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THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

February 26, 1945

MEMORANDUM FOR THE FILES

After lunch Wednesday (February 21), I conferred with the Secretary concerning the issuance of additional Treasury bills. We had recommended to the Federal that we issue \$200 million of additional bills beginning the first date in March. The Federal objected to this because of the strong market and said they would not object to an additional \$100 million per week beginning March 1.

I told the Secretary I had had a further talk with Eccles and that he said he hoped we would not issue more than \$100 million at this time. The market is very strong and there are indications that it might go even higher. He said they would agree to \$100 million additional beginning March 1 and then, after we announce our full program for the Seventh War Loan, they would sit down with us and review the situation to see whether or not we could increase that by another \$100 million.

The Secretary asked me how I felt about it and I said I would accept Eccles' proposal, that I was sure we could not convince them that they were wrong and it would mean another week's discussion. My recommendation was that we go along with that proposal.

The Secretary approved the issuance of an additional \$100 million.

AWB



2/26/45.

BREAKFAST LIST

Frank Isbey

W. S. Gilmore - Managing Editor, Detroit News, former President of American Society of Newspaper Editors

Warren S. Booth - Member of Scripps family group which owns the Detroit News

Douglas Martin - Managing Editor of Detroit Free Press

Basil L. (Stuffy) Walters - Editorial Director of Jack Knight newspapers - Detroit Free Press, Akron Beacon Journal, Chicago Daily News, Miami Herald

John McLellan - City Editor of Detroit Times

W. S. Lampe - Managing Editor of Detroit Times

Frank Januszewski - Publisher of Polish Daily News, Detroit

Jean Allman - Executive Director of Michigan Press Association

2/26/45

READING COPY of Secretary's speech
with mimeographed copy of Mr. Iseby's intro-
duction and closing by radio announcer.

ANNOUNCER:

The Blue Network greets you from the Grand Ballroom of the Book Cadillac Hotel in Detroit where a luncheon is in progress under the auspices of Detroit's Economic Club. Guest of honor is the Secretary of the Treasury, the Honorable Henry Morgenthau, Jr.

To introduce the Secretary, here is the Chairman of the War Finance Committee of Michigan, Mr. Frank Isbey.

FRANK N. ISBEY:

Mr. Secretary - the Economic Club of Detroit is proud to have you here as our honored guest. The people know that future peace depends on International agreement and understanding in economic affairs. That is why they are eager to know more about the United Nations Monetary and Financial Conference held last year at Bretton Woods with 44 nations participating and at which you served as Chairman. We are happy indeed to have you here to comment upon the importance and the significance of the Bretton Woods agreements.

Ladies and gentlemen - the Secretary of the Treasury - the Honorable Henry Morgenthau, Jr.

(APPLAUSE LED BY THE ANNOUNCER)

(SECRETARY MORGENTHAU SPEAKS:)

TREASURY DEPARTMENT

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For Release PM Newspapers
February 26, 1945

(The following speech will be delivered by Secretary of the Treasury Henry Morgenthau Jr., at the Economic Club of Detroit, Detroit, Michigan, 1:30 to 1:45 p.m. EDT, February 26. It will be broadcast over the Blue Network on a coast-to-coast-hookup.

The world's money market has a language of its own, that can be made to sound as incomprehensible as a tobacco auctioneer and as remote as Mars. But its results in every business are as plain as red ink in the ledger, and as close as next week's payroll. One reason is that international monetary stabilization has a good deal to do with the color of the ink, and with the payroll, too.

One man out of seven in the automobile industry, for instance, used to depend for his job on foreign trade. Fourteen per cent of the industry's sales were made abroad. That ratio can be maintained after the war only if currencies have reasonable stability and if exchange restrictions are removed.

1544
193
1421

7

Last summer the best technical experts of
AND ASSOCIATED
44 United Nations met at Bretton Woods, New Hampshire,
to grapple with the problem of postwar money. They
worked on the basis of a plan that had been evolved
from preliminary discussions extending over two years.
The result was agreement on a program which provides
for a Fund to stabilize currencies and an
International Bank to help finance reconstruction
and development.

The program is the first of a series of practical
measures for putting the everyday business of the
world back on its feet, and headed for a sounder
prosperity than it has ever known.

- 3 -

It is a matter of peace and security for the world, as well as dollars and cents for every businessman and worker, every farmer and professional man in the United States. To the people of Detroit, it means a foreign market for as much as a million cars a year, and a goodly proportion of your machinery, metal products, and chemicals.

It means that if the foreign branch of a Detroit plant makes money, the company can get its profits out in dollars instead of harmonicas.

Finally, it means that you can carry out your plans for your community, meet your responsibilities to those who look to you to lead them, in transforming Detroit from the world's mightiest war production center into an even bigger producer for peace. 1/4

- 4 -

That adds up to a lot of meaning. Of course, the Bretton Woods program by itself will not bring you all these blessings. It was not meant to. It is the first step in a series that must be taken by governments and by industry and by labor to set the wheels of world trade moving fast and freely.

Pause
No, Bretton Woods won't do the job alone. But without Bretton Woods, you ~~will~~ ^{MAY} never get a chance to do the job, at all.

The first proof of this is the relation of Bretton Woods to Detroit's future foreign trade. The Monetary Fund sets up standards which will prevent discrimination in foreign exchange practices, and help member nations keep their currencies stable.

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Under such exchange policies, an American salesman can go to Belgium and sell a thousand dollar car for 40,000 francs without worrying about cancellations because sudden depreciation has put the exchange value of that thousand dollars up to 60 or 80,000 francs and out of reach of most buyers.

Another advantage of the program, is that it prevents blocked currencies and other discriminatory restrictions on where a man can buy and sell. Without it, the representative of a Detroit automobile company might line up a great many customers in, say the Netherlands.

1069
94
975

"But," they would tell him, "we can't get dollars under present exchange regulations. We can get francs and pounds but no dollars. We'd like American cars, but we'll have to take French or English."

Pause
This is no theoretical prediction! It has happened. In the decade before the war, exchange controls and bilateral agreements were aimed at this country and lost us our market. It was largely because of them that the sales of American cars and trucks went from 700,000 in 1929 to 85,000 in 1932, but came back only half way five years later.

If you were an automobile manufacturer, this experience only proved how badly you needed a Bretton Woods program.

975
121

- 7 -

The combination of engineering skill, well paid workers and managerial organization enabled you to produce better cars cheaper than any other country. Therefore, in a world of monetary order and stability, you would have kept at least as much of the market as you had in 1929. But, although as many cars were made in the world in 1937 as in 1929, America's share went down from 85 per cent to 76 per cent. $\frac{1}{2}$

The greater part of our loss was in those countries where rigid exchange controls discriminated against us. They not only failed to resume buying after recovery; they actually bought less than in the depression. All the other countries in the world bought more. Here are some examples.

854
129
725

- 8 -

Belgium bought \$26 million worth of American cars in 1929, dropped to \$7 million in 1932, and came back to \$21 million in 1937. Brazil's imports were \$30 million in 1929, one and a half million in 1932, and nearly 14 million in 1937. Sales of American-made cars to England rose from the depression low of \$3 million to more than \$12 million in 1937. Germany, on the other hand, used exchange controls against us. Purchases of American cars amounted to \$19 million in 1929, dropped to \$1 million in 1932, and in 1937, instead of rising as the depression waned, dropped to ^{\$400,000.} ~~\$385,000.~~

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What that meant to Detroit in jobs and profits is a matter of painful memory. The United States automobile industry at the peak of the boom employed 47D,000 workers. There were only ~~257,000~~^{260,000} many of them at part time, on the depleted payrolls of 1932, but 505,000 were working in 1937.

The 15 major producers showed a profit of more than a billion dollars in 1929. In 1932, they had a net deficit of \$130 million, but five years later they were in the black to the tune of ~~\$768~~^{\$770.} million.

Can you now doubt that you needed a Bretton Woods in the twenties and thirties?

- 10 -

If you were the owner of a branch plant in Germany, you needed it even more. Because no matter how much money the branch made, Germany held it in blocked funds. Our proposed Monetary Fund prohibits blocking the profits of foreign investments.

The prosperity of the whole country depends just as much on foreign trade as does that of Detroit, although you Detroiters with your close ties to export and import businesses, are probably more aware of the fact than most. $\frac{3}{4}$

In peacetime, about 10 per cent of our national production, and about the same proportion of our jobs in industry and agriculture are created directly by foreign trade.

- 11 -

A post-war economy of full production and full employment will require American exports of at least \$10 billion.

If the Congress of the United States passes the Bretton Woods legislation, world trade will be freed from restrictive exchange controls and depreciating exchange rates. In that event, the automobile industry can look forward to a steady export market of at least a million cars a year.

We can reach such a trade level only if both the producing and consuming powers of all countries are expanded, not merely restored to their old levels.

The International Bank for Reconstruction and Development provides a sound, conservative basis for extending foreign loans for productive purposes. The principal business of the bank will be to guarantee loans made by private investors, when such a guarantee is needed to encourage worth while ventures. But the Bank will also protect the investor from lending too much and the borrower from borrowing too much.

It may seem strange that any one should object to this program. But some people do. Their whole argument boils down to the criticism that it might not work.

- 13 -

These critics want the United States Government to go back to 43 other sovereign states and say, that although all of our representatives agreed after mature deliberation that the plan is sound, a few interested people in this country think they know better.

They know quite well that it would be impossible to hold another conference, because a minority of one country out of 44 thinks the plan might not work.

I wonder what sort of an audience I would be addressing in Detroit, today if Ford and Winton and Olds had looked at the first gasoline buggies they built, and turned back to bicycles saying:

"It might not work."

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They were not so faint-hearted nor so easily
discouraged. They went back and made it work.

Let us have faith in America and Americans.
I think we shall demonstrate again the capacity
and the courage to solve the problems of a new day.

End

44
44

(APPLAUSE LED BY ANNOUNCER)

ANNOUNCER:

Ladies and Gentlemen:

You have just heard an address by the Secretary of the Treasury, the Honorable Henry Morgenthau, Jr. Mr. Morgenthau spoke from Detroit over the Blue Network on the meaning and importance of the United Nations Monetary and Financial Conference held last year at Bretton Woods. His address came to you under the auspices of the Economic Club of Detroit. Copies of this address will be sent to those desiring one. Other pertinent information on Bretton Woods will also be sent to any listener for the asking. This is the Blue Network of the American Broadcasting Company.

(For release 12 noon Monday, February 26, 1945)

THE INTERNATIONAL MONETARY FUND

and

THE INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT.

Remarks by Jesse P. Wolcott, Member of Congress
representing the Seventh Congressional District
of Michigan, before The Economic Club of Detroit,
February 26, 1945

Mr. Chairman:

I consider it a distinct honor to share this discussion of post-war international exchange stabilization and reconstruction and development with our distinguished guest, the Secretary of the Treasury, Hon. Henry Morgenthau, Jr.

Secretary Morgenthau represents an Administration with which many of us have frequently disagreed; however, the Treasury Department is outstanding in the manner in which it has functioned under his very able management. No finer tribute has ever been paid to a man than that expressed by Hon. Frank Keefe, an ardent anti-administration Republican Member from Wisconsin, speaking in the House of Representatives last Tuesday; Mr. Keefe told the House:

"The Treasury Department, struggling with problems of a magnitude undreamed of a few years back, is in the over-all picture, staffed and manned by men and women of courage, rare intelligence, and distinction. I have nothing but praise for the manner in which the functions of this great department of government have been carried on. In my judgment, it is simply amazing that the Department has been able to attract and keep men of such outstanding character and ability. The tremendous problems of finance have been met with courage and fidelity. The people of the country are entitled to know that from the Secretary of the Treasury down through the long list of administrative assistants and heads of bureaus and agencies, the work of this great department of government has been met in a manner that should challenge the admiration of the people of the country, regardless of political affiliation."

It was under this leadership that the representatives of forty-four of the United Nations met last July at Bretton Woods, New Hampshire, to formulate proposals for an International Monetary Fund and an International Bank for Reconstruction and Development.

We met in an atmosphere of tolerance and co-operation.

The professed objectives, as I understood them, were:

- (1) the expansion of our trade with other countries by making available

credits and exchange; it was expected that this would result in (2) full employment and would be a dominating factor in (3) preserving peace by offering assurance against economic maladjustments which sometimes cause wars.

Many were skeptical of the proposed means of accomplishing these objectives. No one denied the advisability of attempting to devise plans to stabilize the relationship of world currencies and to give each country a fair and proportionate share of the world's business. Many thought, and still think, that in balancing world trade in the manner proposed and agreed upon, we should be certain that in the accomplishment we did not destroy our own commercial and financial position in world affairs to the prejudice of American industry, agriculture and labor. Full employment does not depend entirely upon full approval without amendment of the Bretton Woods Articles of Agreement; but will it be an aid or will it be a deterrent to the gainful employment of from 55 to 65 million of our people? That is the question which the American people and the Congress must satisfactorily answer after full consideration has been given to the claims of both the proponents and opponents before it will be wise to take definite action.

The conference was careful not to bind any country; it agreed only to submit the Articles of Agreement to the various countries for such action as they see fit to take. No government will be bound by the Articles until it has formally approved them, and then only when they have been approved and signed on behalf of governments having sixty-five per centum of the total of the quotas.

Enabling legislation has been introduced in the Senate and House of Representatives. It is expected that hearings will start within the next two weeks.

The subject is of tremendous and far-reaching importance. It is important, not only as a possible key to our economic destiny, but I cannot emphasize too strongly that it may well become a potential and perhaps controlling influence to our social and political position in the world of nations. Congress realizes its responsibility and will have a thorough understanding of the basic and affiliated issues before it finally takes action.

It is only because I want to provoke thought and debate, as an aid to a full understanding of the many questions which must be considered and satisfactorily answered before the Congress can intelligently act, that I call attention to some of the alleged deficiencies and to some of the objections made to both the Fund and the Bank.

Time and space will not permit an enumeration of all of them, but from what has been published and from many conferences, I conclude that the following are considered fundamental and are those most likely to be considered by Congress. I submit them without comment in the hope that public discussion of them will crystallize intelligent popular opinion, and thus fortify Congress in any action it may finally take.

SOME ARGUMENTS AGAINST THE PROPOSED INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.

It is alleged that:

1. The Bretton Woods lending program is only a part of a much larger program of expanded exports through loans, and will inevitably result in defaults abroad and disillusionment at home, because this country will not permit the large scale imports necessary for the repayment of all the loans and investments.

2. The program for vast exports, predicated in part on Bretton Woods credits, will ultimately produce a third world war, for the reason that it will cause a dis-equilibrium in world trade.

3. Although the stated objective of the Bretton Woods program is the balanced growth of world trade, by financing the industrialization of other countries, we may rather find that, in the end, we shall have balanced trade at low level, instead of at our high level, to the detriment of our laboring men, our farmers and industrialists.

4. The Bank will be under political pressure to make unwise loans.

5. Our past lending experience should dampen our ardor for such a scheme.

6. The Bank will kill off private lending, to the detriment of foreign borrowers.

7. The Bank would be under debtor-country control.

8. Private bankers can take care of all lending needs.

9. If American dollars are to be loaned, they should be loaned without the intermediation of other nationals.

10. The Bank and the Fund should be separated, and not regarded as one program for simultaneous enactment.

11. The guaranty of debtor countries is of questionable value to the United States.

12. Concessions to the other countries like the Latin Americas, who insisted at Bretton Woods that the Bank be devoted equally to reconstruction and development, mean in effect that members desiring to develop have an automatic right to loans.

13. Our subscription is unlikely to be the full measure of our contribution, since the Bank may later increase its capital.

14. Repeal or suspension of the Johnson Act, as is provided in the Wagner-Tobey-Spence Bill, means tearing up billions in old IOU's, and the pouring out of new billions of private American capital.

SOME ARGUMENTS AGAINST THE PROPOSED
INTERNATIONAL MONETARY FUND.

1. It is contended that it is inadvisable to set up two distinct agencies; that there is no necessity for the Fund; that the functions of the Fund can be better administered by creating a department in the International Bank for making exchange stabilization loans, and that the functions of the Bank in this respect may be supplemented by increasing the capital and powers of the Export-Import Bank of Washington. It was partly in deference to this theory that in considering the so-called George Bill in the House last week amendments were suggested which in effect would create the Export-Import Bank of Washington as an independent agency of the government, divorcing it from all domination by the Secretary of Commerce and making it possible for the Congress to control its policies.

2. From the U.S.A.'s standpoint, the stabilization fund created out of the devaluation "profits" of 1934 is more than ample for our needs, since \$1,800,000,000 of the original \$2,000,000,000 has never had to be touched.

3. If we are going to attempt to stabilize the economies of other countries, it should not be done in the guise of currency stabilization.

4. The Fund in most cases would start out by recognizing as the "value" of individual foreign monetary units the artificial quotations which have been in force throughout the war, whereas many foreign currencies if released from control, would have a true buying power of only a fraction of the present artificial quotations. Therefore, the Fund would conceal the true condition.

5. The Fund will be used for capital purposes, as well as for the intended short-term purposes.

6. Our subscriptions to the Bretton Woods program (Fund and Bank) would be as much money as the value of all the goods we exported in three entire pre-war years: 1936, 1937 and 1938. We should therefore look this program over carefully before committing ourselves.

7. The hope that the Bretton Woods Fund will assure or even materially contribute to World peace is vain in the light of the realities among which the world lives.

8. The Bretton Woods program is really just a variation of the W.P.A., but on a world-wide scale. It is international pump-priming.

9. The Fund will destroy the control by Congress over the dollar, and the constitutional prerogative to regulate the value of our money will be imperiled.

10. The Fund is premature; the world is not yet ready for it. Domestic currencies should be stabilized before we attempt to stabilize foreign exchange.

11. The Fund is too large for stabilization purposes, and consequently would encourage member nations to delay the necessary steps, generally disagreeable to effect a balance in their international payments.

12. The Fund gives the member countries virtually an automatic right to borrow and leaves little or no discretion to the Fund to refuse to make a loan.

13. The Fund would be controlled by the debtor countries.

14. The Fund will not, as asserted by some advocates, eliminate exchange control.

15. The Fund does not tackle the important question of blocked balances.

16. The Fund will actually encourage exchange control. To control capital movements, the members must control short-term transactions as well.

17. Virtually the only internationally-desired money in the Fund, apart from about \$1,000,000,000 of gold, would be that money contributed by the United States.

18. The Fund will interfere with the sovereignty of its members and with their powers to control their own economic lives.

19. The Fund is too complex to be understood or honestly explained so that the average person can understand it.

20. The Fund has a marked inflationary bias. Under it, all changes will be in the direction of devaluation.

21. Our past lending experience should dampen our ardor for such a scheme. (see Bank #5)

22. The Fund erroneously presumes that there is a general scarcity of international monetary resources.

23. The Fund would be dissipated without any material accomplishments.

24. The benefits of the Fund in the monetary field could readily be offset by trade controls.

25. The wide divergence of interpretation of the meaning and operation of the Fund, both here and in Britain, bodes only ill for the Fund's future.

