(7)	(7)	(7)	154.6

<sup>1</sup> Includes capital outlay charged to current expense.

<sup>2</sup> Includes adjustment for statistical discrepancies.

<sup>3</sup> Transfer payments include relief payments and benefits from social insurance funds.

<sup>4</sup> Seasonally adjusted annual rate for first half.

<sup>5</sup> Not available.

NOTE.—Figures are rounded and may not add to totals.

Source: Survey of Current Business, May 1942, 1942 Supplement, April 1944 and September 1944.

TABLE 2.—Disposition of income payments, 1929-44

[In billions of dollars]

Year	Income payments	Personal taxes	Disposable income (column 1 minus column 2)	Consumers' expenditures	Net savings of individuals, (column 3 minus column 4)
	(1)	(2)	(3)	(4)	(5)
1929.....	82.6	3.0	79.6	70.8	8.8
1930.....	73.3	2.6	70.7	64.9	5.8
1931.....	62.0	2.4	59.6	54.2	5.4
1932.....	47.4	1.9	45.6	43.0	2.6
1933.....	46.3	1.8	44.5	42.4	2.1
1934.....	52.9	1.9	51.0	47.7	3.3
1935.....	58.6	2.3	56.3	52.2	4.1
1936.....	68.1	2.9	65.2	59.1	6.1
1937.....	72.3	3.1	69.2	62.5	6.7
1938.....	66.2	3.3	62.9	56.0	4.4
1939.....	70.8	3.1	67.7	61.7	6.0
1940.....	76.2	3.3	72.9	65.7	7.3
1941.....	92.7	4.0	88.7	74.6	14.2
1942.....	115.6	6.6	110.0	82.0	28.0
1943.....	142.3	18.3	124.0	91.0	33.0
1944 <sup>4</sup> .....	154.6	23.4	131.2	95.5	35.6

<sup>1</sup> Seasonally adjusted annual rate for first half.

NOTE.—Figures are rounded and may not add to totals.

Source: Survey of Current Business, May 1942, 1942 Supplement, April 1944 and September 1944.

## APPENDIX 2

## COMPOSITION OF LABOR FORCE

The total labor force increased 9.7 millions from July 1940 through July 1944, as shown in the table below.

TABLE 3.—Composition of the labor force, July 1940–July 1944<sup>1</sup>  
(In millions of persons)

	July 1940	July 1944	Change
Civilian:			
Employed:			
Agricultural.....	10.6	9.7	-0.9
Non-agricultural.....	37.4	44.3	6.9
Total employed.....	48.0	54.0	6.0
Unemployed.....	8.4	1.0	-7.4
Total civilian.....	56.4	55.0	-1.4
Armed forces.....	.5	11.6	11.1
Total labor force.....	56.9	66.6	9.7

<sup>1</sup> July figures represent the seasonal peak and are higher than average figures for the year.

Source: War Manpower Commission and Department of Labor, Bureau of Labor Statistics.

Munitions industries accounted for 5.5 millions of the 6.9 millions increase in nonagricultural employment, and significant increases were also shown in Federal war agencies and transportation. Construction employment showed a substantial decline. Women workers accounted for all but 0.6 million of the net increase.

Average hours worked per week by manufacturing wage earners increased from 38 in 1940 to 45 in 1944. The averages for durable goods industries were, respectively, 39 and 46; and for nondurable goods industries, 37 and 43.

The normal growth in the labor force during the present decade may be estimated at approximately 650,000 per year.<sup>1</sup> This would mean that about 7 millions of the 9.7 millions increase in total labor force since 1940 is composed of "war extras"—people such as housewives who would not ordinarily have entered the labor force, young people who would have entered later, or persons who would have retired earlier. Most of these will probably leave the labor force as soon as the war emergency is over, although this will of course depend upon the outlook for other wage earners in the family. However, there will be some who will want to remain in any case.

After victory in Europe, the total labor force may be expected to decline for a time, as many of the "war extras" leave, and new entrants into the labor force do not make up the difference. The civilian labor force, however, may be expected to increase as the armed forces decline. Table 4 shows the estimated total labor force for the first three years after victory in Europe, with a classification into two components: those who would normally be in the labor force as indicated by the long-term trend, and the "war extras." The ranges are based upon the assumption that the war in Europe will end early in 1945; if it continues longer, the figures would be slightly larger. The estimates presented are yearly averages; no allowance has been made for seasonal changes. They are therefore not directly comparable with the data given in table 3 for past years.

TABLE 4.—Average labor force, first 3 years after victory in Europe  
(In millions of persons)

	1944	Year after victory in Europe		
		First	Second	Third
Normal labor force.....	57	57½-58	58½-59	59-59½
"War extras".....	7	5½-6	5½-4	1-2½
Total labor force.....	64	63-64	63-63	60-62

<sup>1</sup> S. Morris Livingston, in "Post-War Manpower and Its Capacity to Produce" (Survey of Current Business, April 1942) estimated an average annual increase of 646,000 from 1940-46.

## APPENDIX 3

## A COMPARISON OF NATIONAL INCOME MODELS

During recent months, a number of estimates of the size of the post-war economy have been published. Some of these are actual forecasts for specific years, while others are based upon hypothetical sets of assumptions. They are intended to apply to years ranging from 1946 to 1950; and they range in their estimates of potential net national income from about \$120 billions up to about \$165 billions.<sup>1</sup>

For convenience of reference in this appendix, the term "economic model" is used for a set of consistent assumptions and resulting figures on (1) the size of the labor force, and of its distribution as between military service, seasonal employment, other employment, and unemployment; (2) wages, hours, and efficiency; (3) consumer expenditures, by types of goods and services, and net individual savings; (4) corporate taxes, personal taxes, business savings, depreciation and other reserves; (5) business capital expenditures; (6) governmental expenditures; and (7) price and wage relations.

The models which have been published so far may be divided into two groups, models for the transition period (1946 or 1947), and models for the post-transition period (1950). The post-transition models center around a national income of about \$165 billions, in 1944 prices. In the transition models, there is less agreement; some of the models agree on \$140 billions of national income in 1944 prices, and others are as low as \$120 billions.

## MODELS OF POST-TRANSITION PERIOD

All of the models in this group pertain to 1950, and they estimate national income at approximately \$165 billions. The group includes the Hagen-Kirkpatrick estimate, the Mosak estimate, and the Sonne estimate.

*Hagen-Kirkpatrick model.*<sup>2</sup>

This model consists of an estimate of the labor force, and figures for potential gross national product and national income. Gross national product is estimated at \$195 billions, and national income at \$165 billions, in 1944 prices. No attempt is made to determine whether there will be sufficient demand for the products of capacity output to maintain such a level.

The model is based on a labor force estimate of 60 millions in 1950, as compared with other estimates ranging up to 62.8 millions in that year. This estimate is derived by projecting normal growth of the total population, and applying past percentages of labor force to total population. It is assumed that the armed forces will absorb 2 millions of these, and 2 millions will be frictionally unemployed, leaving an employed civilian labor force of 56 millions.