26. The Fund's safeguards are inadequate.

27. The Fund is likely to break down because currencies and trade outside the Fund will far exceed those within the Fund area.

28. The Fund is objectionable because it is a cartel.

29. The Fund, by Section 5 of Article IV, is rendered powerless to achieve its proclaimed purpose of ending economic warfare.

30. There is no real compulsion on members to continue membership, once their quotas have been exhausted.

31. The U.S.A. would have the legal right to withdraw from the Fund, but once a member, it would not have the moral right to do so. Withdrawal later would be much more difficult than abstention now.

32. Since the Fund may borrow here, there is no telling what its total cost will be to us.

33. The Fund is unsuited to the problems of the transition period; it is primarily a long-run agency.

34. Government and other organized propaganda has focused attention on the Bretton Woods program, to the exclusion of other solutions of the problem. The President instructed the American delegation at Bretton Woods to consider no alternative plan.

35. The Fund will only obscure the underlying problems and render more difficult their ultimate solution.

36. Under the Bretton Woods program (Fund and Bank) gifts will be confused with loans.

37. The Fund promises too much; in particular, there is a gap between the Fund's supply of dollars and the rights under the Fund to dollars.

38. The quotas have no realistic relation to credit needs and credit-worthiness of members.

39. The Fund does not really stabilize.

40. The Fund does not provide for two-way adjustment.

41. The best solution of the world currency problem is restoration of the gold standard.

42. The best world monetary system is international bimetalism.

43. The Fund is only a device for lending dollars cheaply and will soon be wasted or lost.

44. The Fund gives to its members indiscriminately, without regard to credit worthiness, the automatic right to borrow foreign exchange.

45. Both because of the terms of the agreement, and the nature of our "Good Neighbor" policy, the Fund will be managed by debtor countries, and the U.S.A. in reality will exercise only a minority voice.

46. The Fund is too ambitious; stabilization of "key currencies" is more practical.

47. Before stabilization is attempted, trade barriers must be removed. To set up the Fund now is to put the cart before the horse.

48. International currency stability cannot endure unless based upon prior economic and political stability within the various individual nations.

49. The Fund may force us to lower our tariffs.

50. The Fund's "safeguards" are not effective safeguards, because they may be waived.

51. In the Bretton Woods program, we should be pouring our money down a rat-hole.

52. The Fund implies government control of foreign trade.

53. The Fund is an unnatural monstrosity, because it attempts to reconcile the irreconcilable; its appearance of agreement is really a diplomatic fiction.

54. The Fund cannot work as we are told it would, because economic considerations were set aside for military and political reasons at Bretton Woods.

The proponents of the Fund and the Bank, especially the Treasury, have given assurance that many of these criticisms are not justified, and answers have been offered to many others; to many persons, however, the answers are not considered sufficient. Apparently much study must still be given to many of them by the people and the Congress.

You, as a Club, and as representatives of units of our economy,

vitaly interested in the purposes, plans and operation of the Fund and Bank, can be of tremendous assistance.

The economic, social and political future of America was at stake at Bretton Woods. The final decision will be dictated by the people of America.

It has been a pleasure to be here today, and I know that you will feel at liberty to give the Congress the benefit of any decisions you make in respect to these proposals.



QUESTIONS FOR THE ECONOMIC CLUB OF DETROIT
BRETTON WOODS MONETARY CONFERENCE LUNCHEON
MONDAY, FEBRUARY 26, 1945



MR. ISBEY:

I should like to ask Secretary Morgenthau:

Signature

29 2/26/45

The President's Message to Congress...

BRETTON WOODS

"...one of the most sound and useful proposals for international collaboration..."

FRANKLIN D. ROOSEVELT



U. S. TREASURY • WASHINGTON, D. C.
FEBRUARY 20, 1945

Reproduced herewith is the President's Special Message to the Congress urging adoption of the Bretton Woods proposals for an International Monetary Fund and an International Bank for Reconstruction and Development.

TO THE CONGRESS OF THE UNITED STATES:

In my Budget Message of January 9 I called attention to the need for immediate action on the Bretton Woods proposals for an International Monetary Fund and an International Bank for Reconstruction and Development. It is my purpose in this message to indicate the importance of these international organizations in our plans for a peaceful and prosperous world.

As we dedicate our total efforts to the task of winning this war we must never lose sight of the fact that victory is not only an end in itself but, in a large sense, victory offers us the means of achieving the goal of lasting peace and a better way of life. Victory does not insure the achievement of these larger goals—it merely offers us the opportunity—the chance—to seek their attainment. Whether we will have the courage and vision to avail ourselves of this tremendous opportunity—purchased at so great a cost—is yet to be determined. On our shoulders rests the heavy responsibility for making this momentous decision. I have said before, and I repeat again: This generation has a rendezvous with destiny.

If we are to measure up to the task of peace with the same stature as we have measured up to the task of war, we must see that the institutions of peace rest firmly on the solid foundations of international political and economic cooperation. The cornerstone for international political cooperation is the Dumbarton Oaks proposal for a permanent United Nations. International political relations will be friendly and constructive, however, only if solutions are

found to the difficult economic problems we face today. The cornerstone for international economic cooperation is the Bretton Woods proposal for an International Monetary Fund and an International Bank for Reconstruction and Development.

These proposals for an International Fund and International Bank are concrete evidence that the economic objectives of the United States agree with those of the United Nations. They illustrate our unity of purpose and interest in the economic field. What we need and what they need correspond—expanded production, employment, exchange and consumption—in other words, more goods produced, more jobs, more trade, and a higher standard of living for us all. To the people of the United States this means real peacetime employment for those who will be returning from the war and for those at home whose wartime work has ended. It also means orders and profits to our industries and fair prices to our farmers. We shall need prosperous markets in the world to ensure our own prosperity, and we shall need the goods the world can sell us. For all these purposes, as well as for a peace that will endure, we need the partnership of the United Nations.

The first problem in time which we must cope with is that of saving life, and getting resources and people back into production. In many of the liberated countries economic life has all but stopped. Transportation systems are in ruins and therefore coal and raw materials cannot be brought to factories. Many factories themselves are shattered, power plants smashed, transmission systems broken, bridges blown up or bombed, ports clogged with sunken wrecks, and great rich areas of farm land inundated by the sea. People are tired and sick and hungry. But they are eager to go to work again, and to create again with their own hands and under their own leaders the necessary physical basis of their lives.

Emergency relief is under way behind the armies under

the authority of local Governments, backed up first by the allied military command and after that by the United Nations Relief and Rehabilitation Administration. Our participation in the UNRRA has been approved by Congress. But neither UNRRA nor the armies are designed for the construction or reconstruction of large scale public works or factories or power plants or transportation systems. That job must be done otherwise, and it must be started soon.

The main job of restoration is not one of relief. It is one of reconstruction which must largely be done by local people and their Governments. They will provide the labor, the local money, and most of the materials. The same is true for all the many plans for the improvement of transportation, agriculture, industry, and housing, that are essential to the development of the economically backward areas of the world. But some of the things required for all these projects, both of reconstruction and development, will have to come from overseas. It is at this point that our highly developed economy can play a role important to the rest of the world and very profitable to the United States. Inquiries for numerous materials, and for all kinds of equipment and machinery in connection with such projects are already being directed to our industries, and many more will come. This business will be welcome just as soon as the more urgent production for the war itself ends.

The main problem will be for these countries to obtain the means of payment. In the long run we can be paid for what we sell abroad chiefly in goods and services. But at the moment many of the countries who want to be our customers are prostrate. Other countries have devoted their economies so completely to the war that they do not have the resources for reconstruction and development. Unless a means of financing is found, such countries will be unable to restore their economies and, in desperation, will be forced to carry forward and intensify existing systems of discriminatory trade practices, restrictive exchange controls,

competitive depreciation of currencies and other forms of economic warfare. That would destroy all our good hopes. We must move promptly to prevent its happening, and we must move on several fronts, including finance and trade.

The United States should act promptly upon the plan for the International Bank, which will make or guarantee sound loans for the foreign currency requirements of important reconstruction and development projects in member countries. One of its most important functions will be to facilitate and make secure wide private participation in such loans. The Articles of Agreement constituting the charter of the Bank have been worked out with great care by an international conference of experts and give adequate protection to all interests. I recommend to the Congress that we accept the plan, subscribe the capital allotted to us, and participate wholeheartedly in the Bank's work.

This measure, with others I shall later suggest, should go far to take care of our part of the lending requirements of the post-war years. They should help the countries concerned to get production started, to get over the first crisis of disorganization and fear, to begin the work of reconstruction and development; and they should help our farmers and our industries to get over the crisis of reconversion by making a large volume of export business possible in the post-war years. As confidence returns, private investors will participate more and more in foreign lending and investment without any Government assistance. But to get over the first crisis, in the situation that confronts us, loans and guarantees by agencies of Government will be essential.

We all know, however, that a prosperous world economy must be built on more than foreign investment. Exchange rates must be stabilized, and the channels of trade opened up throughout the world. A large foreign trade after victory will generate production and therefore wealth. It will also make possible the servicing of foreign investments.

Almost no one in the modern world produces what he eats

and wears and live in. It is only by the division of labor among people and among geographic areas with all their varied resources, and by the increased all-around production which specialization makes possible, that any modern country can sustain its present population. It is through exchange and trade that efficient production in large units becomes possible. To expand the trading circle, to make it richer, more competitive, more varied, is a fundamental contribution to everybody's wealth and welfare.

It is time for the United States to take the lead in establishing the principle of economic cooperation as the foundation for expanded world trade. We propose to do this, not by setting up a super-government, but by international negotiation and agreement, directed to the improvement of the monetary institutions of the world and of the laws that govern trade. We have done a good deal in those directions in the last ten years under the Trade Agreements Act of 1934 and through the stabilization fund operated by our Treasury. But our present enemies were powerful in those years too, and they devoted all their efforts not to international collaboration, but to autarchy, and economic warfare. When victory is won we must be ready to go forward rapidly on a wide front. We all know very well that this will be a long and complicated business.

A good start has been made. The United Nations Monetary Conference at Bretton Woods has taken a long step forward on a matter of great practical importance to us all. The Conference submitted a plan to create an International Monetary Fund which will put an end to monetary chaos. The Fund is a financial institution to preserve stability and order in the exchange rates between different moneys. It does not create a single money for the world; neither we nor anyone else is ready to do that. There will still be a different money in each country, but with the Fund in operation the value of each currency in international trade will remain comparatively stable. Changes in the value

of foreign currencies will be made only after careful consideration by the Fund of the factors involved. Furthermore, and equally important, the Fund Agreement establishes a code of agreed principles for the conduct of exchange and currency affairs. In a nutshell, the Fund Agreement spells the difference between a world caught again in the maelstrom of panic and economic warfare culminating in war—as in the 1930's—or a world in which the members strive for a better life through mutual trust, cooperation, and assistance. The choice is ours.

I therefore recommend prompt action by the Congress to provide the subscription of the United States to the International Monetary Fund, and the legislation necessary for our membership in the Fund.

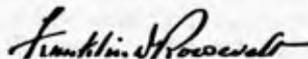
The International Fund and Bank together represent one of the most sound and useful proposals for international collaboration now before us. On the other hand, I do not want to leave with you the impression that these proposals for the Fund and Bank are perfect in every detail. It may well be that the experience of future years will show us how they can be improved. I do wish to make it clear, however, that these Articles of Agreement are the product of the best minds that 44 nations could muster. These men, who represented nations from all parts of the globe, nations in all stages of economic development, nations with different political and economic philosophies, have reached an accord which is presented to you for your consideration and approval. It would be a tragedy if differences of opinion on minor details should lead us to sacrifice the basic agreement achieved on the major problems.

Nor do I want to leave with you the impression that the Fund and the Bank are all that we will need to solve the economic problems which will face the United Nations when the war is over. There are other problems which we will be called upon to solve. It is my expectation that other proposals will shortly be ready to submit to you for

your consideration. These will include the establishment of the Food and Agriculture Organization of the United Nations, broadening and strengthening of the Trade Agreement Act of 1934, international agreement for the reduction of trade barriers, the control of cartels and the orderly marketing of world surpluses of certain commodities, a revision of the Export-Import Bank, and an international oil agreement, as well as proposals in the field of civil aviation, shipping and radio and wire communications. It will also be necessary, of course, to repeal the Johnson Act.

In this message I have recommended for your consideration the immediate adoption of the Bretton Woods Agreements and suggested other measures which will have to be dealt with in the near future. They are all parts of a consistent whole. That whole is our hope for a secure and fruitful world, a world in which plain people in all countries can work at tasks which they do well, exchange in peace the products of their labor, and work out their several destinies in security and peace; a world in which governments, as their major contribution to the common welfare, are highly and effectively resolved to work together in practical affairs, and to guide all their actions by the knowledge that any policy or act that has effects abroad must be considered in the light of those effects.

The point in history at which we stand is full of promise and of danger. The world will either move toward unity and widely shared prosperity or it will move apart into necessarily competing economic blocs. We have a chance, we citizens of the United States, to use our influence in favor of a more united and cooperating world. Whether we do will determine, as far as it is in our power, the kind of lives our grandchildren can live.



THE WHITE HOUSE
February 12, 1945.

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U. S. GOVERNMENT PRINTING OFFICE: 1945

THE

BRETTON WOODS PROPOSALS



U. S. TREASURY
WASHINGTON, D. C.

Feb. 15, 1945

THE actual details of a financial and monetary agreement may seem mysterious to the general public. Yet at the heart of it lie the most elementary bread-and-butter realities of daily life. What we have done here in Bretton Woods is to devise machinery by which men and women everywhere can exchange on a fair and stable basis, the goods which they produce through their labor. And we have taken the initial step through which the nations of the world will be able to help one another in economic development to their mutual advantage and for the enrichment of all.

—From the address closing the Bretton Woods Conference.

By HENRY MORGENTHAU, Jr.,
Secretary of the Treasury,
President of the Conference.

THE BRETTON WOODS PROPOSALS

Introduction

Bretton Woods is the symbol of a new kind of cooperation. It stands for proposals looking toward cooperation in the solution of international monetary and financial problems. Drafted by representatives of 44 nations in a conference called on the invitation of President Roosevelt at Bretton Woods, New Hampshire, in July 1944, the proposals are the outgrowth of three years of study by the technical staffs of the Treasury, State Department, Board of Governors of the Federal Reserve System, and other agencies of the United States government. For a period of more than a year, informal discussions were held with representatives of other governments associated with us in winning the war.

As part of the economic foundation for a peaceful and prosperous world, the Bretton Woods proposals call for the establishment of two international institutions, the International Monetary Fund and the International Bank for Reconstruction and Development. Although related in purpose, these institutions will perform quite different functions. The Fund will be concerned with the maintenance of orderly currency practices as they relate to international trade, while the Bank will facilitate the making of long-term international investments for productive purposes.

Acceptance of the proposals by the United States will require Congressional action.

THE INTERNATIONAL MONETARY FUND

What the Fund Will Do

The fundamental purpose of the International Monetary Fund is to promote the balanced growth of international trade. It will do this in three ways. First, it will stabilize the value of all currencies in terms of each other. Second, it will progressively remove barriers against making payments across boundary lines. Third, it will provide a supplementary source of foreign exchange to which a member country may apply for the assistance necessary to enable it to maintain stable and unrestricted exchange relationships with other members.

During much of the period since the first world war, unstable exchange rates have seriously interfered with trade and the settlement of international balances. People who buy or sell abroad need to know today what their money will be worth tomorrow, and a year hence, in terms of their own currency.

Restrictions on payments, which have in the past been among the most serious obstacles in the way of international trade, take a number of forms. In some countries, importers are not permitted to purchase the dollars or pounds required to buy goods in the United States or England. In other countries, of which Germany before the war was an example, foreign trade was disrupted by the use of so-called multiple currencies. Germany also relied heavily on barter arrangements—"we will buy your coffee if you will accept our machine tools in payment." Barter is at the opposite end of the scale from freedom in international trade.

During the war, many new restrictions have been devised and employed for reasons of military necessity. Unless uniform standards can now be developed and generally adopted, the entire jungle of controls may be extended and intensified in the postwar period. We in the United States believe that the greatest possible freedom should be given to our own businessmen engaged in international trade. But we know that this freedom will be meaningless unless other countries accord an equal measure of freedom to their businessmen.

Exchange rates must be stable

The Fund proposal provides for stabilizing the value of world currencies. This is a subject that concerns every trading nation, the

United States more than most. When an American sells abroad, he wants to be assured that the buyer's currency will have a constant value in terms of dollars. The reason is obvious. If, for example, he receives payment in Brazilian cruzeiros, the rate of exchange will determine the number of dollars he finally receives for a sale in Brazil. Even though the terms of the sale call for payment in dollars, which is not unlikely, the exporter will still be concerned with the stability of the cruzeiro, since a fluctuation in the dollar-cruzeiro exchange rate will alter the cost to the Brazilian buyer. Specifically, any depreciation of Brazilian currency raises the cruzeiro cost, possibly to a point where the Brazilian can no longer afford the purchase.

An American exporter, oddly enough, may be equally concerned with currency stability in other countries, Holland, for example, in which he neither sells nor expects to sell. This interest arises from the fact that producers in Holland compete for the same Brazilian market, and depreciation of the guilder would give the exporter in that country an edge over the American who, on the basis of efficiency in production and quality of product, might be able to hold his own in any market.

Under the Fund proposal, no member may resort to exchange depreciation simply to gain a competitive advantage in world markets. The proposal recognizes, however, that under certain conditions it may be necessary to change the value of a currency. For example, prices in a given country may remain relatively high while world prices generally decline. If so, the country's exports will drop off and its imports, over the short run, will tend to increase. This situation may be corrected by a downward adjustment of the exchange rate which, however, under the Fund proposal will have to be requested by the country in question and approved by other members of the world trading community.

Exchange Transactions Must Be Free

Among the more important provisions of the Fund proposal are those relating to the member's obligation to allow businessmen maximum freedom to conduct current transactions across boundary lines. This means more than simply allowing an Englishman who buys in America to pay the exporter in English pounds sterling. Since the American exporter cannot use pounds sterling to pay wages or buy raw materials in the United States, he must be assured that he can at any time readily convert a sterling balance in a London bank to dollar balances in his own bank. The problem is reversed in certain respects if it is agreed that the Englishman will pay in dollars. In that case, he should be able to buy a dollar draft on an American bank with an ordinary check drawn in terms of pounds, shillings, and pence against a London bank.

So long as the financial transaction grows out of current business, the Fund proposal provides that a member country shall impose no restrictions either on the acquisition of foreign exchange or on the conversion of foreign balances into domestic currency.