<sup>1</sup> In terms of gross national product these estimates range from \$146 billions to about \$194 billions.

<sup>2</sup> E. E. Hagen and N. B. Kirkpatrick, "The National Output at Full Employment in 1950," *American Economic Review*, September 1944.

TABLE 4.—Comparison of national income models  
(Money figures in billions of dollars)

	Post-transition models			Transition models					
	Hagen-Kirkpatrick	Mosak <sup>1</sup>	Sonne	Markets <sup>2</sup> After the war	Goldenweiser-Hagen	Fortune	Slichter	Brookings Institution	Twin Cities plan
Approximate national income, 1944 prices	165.0	152.2	158.0	141.0	143.0	139.0	131.0	124.0	126.0
Year to which model applies	1930	1950	1950	1946	1947	1946	(?)	1947	1946
In terms of price level of.....	1944	1944	1941	1942	1943	1943	1943	1943	1943
Labor force:									
Total.....	80.0	62.8	51.5	58.2	60.0	59.4	.....	86.0	.....
Military.....	2.0	2.1	2.0	2.0	2.0	2.0	.....	2.0	.....
Unemployed.....	2.0	1.5	1.5	2.0	1.7	1.5	.....	2.0	.....
Civilian employed.....	86.0	58.2	47.5	54.2	58.0	57.4	.....	84.0	(195)
Productivity:									
Amount increased.....	(?)	None	(?)	15-20%	16%	13%	None	None	2%
Over year.....	1944	1944	1944	1945	1945	1945	1944	1943	1943
Hours.....	40-hr. week	40-hr. week	40-hr. week	1945	1945	1945	7-7½ below 1944	1943	1943
Gross national product, assumed prices level	185.0	200.0	170.1	165.0	170.0	164.0	136.0	146.0	.....
Less business tax liabilities.....	.....	27.8	19.0	21.0	17.0	17.0	.....	18.0	.....
Less business reserves.....	.....	10.3	10.0	10.0	11.0	10.0	.....	8.0	.....
National income.....	165.0	162.2	141.1	134.0	142.0	134.0	.....	120.0	130.0
Plus transfer payments.....	.....	3.0	2.4	2.0	2.0	2.0	.....	6.9	.....
Less corporate undistributed profits.....	.....	5.3	2.0	3.0	4.0	4.0	.....	4.9	.....
Less contributions to social insurance funds.....	.....	2.8	5.0	3.0	4.0	.....	.....	2.0	.....
Income payments.....	156.0	152.5	131.0	130.0	134.0	130.0	.....	123.0	.....
Less personal taxes.....	.....	13.0	14.0	7.0	11.0	9.0	.....	12.0	.....
Disposable income.....	143.0	139.5	117.0	123.0	123.0	121.0	.....	108.0	.....
Consumers' expenditures.....	123.7	112.0	110.0	113.0	108.0	106.0	.....	.....	.....
Savings of individuals.....	19.6	13.1	14.0	14.0	17.0	.....	.....	.....	.....
Gross private investment.....	.....	28.8	27.0	27.0	27.0	.....	.....	.....	.....
Federal Government expenditures for goods and services.....	.....	75.2	19.0	28.0	30.0	22.0	.....	.....	.....
State and local government expenditures for goods and services.....	.....	9.0	.....	10.0	8.0	.....	.....	.....	.....
Corporate net income before taxes.....	.....	37.3	.....	.....	14.0	.....	.....	13.0	.....
Dividend payments.....	.....	11.1	.....	.....	5.0	.....	.....	4.1	.....
Wages and salaries, plus supplements.....	.....	90.2	.....	.....	94.0	.....	.....	82.7	.....
Entrepreneurial net income.....	.....	26.7	.....	.....	24.0	.....	.....	12.1	.....
Agricultural.....	.....	16.4	.....	.....	12.0	.....	.....	9.8	.....
Nonagricultural.....	.....	10.3	.....	.....	12.0	.....	.....	2.3	.....
Rents and interest.....	.....	10.3	.....	.....	11.0	.....	.....	12.3	.....

<sup>1</sup> Model shown here is that using 1944 corporate income taxes, but not the excess-profits tax, and 1941 personal taxes.

<sup>2</sup> Data shown here are from table IV wherever possible. References in the text may be slightly different.

<sup>3</sup> "Shortly after the war."

<sup>4</sup> Basic industrial prices at 1943 levels; agriculture prices at parity; hourly wage rates at 1943 levels.

<sup>5</sup> Includes military.

<sup>6</sup> Military—\$1,224 per person (same as 1939); civilian public employees—\$1,435 per person; agriculture—10 percent per capita of population increase over 1939; group A industries (primarily manufacturing)—increase 46 percent over 1939; group B industries (all other)—\$2,400 per worker (about 15 percent increase over 1939).

<sup>7</sup> Military—equals pay and allowances; agriculture—increased 10 percent per capita of population over 1939; all other divided into 2 groups (as in note 6) and projected on the basis of 1939-40 correlations.

<sup>8</sup> Includes growth in labor force as well as growth in productivity.

<sup>9</sup> Approximately.

<sup>10</sup> Includes \$6 billions net exports.

Source: E. E. Hagen and N. B. Kirkpatrick, "The National Output at Full Employment in 1950," *American Economic Review*, September 1944; Jacob L. Mosak, *Forecasting Post-war Demand*; H. C. Sonne, *A Preview of National Budgets for Full Employment—Model T*, address delivered June 8, 1944; S. M. Livingston, *Markets After the War*, Commerce Department; E. A. Goldenweiser and Everett E. Hagen, "Jobs After the War," *Federal Reserve Bulletin*, May 1944; "Transition to Peace; Business in A. D. 1940," *Fortune*, January 1944; Sumner H. Slichter, "Jobs After the War," *Aldine*, October 1944; Joseph Mayer, *Post-war National Income: Its Probable Magnitude*, published by the Brookings Institution; *Post-war Taxes*, published by the Twin Cities Research Bureau, Inc.

For the purpose of estimating gross national product, this labor force is divided into five components: military, civilian public, agricultural, and two groups of private industry—group A in which output is measurable in terms of productivity per man-hour (particularly manufacturing), and group B, whose output is measurable only in terms of output per man (service, trade, and finance). The product of the armed forces is assumed to be \$1,224 per person, the same as the 1939 level. The product of civilian public employees is estimated at \$1,435 per person. The product of agriculture is assumed to have increased by 10 percent per capita of population over 1939. Group A industries, on the basis of a projection of past trends, are assumed to increase by 46 percent over 1939. Group B industries on the same basis are assumed to increase to \$2,400 per worker. The estimate of productivity increase in group A industries is at the rate of about 3.25 percent a year; this, however, is offset to some extent in other parts of the economy by the assumption of no increase in productivity in the armed forces, and smaller than usual increases in the other sectors.

#### Mosak<sup>1</sup>

This model contains an estimate of the labor force and considerations affecting its productivity, and a discussion of the demand for the product of the labor force. A number of alternative demand situations are presented, depending upon assumptions with respect to taxes; all of them depend upon large Federal expenditures to achieve balance. The estimate shown in the accompanying table is the middle one. The capacity gross national product is estimated at \$200 billions in 1950, in 1944 prices, with a labor force of 62.8 millions. Of the labor force, 2.5 millions are assumed to be in the armed forces, and 1.5 million unemployed, leaving a civilian employed labor force of about 58.8 millions. This is the highest estimate currently prevailing.

Productivity, however, is assumed to remain at 1944 levels. This implies that all of the wartime increases in productivity can be transferred to peacetime production, but that no further increases will have been made by this time.

#### Sonne<sup>2</sup>

This model is one of a series developed by the National Planning Association. All of these models are based upon a labor force of 61.5 millions with 2.5 millions in the armed forces and 1.5 million unemployed, leaving 57.5 million civilian employed. All of them estimate capacity at \$170 billions in 1941 prices, or about \$190 billions in 1943 prices. The models differ in their estimates of demand for this capacity output; the version presented here—not intended in any sense as a forecast of actual demand conditions—relies upon net exports of \$6 billions per year to maintain total demands.

#### MODELS OF TRANSITION PERIOD

The models of the transition period fall into two groups, the first of which estimates national income at about \$140 billions in 1944 prices, and the second of which estimates national income at a lower level. In the first group are *Markets After the War*, the Goldenweiser-Hagen estimate, and the *Fortune* estimate; all of these are consistent with the estimate of \$165 billions of national income for 1950. The second group includes the Slichter report, the Brookings study, and the Twin Cities plan.

#### Markets After the War<sup>3</sup>

This report applies to 1946, and assumes a labor force of 59.5 millions, with 2 millions unemployed and 2 millions in the armed forces, leaving 55.5 millions in civilian employment. (Allowing an increase of about 850,000 a year, this would be equivalent to a labor force of about 62 millions in 1950.) An increase in labor force and productivity of 15 to 20 percent over 1940 is assumed. This is a rate of about 2½ to 3¼ percent a year.

#### Goldenweiser-Hagen<sup>4</sup>

This estimate represents the year V+2, which is assumed to be 1947. It assumes a labor force of 60 millions, and an increase in productivity of 10 percent over 1940. It represents a situation before complete transition to a peacetime economy, and is consistent with the estimates of \$165 billions of income payments for 1950.

<sup>1</sup> Jacob Mosak, *Forecasting Post-war Demand*, Office of Price Administration mimeographed report.

<sup>2</sup> H. C. Sonne, *National Budgets for Full Employment*, "Model T," an address delivered before the working committee of the National Planning Association, June 8, 1944.

<sup>3</sup> S. M. Livingston, *Markets After the War*, published in several forms by the Department of Commerce.

<sup>4</sup> E. A. Goldenweiser and E. E. Hagen, "Jobs After the War," *Federal Reserve Bulletin*, May 1944.

*Fortune.*<sup>1</sup>

This estimate also applies to a transition year, 1946. The labor force is estimated at 59.4 millions, with, however, 3.5 millions in the armed forces and 4.0 millions unemployed. The increase in productivity is assumed to be 13 percent over 1940.

*Slichter.*<sup>2</sup>

The basic estimate of this study applies to a year "shortly after the war." Gross national product is estimated at \$156 billions in 1943 prices, and income payments at \$130 billions. This assumes an employed labor force of 57 millions (including military), efficiency the same as during the war, and hours of work 7.5 percent lower than at present. The reason for the difference between this estimate and others covering the transition period apparently lies in the fact that no allowance has been made for any shift in the distribution of the labor force as between civilian and military.

Estimates of potential gross national product are also presented for 1950 and 1960 of \$187 billions and \$229 billions in 1943 prices, respectively.

*Brookings.*<sup>3</sup>

The estimate of the Brookings Institution assumes a national income of \$123 billions in 1947. The labor force is assumed to number 59.0 millions with 2.0 millions in the armed forces and 3.0 millions unemployed. While the labor force estimate is slightly lower than most of the others, and the assumed unemployment is slightly higher, these are not the principal reasons for the difference between this estimate and those assuming \$140 billions of national income. It is assumed here that the average productivity of the labor force remains at 1943 levels, except for a slight difference due to a change in the distribution of the labor force among industries. It is assumed that prices remain at 1943 levels, except that agricultural prices drop to parity. There is an implied assumption that total output will drop about 10 percent because of the elimination of overtime and the downgrading of labor. These three assumptions taken together would seem to be inconsistent with the estimate of \$123 billions of national income and the estimate of 54 millions of civilians employed for the following reasons:

According to the Brookings estimates, \$15 billions of business taxes and \$8 billions of business reserves should be added to their estimate of \$123 billions of national income to give a gross national product of \$146 billions. On the other hand, in 1943 total output was \$187 billions. A decrease of 10 percent would make this \$168 billions, not \$146 billions.

In order to obtain a national income of \$123 billions with a labor force of 54 millions of civilian employed, it must be assumed either that the price level falls so that the real income is greater than would be implied by the figure of \$123 billions, or that productivity falls, making the decline in output greater than 10 percent. A fall in the price level is possible and the estimate would then be consistent with the estimates of \$140 billions of national income in 1944 prices. Adjustment by means of decreased productivity, however, would make it necessary for productivity to drop to 1940 levels. This could probably happen only as a result of extreme temporary reconversion difficulties.

*Twin Cities plan.*<sup>4</sup>

This plan is based upon a projection of total population, rather than labor force. Total population in 1946 is estimated at 136 millions, a figure which is somewhat lower than the Census Bureau estimates of about 140 millions. Unemployment is assumed to be about 5 percent—with a labor force of 60 millions this would be 3 millions—and productivity is assumed to increase only about 2 percent over 1942. The estimate is in terms of 1942 prices.

On this basis, the national income for 1946 is estimated at \$120 billions. In terms of 1944 prices, this would be about \$130 billions. The estimate is presented as a minimum, so it is basically not inconsistent with the rest of the models.

<sup>1</sup> "Transition to Peace: Business in A. D. 1940," *Fortune*, January 1944.

<sup>2</sup> Sumner H. Slichter, "Jobs After the War," *Atlantic*, October 1944.

<sup>3</sup> Joseph Mayer, *Post-war National Income, Its Probable Magnitude*, published by the Brookings Institution.

<sup>4</sup> *Post-war Taxes*, published by The Twin Cities Research Bureau, Inc.

X

*Copy for Mrs. Klotz*

January 23, 1945

MEMORANDUM FOR THE FILES

Secretary Morgenthau has agreed to make a four minute radio speech on the subject of Bretton Woods on Saturday, January 27th, at 6:45 p.m.

His speech will be part of a fifteen minute Bretton Woods program on the Blue Network sponsored by the CIO. In general, there will be eleven minutes of dramatization or interviews and the Secretary's four minute talk at the end.

Details respecting the Secretary's participation in this program will be arranged by my office.