Multiple currencies must be eliminated

During the inter-war years, the simultaneous use of several different kinds of currencies was one of the favorite tricks of the Axis nations. The value of special currencies was purely artificial, created and maintained to gain trade advantages by means which, to us, appeared unfair. Germany used a variety of special marks, some of which could be purchased at 3 or 4 to the dollar as against the official rate of 2½, to stimulate the export of goods for which the foreign demand otherwise would not have been great—wooden toys, aspirin tablets, or cheap manufactured goods. For such goods as cameras, optical lenses, and precision instruments she exacted all the traffic would bear in terms of foreign exchange. In certain instances, "bargain counter" marks could be bought from American owners of "frozen" German bank balances which could not be withdrawn in cash. It was the Germans who got the bargain, however, since by this device they were able to force merchandise upon customers who otherwise might have bought elsewhere. Discriminatory practices employed by Germany were variously applied from country to country, and even from firm to firm, and extended to foreigners exporting to as well as those buying from Germany.

Inasmuch as discriminatory practices obstruct the free flow of trade, members of the Fund must agree not to resort to their use.

Post-War Transition Period

It will not be easy for some countries to lift their exchange controls. Those ravaged by war will require time to revive the export industries upon which they ordinarily depend for supplies of foreign currencies. In these instances, the Fund will not require the immediate termination of all controls, but will expect every country to move in the direction of relaxation as rapidly as it can safely do so.

The Fund Must Have Resources

Stable exchange rates and freedom from exchange restrictions the world over cannot be achieved by hopeful resolutions alone. When a country agrees not to change the par value of its currency without Fund approval, nor to engage in restrictive exchange practices, it surrenders effective though blunt methods of singlehandedly adjusting its own economy to world conditions. Left to its own devices, a nation that finds its gold and foreign exchange resources inadequate to meet a temporary adverse balance of payments must,

in self protection, resort to practices detrimental to world trade. No country is willing, however, to give up the right to depreciate its currency or restrict transactions in foreign currencies unless offered other means of securing results as good or better. The Fund must be prepared to help member countries maintain stable and free exchanges. Hence it must have at its disposal a sizable volume of liquid assets.

The assets of the International Monetary Fund will consist of currencies and gold to be subscribed by members in accordance with their quotas. Quotas for the original members, as determined at Bretton Woods, are stated in the Fund proposal. The gold portion of a member's subscription will be equal to 25 percent of its quota, or 10 percent of its net official holdings of gold and U. S. dollars, whichever is smaller. The member's currency subscription, equal to the remainder of its quota, will be in the form of a deposit to the account of the Fund at the member's central bank. A member may substitute a non-interest-bearing note, payable on demand, for that portion of its quota which, in the opinion of Fund authorities, is not required for working purposes.

At the start, the Fund will have total resources of \$8.8 billion, of which the United States will subscribe \$2.75 billion, the largest single share. Other large subscribers are England, Russia, China, and France.

Under carefully planned safeguards, the Fund will sell currencies in limited amounts to tide over a member temporarily in need of dollars, pounds, or francs, as the case may be. The Fund may use its gold resources to purchase any particular currency for which the demand is substantial.

For temporary use only

The Fund's resources are to be used to aid members in meeting a temporary adverse balance of payments on current international account. When a member's balance turns favorable, it will repurchase its own currency from the Fund with gold and foreign exchange. Thus the Fund's resources will be continually paid out and replenished. If a member's adverse balance is not temporary but chronic, it will have to undertake corrective measures. The Fund's resources are not to be used to finance a persistent deficit. Similarly, the Fund's resources are not to be used to accumulate foreign balances or to make permanent investments abroad.

Member countries are limited both as to the rate and amount of assistance they can get from the Fund. A member may not purchase foreign exchange with its own currency in a net amount exceeding 25 percent of its quota in any twelve-month period. Nor in general may a member over any period buy foreign exchange with

its own currency in a net amount exceeding 100 percent of its quota plus the amount of its original gold contribution. Thus, if a country has a quota of \$100 million, of which \$75 million has been contributed in its own currency and \$25 million in gold, it may purchase with its own currency a maximum of \$25 million net of foreign exchange annually for five years, or a total of \$125 million net, before reaching the normal limit of its use of the Fund's resources.

It should not be inferred, however, that a member has an absolute right to purchase any amount of foreign exchange from the Fund. A country known to have made improper use of its resources may be limited or entirely denied aid by the Fund. This is an important safeguard and a powerful sanction that may be employed to get members to adhere to Fund principles.

In addition to these quantitative limitations on the use of its resources and facilities, the Fund will impose charges that will increase both with the amount and the length of time a member uses resources acquired from the Fund.

Scarce currency

The Fund may occasionally be unable to meet all demands for one or more currencies. In that event, it may use gold to buy a scarce currency, or it may borrow from the member if the latter is willing to lend. If these remedies are inadequate, the Fund may formally declare a currency scarce and proceed to apportion its sales of that currency among members according to their relative needs. Moreover, members will be authorized to limit sales of the scarce currency.

The fact that the Fund may have to apportion its sales of a currency will not mean that the value of its assets has been impaired. Only the composition, not the gold value, will have changed, and the Fund will have the means wherewith gradually to replenish its supply of the scarce currency. In order to restore balance to the entire system of international payments, the Fund will suggest corrective measures to the member whose currency is scarce as well as to the members seeking the scarce currency.

Organization and Management

The International Monetary Fund will come into being when members subscribing 65 percent of its resources officially adopt the Agreement prepared at Bretton Woods. Each member country will then appoint a representative to serve on the Board of Governors, the body that will control the general policies of the Fund.

Responsibility for the operations of the Fund will be lodged in a board of 12 Executive Directors, of whom five will be appointed by the five members having the largest quotas—the United States, the United Kingdom, Russia, China, and France—two elected by the

Latin-American republics, and the remaining five elected by all other members. The Executive Directors will appoint a Managing Director, who will be responsible for the day-to-day conduct of the Fund's business. The principal office of the Fund will be located in the country having the largest quota—the United States.

Voting power will in general be proportional to member quotas, every member being entitled to one vote for each \$100,000 of its quota. However, as a device for enabling small countries to exercise some influence in Fund policies, every member starts out with 250 votes without regard to quota. A member's total votes thus computed will be slightly modified under certain circumstances. As the resources of the Fund are drawn upon, the voting strength of creditor members will increase while that of debtor members will decrease.

Cooperation vs. Isolation

The essence of the proposed International Monetary Fund is that it would substitute order and stability for the dog-eat-dog attitude that has in the past characterized international currency practices. Order and stability in exchange policies are objectives that can be attained not by a single country working alone but only by the united action of all of the 44 countries represented at Bretton Woods. Upon the attainment of these objectives hinges the realization of the ultimate goals of national policy—high levels of employment, rising standards of living, and economic development. In the shrunken world of tomorrow prosperity, like political security, lies not in isolation but in cooperation and mutual understanding.

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

What the Bank Will Do

The International Bank for Reconstruction and Development, like the International Monetary Fund, recognizes the need for worldwide cooperation in monetary and financial matters. Both aim at the balanced growth of trade as a means of achieving high levels of employment and rising standards of living. Each, however, will have, its own separate function. The Fund will be concerned with orderly, stable exchange rates and freedom in exchange transactions; the Bank will be concerned with long-range productive international investment.

The Bank, therefore, will fill important needs in the postwar economies of all the 44 countries that assisted in preparing the Bretton Woods proposals.

Factories, dams, power plants, transportation systems, and public buildings in the countries ravaged by war have been shelled, bombed, and pillaged. Foreign capital will be needed to help replace this wealth. While it is fully recognized that the major portion of the reconstruction burden must be borne by the affected countries themselves, yet for many "seed corn" items of capital equipment they must look to their more fortunate neighbors.

There are also the long-standing needs of undeveloped areas inhabited by more than half of the world's population—particularly the Far East and some of the Latin-American Republics. To uncover and develop their resources, to make possible their full-scale participation in maintaining healthy economic and political conditions the world over, will require extensive investment of foreign capital.

A few countries will emerge from the war with heavy industries that can produce capital equipment for export. Since exports in substantial volume will depend on the revival of international investment, these countries have a vital interest in any plan that will place international investment on a high plane, supported by new standards and safeguards. Among the countries in this group, the United States ranks first in importance.

American investors took chances after the last war, and in the late 1920's and 1930's got caught in an epidemic of defaults. Although

some would continue to purchase foreign securities offered in our markets, even without the Bank, many investors remember only too well what happened before. They realize that an investor should know something about the credit standing of the ultimate borrower; that a loan is much more likely to be repaid if it is employed for productive purposes; and that the lender should have means of checking up on the way in which his money is being used. Without these safeguards, foreign investment is a highly speculative business.

While the United States is concerned with the reconstruction and development of other countries for their sake, our principal interest in bringing about an expanded volume of American investment abroad arises out of concern for our own welfare. After the war, our economic policy will be aimed at full employment and full utilization of a greatly enlarged industrial plant. These objectives, however, cannot be realized unless we find new outlets for products of farm and factory—outlets that will be steady and profitable after war demands have dropped off.

International Investment is Essential

Ordinarily, an increase in exports can take place only if there is a corresponding increase in imports. Granting that a large volume of imports is desirable, the fact remains that the war-torn countries will require many years to rebuild their export industries. Moreover, they will require foreign capital to get under way. In the meanwhile, if our own exports are to expand, a large part of the expansion must take the form of American investment abroad. Stated another way, if foreigners are to buy a large volume of productive machinery and equipment in the United States in the immediate post-war period, American investors will have to lend part of the purchase money.

The investor, however, will want assurance that he is making a sound, remunerative investment. In providing this assurance, the International Bank for Reconstruction and Development will function in the following manner: It will determine the soundness of a project for which a loan is sought, particularly with respect to its capacity to enlarge a country's national income; it will secure the guarantee of the government of the country in which the project is to be located; and, finally, it will add its own guarantee. The risk of seeing that investors are fully protected, therefore, will fall not on the investors, nor even on any one country, but upon all of the 44 member countries. This is only fair, since all of the countries associated for the purpose of making the Bank possible will derive benefits from an expansion of international investment.

The Bank, under certain conditions, will also make direct loans. Its principal function, however, will be to stimulate private investment.

The Bank's Guarantee

The Bank is not intended to supplant but to supplement the private capital market. Loans will be made, as they have been in the past, by private lenders who see an opportunity to make an advantageous investment in a foreign country. The Bank will support and encourage these loans through the usual investment channels.

When a firm in Brazil, for example, wishes to obtain American dollars with which to purchase equipment for an electric power project, it will send a representative to one of our underwriting houses to discuss terms. If the borrower is well known to American investors, the loan might be arranged without the Bank's assistance. But if the borrower is unknown, or if for some other reason funds cannot be raised on reasonable terms, the Bank may be requested to offer its guarantee. If, after a thorough investigation, the Bank is convinced that the proposed project conforms to all of the conditions and standards prescribed, it will guarantee the repayment of interest and principal.

In order that investors may always be assured that their own risks are reduced to a minimum, the total obligations assumed by the Bank may not exceed its unimpaired capital and other reserves.

Since all member countries will share the risks involved in expanding international investment, all must be in a position to benefit from the resulting increase in trade. The proceeds of a guaranteed loan, therefore, may be spent in any member country. The borrower in the above illustration may use all of the proceeds in this country, or in any other member country where the equipment sought can be purchased economically.

Further Safeguards for the Investing Public

In the past, loans were frequently made on the basis of inadequate information, and without supervision to prevent waste and misappropriation. The Bank will be in a position to see that borrowed funds are used only for the specific purpose for which they are intended. To private investors without the means of assuring themselves that their savings are being productively employed, this feature will be of inestimable value.

The private capital market will also benefit from the fact that the Bank may guarantee only loans that are made at reasonable rates of interest and bear schedules of repayment and other terms appropriate to the character of the project. These provisions will protect the borrower as well as the investor. Exorbitant charges imposed on foreign loans in the past have often proved too burdensome, and on occasion have led to economic and political disturbances that made repayment impossible. Lower rates, because of reduced risks, will facilitate the servicing of foreign loans.

The Bank's earnings will be utilized in such a manner as to afford

the private investor additional security. Earnings will consist of interest received on direct loans, and commissions received on direct as well as guaranteed loans. The net income from interest may at the Bank's discretion be distributed to the member countries under conditions stipulated in the proposed Articles of Agreement. The income from commissions, however, must be held in liquid form, in a special reserve account, as a first line of defense against liabilities that might arise in case of default on loans made or guaranteed by the Bank.

Direct Lending Operations

Direct loans made by the Bank will be of two kinds. Of greater significance will be loans in which the Bank serves as intermediary between borrowers and lenders. The Bank may sell its own securities in the market of a member country, and in turn lend directly to the ultimate borrower. By this device the Bank will be able to consolidate numerous demands for small amounts of capital and to appeal to certain investors who might prefer to invest in securities issued by the Bank itself. The obligations thus incurred will be secured 100 percent, as will be the guaranteed loans, by the Bank's reserves and unimpaired capital.

The other form of direct loans will be made out of capital assets. The total volume of such loans, however, will be limited to 20 percent—and is likely to be less than 10 percent—of the Bank's subscribed capital. The standards for direct loans are the same as those for guaranteed loans. The projects to be financed must be productive; they must be endorsed by a member government; and the Bank will have to be convinced that private capital is not available on reasonable terms, even with its guarantee.

All loans and guaranties must have the consent of the country whose currency is involved. That is, both direct dollar loans made by the Bank and guaranteed loans floated in this country must have the approval of the United States Government.

Direct and guaranteed loans will for the most part be **additional** loans, over and above the private loans that would ordinarily be made, and will serve directly to increase the volume of international trade.

Source of the Bank's capital

The subscribed capital for the International Bank for Reconstruction and Development will be \$9.1 billion. Of this amount, the United States, the largest single stockholder, will subscribe \$3.175 billion. England will subscribe \$1.3 billion, and all British Empire countries taken together, \$2.375 billion. Russia, China, and France, in that order, will be the next largest subscribers.

Because of the primary emphasis on the Bank's guaranteeing function, participating countries may never be required to pay more than a fraction of their respective subscriptions. In the first year of the Bank's operation, members will be required to pay in 10 percent, of which one-fifth will be in gold and the rest in currency. Another 10 percent will be subject to call at the convenience of the Bank. This 20 percent of total subscriptions will constitute the capital out of which the Bank may make direct loans.

The remaining 80 percent of the Bank's capital will be held as a surety fund—an uncalled reserve to back up the Bank's guaranties. Thus, out of a total of \$9.1 billion of subscribed capital, the members will pay in only \$1.82 billion, of which our share will be \$635 million. No call will ever be made on a member government for any part of the surety fund unless a borrower defaults on a guaranteed loan, and then only if the Bank is unable to meet its obligations from reserves accumulated out of commission charges.

Membership

Membership in the Bank, in the first instance, is to be limited to countries that participated in the Bretton Woods conference and become members of the International Monetary Fund. Other countries may become members after they have been admitted to the Fund. Membership has been tied in this way because both institutions are designed to solve closely related problems. A country's adherence to the Fund will mean greater currency stability and the progressive removal of exchange restrictions, which will in turn reduce the risks of long-term investment. Furthermore, it is believed that only those nations that have demonstrated their willingness to cooperate in the improvement of basic world trade conditions should be permitted to participate in the operations of the International Bank for Reconstruction and Development.

A member may be compelled to withdraw from the Bank for failure to fulfill any of its obligations, and a member may on its own initiative withdraw at any time. While the withdrawing country will incur no further liabilities as a result of the Bank's operations, it will not be relieved of its share of the obligations assumed while it was a member.

Organization and Management

The Bank will come into existence when members subscribing 65 percent of its capital have formally approved both the Fund and Bank proposals. The management of the Bank will be under the general guidance of a Board of Governors, composed of a representative appointed by each member country. Each member will have 250 votes, plus one additional vote for each share of stock subscribed. The shares will have a par value of \$100,000 each. Thus the United

States, with a total of 31,750 shares, will have 32,000 votes out of a total of 100,750, or 32 percent of the total voting power.

In general, all policy issues will be decided by a majority of the votes cast. However, the United States will have veto power over proposals to increase the capital stock of the Bank and over all amendments.

Under the Board of Governors, and responsible for the conduct of the general operations of the Bank, will be a board of 12 Executive Directors. Five of the Directors will be appointed by the five members having the largest number of shares, and seven will be elected by the other members. The Executive Directors will select a President, who will organize a staff and, under the general guidance of the Executive Director, serve as the Bank's operating head.

The principal office of the Bank will be located in the United States, and at least one-half of the gold holdings of the Bank must initially be held here.

What the Bank Means to the United States

Once the Bank is in operation, the American investor can take advantage of foreign investment opportunities without assuming the risks that have had to be assumed in the past. Furthermore, since we are one of the few nations in a position to export substantial quantities of heavy materials in the immediate postwar period, a large proportion of the total loans sponsored by the Bank will necessarily be used for purchases in this country. The Bank, therefore, will help to create markets abroad for the output of our capital goods industries.

What the Fund and the Bank Mean to World Peace

Plans for the International Monetary Fund and the International Bank for Reconstruction and Development represent the cooperative effort of 44 United and Associated Nations. The plans are based on the conviction that stability and security in financial and commercial relationships will remove some of the important causes of war and at the same time help to open the way for increased trade and prosperity throughout the world.

The United States now, as never before, occupies a key position in world affairs. Whether we cooperate in maintaining the peace as we have in waging war will to a considerable extent shape the course of history for generations to come. Our acceptance and support of the Bretton Woods proposals, therefore, will be taken as a happy augury. It will mean to the rest of the world that instead of choosing economic isolation, which would inevitably lead to political isolation, we have determined to do our part toward the attainment of world peace and prosperity.

MERCANTILE-COMMERCE BANK AND TRUST COMPANY
SAINT LOUIS

J.M.O. MONASTERIO,
VICE PRESIDENT

February 26, 1945

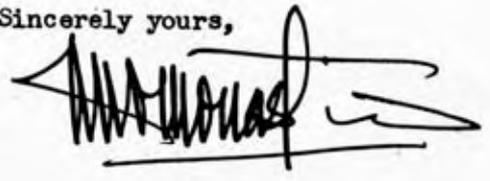
Dear Mr. Secretary:

I have received your gracious letter of the 22nd, and I am so glad that you were impressed with the meeting which was held here to hear you outline the Bretton Woods agreements.

As you know, I have always believed implicitly in international cooperation in the economic and diplomatic fields, and since I came to St. Louis four years ago it has been my aim to work actively towards that end.

Again, many thanks for your remarks about my personal work.

Sincerely yours,



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

EXCERPTS FROM THE REMARKS OF MORRIS S. ROSENTHAL, EXECUTIVE VICE-PRESIDENT, STEIN HALL & CO., AND FORMER ASSISTANT DIRECTOR, BOARD OF ECONOMIC WARFARE, AT THE UNION FOR DEMOCRATIC ACTION BALLET, TOWN HALL, FEBRUARY 26, 1945.