*AK*

- Original to Secretary Morgenthau
- Cc: Mrs. Morgenthau
- Mr. Gaston
- Mr. White
- Mrs. Klotz
- Mr. Fitzgerald
- Mr. E. M. Bernstein

## ASSISTANT SECRETARY OF THE TREASURY

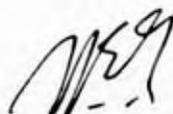
January 22, 1945.

Memorandum

TO: Secretary Morgenthau  
FROM: Mr. Gaston

The C.I.O. has just put up to E. M. Bernstein the idea of having you take part in a radio program next Saturday (Saturday of this week) at 6:45 P.M. They have 15 minutes weekly and they have announced that the program for this week will be on Bretton Woods. The program will consist of 11 minutes of colloquy or interview and a 4-minute talk which they ask you to make. This you can do from Washington, although the program originates in New York. It is a 135-station hookup on the Blue. This is very short notice, but I have no doubt the script could be prepared in time. They have a man at work on it in New York.

If you agree to go on they will wire special notices to the 50 or 60 cities where they have Councils.



391

Treasury Department  
Division of Monetary Research

Date Jan. 23, 1945 19

To: Secretary Morgenthau

I presume these have been  
called to your attention.

H.D.W.

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

Treasury Department  
Division of Monetary Research

392

Date *1945* January 18, 1945.....19

To: Mr. White

From: Miss Bassett *J.P.S.*

Subject: Press Coverage of Secretary Morgenthau's  
Article in Foreign Affairs, January, 1945

As the attached clippings show, the Secretary's article received considerable publicity.

The New York World Telegram and Herald-Tribune summarize the argument at length. The Baltimore Sun covers it without bias, which is remarkable for this rabidly anti-Administration paper, and the New York Post and Washington Post both report it more briefly.

DEC 27 1944

## Morgenthau Asks For Ratification Of World Bank Plan

### Says 'Key Countries' Approach Overlooks Postwar Realities

Failure to ratify the Bretton Woods proposals for an international monetary stabilization fund and bank of reconstruction will convince other nations the American people do not desire to co-operate and do not know how to achieve co-operation. Henry Morgenthau, Secretary of the Treasury, warns in an article in the January issue of Foreign Affairs, out today.

Mr. Morgenthau also assails the so-called "key countries" formula sometimes advanced as a substitute for the Bretton Woods program on the ground that it will be regarded by other countries as financial "dictatorship." The "key countries" approach, he asserts, takes no account of the "realities of the postwar situation."

"The establishment of an exclusive Anglo-American condominium," he says, "would not be the appropriate means of dealing with international monetary problems. 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."

#### U. S. Delegation Non-Partisan.

In a plea for non-partisan consideration of the Bretton Woods proposals, Mr. Morgenthau expresses the view that the intricacy of the technical questions involved will raise them above party considerations.

"My optimism," he says, "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 nonpartisan 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."

#### Room for Both Ideas.

Mr. Morgenthau says he is convinced that the economic interests of the U. S. and Great Britain are not irreconcilable and that the world is large enough to provide an expanding market for the exports of both.

Declaring himself an "impatient" capitalist, Mr. Morgenthau lauds Soviet Russia for raising its subscription to the bank to \$1,200,000,000.

He says he is "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."

DEC 27 1944

### **Ratification Advocated Of Monetary Agreements**

Asking for ratification of the Bretton Woods agreements, Henry Morgenthau jr., Secretary of the Treasury, says in the January issue of "Foreign Affairs," published today, that such action will be interpreted as an index of the desire and ability of the United States to co-operate effectively in establishing world peace.

If the tentative proposals fail of ratification, the Secretary adds, "other nations will be convinced that the American people do not desire to co-operate or that they do not know how to achieve co-operation." He regards the political implications of the international monetary program as no less significant than the economic achievements of the conference, and he characterizes "Bretton Woods as the model in the economic sphere of what Dumbarton Oaks is in the political."

Referring to the so-called "key-country approach," Mr. Morgenthau adds, "the establishment of an exclusive AngloAmerican condominium would not be the appropriate means of dealing with international problems," since exchange stability is a general question. "I doubt," he concludes, "that the forty-two other 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."

DEC 27 1944

## U.S. MOVE ON FUND PLAN SEEN CRUCIAL

### Morgenthau Calls Bretton Woods Program Vital

New York, Dec. 26 (AP) — Other nations will view the United States' action on the Bretton Woods international monetary agreements as an index of the country's willingness to co-operate in establishing world peace, says Secretary of the Treasury Morgenthau.

"Ratification would strengthen all the forward-looking elements in every country who wish to translate their craving for peace into deeds, and would be a resounding answer to the pessimists who feel that peace is unattainable," Morgenthau says in the January issue of the publication, *Foreign Affairs*.

#### Supplementary Facets

Failure to ratify the agreements for an international monetary fund and international bank for reconstruction and development, he states, will convince other nations that "the American people do not desire to co-operate or that they do not know how to achieve co-operation."

Describing the Bretton Woods program as "the model in the economic sphere of what Dumbarton Oaks is in the political," he adds:

"They reinforce and supplement each other. Political and economic security from aggression are indivisible, and a sound program for peace must achieve both."

*non-com*

MAGAZINE DIGEST:

# World Money System for Peace

## Foreign Affairs

The political implications of the Bretton Woods agreements are as important as the economic ones, declares Henry J. Morgenthau Jr. He sees the first step taken toward the kind of international cooperation necessary not only for working out a world monetary system, but also for making possible the preservation of peace.

"Without monetary cooperation, international economic cooperation in other spheres will at best be short-lived; and it may not be too much to add that without monetary cooperation, international cooperation in non-economic spheres may be short-lived also."

The Washington Post  
DEC 27 1944

*hm - com*

**Morgenthau Sees  
U.S. Challenged  
On Peace Attitude**

New York, Dec. 26 (AP).—Other nations will view United States action on the Bretton Woods international monetary agreements as an index of the country's willingness to cooperate in establishing world peace, says Secretary of the Treasury Morgenthau.

"Ratification would strengthen all the forward-looking elements in every country who wish to translate their craving for peace into deeds," Morgenthau says in the January issue of the publication Foreign Affairs.

Failure to ratify the agreements for an international monetary fund and international bank for reconstruction, he states, will convince other nations that "the American people do not desire to cooperate or that they do not know how to achieve cooperation."



TREASURY DEPARTMENT

WASHINGTON 25

House 397



January 23, 1945

To: Secretary Morgenthau

From: J. W. Pehle

The following is a summary of significant developments in the Surplus Property and Procurement offices for the week ending January 13, 1945:

Surplus Property:

There have been organized ten committees to consider various problems of policy and procedure arising in connection with the disposal of surplus property. These committees reflect a cross section of the Office of Surplus Property and consist of merchandising men, economists, lawyers and other specialists.

I have met with Colonel Heller and Governor Hurley of the Surplus Property Board and have discussed with them, in a rather general way, certain phases of our mutual problems.