I met Henry Wallace for the first time in December 1941 when I left my business to join the Board of Economic Warfare. During the 20 months of work with him, I learned of his broad understanding of and sympathy with business and its problems, his great urge for the continuance of our American business system, his keen desire to help business, and his deep determination to work for the business system. When other government officials were eliminating some businessmen or concentrating the expansion of war industries in a few, the Wallace policy of helping all business enabled the Office of Imports of the Board of Economic Warfare to keep small and large importers in operation. . . .

Hence, I am disturbed that so large a part of American business and its spokesmen in powerful associations and in the Congress oppose Henry Wallace and would eliminate him from public life, eliminate one of the best friends of business who knows better than do most businessmen the measures that will save business and will make it sound and profitable in the years of reconversion and reconstruction

For it shows that the American businessman is limiting his thinking to the narrow techniques of his own company or industry, to the knowledge of balance sheets and interest rates, to the buying and selling of goods, the technology of the individual machine that turns out his individual product

But in a complex economic society with its rapid mechanical changes, improvements, and growth, the businessman must go beyond his technical skills and knowledge and must have an understanding of the relationship of the economic system to society as a whole and to the welfare of the individual. The businessman must understand the interdependence of all of the economic segments of the community, his own dependence on the prosperity of others, the position of business, its rights and responsibilities, its just claims and its contributions in an interdependent world

There is much confusion in our thinking and speaking and acting when business propagandizes that free enterprise is the American Way of Life and capitalism is the end-all American objective. For no economic system in itself or by itself can be the ultimate of our hopes, ideals and aspirations

As individual human beings, as citizens of a great democracy, as members of a large community our aims are and must be far broader and deeper. ^{First} there must be an opportunity for an abundant life for each and every citizen. There must be full employment for all who are willing and able to work. There must be a job

at adequate wages so that the worker and his family can afford proper housing, and a full and well balanced diet. There must be medical care, vacations for rest and relaxation, economic security in old age and free education for all within their mental capacities. Secondly, there are the civil liberties precious to all of us, still denied to too many of our people. Thirdly, there are political privileges, the right to elect those to public office who manage the affairs of government for us political rights which also must be extended to those millions to whom they are still denied. All of us want these three fundamentals of life for ourselves and for our children, for ourselves and for our fellow citizens. Only through the attainment of these objectives will we achieve true democracy and will we achieve for every human being the freedom of spirit for self development and growth which is the very essence of democracy

In achieving these, our economic life is of great importance, for we cannot fight for democracy and attain democracy on empty bellies. And so we must know about our economic machine, our economic system in all of its significance

In the United States we have a business system of economics. Business is the occupation pertaining to the ownership and management of the production and distribution of goods. Some own and manage, others manage for owners. But basic in our economic system is private ownership in the management of the means of production and distribution and therein lies the freedom of enterprise and of economic action that gives the individual a choice of occupation, the opportunity to take risks which, if successful, would give substantial economic gain. And we want that system for its opportunities to the individual and its incentives for constant economic expansion and growth.

But the system is valid and justifiable only if it does its share in the attainment of our three major objectives. It can last only if it provides full employment in the satisfaction of human needs resulting from full employment at adequate wages and under proper working conditions. It cannot last on a foundation of apple selling and leaf raking. As the businessman has led in the technological improvements in the machine age, so he must now participate in the necessary changes, adjustments, and improvements in our business system to keep it constantly up to date so that it fulfills the needs of society and all of our people

Henry Wallace knows the economics of finance, of commerce, and of industry -- he knows the causes and effects of business activity and he knows human needs and human values. He has the vision to plan, he has the courage and daring of

Page 3 (Rosenthal)

our forefathers who hewed a civilization out of a vast wilderness -- who risked their all in the industrial and commercial pioneering of the 80's, 90's and early 1900's. Those who fear him, fear change. They fear for themselves and for their system in a rising standard of living for all. But those of us who dare the future with the true spirit of free enterprise and competitive business, hail him as a business leader, who in a great government post, will work with us and help us maintain our business system during the difficult years ahead -- keeping all of the good of the system, yet, regearing and retooling to new needs and steering it so that it performs its true economic function, a constantly rising standard of living for each and every one of our 140 million citizens.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 26, 1945

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending February 24, 1945.

Summary

Industrial production: The FRB adjusted index of industrial production in January rose to 234 from 232 in the previous month despite the adverse effects of severe weather conditions and transportation difficulties. Factory employment in January declined 87,000, with most of the decrease occurring in the nondurable goods industries.

Steel production: Steel operations continued to improve last week and rose to a new high for the year at 96.4 percent of capacity as compared with a low of 87.9 percent in the early part of the month. Indicative of the tight steel supply situation, ODT requests for carbon steel for transportation equipment in the second quarter of 1945 are being cut sharply. Steel ingot capacity in the last half of 1944 increased approximately 1,451,000 net tons, thus raising the total expansion since mid-1940 to about 14 million tons.

Stock market: After advancing to new highs for the year in the early part of last week, stock prices weakened moderately following disclosure of the Eccles proposals for taxing war-time profits in stocks and real estate. At the close on Saturday the Dow-Jones railroad and utility stock averages were fractionally below week-earlier levels but industrial stocks were still slightly higher.

Commodity prices: Commodity prices in wholesale markets have continued the gradually rising trend which developed in the latter part of 1944. The BLS general price index in the week ended February 17 rose 0.1 percent to 105.0 percent of the 1926 average, the highest point reached in 24 years.

Cost of living: Due to continued small advances in prices of clothing and housefurnishings, the BLS cost-of-living index rose 0.1 percent last month. The index has shown an almost uninterrupted gradual rise since last March, following a year of relative stability.

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Industrial activity improved
slightly in January

Despite severe weather conditions and transportation difficulties, industrial output improved slightly in January, and the FRB adjusted index of production rose to 234 from 232 in December, on the basis of preliminary and confidential data.

Munitions output in January showed a very slight drop, but total manufacturing output (before adjustment for seasonal factors) was unchanged from December levels. (See Chart 1.) Minerals output increased slightly, as a rise in bituminous coal output more than offset a drop in anthracite coal production. The increase in soft coal output, however, follows a relatively poor showing in the previous month, and January output was still 6 percent below year-earlier levels. In this connection, it is of interest that the Solid Fuels Administration recently estimated that in the fuel year beginning April 1, the demand for coal would exceed production by 50 million tons.

Factory employment moderately lower

Reference to Chart 1 will disclose that the steady level of factory output last month occurred in the face of a decline of 87,000 in factory employment. In the munitions industries, employment on the whole showed little change from December levels, with increases at plants producing ammunition, shells, and guns offsetting decreases in various other munitions lines. Most of the decline in factory employment in January was in the non-durable goods industries, with the food industry showing a decline of 38,000. However, this decrease, as well as one of 10,000 in the textile industry, actually was less than seasonal.

In connection with the January employment figures, the Bureau of Labor Statistics also made available revised figures for 1942, 1943 and 1944. This revision indicates that the level of factory employment since the latter part of 1942 previously has been noticeably understated. For example, the revised index for November 1943, the war-time peak, now stands at 179.3 as compared with 171.0 previously, an upward revision of nearly 5 percent.

Reflecting the usual decline after the Christmas holiday season, employment in trade in January showed a drop of more than 600,000, accounting for nearly two-thirds

- 3 -

of the decline in total nonagricultural employment from the previous month. Total nonagricultural employment during January was about 1.1 million, or 3 percent, less than a year earlier. This decrease in employment was not due to a lack of work, but largely to a shortage of workers, since 1.5 million persons went into the armed forces during that 12-month period.

Steel operations improved

Steel operations last week were scheduled to reach a new high for the year at 96.4 percent of capacity, after having dropped to a low of 87.9 percent in the early part of the month under the impact of severe weather conditions and transportation difficulties. (See Chart 2.) Operating conditions in the important Pittsburgh district have shown considerable improvement, and steel ingot production in that district is scheduled to show a further rise of 2.5 points this week. Operating schedules for the entire industry during the current week, however, are down somewhat at 94.6 percent of capacity.

Despite the recent improvement, fuel and freight car shortages continue to handicap the efforts being made to increase steel output. Moreover, the opinion is expressed that capacity operations in the industry cannot be reached unless additional manpower can be obtained. In this connection, the Chairman of the WPB announced last week that the steel industry had been given a "must" rating in an effort to improve its manpower situation, principally through manpower referrals by the U. S. Employment Service.

Steel delivery situation very tight

Although new orders for steel declined in the first half of February, the drop is believed to reflect the present hectic delivery situation in the industry rather than any significant falling off in demand. In commenting on this situation the Iron Age last week stated in part as follows:

"Much of the order volume in recent weeks has been far beyond the steel industry's capacity to produce, and the War Production Board this past week found on its hands requirements for more than 140,000 tons of sheets which it cannot schedule for several months even with the aid of directives. As a further indication as to what the accelerated war picture had done to the steel industry, tens of thousands of tons of new sheet business has been turned away in the past week."

A further indication of the existing tight situation in steel supplies is seen in the fact that second quarter requests of the ODT for steel for transportation equipment are being reduced sharply. Thus in contrast to a request for 1,527,000 short tons of carbon steel, the WPB is actually allotting for the ODT program only 1,065,000 tons. This compares with 1,255,000 tons allotted in the first quarter of 1945.

Steel ingot capacity at new high

During the past week the American Iron and Steel Institute revealed that ingot capacity of the steel industry had risen to a new high of 95,505,000 net tons at the end of last year. This indicates the large expansion of approximately 1,451,000 net tons since mid-1944, when capacity figures were last reported. Since the National Defense Program was started in 1940 the capacity of the industry has increased by nearly 14,000,000 tons. Due to the abandonment or dismantling of certain furnaces no longer economical to operate, pig iron and ferro-alloy capacity in the latter half of 1944 declined 1,132,000 tons to 67,314,000 tons.

Stock prices decline after reaching new high

Stock prices moved up to new highs for the year in the early part of last week, but the Eccles proposals for a tax on speculative war-time profits in stocks and real estate caused considerable selling on Wednesday. Nevertheless, the Dow-Jones industrial average actually showed a small gain at the end of the day, partly due to relatively heavy buying of mining stocks. However, prices displayed further slight weakening tendencies during the remainder of the week and at the close on Saturday the railroad and utility averages were fractionally below week-earlier levels, while the industrial stocks maintained a slight gain. (See Chart 3.)

The rise in stock prices in the first half of February was accompanied by a further expansion in the short interest on the New York Stock Exchange. From January 31 to February 15 the short interest rose 105,000 shares to a total of 1,581,000, the largest short position since May 1933. It should also be noted that since margin requirements were raised to 50 percent on February 5, the Dow-Jones average of 65 stocks has risen about 3 percent.

Despite the substantial rise in stock prices in recent months, brokers' loans have shown only a moderate increase. Loans to brokers and dealers in New York City for purchasing or carrying securities other than U. S. Government obligations have shown a net expansion of \$258 millions since March 31, 1943, when this series was first made available. Reference to Chart 4 will disclose that brokers' loans, after reaching a recent high of \$604 millions on February 7, decreased slightly in the following week and then dropped to \$561 millions on February 21. This is about the same figure as on October 11 of last year, when average stock prices were about 10 percent lower. Confidential data of the SEC, however, reveal that "Despite the unprecedented volume of available cash, the extent of margin trading is surprisingly high and has been increasing". In January 1945, an average of 51 percent of all transactions by non-member customers of New York Stock Exchange houses was handled through margin accounts, as compared with 46 percent in the full year 1944.

Commodity prices continue rising tendency

The gradually rising trend in prices which developed during the latter months of 1944 appears to be continuing into this year. Price indexes--farm, wholesale, and retail-- showed slight increases in January, while the most recent figures indicate a creeping rise in wholesale prices during the first half of February. The BLS comprehensive index of wholesale prices (comprising about 900 commodities) has risen gradually since the end of August, reaching successive new war-time highs during the past three months. (See Chart 5.) In the week ended February 17 the index advanced 0.1 percent to 105.0 percent of the 1926 average, which marks the highest point in 24 years and is 40 percent above the pre-war August 1939 average.

While the basic commodity index has shown a rising tendency in recent months, the trend has been more irregular than that of the general price index. (Refer to Chart 5.) Last week the basic commodity index rose a trifle, but the increase was too small to appear on the price chart. Among the individual commodities in the index, only one commodity, steers, showed any significant change, rising about 3 percent.

The rise of commodity prices in wholesale markets during the past several months has been chiefly in prices of farm products. Grain prices, particularly wheat, oats, and rye, have shown appreciable increases, and fruits and vegetable prices have moved higher. However, small increases have also occurred in prices of a number of industrial products, largely as a result of upward revisions in OPA ceiling prices. Among the more important ceiling revisions have been increases in ceilings for many textiles, several steel products, pig iron, manganese steel castings, and building materials. Higher textile ceilings were necessary under the provisions of the Price Stabilization Extension Act, but some ceiling revisions have been made because increased costs had seriously reduced profits.

BLS cost-of-living index slightly higher

The BLS cost-of-living index, continuing the gradual advance which was resumed last April, rose 0.1 percent in January and is now 28.9 percent above the pre-war June 1939 level. Small increases in clothing costs and in housefurnishings and miscellaneous charges last month more than offset a slight decline in retail food prices. (See Chart 6.) The higher clothing costs were due to the scarcity of low-cost cotton clothing, while costs of housefurnishings moved higher because of the disappearance of lower-priced lines of living room and bedroom furniture.

The cost-of-living index has risen 2.6 percent since last March, which marked the end of almost a year of relative stability. During this time clothing prices, as well as prices of housefurnishings and miscellaneous charges, have increased 4.6 percent, while retail food prices have advanced 2.4 percent. Food costs, however, have shown practically no change in the past six months and are still somewhat below their war-time peak. On the other hand, the steady rise in prices of clothing has become a growing threat to the stabilization program.

In a move to remedy the clothing situation, the WPB last week issued an order governing the recently-announced essential civilian apparel program. Approximately 80 percent of all woolen fabrics available for civilian consumption, 75 percent of rayon fabrics and about 80 percent of all cotton fabrics will be set aside for the production of specified essential civilian apparel items selling within lower and medium price ranges. Moreover, the OPA announced a ceiling price regulation for cotton clothing to be produced under the WPB order. Additional

pricing action will be taken for woolen and rayon clothing. Although several months will elapse before the results of the new clothing program become apparent, the program is expected to roll back the prices of essential clothing 6 to 7 percent.

WLB report recommends retention of
Little Steel formula

The public members of the War Labor Board, in their long-awaited report to the President on wages and the cost of living, recommended last week that the Little Steel formula be retained intact to prevent an inflation danger which would be disastrous to the war effort. While acknowledging a 29.5 percent rise in the cost of living from January 1941 (the base date of the Little Steel formula) to October 1944, the report states that average straight-time hourly earnings, adjusted to discount the movement of workers to higher-paid war industries, have risen 36.7 percent during that period. Real hourly earnings have thus increased somewhat since January 1941.

Although the Little Steel formula has limited any increases in the basic wage rate to 15 percent of the January 1941 level, average straight-time hourly earnings have shown greater increases due to such factors as shifts of employees within an industry to higher-pay localities, accelerated merit increases, increased shift premium payments, and incentive earnings. On the other hand, the War Labor Board decided that $3\frac{1}{2}$ to $4\frac{1}{2}$ points should be added to the current figures of the BLS cost-of-living index to allow for hidden price increases and for larger increases in living costs in small as well as large cities.

Not only did the WLB report oppose general wage increases on the grounds of any inequity between average wage levels and average price levels, but it also disagreed with the argument that a general wage increase is needed now to protect workers' earnings and to maintain consumers' purchasing power in the reconversion period, saying: "The resulting pressure on prices would, in our judgment, be so formidable as to jeopardize the whole war-time stabilization program."