The Food and Drug Administration advised us that if the 28,000,000 Carlisle dressings available for sale were in fact sterile, there would be no objection under the Federal Food, Drug and Cosmetic Act to their sale for medical uses. Subsequently we withdrew the statement made in our advertisements that the dressings were not to be resold for such purposes, and extended the time during which bids would be received.

- 2 -

The Office of Civilian Defense declared 330,000 helmets to us prior to the holiday season. Approximately 30,000 of these helmets were disposed of to department stores and to wholesale and retail hardware and drug stores. A revised sales plan is being considered for the disposition of the remaining 300,000.

Conferences with representatives of the rubber industries were held in New York, and a proposed partial program for the disposition of rubber products was developed. A representative of the Office of Surplus Property will make a survey of four rubber-producing plants beginning February 5.

We are employing the services of an experienced gunsmith to inspect the guns on hand, and to assist us in preparing a plan for the fair and equitable distribution of fire arms.

A considerable number of wooden rifles have been sold as a result of a mail advertisement sent to adjutants general of state guards in the various states. The same advertisement is now being prepared for mailing to ROTC and other Army and military training schools.

135 carloads of tires declared as surplus are now on the way to repair shops. Such tires as can be rehabilitated will be offered by regular dealers to the public.

The Army has declared as surplus 250 motor vehicles without tires at Fort Bragg. We are making efforts to locate tires out of surplus stock with which to equip these vehicles in order that they may be salable.

- 3 -

200,000 ammunition boxes were declared as surplus by the Army. The OPA is in course of fixing ceiling prices covering their wholesale, retail and consumer prices.

The War Food Administration has expressed an interest in a quantity of surplus property located at the Jefferson Quartermaster Depot, which it believes to be appropriate for rural auction. After the property is inspected by War Food Administration representatives, they will give us their final views on this matter.

In order to consolidate surpluses at a minimum number of installations where property can be displayed throughout the country, a detailed study is being made of warehouse operations in Ordnance installations.

Through our Washington, D.C. Regional Office, preliminary arrangements were made with the OWI photographic laboratory for accumulating hypo solution with which an initial test on silver salvage can be made.

The Associated Press worked with representatives of this Office on a special story regarding our Surplus Reporter. The story will be released next week by AP in New York and Michigan.

A conference was held with representatives of the Rural Electrification Administration in an effort to develop procedures to insure that the electrical cooperatives sponsored by REA will benefit from the surplus property disposal program.

We have joined the Reconstruction Finance Corporation in a request to the Surplus Property Board that the disposal of reclaimed rubber be assigned to the RFC instead of Treasury.

R. H. Macy and Company has raised with us the possibility of a surplus property display at their "Preview of Tomorrow," which is scheduled for May.

Procurement:

Our purchases for the week totalled \$34,976,481.35, including \$34,600,000 for Lend-Lease (schedule attached) and \$376,481.35 for regular purchases.

Total Lend-Lease carloadings for the week were 3,109 cars.

During this week, requisitions were received for the following:

35,450 pounds of calcium cyanide to be used to destroy rats and rabbits in New Zealand; a steel aircraft hangar door for use by the Brazilian Government; and quantities of fire hose, pneumatic air hose, wire rope and welding electrodes to be used in working sulphur mines in Italy.

2,860,000 pounds of waste paper were purchased for shipment to France where it will be manufactured into wrapping paper and newsprint.

Arrangements are now underway to assist Philippine national, provincial and municipal governments in securing materials for use in reconstruction.

A contract has been made for the purchase of 208,000 pounds of nylon flake for manufacture, in Canada, of parachutes to be shipped to England.

Two airplanes and spare parts therefor, purchased this week, are now on their way to the Imperial Government of Ethiopia.

Administration:

We have acquired from surplus stock 45 sedans for use by our regional offices, at a cost of \$1,028 each.

Based on a formula approved by the Bureau of the Budget and Foreign Economic Administration, a schedule was prepared for the adjustment of funds for administrative expenses between UNRRA and Lend-Lease.

Additional space for the use of the Procurement Division was secured in that portion of the Sloane Building which is being vacated by Foreign Funds Control.

A handwritten signature in black ink, appearing to be 'J. B. ...', is located on the right side of the page.

397-E

LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF JANUARY 13, 1945  
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous &amp; Undistributed</u>
Allocations	\$5915.0 (5914.4)	\$2628.0 (2628.0)	\$2457.3 (2457.3)	\$165.9 (165.9)	\$17.3 (17.2)	\$646.5 (646.0)
Requisitions in Purchase	\$ 164.4 ( 170.3)	\$ 35.6 ( 39.8)	\$ 19.8 ( 24.1)	\$ .6 ( .8)	- -	\$108.4 (105.6)
Requisitions not Cleared by W.P.B.	\$ 90.8 ( 88.2)	\$ 19.1 ( 18.2)	\$ 52.6 ( 52.0)	\$ .7 ( .4)	- -	\$ 18.4 ( 17.6)
Obligations (Purchases)	\$4512.1 (4477.5)	\$2064.8 (2060.4)	\$1970.7 (1947.7)	\$ 69.1 ( 69.2)	\$16.1 (16.1)	\$391.4 (384.1)
Deliveries to Foreign Governments at U. S. Ports*	\$2811.8 (2776.2)	\$1577.5 (1568.9)	\$1153.1 (1126.1)	\$ 25.7 ( 25.7)	- -	\$ 55.5 ( 55.5)

\*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of January 6, 1945.

JAN 23 1945

Dear Ed:

Reference is made to the letter which your Department has suggested be sent to Jean Monnet, in which is proposed a master lend-lease agreement between this Government and the Provisional Government of France.

As stated in my letter of January 18, the United States should determine the extent to which we deem it appropriate that the French should use their gold and dollar exchange resources in meeting their non-munitions requirements and lend-lease aid should be programmed accordingly. It is my view that this determination should be made prior to the time that any lend-lease agreement is entered into. In that way we will have a clearer understanding of the type of program which the lend-lease agreement contemplates, thereby avoiding basic misunderstandings with the French after the agreement is signed.

I would suggest, therefore, as the first step, that your Department, our Department and the Foreign Economic Administration get together and agree upon the amount of French dollar and gold assets, including the holdings of the Bank of France, which we would consider to be a satisfactory position for France so long as she is obtaining lend-lease aid in non-munitions from this country. In arriving at such an understanding, it will be necessary to ascertain the approximate amount of dollars which the French owe us at the present time for supplies shipped to France and North Africa, as well as a reasonable estimate of the amount of dollars which the French may be expected to owe us in the near future for civilian supplies shipped to French areas under the military program.

Furthermore, it would seem desirable that no lend-lease agreement should be signed with the French until they have

- 2 -

paid the dollars which they owe us for civilian supplies furnished to France and French North Africa, and until definitive arrangements are made so that we will actually receive periodic payments for those civilian supplies which we will be furnishing to the French in the future and which it is understood they are to pay for in dollars.

I am sending a copy of this letter to Mr. Crowley.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Edward R. Stettinius, Jr.

Secretary of State.