FACTORY EMPLOYMENT AND OUTPUT

1939 = 100, Unadjusted

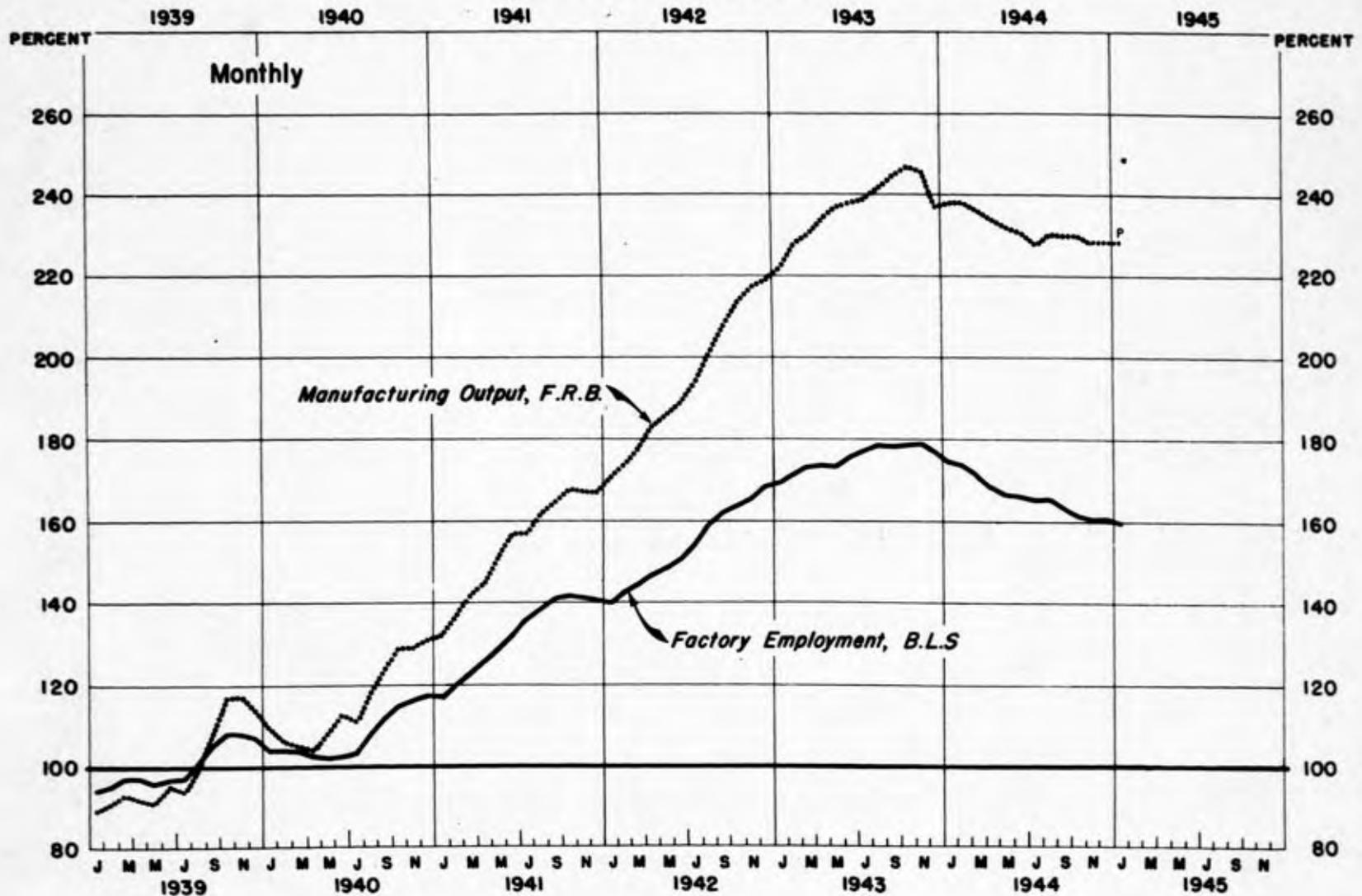
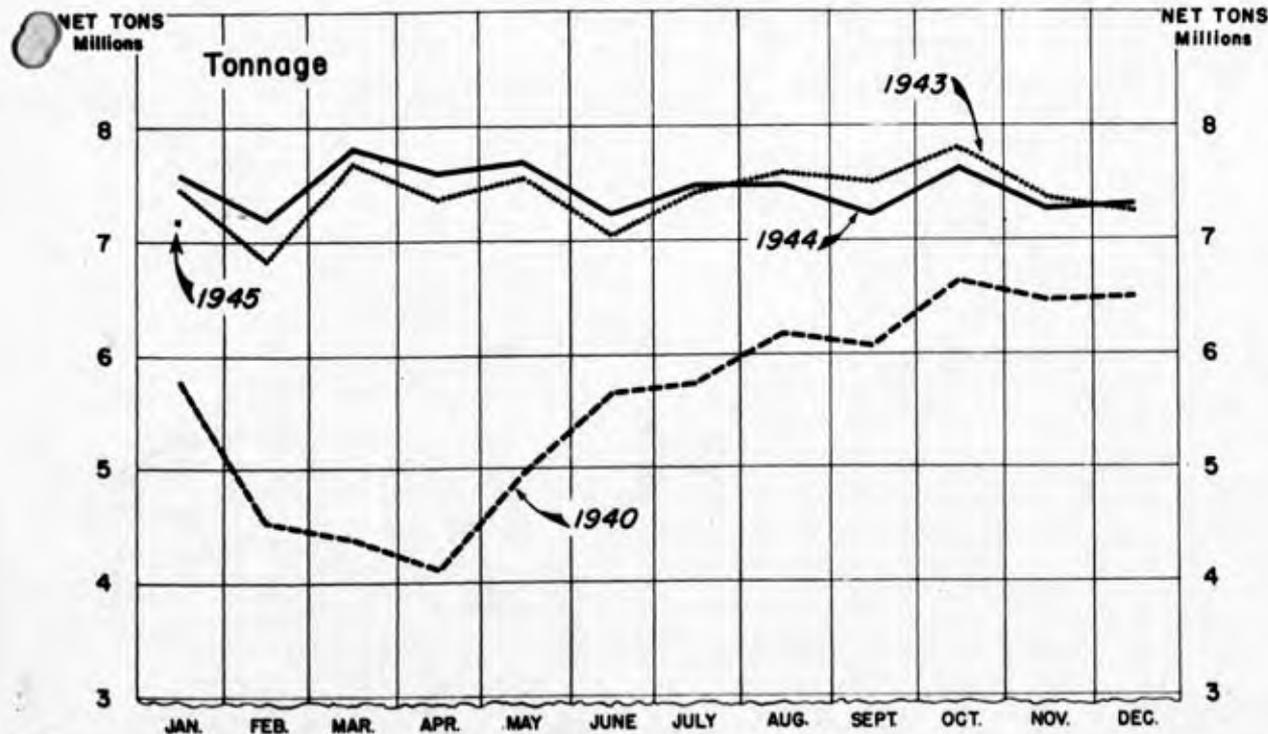
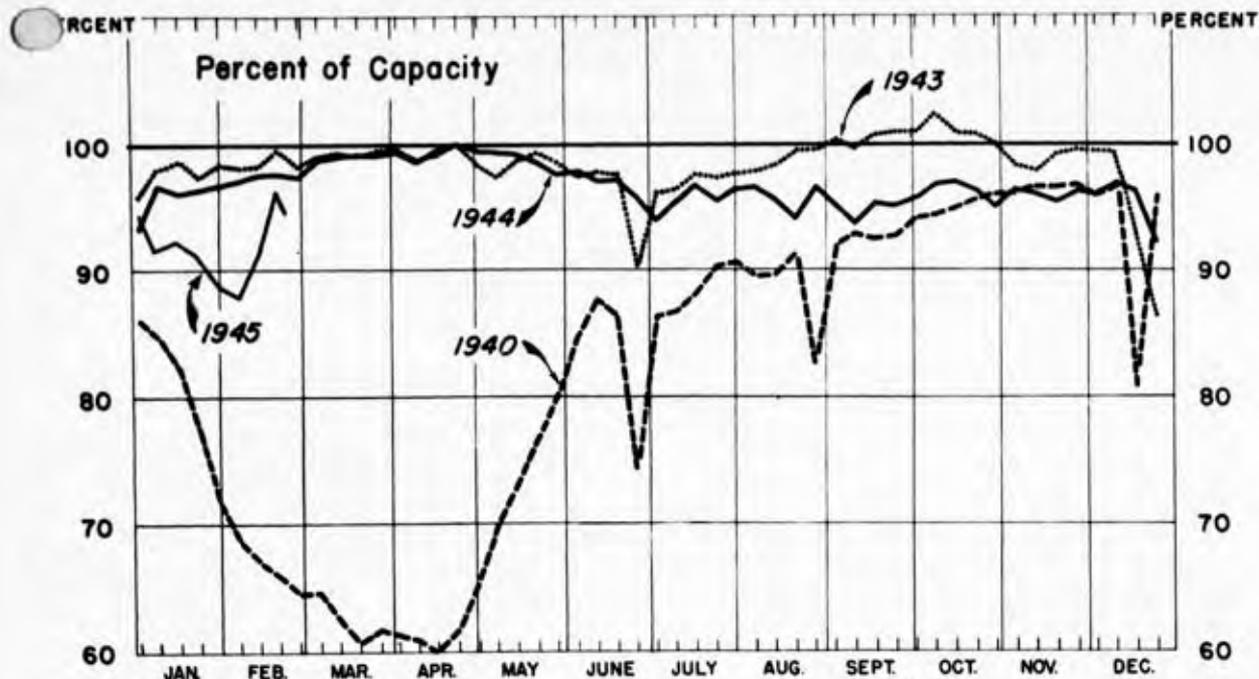


Chart 1

STEEL INGOT PRODUCTION

44

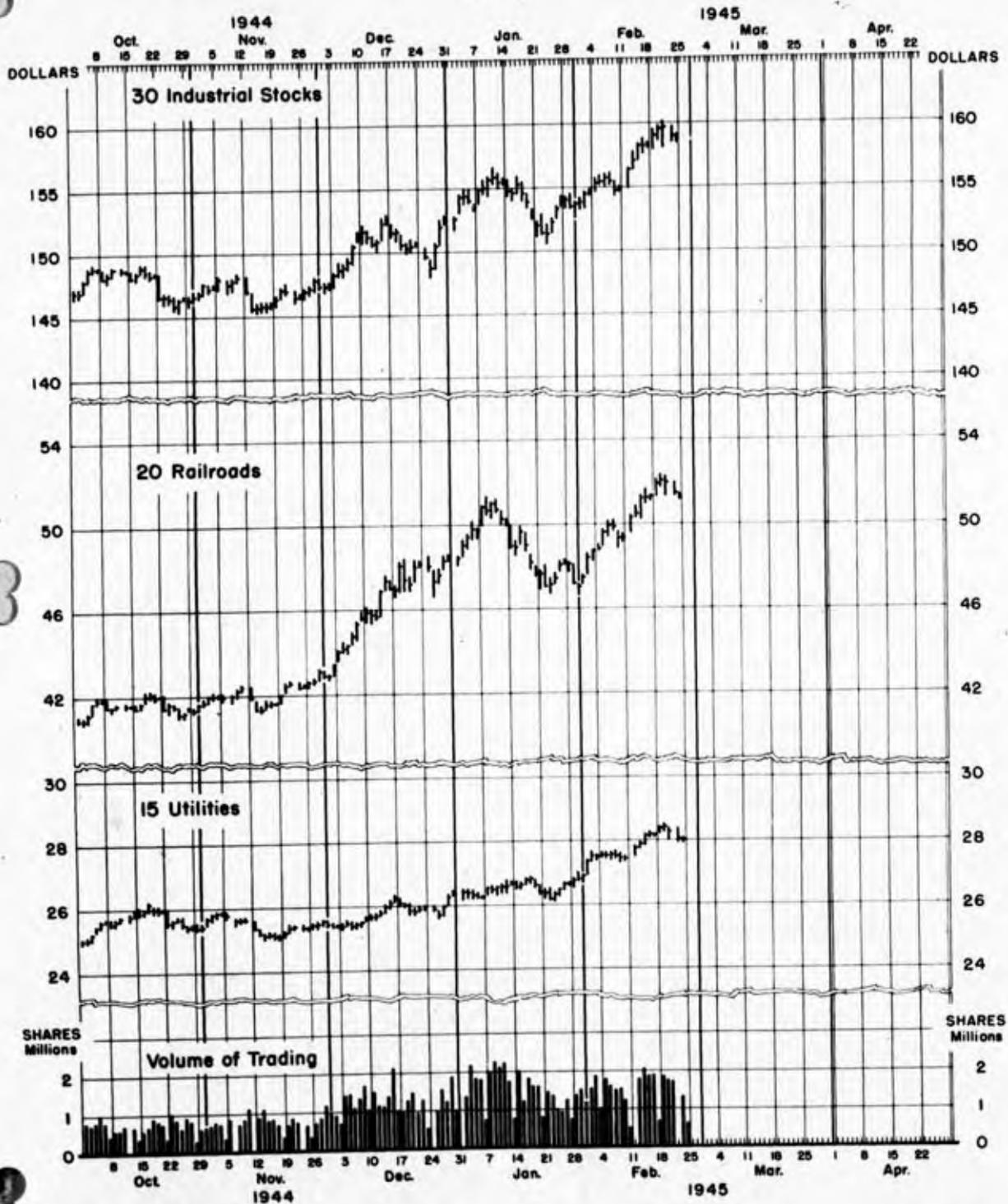


Source: American Iron and Steel Institute

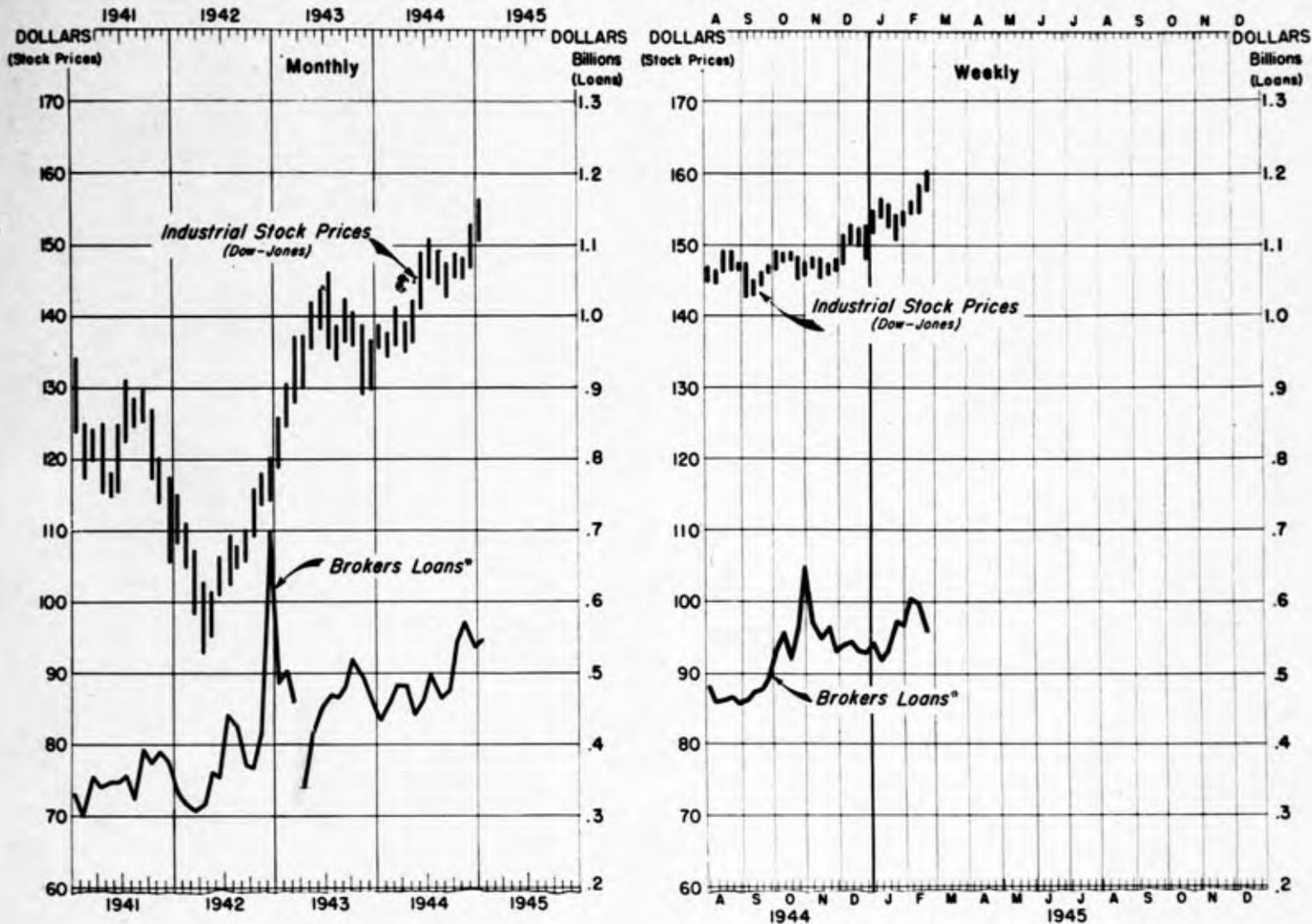
STOCK PRICES, DOW-JONES AVERAGES

Daily

15



STOCK PRICES AND BROKERS LOANS*



* Loans to brokers and dealers in New York City for purchasing or carrying securities other than U.S. Government obligations, weekly reporting member banks, U.S. Government obligations not excluded prior to April 1943.

COST OF LIVING AND SELECTED ITEMS

June 1939=100

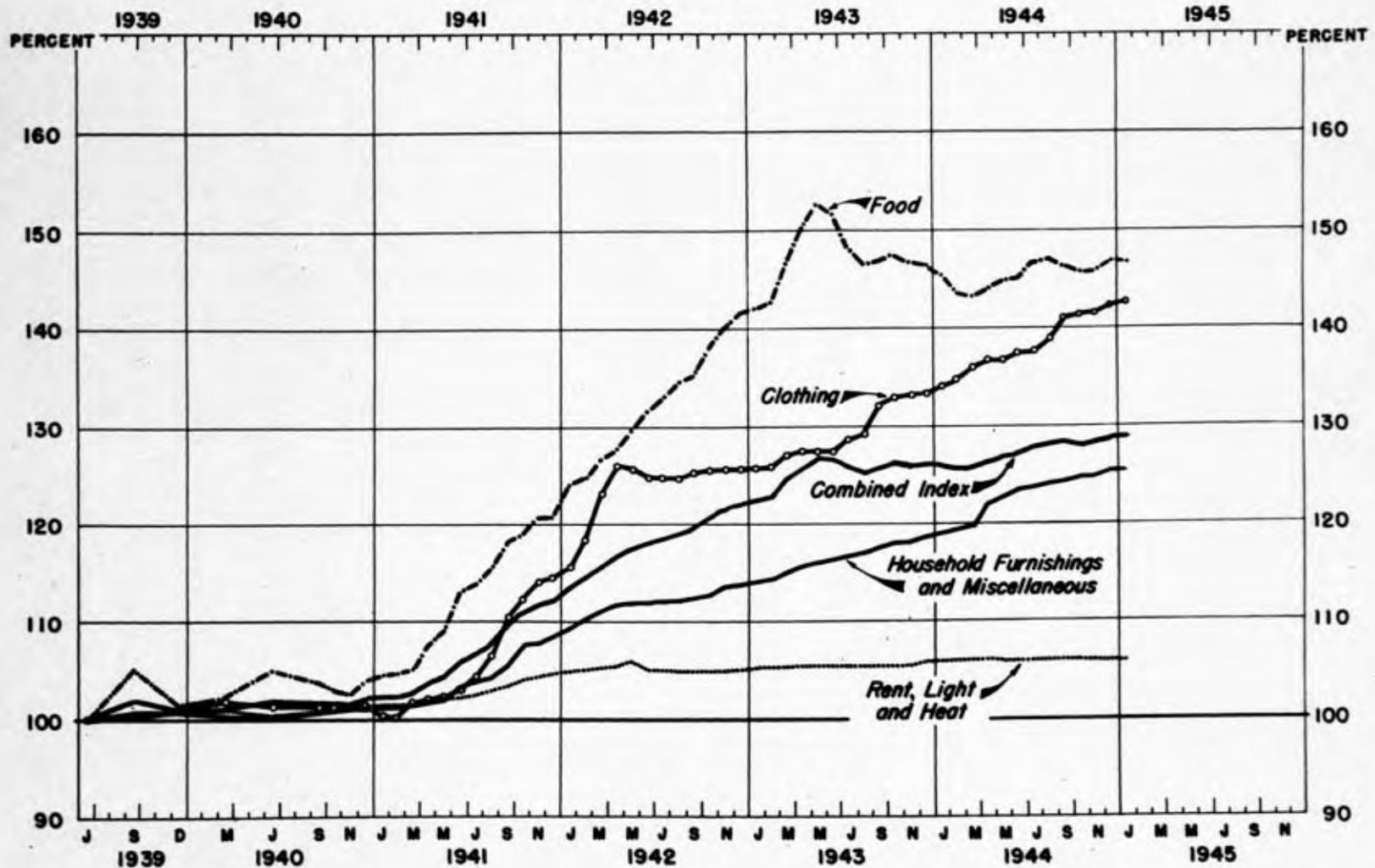
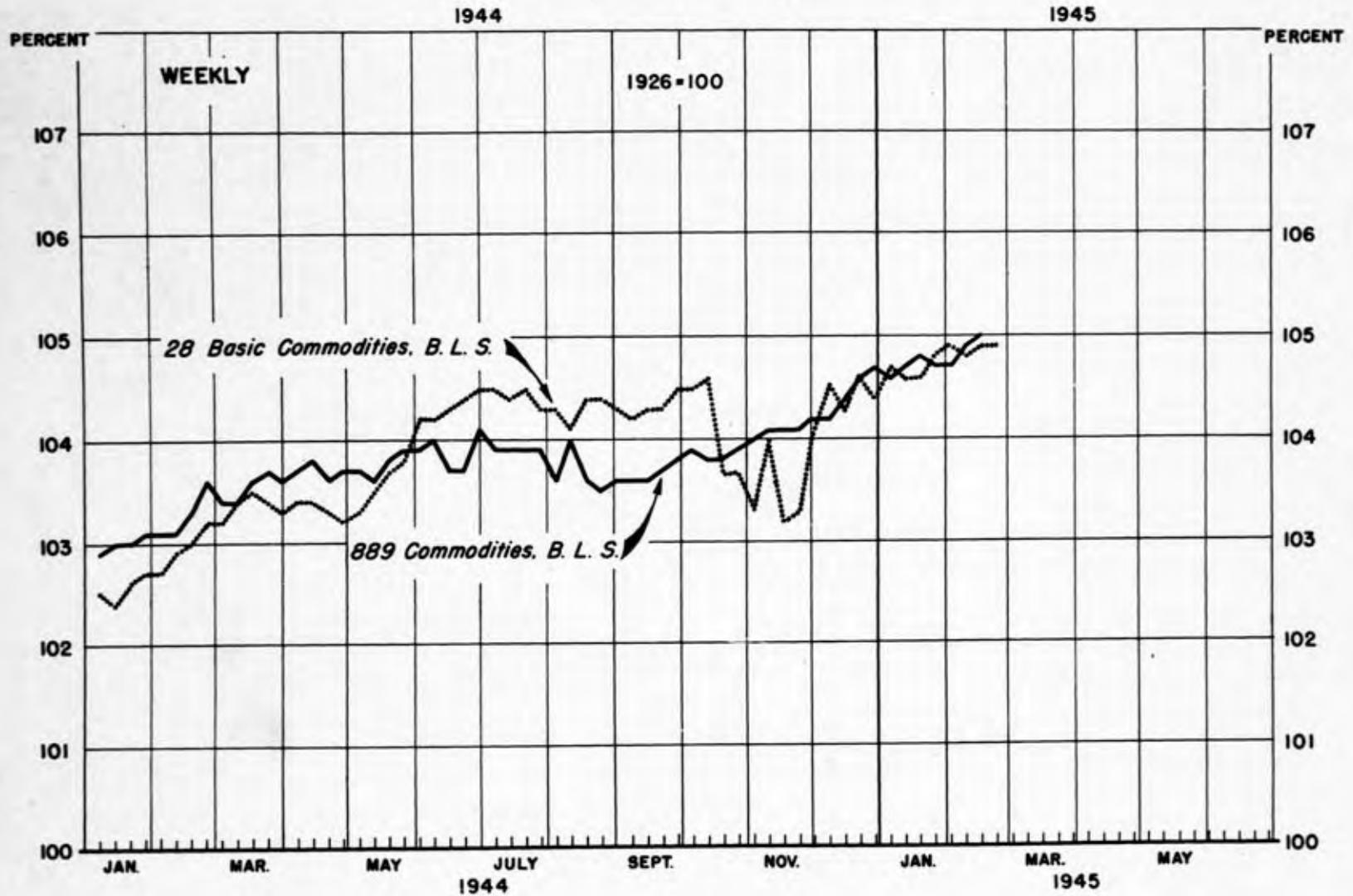


Chart 5

WHOLESALE COMMODITY PRICES



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

AA ✓

49

DATE

February 26, 1945

TO Secretary Morgenthau
FROM Mr. DuBois

You will be interested in the attached clipping from today's Washington Post. I have asked Charlie Shaeffer to try to get a full text of the broadcast.

JSD

Washington Post
2-26-45

German Youth Urged to Keep Nazism Alive

London, Feb. 25 (AP).—Reichleiter Xavier Schwarz, treasurer of the Nazi party, broadcast today:

"It is possible that we will be destroyed, but the National Socialist idea will be preserved by the youth when all else has crumbled."

Schwarz spoke to Nazi youth groups.

Hitler was reported to have sent messages of encouragement to the gauleiters of besieged Breslau and Koenigsberg. He also was reported to have received gauleiters, Reichleiters and leaders of party units at his headquarters "in order to give them directions for a victorious continuation of the war, for the organization of all resistance forces, and for unconditional effort of the party in the fateful war of the German nations."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 26, 1945

TO Secretary Morgenthau (For information)
FROM Mr. Coe *FC*

The Financial News alleges that the Germans are undertaking a mounting campaign, as defeat approaches, to prove that Germany's position as the economic pivot for the European Continent, cannot be altered without detriment to the "health" of Europe.

Further evidence that the chapter for your book on the place of Germany in the European Economy should be as convincingly drawn as possible.

*Debois } read
Lott }*

WINNING THE PEACE

The Financial News.

Alexander the Great, confronted with the task of untying the Gordian knot, solved his problem by cutting it open with a stroke of his sword. This is how the Allies are dealing with the Gordian knot of Hitler's "new economic order." For years we have been told, over and over again, that it would be impossible to disentangle the highly involved network of economic relations between the Reich and German-controlled Europe created during the German occupation. Yet in every country liberated by the Allies the fact of the liberation brought the "new order" to an end with a stroke of the sword. Had Germany surrendered while still in control of Europe, or had a negotiated peace been concluded, the non-German countries would have been confronted with the choice between severing the economic links forged against their wish or allowing them to continue with certain modifications. Even then there could be no doubt that they would have decided in favour of liquidating the economic relics of the hated German occupation. As it is, the fact of their liberation by force of arms, and the continuation of the war after their liberation, has solved their problem. The liberated countries are effectively cut off from Germany by the existence of a fighting front between them. The question whether or not their economic relations with their former oppressors should be maintained simply does not arise. Their economies have to be reorganised from top to bottom, and have to be adapted to the fact that they are now within the economic sphere of the Allies. It is from the Allies that they have to get the raw material, fuel, fertilisers, equipment, semi-manufactures, &c., needed for restarting their production. It is to the Allies that they have to sell their surpluses. No more effective way could possibly have been devised for the liquidation of the "new order." The process which might have taken years has now been accomplished practically overnight. And the longer the war continues in Europe, the longer Germany manages to defend her territory, the more completely the traces of the economic links between her and the victims of her aggression will be eradicated.

It looks as though by the time the war is over the problem to be decided upon will not be whether and to what extent the economic links between Germany and the Continent should be severed, but whether and to what extent some economic links should be restored. For there will be none left at the time of the termination of the hostilities. The situation that will then arise will follow the lines of the melancholy music-hall song of twenty years ago: "I can't possibly live without you, but I can't possibly live with you!" A certain amount of trading with Germany will then be found necessary and advantageous; there is no question of trying to live without Germany. On the other hand, great care will be taken that the Continent should never again become economically dependent on Germany. In the interests of winning the peace, the liberated countries will carefully avoid becoming once more entangled with a German-dominated European economic system. Whether a restoration of the "new order" in a modified form would carry certain economic advantages is very much a matter of opinion. Even if it did, however, the liberated countries would be only too glad to forgo any such advantages if they should carry the danger of providing Germany with the opportunity of achieving once more political domination through economic domination. What is at stake is the winning of the Peace. Germany is fully aware of this. She is already making preparations to win the Peace by persuading liberated Europe to submit of its own free will to the bondage of the economic "new order." Now that the weapons of the *Wehrmacht* can no longer uphold the "new order," the German Universities are being mobilised to fight for it with intellectual weapons. The subservient Professors of Heidelberg and other seats of learning have set out to prove that the "new order" has economic justification, irrespective of the outcome of the war. We shall come across a great deal of pseudo-scientific argument to that effect from now on. It is well to realise, therefore, that the object of the campaign is to ensure that in spite of her defeat, Germany should be allowed to retain much of the economic fruits of her earlier victories.

Will Germany be allowed to win the Peace in spite of losing the war? If the Allies should allow themselves to be persuaded by the German and pro-German argument in favour of reconstructing the "new order," they would throw away the fruits of their dearly-bought victory. For there can be no doubt that if the German economists' pleading for the "new order" is accepted, Germany will be given yet another opportunity for making a bid for world domination. It would enable Germany to assure a large part of the raw material requirements of her rearmament. It would secure for her a large degree of independence of Allied control and a large degree of immunity against a naval blockade in case of another war. It would weaken the political resistance of her neighbours in face of her "peaceful" economic penetration. The great mistake made by the statesmen of Versailles was that they failed to make any provision against economic preparations to enable Germany to rearm eventually. It would be the height of folly if the peacemakers after this war went even further by actually assuring Germany the economic means to that end. The Germans know what they are doing when, even amid their grave preoccupations on the eve of the collapse of their armed resistance, they find time to embark on a campaign in favour of the "new order" after the war. Until a month or two ago they were so dazed by the blows that had fallen on them in close succession that in a defeatist mood they admitted that the "new order" was a thing of the past. They have now changed their tune, however, and a Professor of Heidelberg had actually the impudence to take his Swedish and Swiss colleagues to task for daring to suggest that the trade of Europe can possibly follow lines different from those prescribed by the "new order." The Allies are well-advised to be on their guard against this revival of the "new order" propaganda. It should not be dismissed as sheer absurdity. Once the war is over, many people may be inclined to lend their ear to the German argument. There is reason to believe that this campaign will be one of the principal means by which Germany hopes to continue her fight after the military weapons have been knocked out of her hands. Those who are responsible for determining the fate of Germany after her defeat are well advised to give this matter their attention.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

noted 52
gao

DATE Feb. 26, 1945

TO Secretary Morgenthau (For information)
FROM Mr. Coe f.c.

Further in regard to Winant's worries:

Information has just come in showing that Leon Henderson was talking with Winant and our people in London in very much the same terms as Winant talked to the Treasury representative.

It is evident that Winant is not going to be a very enthusiastic negotiator with the British and the Russians concerning that part of 1067 (rev.) which pushes for decentralization.

Let Hudson read this. Key

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 26, 1945

TO Secretary Morgenthau (For information)

FROM Mr. Coe F.C.

Subject: Winant on Germany

Jim Mann of Treasury reports an interesting conversation (February 1) with Winant. Excerpts follow.

". . . . He stated that he was greatly worried by some of the thinking of people today. . . According to the Ambassador there is going to be all sorts of misery and disorder in Germany and it will be such that it is going to create just the thing we are fighting against--another Hitler. . . . The Ambassador then went into a long discourse which finally added up to the fact that the thinking now is to divide Germany into zones each of which will be controlled by the particular country occupying that zone. There will be no free inter-course between the zones. In fact, it will amount to something like independent states, each of which would be a 'water-tight compartment'. This was a great mistake and the responsibility for it would be ours. Railroads would stop at the zone line of demarcation. Hunger in one zone could not be alleviated with food from another. Then at the only point in the conversation in which the Treasury was mentioned, he said 'Some of the Treasury fellows thinking on this problem have even gone so far as to advocate the use of different currencies in different zones'. He was not optimistic about the future because the Russians would move in and devastate their area and anything that was given to the other United Nations to repay them for the damage they had suffered would have to come from our zone and the British zone. He again pointed out that by signing the unconditional surrender terms on behalf of certain of the other United Nations, we assumed an obligation to them. . . ."



UNITED STATES OF AMERICA
TREASURY DEPARTMENT



AIR MAIL

Office of the Treasury
Representative

Embassy of the United States
London, February 2, 1945

Personal and Confidential

No. 227

Dear Mr. White:

1/

There is enclosed a memorandum by Jim Mann on the discussion which he had last evening with the Ambassador during which the Ambassador made some rather interesting remarks about the post-war treatment of Germany. I am sure that you will find the memorandum of interest.

2/

There is also enclosed a clipping from today's Daily Mirror which, I feel, will be of interest to you in connection with the Ambassador's remarks.

Sincerely yours,

William M. Tomlinson
William M. Tomlinson

U.S. Treasury Representative

Enclosures

Mr. Harry D. White,
Assistant Secretary,
U.S. Treasury Department,
Washington, D.C.

RECEIVED
TREASURY DEPARTMENT
FEB 7 1945

MEMORANDUM

February 1, 1945.

This evening I went to the Ambassador's office to explain to him my mission to Belgium and to obtain his approval. The Ambassador was very friendly but didn't appear particularly interested in my reasons for going to Belgium. When I had outlined this projected voyage to him he handed me the telegrams on his desk to read. They consisted of (1) an editorial in today's Daily Express on Bretton Woods, (2) a report on the Debates, such as they were, in the Commons yesterday on Bretton Woods and (3) a telegram which had been written by the Ambassador personally outlining methods which the Tories and reactionaries were using to attack Bretton Woods and giving a strong criticism of such actions. I commented briefly on the telegrams, assured the Ambassador that they would be of interest to the Treasury and, of course, I was glad to see the Ambassador's personal telegram to the Secretary pointing out the very questionable tactics used by the reactionaries. After this the Ambassador spoke of Secretary Morgenthau and praised him highly. As he put it "he was a man of great integrity". He stated that he was very fond of the Secretary. When he had concluded I told him that we had just had a visitor from the Treasury Department who had advised us that Mr. Harry White was last week confirmed as Assistant Secretary of the Treasury. The Ambassador then spoke in praise of Mr. White, termed him a great thinker and stated that he would write his congratulations to him tomorrow.

The Ambassador then made what to me was a curious remark until he explained it. [He stated that he was greatly worried by some of the thinking of people today.] It developed that the thinking which was worrying him was some of the thinking on the post-war treatment of Germany. [According to the Ambassador there is going to be all sorts of misery and disorder in Germany and it will be such that it is going to create just the thing we are fighting against--another Hitler.] Not knowing exactly what the Ambassador was hitting at, I made a rather general statement that conditions there would no doubt be very bad in view of the policies of the Nazi fanatics to resist to the last man and apparently there would be terrible destruction in the country but I was not quite clear just how this was going to create another Hitler. [The Ambassador then went into a long discourse which finally added up to the fact that the thinking now is to divide Germany into zones each of which will be controlled by the particular country occupying that zone. There will be no free intercourse between the zones. In fact, it will amount to something like independent states, each of which would be a "water-tight compartment". This was a great mistake and the responsibility for it would be ours.] Many who advocated this kind of thinking overlooked one thing, namely, that we were going to sign the unconditional surrender terms on behalf of certain of the other United Nations whose forces have not participated in the occupation. The British would have a good defense in that they originally had wanted to bring these other countries into the occupation work. The Russians had sided with us but on the other hand the Russians had wanted an overall control. The advocates of the "separate zone" theory also overlooked the fact that whether we had a hard peace or a soft peace we should have to have some machinery for control. The Ambassador had attempted in the European Advisory Commission to set up such a machinery. The machinery had been set

up with the idea that there would be an abundance of food in one zone and a scarcity in another. Food could be shipped from the abundant zone to the scarce zone, and the same applied to coal and many other things. Railroads could run throughout Germany and there would be communications throughout Germany but under the thinking which the Ambassador was criticising there would be no such transportation or communications. [Railroads would stop at the ^{zone} line of demarcation. Hunger in one zone could not be alleviated with food from another. Then at the only point in the conversation in which the Treasury was mentioned, he said "Some of the Treasury fellows thinking on this problem have even gone so far as to advocate the use of different currencies in the different zones".] That to the Ambassador was unthinkable.

At this point the Ambassador ceased talking in terms of the different zones and talked in terms of the misery that would befall Germany and the Germans. He wanted a hard peace but the way we should have that peace was by setting up a control machinery which would force the Germans to carry out our will. There had to be a certain amount of discipline and a certain amount of order. We would not have sufficient troops to run the water system, to mine the coal, to make the electric plants run. We should have the Germans do this, but the way to do it was to tell them what to do and make them do it.

According to the Ambassador, there are a lot of people thinking about this problem who wanted to control the "plus" but didn't want to control the other. The Ambassador certainly wanted to take the "plus" and use it to repay the countries that had been devastated but there are certain obligations which we had to assume. We had to keep a certain amount of discipline and order. How could we benefit if Germany were swept with epidemic? He could not see how that could help us at all and he predicted that there would be great epidemics which "would not recognize uniform or nationality". He then mentioned that one had to admire the Russians for their efficiency and for their discipline. I asked what kind of controls the Russians had indicated that they would put in their zone. He said that they would keep discipline but that they would move into the zone and carry everything away, "even the machine tools". He referred at this point to their moving into Rumania and taking the American property in the oil fields. He was not critical of that action because the Russians needed oil ~~to~~ keep their Army going and he certainly wanted to see those armies go. But, after the war when the fighting was over the question was a different one. [He was not optimistic about the future because the Russians would move in and devastate their area and anything that was given to the other United Nations to repay them for the damage they had suffered would have to come from our zone and the British zone. He again pointed out that by signing the unconditional surrender terms on behalf of certain of the other United Nations, we assumed an obligation to them.] The Ambassador seemed to fear that not only would we create a situation out of which would arise the very thing against which we were fighting but that we would also run the risk of offending some of the other United Nations.

During this conversation I said very little. In fact, there was not much opportunity for me to talk and when the Ambassador started explaining his point of view I was careful not to interrupt him. Most of my comments were of a very general nature and generally referred to the newspapers and points of view I had seen expressed

CONFIDENTIAL

in the British Press. At the end of our interview I mentioned generally to the Ambassador that I was somewhat disturbed by some of the thinking which I had seen expressed in the British press. I mentioned that the press talked quite a bit in terms of reparations as distinguished from restitution. That meant the retention of German industry and thus meant the retention of the German war potential. The Ambassador recognized that there were some British people who felt like that but certainly not all. He said it would be unthinkable if we left the German war potential and he certainly didn't propose to do that. At this point the Ambassador stopped discussing the post-war treatment of Germany and I was unable to draw him out further on any of the topics which he had mentioned. Accordingly, I thanked him for the time he had given me and referred again to the Belgian mission and told him that if he were interested in my preliminary findings I would be glad to advise him on my return. He expressed himself as very much interested and hoped that I would take the opportunity to advise him.

As I left the Ambassador's office it was around 7 o'clock. (I had been in his office 45 minutes.) He followed me into the waiting room and asked Caulder, his assistant, to call Philip Moseley, who advises the Ambassador on European Advisory Commission problems, and ask him not to leave as he wanted to see him a little later in the evening.

James H. Mann
U.S. Treasury Representative.

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RECEIVED
FEB 7 1942
Division of
Military Research

DAILY MIRROR, Friday, February 2, 1945.

Daily FEB 2 Mirror

No. 12,531
ONE PENNY
Registered
at the G.P.O.
as
Newspaper.

**America plans all-time
carve-up of Reich into**

THREE GERMANYS

The Three-Power Conference anticipated by the whole world started today, said a Cairo broadcast picked up in New York last night. The broadcast did not give any hint of where the meeting is taking place.

By JOHN WALTERS.

Your Diplomatic Correspondent
ULTIMATE division of Germany into three independent States is the aim of an American plan to be discussed at the conference of the Big Three.