JED:ecr - 1/22/45

Office Memorandum

MEMENT

21 January 1946

Mr. Harry White

Mr. J. M. Ferguson

Enclosed are copies of a proposed letter to M. Monnet and master lend-lease agreement, which Mr. Clayton has asked me to send to you.

JHF:ELB

My dear Monsieur Monnet:

I am enclosing a master lend-lease agreement which this Government is prepared to propose for signature with the Provisional Government of France. If this is acceptable to the Provisional Government of France and signed by our two Governments, we shall be in a position to discuss with you the supply program to be undertaken.

In working out the non-munitions portion of the program, we will wish to consider the status, actual and prospective, of the French gold and dollar balances and determine to what extent your Government will be in a position to use its gold and dollar exchange resources in meeting such non-munitions requirements.

Naturally, it should be understood that any lend-lease program for the French worked out in advance at this time will not constitute a firm commitment, but that actual delivery will be subject to the changing demands of strategy, to supply and transport considerations and the usual considerations of procurement and allocation.

Sincerely yours,

William L. Clayton,  
Assistant Secretary

M. Jean Monnet,

Commissaire en Mission,

Provisional Government of the French Republic,

1800 Massachusetts Avenue, N.W.,

Washington, D.C.

PRINCIPLES APPLYING TO MUTUAL AID IN THE  
PROSECUTION OF THE WAR AGAINST AGGRESSION

Preliminary Agreement between the United  
States of America and the Provisional  
Government of France.

Whereas the Government of the United States of America and the Provisional Government of France declare that they are engaged in a cooperative undertaking, together with every other nation or people of like mind, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations;

And whereas the Government of the United States of America and the Provisional Government of France, as signatories of the Declaration by United Nations of January 1, 1942, have subscribed to a common program of purposes and principles embodied in the Joint Declaration, known as the Atlantic Charter, made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland;

And whereas the President of the United States of America has determined, pursuant to the Act of Congress of March 11, 1941, that the defense of any French territory not under the control of the Axis is vital to the defense of the United States of America;

And whereas the United States of America has extended and is continuing to extend to the Provisional Government of France aid in resisting aggression:

And whereas it is expedient that the final determination of the terms and conditions upon which the Provisional Government of France receives such aid and of the benefits to be received by the United States of America in return therefor should be deferred until the extent of the defense aid is known and until the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests of the United States of America and France and will promote the establishment and maintenance of world peace;

And whereas the Government of the United States of America and the Provisional Government of France are mutually desirous of concluding now a preliminary agreement in regard to the provisions of defense aid and in regard to certain considerations which shall be taken into account in determining such terms and conditions and the making of such an agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an agreement in conformity with the laws either of the United States of America or of France have been performed, fulfilled or executed as required;

The undersigned, being duly authorized by their respective Governments for that purpose have agreed as follows:

#### Article I

The Government of the United States of America will continue to supply the Provisional Government of France with such defense articles, defense



services, and defense information as the President of the United States of America shall authorize to be transferred or provided.

Article II

The Provisional Government of France will continue to contribute to the defense of the United States of America and the strengthening thereof and will provide such articles, services, facilities or information as it may be in a position to supply.

Article III

The Provisional Government of France will not without the consent of the President of the United States of America transfer title to, or possession of, any defense article or defense information transferred to it under the Act of March 11, 1941 of the Congress of the United States of America or permit the use thereof by anyone not an officer, employee, or agent of the Provisional Government of France.

Article IV

If, as a result of the transfer to the Provisional Government of France of any defense article or defense information, it becomes necessary for that Government to take any action or make any payment in order fully to protect any of the rights of a citizen of the United States of America who has patent rights in and to any such defense article or information, the Provisional Government of France will take such action or make such payment when requested to do so by the President of the United States of America.



**Article V**

The Provisional Government of France will return to the United States of America at the end of the present emergency, as determined by the President of the United States of America, such defense articles transferred under this Agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful in the defense of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.

**Article VI**

In the final determination of the benefits to be provided to the United States of America by the Provisional Government of France full cognizance shall be taken of all property, services, information, facilities, or other benefits or considerations provided by the Provisional Government of France subsequent to March 11, 1941, and accepted or acknowledged by the President on behalf of the United States of America.

**Article VII**

In the final determination of the benefits to be provided to the United States of America by the Provisional Government of France in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of worldwide economic relations. To that end, they shall include provision for agreed action by the United



States of America and France, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

Article VIII

This Agreement shall take effect as from this day's date. It shall continue in force until a date to be agreed upon by the two Governments.

Signed and sealed at Washington in duplicate this \_\_\_\_ day of \_\_\_\_, 1945.

For the Government of the United States of America

E. R. Stettinius, Jr.  
Secretary of State

Provisional Government of France

-----, Copies to White, DuBois and Luxford

407

2/1/45



Original sent to Mr. DW Bell.

ROBERT E. MCCONNELL  
*Robert E. McConnell*  
*NEW YORK*  
THE PLAINS, VIRGINIA

TELEPHONE  
MURRAY HILL 4-1300

January 23rd, 1945

Mr. Daniel Bell, Under Secretary of the Treasury  
Treasury Building  
Washington, D. C.

Dear Dan;

I have your note of January 19th regarding the Secretary's inquiry of the study of German Industries. In addition to the report on the German Iron and Steel Industry and some data regarding the general German Economy, which I gave you last October, I have a preliminary report on the German Nitrogen Industry, together with some statistics on the World Nitrogen Industry. This material is a part of the more comprehensive study which I had hopes of continuing and which contains tentatively the following subdivisions;

- 1 German Iron and Steel Industry
- 2 German Chemical Industry
  - A Nitrogen Production
  - B Sulphuric Acid Production
  - C Organic Chemistry
- 3 German Oil Industry
  - A Natural
  - B Synthetic
- 4 German Aluminum Industry
  - A Raw Materials
  - B Production
- 5 German Coal and Coke
- 6 German Manufacturing Industry
- 7 The German Economy
- 8 Summary, Conclusions and Recommendations

Insofar as it has gone, the statistics and factual matter collected point to the inescapable conclusion that the German Race is possessed of the Devil.

To my mind the figures on German Industry are an astounding revelation of the character of the Germans.

(2)

To; Mr. Daniel Bell  
From; Mr. Robert E. McConnell

We have found that, for at least a generation, the German State and the German Industrialists have planned this war of conquest;

'The Steel industry in Germany should not be considered as an enterprise which provided goods for comfort and tools of production for the benefit of the people, but rather as one supported by the State as part of its war industry and plan for domination of other countries.'

I had been much in hopes that the Secretary would find the opportunity to read at least the first few pages of the German Steel Report. I think he would find good reason to make sure that, in some manner, these studies are carried on to their final conclusions. The following quotations from the first few pages of summary are to the point;

'The steel industry was developed and expanded under State auspices by means of tariffs, cartels, subsidies, and war orders. Without these costs could not have been covered. Domestic prices were 75% to 100% above export prices except to manufacturers of goods for export who obtained rebates for the difference.'