According to this plan Germany would immediately after the war be divided into three distinct zones of occupation.

Gradually each zone would be encouraged to develop a government of its own which would be completely independent of governments in other zones.

The plan also favours the drastic de-industrialisation of

Germany, the transfer of considerable German territories to other countries, and extremely strong regulations to prevent rearmament.

It suggests that the European Advisory Commission (which now sits in London) should be replaced by an inter-Allied body which would make its headquarters in a European capital.

Harry Hopkins, Roosevelt's personal adviser now in Europe, in a signed article in the "American Magazine" comes out in favour of a "perpetual Army of Occupation" for Germany and Japan.

"I have no doubt that powerful forces in Germany and Japan are preparing even

**Big 3 conference on the
future Europe: Stalin
says "Franco must go"**

now for their next attempt to conquer us," he writes.

"We will try to keep them impotent, but only a perpetual Army of Occupation would be able to prevent them from re-arming eventually."

Spanish Republicans believe that another subject to be debated at the Big Three conference will be a firm demand by Stalin for the ending of the Franco regime.

In expectation of the Spanish dictator's early fall exiled Republican leaders and others have hurriedly been conferring in Paris.

Franco is fully aware of the fast-growing demands for his expulsion, but is relying on a group of fanatical Falangist extremists to keep him in power.

Stalin is known strongly to believe that no effective plans can be made for the reorganisation of Europe while one of its big nations remains a stronghold of Fascism.

The Soviet recently made it clear to the Allies that Russia could be represented at no international conference where Franco's Spain has a seat.

A prominent exiled Spanish political leader told me:

"Nearly all Spaniards agree that now is the moment for Franco to go—but he won't go until he is pushed.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 26, 1945

TO Secretary Morgenthau (For information)
FROM Mr. Coe F.C.

Subject: Allied Policy for Italy: A New Directive

The Combined Chiefs of Staff have redefined in a directive dated January 31, 1945, Allied relations with Italy. The following are the important provisions of the new directive.

- 1) Italian Government may issue decrees and pass legislation with respect to territory under its control without the prior approval of the Allied Commission.
- 2) It is considered desirable to encourage the holding of elections for local public offices in territory under the jurisdiction of the Italian Government.
- 3) Italian Government is permitted to have direct relations with foreign diplomatic representatives in Italy.
- 4) Italians are to prepare supply programs for imports required to rehabilitate the country without screening by the Allied Commission. Nothing in the directive is to be considered as a commitment with respect to shipping.
- 5) Italians are to determine the extent to which exports are to be stimulated, within the limits of available shipping and subject to military consideration.
- 6) Cultural relations between Italy and the United Nations are to be facilitated.
- 7) Allied Commission Headquarters is to occupy itself primarily with consultation and advice to the Italian Government at high levels.

SECRET

60

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
CIVIL AFFAIRS DIVISION
WASHINGTON 25

22 February 1945

MEMORANDUM TO: Mr. Harry D. White
Assistant to the Secretary
U. S. Treasury Department

SUBJECT: CCAC 155/2

In accordance with the request of Mr. Glasser, U. S. Treasury Department, there is transmitted herewith a copy of subject CCAC paper.

Encls
as above

J. H. HILLDRING
Major General
Director, Civil Affairs Division

Chas. L. Kades

CHAS. L. KADES
Lt Colonel, GSC
Asst. Executive

"THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPionage Act U. S. C. 60: 31 and 32. THE TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW."

FEB 23 1945

SECRET

COMBINED CHIEFS OF STAFF
Combined Civil Affairs Committee
Washington, 25, D. C.

Date: 22 February 1945

From: Combined Civil Affairs Committee

To: Mr. Glasser, Treasury

The following communications are transmitted herewith for your information.

CCAC 155/2 Copy 14

Please indicate receipt of the above communications by endorsement in the space provided below, and return to Combined Civil Affairs Committee, Room 3B-936, Pentagon Building, Washington, 25, D. C.

Officer

Title

S E C R E T

COPY NO. 14

C.C.A.C. 155/2

31 January 1945

COMBINED CIVIL AFFAIRS COMMITTEE

ALLIED POLICY FOR ITALY

Note by the Secretaries

The Appendix to the Enclosure is the draft directive to SACMED contained in the enclosure to C.C.A.C. 155/1 as amended and approved by the Combined Civil Affairs Committee at its 50th meeting, and submitted to the Combined Chiefs of Staff on 23 January 1945 for consideration.

The Combined Chiefs of Staff, by informal action, approved the directive to SACMED contained in the enclosure and dispatched it on 30 January 1945 as FAN 487.

T. E. H. BIRLEY,
W. M. CAMERON,
Combined Secretariat.

"THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSES OF THE UNITED STATES WITHIN THE MEANING OF THE Espionage Laws, Title 18, U. S. C. Sec. 793 and 794. THE TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW."

SECRETENCLOSUREALLIED POLICY FOR ITALYReport by the Combined Civil Affairs CommitteeTHE PROBLEM

1. a. To implement the statement of 26 September 1944 (Appendix "C" to Enclosure "A" of C.C.S. 712) by the President and Prime Minister, and to recommend a course of action for Combined Chiefs of Staff consideration.

b. To submit recommendations on NAF 778 (Appendix "B" to C.C.S. 728/2).

FACTS BEARING ON THE PROBLEM

2. The joint statement of the President and Prime Minister announced certain modifications in Allied policy in Italy both as regards Allied control organizations and the Italian Government and in the field of economic policy. No directive has been transmitted to the Supreme Allied Commander, Mediterranean (SACMED), implementing these changes in policy.

3. In NAF 778 SACMED requested that directives governing the provision of civilian supplies and economic rehabilitation be re-examined, and in particular he requested that he be informed.

"a. to what extent, if any, I may take into account factors tending toward inflation, and to what degree I am responsible for measures to counter these tendencies?

"b. to what extent, if any, is it desired that industrial rehabilitation in Italy be carried out and if any rehabilitation is intended what industries should be given precedence?

THIS DOCUMENT CONTAINS INFORMATION
 APPROVING THE NATIONAL DEFENSE OF THE
 UNITED STATES. THIS THE PLANING OF THE
 DEF. CASE U. S. C. 80; 31 and 32. THE
 TRANSMISSION OF THE INFORMATION TO ITS COM-
 PARTS IN ANY MANNER TO UNAUTHORIZED
 PERSON IS PROHIBITED BY LAW.

Enclosure

SECRET

"c. within the limitation of available shipping, to what extent, if any, are exports to be stimulated and machinery to handle export trade developed?"

DISCUSSION

4. The Combined Civil Affairs Committee has prepared a draft directive to SACMED implementing the joint statement of the President and Prime Minister and answering the questions raised in NAF 778. The directive is attached as the Appendix.

RECOMMENDATION

5. The Combined Civil Affairs Committee recommends that the Combined Chiefs of Staff approve the draft directive (Appendix) and dispatch it to SACMED.

"THIS DOCUMENT CONTAINS INFORMATION
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UNITED STATES WITHIN THE MEANING OF THE
ESPIONAGE ACT, U. S. C. 50: 31 and 32. THE
TRANSMISSION OR THE REVELATION OF ITS CON-
TENTS IN ANY MANNER TO AN UNAUTHORIZED
PERSON IS PROHIBITED BY LAW."

SECRETAPPENDIXDRAFTDIRECTIVE FROM COMBINED CHIEFS OF STAFF
TO SUPREME ALLIED COMMANDER, MEDITERRANEAN

1. In order to implement the joint declaration of the President and the Prime Minister of 26 September, 1944, the U.S. and U.K. Governments have agreed to relax the control of the Italian Government under the armistice and surrender instrument and only to exercise such control when military needs require it, thus developing in the Italian authorities a greater sense of responsibility. The rights under the armistice and surrender instrument will be held in reserve in the matter of day to day administration, subject to overriding military needs and the requirements of the campaign in Italy.

In the light of this agreed U.S.-U.K. policy you should take action as rapidly as possible in conformity with the following paragraphs:

POLITICAL SECTION

2. a. The Political Section of the Allied Commission will be abolished. The Allied Commission will obtain advice from the U.S. and U.K. ambassadors in Rome. There is no intention however to make any change in the responsibility of the Combined Chiefs of Staff, acting through the Allied Commission; the Combined Chiefs of Staff will, therefore, as occasion requires, continue to transmit directives in regard to the combined views of the two governments on matters of major policy, and such other matters as are within the scope of the activities of the Allied Commission.

"THIS DOCUMENT CONTAINS INFORMATION
AFFECTING THE NATIONAL DEFENSE OF THE
UNITED STATES. THIS IS THE MEANING OF THE
TOP SECRET U. S. C. 50: 31 and 32. THE
TRANSMISSION OF THE REVEALS OF ITS CON-
TENTS IN ANY MANNER TO UNAUTHORIZED
PERSON IS PROHIBITED BY LAW."

Appendix

SECRET

b. The Italian Government shall be permitted to have direct relations with foreign diplomatic representatives accredited to the Quirinal, provided that the Allied Commission is kept generally informed by the Italian Government of any negotiations in which they engage with other governments.

c. The Allied Commission shall abandon the practice of approving the decrees and other legislation enacted by the Italian Government in the territory under the jurisdiction of the Italian Government. Any new Italian Government will be requested to confirm that they will adhere to the obligations under the terms of surrender undertaken by their predecessors.

d. The Allied Commission shall abandon the practice of approving any Italian appointments in territory under the jurisdiction of the Italian Government except in regard to Service Ministers and such military appointments as you may determine.

e. The Allied Commission shall as soon as possible withdraw all its officers stationed in the field in the territory under the jurisdiction of the Italian Government. However, the Allied Commission should retain the right to send its representatives into territory under the jurisdiction of the Italian Government for any special tasks when Allied interests require it.

f. The U.S. and U.K. Governments have agreed that the Italian Government will be advised that it is the Allied desire to encourage free trade in knowledge and learning with the Italian people. As far as the exigencies of the military situation permit you will facilitate any arrangements for the flow of books and other publications of a scientific, political, philosophical and artistic nature between Italy and the United Nations and for the movement of scholars, artists and professional men between Italy and the United Nations.

"THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE PROVISIONS OF U. S. C. 50: 31 and 32. THE TRANSMISSION OR THE REVEALATION OF ITS CONTENTS IN ANY MANNER IS UNAUTHORIZED AND IS PROHIBITED BY LAW."

Appendix

SECRET

g. The U.S. and U.K. Governments have agreed that in accordance with the terms of the Moscow Declaration it is desirable to encourage the holding of elections for local public offices in territory under the jurisdiction of the Italian Government and you should be guided accordingly.

h. The status of Italian prisoners of war now or hereafter held in Italy other than those captured since the armistice was signed should be terminated by you upon adequate assurance being given by the Italian Government that their services will continue to be made available on terms satisfactory to you as Supreme Allied Commander subject to Combined Chiefs of Staff approval.

ADMINISTRATIVE SECTION

3. The internal organization of the Allied Commission is primarily your responsibility. In the reorganization of the Allied Commission it is desired that you give consideration to the following policies and objectives:

a. The staff of Allied Commission Headquarters should occupy itself primarily with consultation and advice to the Italian Government at high levels.

b. As far as certain subcommissions of the Allied Commission Headquarters are concerned such as Education, Arts and Monuments, Local Government, Labour and Legal, their advisory functions in respect of Italian Government territory should be exercised only when requested by the Italian Government. Control should not be exercised in respect of territory under the jurisdiction of the Italian Government.

c. The sections and subcommissions of the Allied Commission Headquarters should be progressively civilianized to the fullest extent which in your opinion circumstances allow, except the service subcommissions and except to the extent that subcommissions exercise functions with respect to territory under Allied Military Government (AMG).

SECRET

d. To the extent feasible, officers of Allied Commission Headquarters dealing with AMG functions should be located at places other than Allied Commission Headquarters.

ECONOMIC SECTION

4. It is necessary that the maximum production and effective and equitable distribution and control of consumption of local resources possible under existing conditions be secured. The Italian Government should be advised that to this end and as a prerequisite to increased economic assistance it must formulate and implement appropriate economic controls and take all other steps possible. In the event that these conditions are not met the Allied authorities will not hesitate to impose the necessary controls or take other appropriate measures.

5. For the duration of combined operations, the combined U.S.-U.K. military authorities will be responsible for providing:

a. Those quantities of food, fuel, clothing, medical, sanitary and other agreed essential supplies necessary to prevent disease and unrest prejudicial to such operations;

b. Those supplies such as fertilizer, raw materials, machinery and equipment, the importation of which will reduce military requirements for the import of essential civilian supplies for the purposes referred to in this paragraph. As the time when combined military responsibility will terminate will not be known when requisitions are being prepared and considered, the importation of supplies under this sub-paragraph will not be excluded merely because the effect of such imports may not be felt during the period of combined military responsibility.

c. Those supplies necessary for the restoration of such of the Italian power systems and transportation and communication facilities as will further the military effort against Germany and Japan.

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UNITED STATES WITHIN THE MEANING OF THE
NSA C-1 U. S. C. 50: 31 and 32. THE
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S E C R E T

To the extent contemplated by this paragraph 5, essential civilian supplies cannot be divorced from the military supply program and Italy must be treated as a whole. It is understood that the date of termination of combined military responsibility for providing supplies as set out above will be decided by the Combined Chiefs of Staff on your recommendation.

6. The Allied Commission shall be advised to assist the Italian Government in the preparation of programs of supplies designed to rehabilitate Italian industry. These supplies will be in addition to those to be provided as a military responsibility. Such programs when established by the Italian Government will not be subject to screening by Allied Force Headquarters, but will be reviewed and transmitted directly with appropriate comments and recommendations by the Allied Commission to the Combined Civil Affairs Committee, which will transmit the programs to the Combined Liberated Areas Committee for action by the appropriate civilian agencies of the United States and British Governments. The United States and British Governments will each make available such shares as may be mutually agreed of the cost of the provision of such of these programs as may be approved by the Combined Liberated Areas Committee. Procurement covering such programs should immediately be put in hand without reference to the present shipping position in order that the supplies may be called forward as and when shipping space becomes available. In this connection see paragraph 8 below.

7. The questions raised by you in sub-paragraphs a, b and c of paragraph 4 of NAF 778 are answered as follows:

a. The prime responsibility for the control of inflation in Italy, including the imposition and administration of appropriate financial and economic controls and appropriate utilization of supplies, must rest with the Italian Government. Your responsibility in this connection, other than

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SECRET

with respect to the importation of supplies, is, through the Allied Commission, to advise and assist the Italian Government.

b. It is desired that industrial rehabilitation in Italy be carried out by the Italian Government to the fullest extent permitted by the Italian resources and such supplies as you may be authorized to import, consistent with the discharge by you of your military mission, with the exception that industries for the production or repair of munitions or other implements of war shall be rehabilitated only to the extent required by you in discharge of your military mission and as will further the military effort in other theaters. Except for those industries the rehabilitation of which is essential to the discharge of your military mission and in furtherance of the military effort in other theaters, which rehabilitation should be given first priority, industries other than those excluded by the preceding sentence will be given such precedence in rehabilitation as may be determined by the Italian Government.

c. The extent of your responsibility with respect to the importation of supplies into Italy is defined in paragraph 5 and 6 hereof. Except as is so defined, you have no responsibility for the importation of supplies into Italy.

d. Within the limitation of available shipping and subject to military considerations as determined by you, the extent to which exports are to be stimulated and the development of machinery to handle export trade are for determination by the Italian Government. The appropriate civilian agencies of the British and American Governments are currently considering methods by which the Italian Government may be assisted in these respects and as soon as decisions in this connection are reached, you will be advised with respect thereto.

..... SECRET

8. Nothing herein contained shall constitute a commitment with respect to shipping. Any supplies to be imported into Italy must be transported within such shipping as may be allocated from time to time.

FINANCIAL SECTION

9. The two governments are discussing proposals for giving the Italian Government a greater measure of responsibility in financial matters; a further directive on these matters will follow.

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DEPARTMENT
OF
STATE

OUTGOING
TELEGRAM

72
DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

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

February 26, 1945

7 p.m.

EMBASSY

CHUNGKING

333

FOR ADLER FROM TREASURY

We have assured Donald Nelson's new representatives,
Messrs. Kearney and Brooks, about to depart for Chungking,
that, as in the past, you will be available for con-
sultation with regard to questions of inflation and
other financial and monetary matters.

GREW
(Acting)
(CGL)

ACTING

CONFIDENTIAL
For security reasons the
text of this message is

DEPARTMENT OF STATE
MAR 1 1945
DC/L
LIAISON OFFICE

FIA:McG:ST

2/23/45

CA

MRK-1706

PLAIN

London

Dated February 26, 1945

Rec'd 11:53 a.m.

Secretary of State

Washington.

1972, Twenty-sixth

FOLLOWING FOR MOSES LEAVITT JDC NEW YORK (THROUGH WRB)
FROM JOSEPH SCHWARTZ.

"We have discussed with Intergovernmental Committee problem repayment of amounts advanced for them in Hungary, Rumania and France. Intergovernmental sees no objection in principle considering their reimbursements as 1945 income to us since we made expenditures without any definite knowledge amounts would be repaid. In submitting your accounts to Intergovernmental Committee would strongly urge you include statement certified accountant that he has examined our remittances and has also examined statements which you have received concerning expenditures by Saly Mayer so that best possible record may be available to IGC thus facilitating prompt reimbursement."

WINANT

DCG-1705

PLAIN

London

Dated February 26, 1945

Rec'd 11:55 a.m.

Secretary of State

Washington.

1973, Twenty-sixth

FOLLOWING FOR MOSES LEAVITT JDC NEW YORK (THROUGH WRB)
FROM JOSEPH SCHWARTZ.

"Have discussed with Intergovernmental Committee possibility their taking over major portion relief activities Iberian Peninsula. Intergovernmental Committee has submitted recommendations to British and American Government's for expenditure 200,000 pounds in Spain and Portugal for period beginning May 1st to end 1945. Harold Trobe advises 1460 stateless refugees Spain and approximately 461 Portugal require expenditure \$100,000 monthly which practically covered by IGC budgetary proposal. Number in Portugal relatively small because Sephardics and arrivals before 1933 excluded since they do not come in mandate meantime wish advise Intergovernmental Committee recommendations for France and Belgium have not yet been approved which will seriously effect our ability reduce own expenditures these countries next month."

WIN:NT

Miss Chauncey (for the Sec'y), Akzin, Cohn, DuBois, Gaston, Hodel, Hutchison, McCormack, O'Dwyer, Files

FEB-1720

PLAIN

London

Dated February 26, 1945

Rec'd 12:50 p.m.

Secretary of State,

Washington

1974, Twenty-sixth

FOLLOWING FOR MOSES LEAVITT JDC NEW YORK
THROUGH WRB FROM JOSEPH SCHWARTZ.