'Before the war about 30% of the steel production was exported. The amount consumed in war goods is not known but could have been another 20%. One-half of the production, if not less, therefore, was available for domestic use of peacetime goods.'

'Exports of Steel had a quadruple purpose; to have available a reserve capacity for production of steel in case of war; to have a reserve of skilled metal workers; to pay for imports of food, clothing and other materials, both for civilian use and stock piling for war; and, finally, to subordinate other countries to its economy by means of deminating their trade. These considerations were behind the entire export trade.'

'In effect, the imports of raw materials for the heavy industries were paid for by exports of coal, coke, and chemicals, and the imports of food, clothing and other goods for light manufacturing industries were paid for by exports of steel, metals, and machinery.'

'Although the foreign trade of Germany was 10% of the world's total it was concentrated in countries where purchases accounted for 15% to 25% and, in many instances, a greater proportion. It was planned to dominate certain countries for their raw materials and provide an outlet for exports. Such position gave plausibility to the claim that unless Germany was able to export the products of heavy industries to pay for imports the economies of other countries would be seriously affected and

(3)

To; Mr. Daniel Bell  
From; R. E. McConnell

Germany would starve. Hitler's cry, 'We must export or die' seemed plausible but behind it was the economic mobilization for war.'

'The total exports of Germany in 1937 amounted to \$1.3 billion at par of exchange. This was equivalent to 7% of the national income as reported and therefore was not the most important element in the economy.'

'If Germany lost one-half of its steel production as in 1937, or about 10 million tons through elimination of exports and production for war goods, the effect apparently would be an unemployment of 3 million workers and the status of the economy would be as in 1934. This, of course, would not take into account the loss in number of workers on account of the war.'

I am not satisfied with the conclusions as yet. I think they are premature. However, these reports have uncovered a premeditated, diabolical German determination in the past to start a war of conquest and that in learning how they made their preparations we can discover how to prevent recurrence.

The nitrogen report is sketchy and unfinished, but you are, of course, welcome to it. The nitrogen story is just as damning as the steel record.

Sincerely yours,

*Bob*

DCG-1961

PLAIN

Paris

Dated January 23, 1945

Rec'd 1:03 p.m. 25th

Secretary of State,  
Washington.  
315, Twenty-third.

FOR WAR REFUGEE BOARD FOR MOSES LEAVITT AMERICAN  
JOINT DISTRIBUTION COMMITTEE FROM JOSEPH SCHWARTZ.

"Regarding Middle East Regional Office concerning which I cabled you in detail from London wish point out that all arrangements were made on temporary basis subject to changes as and when conditions require. Also wish advise Lisbon office informs that Beckelman proposes join our staff nearest future as soon as Fedhala camp competely liquidated. This decision of course his own and arrived at without any pressure our part since have not communicated with Beckelman several months. Will advise when his decision confirmed. Cannot understand your action in granting hundred thousand dollars to Consistoire without even consulting us. Had supposed that such practices had been definitely discarded and deeply discouraged to find that they still being continued. Since we don't know purposes for which funds were allocated we have no judgement in matter and are grateful that Weiss will at least inform us purposes this grant upon his arrival here."

CAFFERY

WSB

JP-1876

PLAIN

Paris

Dated January 23, 1945

Rec'd 8:41 a.m., 25th

Secretary of State,  
Washington.

319, Twenty-third

FOR WAR REFUGEE BOARD FOR MOSES LEAVITT AMERICAN  
JOINT DISTRIBUTION COMMITTEE FROM JOSEPH SCHWARTZ.

"Arthur Greenleigh leaving for Marseille tomorrow  
order supervise exchange approximately 75 civilian  
internees and arrange plans for their maintenance and  
possible transshipment. He has been in contact Hodgdon  
and is fully informed entire project. Would appreciate  
knowing status Max Perlman and whether he plans return  
overseas. Am thinking of him in terms possibility either  
France or Switzerland if you have no other suggestions  
for latter country".

CAFFERY

RB

MF-1823  
No paraphrase  
necessary.  
(SECRET)

Paris

Dated January 23, 1945

Rec'd 12:39 a.m., 25th

Secretary of State

Washington

320, January 23, 4 p.m.

FOR WAR REFUGEE BOARD.

FOR MOSES LEAVITT AMERICAN JOINT DISTRIBUTION  
COMMITTEE FROM JOSEPH SCHWARTZ.

"According our records Inter-governmental Committee agreed provide for third quarter 1944 the sum of \$300,000 for work in Hungary, \$300,000 for Rumania, \$300,000 for France and \$30,000 for Northern Italy. For final quarter 1944 but running also into beginning 1945 Inter-governmental Committee recommended to British and American authorities appropriation of \$300,000 for Hungary, \$300,000 for Rumania, \$50,000 for Northern Italy and we have been advised that British and American authorities have approved these recommendations. We can now give you following information concerning expenditure Saly Mayer these countries. In Hungary we spent from July through September 1944 3,500,000 Swiss francs and from October through December 4,400,000 Swiss francs. In addition we spent during the latter part of May and June 500,000 Swiss francs making a total of 8,400,000 Swiss francs. Of this amount 2,734,000 francs we refused for the purchase of pengoes in Switzerland to be sent into Hungary for relief purposes. The sum of 1,900,000 francs was spent through international Red Cross for sending food into Hungary and the sum of 3,765,000 francs was used for purely rescue purposes. In Hungarian currency our contributions amounted to approximately 70 million pengoes exclusive of the value of the food which was sent in. In Rumania we expended for the period July through September 1,600,000 Swiss francs and October to December 2,400,000 Swiss francs making a total of 4 million francs which yielded approximately 3 billion lei. In France we expended through Switzerland from July through September the sum of 965,520 Swiss francs. We don't

yet have

2 - #320, January 23, 4 p.m., from Paris

yet have detailed information regarding expenditure in northern Italy but I am trying procure same. Suggest on basis above you submit account to Inter-governmental Committee for reimbursement as I have already indicated to Sir Herbert that you will be making formal request this nature soon."

CAFFERY

HB

CABLE TO MR. HUDDLE AND MR. MCCLELLAND, AMLEGATION BERN, SWITZERLAND, FROM  
DEPARTMENT AND WAR REFUGEE BOARD

URGENT

Reference Department's 192 of January 13, Irish Department of External Affairs confirms that it inquired of German authorities concerning the rumor that Germans intended to liquidate the inmates of camps Oswiecim, Hoes and Birkenau, and that the Germans replied that the rumor that it is their intention to exterminate the Jews in these camps is pure invention devoid of all foundation and that if the camps were to be abandoned their inmates would be evacuated.

Please request Swiss Political Department to inform German Government that the above reply of German authorities to Ireland has been noted by the Government of the United States, and that this Government accordingly expects that Jewish and other survivors of these and other concentration, detention and labor camps in Germany and German-controlled territory will be kept alive by German authorities.

In view of the nearness of Oswiecim and Birkenau to the front, it is urgent that the above communication reach German authorities with the greatest possible speed.

*about*

*Jan. 23, 1945*

CABLE TO AMLEGATION, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Reference our No. 369 of January 22, 1945 (WRB No. 374).

War Department advises that you should communicate through American Embassy, Paris, with Lieutenant General A. E. Grasset, Assistant Chief of Staff, G-5, SHAEF, and Brigadier General Charles M. Spofford, Assistant Chief of Staff, G-5, AFHQ, who have been advised of your connection with the matter.

War Department also advises that consideration will be given to the accommodation of the refugees at same camp other than Philippeville if SCAEF or SACMED so recommends.

Please keep Board advised of developments.

THIS IS WRB BERN CABLE NO. 377.

2:45 p.m.  
January 23, 1945.

FH:hd 1/23/45

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

January 23, 1945  
7 p.m.

**AMLEGATION**

**BREN**

**385**

The following for McClelland is WRB 377.

Reference our No. 369 of January 22, 1945 (WRB No. 374).

War Department advises that you should communicate through American Embassy, Paris, with Lieutenant General A. E. Grasset, Assistant Chief of Staff, G-5, SHAEP, and Brigadier General Charles M. Spofford, Assistant Chief of Staff, G-5, AFHQ, who have been advised of your connection with the matter.

War Department also advises that consideration will be given to the accommodation of the refugees at some camp other than Philippeville if SCAEP or SACMED so recommends.

Please keep Board advised of developments.

**ORW**  
(Acting)  
(OLW)

WRB:MDV:KD  
1/23/45

**WE**

**SWP**

CABLE TO AMERICAN LEGATION, STOCKHOLM, FOR OLSEN, FROM WAR REFUGEE HD.

Please deliver following message to Fritz Hollander, Congress Committee, Post box 7306, Stockholm, from Dr. Arish Tartakower of World Jewish Congress:

QUOTE KINDLY HAVE FOODPARCELS FORWARDED FOLLOWING BERGENHEISEN INMATES: BLECK, SALLY, HANS; VAN ESSO, HENRI, REBEKKA; FISCHELBERG, FEIA, WOLF, LEOPOLD, MIN; HECHT, BRUNO, ALICE (NEE FABIAN), RICHARD, EDITH (NEE STEMPER); FACKS, ERICH, ROSE; KURZ, KLARA & 2 children; PUESSEISEN, MORITZ HEINRICH, FLORA, HANS (or JOSUA), SALOMON, ERNST LEOPOLD; SKOP-FAUR, LOTHAR; ROSENTHAL, MINNA, EDUARD, ERNA, PETER; SACHS, GERTRUD (NEE BERNSTEIN); SCHOENBECK, HANS, TRUDE, ELLEN, INGE, KLAUS; WEIGERT, RUDOLF; ZWIEBEL, NISSEN, CYLA RECHLA; SLAGTER, LEON, REBECCA. UNQUOTE

THIS IS WRB STOCKHOLM CABLE NO. 297.

10:30 a.m.  
January 23, 1945.

RDrury 1/22/45

CABLE TO AMLEGATION BERN, SWITZERLAND, FOR MCCLELLAND

Department and War Refugee Board appreciate information contained in your 8265 of December 22, 1944. Please advise us of any further information bearing on the subject.

THIS IS WRB BERN CABLE NO. 376.

10:30 a.m.  
January 23, 1945.

BA:FH:hd 1/23/45

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

Department and War Refugee Board appreciate information contained in your 2225 of November 20, 1944. Please advise us of any further information bearing on the subject.

THIS IS WRB ANKARA CABLE NO. 139.

10:30 a.m.  
January 23, 1945

BA:FH:hd 1/23/45

**SECRET****OPTEL No. 27**

Information received up to 10 a.m., 23rd January, 1945.

**NAVY**

1. **HOME WATERS.** Night 22nd/23rd. E-boats active Thames Estuary, minelaying suspected. Preliminary reports state one E-boat set on fire.
2. **ENEMY ATTACK ON SHIPPING.** 21st. A 1152 ton Norwegian ship sunk in Irish Sea, possibly by U-boat.

**MILITARY**

3. **WESTERN FRONT.** Southern Sector: Troops of 7th U.S. Army have successfully completed withdrawal to new main defence line area Bischweiler-Bagenau-Bitche. Retirement was covered by armoured elements and troops now dug in on new positions. Central Sector: Further progress made north of Diekirch. East of Houffalize our troops hampered by extensive minefields are following up rapidly withdrawing enemy. N.W. of St. Vith leading Allied troops reported two miles from town. Northern Sector: 2nd British Army made good progress against lessening enemy resistance, clearing St. Joost where heavy casualties were inflicted on enemy in hard fighting and capturing Braunsrath, Monfort and Maasbracht. Further north British troops under command 1st Canadian Army pushed forward north of Zetten where mopping up is being completed.
4. **EASTERN FRONT.** East Prussian Sector: Insterburg captured while to south Allenstein, Osterode and Deutsch Eylau also taken. North Central Sector: Considerable progress made towards Bydgoszez (Bromberg) and Poznan (Posen) during which Inowroclaw and Gneizno captured. South central sector: Advances up to 20 miles made on Breslau front with Gros Strehlitz (S.E. Oppeln) captured. Local advances also made south of Cracow and N.W. of Kasice. Southern Sector: Germans captured several localities between Szekesfehervar and River Danube.

**AIR**

5. **WESTERN FRONT.** Night 21st/22nd. 114 aircraft despatched (1 missing), 76 attacking Cassel and 38 other targets. 22nd. 167 Fortresses (9 missing) attacked Sterkrade synthetic oil plant (359 tons) in clear weather. 340 bombers (8 missing) operated against railway and communication targets behind Ardennes Salient and 172 (5 missing) against targets Southern sector. 1000 fighters and fighter bombers (22 missing) operated with considerable success whole front destroying 10 enemy aircraft, 1500 M.T., 700 railroad cars and 60 A.F.V., while oxygen plant Alblasserdam (near Dordrecht) was also destroyed. 10 Spitfires attacked rocket sites near Hague. Night 22nd/23rd. 594 Bomber Command aircraft despatched (2 missing): Duisburg benzol plant 302, Gelsenkirchen 152, and other missions 140.
6. **MEDITERRANEAN.** Night 20th/21st. Attack on Udine railway centre (208 tons) good concentration. 21st. 198 heavy bombers (5 missing) attacked two oil refineries Vienna (356 tons) and 42 tons on other targets with unobserved results. Fighter bombers dropped 35 tons Fiume oil Refinery. 828 tactical aircraft (6 missing) attacked enemy communications, transports and dumps in North Italy with good results. Mustangs sank one 2,500 ton ship and damaged another Pola Harbour.
7. **BURMA.** 20th. 296 tactical aircraft attacked airfields, communications and other targets. Transport aircraft flew 731 sorties.

**HOME SECURITY**

8. **ROCKETS.** Four incidents reported.

OPTEL No. 26 not sent to Washington.

Rec'd  
124/45  
0740 2/27