"Personnel problem becoming serious as new territories open up. Have arranged for Israel Jacobson accompany OGE mission to Yugoslavia as our representative and necessary permission has been received. Resnik now has AFH permission to proceed Greece which asking him postpone pending my arrival Italy. Obvious we cannot leave Italy uncovered and Intergovernmental Committee concerned over possible departure our representatives. In addition UNRRA personnel in Italy temporarily assigned to US may soon be reclaimed for UNRRA assignments. Urgently important therefore you immediately send at least two additional staff members Italy for assignment there or to be sent to

-2- 1974, Twenty-sixth, from London

adjacent territories. In addition consider extremely urgent that three to four persons be sent to France for preliminary training and assignment in territories which will be liberated. Have also undertaken preliminary discussions with Intergovernmental Committee and UNRRA for JIC personnel to be attached to their missions German territory to be attached SHAEF prospects favorable but personnel must be available. In addition it will be possible send representative liberated Czechoslovakia near future and suitable person should be on hand in France or England. Also utmost importance immediate assistance be given Saly Mayer and suggest if Robert Pilpel available be assigned that post. Would ask you determine without delay status Pilpel in connection overseas assignment after discussions with Linder. Consider it likely that London office will become more important soon and therefore planning transfer some Lisbon personnel here keeping a good skeleton staff in Lisbon for communications and for work in Iberian Peninsula. Please reply urgently as situation most acute."

WINANT

WSB

SECRET

OPTEL No. 65

Information received up to 10 a.m., 26th February, 1945.

NAVAL

1. ENEMY ATTACK ON SHIPPING. A 1317 ton ship sunk in coastal convoy by mine or torpedo off Berwick yesterday.

MILITARY

2. WESTERN FRONT.

South Central Sector: 3rd U.S. Army continued make good progress strengthening bridgeheads over Saar in Saarbourg area and making substantial gains N.E. Neuerburg where river Prum reached on three mile front. Further advances reported but as yet unconfirmed.

North Central Sector: River Roer has fallen 16 inches at Heimbach in dam area and effects felt downstream. Four bridges operational on 1st U.S. Army front and house to house fighting continues in Duren where advances also reported beyond town. 9th U.S. Army continues make satisfactory progress and advances of two to three miles reported.

Northern Sector: Only limited advances made by 1st Canadian Army in face very heavy resistance.

3. EASTERN FRONT.

Northern Sector: Progress made S.W. Konigsberg where several inhabited localities captured. Further west Preussisch Friedland (S.W. Chojnice) and number other localities captured.

Southern Sector: Germans claim elimination remaining Russian bridgehead over River Hron on north bank of Danube.

4. BURMA.

Central Sector: 23rd and 24th. Enemy made number of attacks against bridgehead over Irrawaddy 25 miles west Sagaing which all repulsed, while further south we have made further advance and captured village 25 miles east Nyaungu against slight opposition.

AIR

5. WESTERN FRONT. 25th. 148 escorted Lancasters (1 missing) dropped 646 tons through cloud on synthetic oil plant Kamen (near Dortmund) where bombing well concentrated. 1157 escorted U.S. heavy Bombers (27 bombers and 14 fighters outstanding) dropped 2801 tons targets Touth Germany including railway centres Munich (1455 tons), railway centre and tank assembly plant Aschaffenburg (344 tons), oil storage Neuburg (233 tons) and two airfields N.W. Rothenburg (379 tons). Results were good and enemy casualties 34, 0, 21.

SHAEF (Air) bombers 678 (3 missing) dropped 1066 tons communications centres and supply dumps battle area while fighters 2910 (33 missing) operated same area destroying or damaging 175 locomotives and 2620 road and rail vehicles.

25th/26th (night), Bomber Command despatched 130 aircraft (1 missing), including 63 to Erfurt.

6. MEDITERRANEAN. 23rd/24th (night). Heavy and medium bombers attacked railway centre Verona (151 tons) with unobserved results. 24th. 285 escorted heavies (1 fighter missing) dropped 614 tons railway targets south Austria and North Italy where results mainly good, while tactical aircraft 956 (8 missing) attacked railway targets Brenner route and communications and other targets in North Italy with good results. Beaufighters damaged 4200 ton minelayer at Fiume.

7. BURMA. 22nd. 352 Allied aircraft including 106 heavy and medium bombers attacked targets Arakan and Central Burma.

8. ROCKETS. Nothing to report.

February 27, 1945
10:50 a.m.

FINANCING

Present: Mr. D. W. Bell
Mr. Haas
Mr. Gamble
Mr. Lindow
Mr. Tickton
Mr. Murphy
Mrs. Klotz

H.M.JR: Everything went very well yesterday.

MR. GAMBLE: Did Wolcott talk in opposition to the Fund?

H.M.JR: Wolcott gave his prepared speech which he had. Have you seen it?

MR. GAMBLE: I haven't seen it, but I saw the New York Times. The story covering your speech said that Wolcott pointed out sixty-three different objections to it, and the inference was that he might be against the plan.

H.M.JR: He kept saying that this is what other people say, and by the time he got down to forty-five, the people began to titter, and he lost his audience. But I think he is going to be all right. I had him on the train last night. I am not going to worry about Wolcott. I think he is all right. The meeting was good.

MR. BELL: You said the audience didn't listen?

H.M.JR: They began to laugh, and he realized there were so many of these objections they got to be funny.

MR. BELL: It is a good thing.

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MR. GAMBLE: That is a good audience reaction.

H.M.JR: You talk to Isbey.

MR. GAMBLE: I will.

MR. BELL: It kind of got to be ridiculous.

MR. GAMBLE: The story didn't say anything about alleged deficiencies.

H.M.JR: It is the way he accented the thing. He was not unfriendly. I just wanted a few minutes with you boys. I have got this meeting here at eleven, and I want to know where we stand now on the suggestion I made.

MR. BELL: Well, we had a couple of meetings yesterday, and I think we are against the suggestion. We have two or three memos in rough draft form which can be read to you, and I have some changes which I think they can put in, but they are not quite ready to present to you.

H.M.JR: They are not?

MR. BELL: No. Would you like to have Murphy read the one on banks?

H.M.JR: I can't, because I have to stop at eleven, so all we can do is get organized.

MR. BELL: They can just about do it.

H.M.JR: Who is coming in at three?

MR. BELL: The Federal Reserve Presidents to talk about their experiences in the Sixth War Loan in policing, and they will tell you that they want to do it, or at least as drastic a job as they did in the Sixth.

H.M.JR: They do not want to?

MR. BELL: No. They want to talk to you about it and tell you the troubles they had and the ill will that was

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created and ask you--well, I think there was lack of uniformity. And if they are going to police again, they want uniformity; they want the Treasury to lay down definite formulas and more or less take the responsibility for it. I told them yesterday at lunch that we had assumed the responsibility. They just didn't interpret our letter properly. We said they could say that the Treasury was asking for this and that it was our responsibility, but the fact that we asked them to send out the letters--I think they interpreted that to mean we wanted them to assume the responsibility. We said we did that because we thought that was the best channel we had to go to the banks through, the Federal Reserve, and we thought they had always been just a little jealous of that channel, so we wanted to do what we thought they wanted us to do, and we thought it was the best channel.

We had no objection to their saying it was our request and they were doing it as fiscal agents. They think it is a serious problem from the standpoint of the Treasury and relations with the commercial banks.

MR. GAMBLE: It isn't a serious problem. I mean, the solution of it is not serious. The War Finance Chairmen for the States can take responsibility for it in their name. In fact, where good policing was done they had to handle it, and they are perfectly willing to. I can prove it, Dan. This isn't a meeting the men would take time to come to as a body of twelve Presidents to say they couldn't police sixty-eight thousand subscriptions. It is a red herring. That is all the subscriptions involved--there was a little ill feeling.

MR. BELL: I wondered if they could take the responsibility.

MR. GAMBLE: If the Feds don't want them to take the responsibility and say they don't want them to take it, that is a major tactic. Either the Feds ought to do it and take the responsibility for it, or they ought to do it as fiscal agents and let the Treasury take the responsibility. Our people are willing to take the rap for it.

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MR. BELL: We are willing to take the rap.

MR. GAMBLE: They are representing the Treasury, and they are perfectly willing to do it. They recognize there are pressures where the banks have no choice but to take subscriptions, and our people are willing to say they don't want such subscriptions. The Feds can say in their name that they want to.

MR. BELL: They want you to know that there is some illwill being created and the banks are getting sore because they have to buy these securities at a premium after the drive and can't get anything at par, particularly the smaller banks are feeling that way.

H.M.JR: Have you people got a table along the lines I asked for as to how to do this thing?

MR. GAMBLE: Yes. There are two memos on it, Mr. Secretary, on the insurance sales and bank sales. We don't like it, but we have got a way of doing it.

H.M.JR: I want to know how to do it. I am not ready to ask you if you like it.

MR. BELL: It is necessary to perfect it a little, but we have got a couple of memos.

H.M.JR: How would you do it?

MR. MURPHY: This is a memo on banks, Mr. Secretary. Do you want me to read it or just describe it?

H.M.JR: Let me read it. You might describe it to me.

MR. MURPHY: In the first place, we don't believe war loan accounts is a suitable criteria for differentiating between banks. About three thousand banks have no accounts at all; they are the small banks that would be left out altogether. The war loan account is related not merely to the size of the bank, but the amount of business it

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is doing for you purchasing your bonds, and so, in effect, you would be discriminating against the persons who have been favoring you the most, and both you and the Federal Reserve Banks have urged banks to increase their war loan accounts.

H.M.JR: I am not arguing that.

MR. BELL: That is just one of the things.

MR. MURPHY: I just wanted to give the reasons. I am sorry if I gave them at too great length.

H.M.JR: No, they gave me the same thing the other day. I said, "All right, let's not have war loan; there is some other way."

MR. BELL: You mentioned the two classifications. We have the war loan account, and that was the reason for putting it in the memo, to use it as a basis.

MR. MURPHY: We suggest if a differentiation is to be made between banks, it be made on the basis of the size of the banks, their total assets. We haven't any figures on total assets, but about ninety-three percent of the total assets are deposits, so figures based on deposits are practically good for this purpose, and in 1943, which are the most recent figures, there were about thirteen thousand two hundred banks, and of these, eleven thousand four hundred had deposits.

(The Secretary holds a telephone conversation with Mr. Acheson.)

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Read by Dr. White and Mr. O'Connell

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February 27, 1945
11:00 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Dean
Acheson: Henry.

HMJr: Yes, Dean.

A: Good morning.

HMJr: Good morning.

A: I want to get your guidance in a matter

HMJr: I don't hear you very well.

A: I want to get your guidance on a matter which has just been -- was put up to me last night.

HMJr: Yes.

A: I went up yesterday at Senator Tobey's request to see him.

HMJr: Yes.

A: He told me that the Republican Conference had been called for Thursday night to consider Bretton Woods.

HMJr: Yes.

A: And that he has been very provoked about this because he had not been consulted

HMJr: Yes.

A: and that they had Leon Fraser and Jackson Reynolds to come down from New York and discuss this matter.

HMJr: Yes.

A: He then objected very strenuously. He said that he thought that was improper; that both of these fellows were opposed to it, and that he ought to

A:
Cont'd. have been consulted, etc. He then had another talk with them. He informed me of that, and asked me to get in touch with the Treasury, which I did, and help him get some notes, and I found they were working on that over in your place.

HMJr: Yes.

A: And then he called me up at the end of the afternoon and said he'd had another talk with them, and had demanded, and they had acceded to this that I should come before the Republican Conference....

HMJr: Yes.

A: and present Bretton Woods.

HMJr: Yes.

A: And I told him I'd be delighted to do anything which was considered wise. I didn't regard myself as an authority on the subject but I'd do the best I could.

HMJr: Yes.

A: And he was very keen for this, and then I said, "Well, since they had two bankers, why wouldn't Ned Brown be a good person to do it?"

HMJr: Yes.

A: Well, he said he'd rather have me but that was up to our judgment, and I said I'd talk with you about it and call him back this morning.

HMJr: Do you think we could get Ned Brown?

A: Well, I don't know. I just wanted to ask you what your judgment was, whether you thought it was better for me to take a shot at it

HMJr: Well, I think it would be fine if you'd go, but I think it would be useful if you could also have Ned Brown.

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- * A: Would you like me to talk to Tobey and then call Ned Brown?
- HMJr: I think it would be fine.
- A: Suppose he says -- I understand, also, that they have asked Goldenweiser to come up. Now, he will be -- he will be all right, but he won't be as powerful.
- HMJr: No.
- A: If they only will have two, would you think that Ned would be more impressive to those fellows than I would?
- HMJr: Well, I just think he would supplement you. That's all.
- A: Well, I have -- I want you to be perfectly frank about this.
- HMJr: I'm being perfectly frank.
- A: I had the feeling that the Republican Senators would say, "Why, Acheson's all right, of course, but he's in the Administration and he's got to sing their song. He hasn't got any -- there's no doubt about what he thinks." But they might say, "Ned Brown is a banker and he's reached these conclusions independently."
- HMJr: I think it would be useful if he would be there to supplement you.
- A: All right.
- HMJr: I take it they don't want anybody from the Treasury.
- A: Apparently not.
- HMJr: Well, I think it's fine that you can go, and then would you make the effort on Brown and let me know?
- A: I will, Henry.
- HMJr: Fine.

A: I'll talk to Tobey first.

HMJr: Fine.

A: And -- and tell him that I've had this talk with you and what you suggest and ask him whether he can get away with that, and if he says he can, I'll call Ned Brown right away.

HMJr: And if they need any help on transportation, Fitzgerald can help Brown.

A: First rate, Henry.

HMJr: Right.

A: All right, thank you.

H.M.JR: We had better stop now. I will tell you what we will do. Immediately after this meeting with the Federal Reserve Bank Presidents we will continue talking ourselves, see. How will that be?

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H.M.JR: Now, who will be in with the Bank Presidents? Will Haas, Bell and Gamble be enough?

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MR. BELL: Yes. Now, Sid and Wes are going back to the Board afterwards. Are you going back to the Board or stay here?

MR. TICKTON: Yes.

MR. BELL: They are going to show them the statistical side. They have enough for about an hour and a half lecture.

MR. LINDOW: I think it is better to change that.

H.M.JR: Are you boys in on policing?

MR. GAMBLE: They should be.

MR. HAAS: Sid is.

H.M.JR: Let them all come.

MR. TICKTON: This is with regard to the meeting after that.

MR. HAAS: Could you arrange that for some other time?

H.M.JR: Who is the expert on policing? I don't want too many. If Sid would come, and you, George--

MR. BELL: But this is the meeting afterwards that I was talking about. The boys are tied up.

February 27, 1945
12:10 p.m.

WAR REFUGEE BOARD

Present: Mr. Gaston
Mr. O'Connell
Mr. White
Mr. Pehle
Mr. DuBois
Mr. Aarons
Mr. Coe
Miss Hodel
Mrs. Klotz

H.M.JR: Mr. Aarons, am I correct in saying that you are the Acting Head of Foreign Funds?

MR. AARONS: Yes, sir, Mr. Secretary.

H.M.JR: Miss Hodel, will you please tell these other people just what happened, going back as far as it is necessary, in connection with bringing these large numbers of Jews--I take it they were all Jews--either out of Hungary or Germany. I want you to review the case for me, see.

MR. PEHLE: That isn't very specific.

H.M.JR: There were seventeen hundred that came out of Hungary. Isn't that the first lot?

(Mr. O'Connell enters the conference.)

MISS HODEL: There were three batches of refugees that have come through to Switzerland in the past few months from German-occupied territory. In August three hundred and seventy-two came through from a German concentration camp at Bergen Belsen. These were described to us as Hungarian Jews. In December--

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H.M.JR: Now wait a minute. What I want to know, particularly on the money transactions, is what part the Treasury and Foreign Funds had in any of this.

MISS HODEL: There were no money transactions involved in the arrival of that group.

MR. PEHLE: Was that group the one that was said to be a show of good faith on the part of the Germans in connection with these Saly Mayer negotiations?

MISS HODEL: It was at the time when these Germans had approached Saly Mayer to negotiate with him concerning the Jews left in German-occupied areas, and it was stated that the Germans had released this group as a sign of good faith in their talks with Saly Mayer.

H.M.JR: What were their talks with Saly Mayer about?

MISS HODEL: They stated last summer--they were negotiations which followed the Brand negotiations which had occurred in Turkey and the Near East, after the Brand proposals failed.

H.M.JR: Yes.

MISS HODEL: The Germans made an approach and wanted to talk with Joe Schwartz of the JDC. This Government would not permit Joe Schwartz to carry on any discussions with the Germans, and the Germans came back and said they would be willing to talk with Saly Mayer, and this Government advised McClelland and Saly Mayer that there would be no objection to Saly Mayer conducting these negotiations, but he could not conduct them as a representative of an American organization, but there would be no objection to his conducting them as a representative of the Swiss-Jewish Community, of which he was President. He carried on a series of talks with Gestapo agents with the knowledge of the Swiss Government and full knowledge of McClelland and of the State Department and of the--

MR. PEHLE: ...and of the War Department and the British and Russians.

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MISS HODEL: No money has ever passed, to our knowledge, between them.

H.M.JR: Didn't you issue your license yesterday on Musy?

MR. AARONS: The Musy license?

MISS HODEL: It hasn't been issued yet; it has been approved by the Treasury, Mr. Secretary, but it is awaiting clearance by the State Department.

H.M.JR: Why should you know and not he?

MISS HODEL: Mr. Aarons agreed to the issuance of the license, but I issued an instruction to the Treasury--to Foreign Funds Control not to issue the license until this received clearance through the State Department.

H.M.JR: Through whom did you issue the license? Whom did you hold up on it?

MISS HODEL: Mr. Marks who is in the Foreign Funds Control Division at State.

H.M.JR: Where?

MISS HODEL: Foreign Funds Control at Treasury.

MR. AARONS: I understood the license would not be issued until Miss Hodel cleared it with State.

H.M.JR: Anything in writing on this?

MISS HODEL: We have everything in writing, a full file.

H.M.JR: As it remains now, has this license been issued?

MISS HODEL: My instruction was that it was not to be issued until the State Department had advised them it had been cleared.

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H.M.JR: Go find out if it has been issued, please.

(Mr. Aarons leaves the conference.)

H.M.JR: Go into Mrs. Klotz' room; you had better go in there.

MISS HODEL: I have been trying all morning to get State Department clearance on that license.

MR. PEHLE: We haven't gotten the story on this license yet.

H.M.JR: What about this--

MR. PEHLE: Give him the story on the Musy negotiations.

MISS HODEL: This is the license on the Musy negotiations, and I have been trying this morning to get State Department clearance on that license, and they advised me it would have to be cleared with Mr. Grew personally.

MR. PEHLE: And the proposed cable--isn't it true the proposed cable says, "With the approval of the State Department, War Refugee Board, and Treasury?"

MISS HODEL: That is right; it is on my desk.

H.M.JR: With due respect, what is the use of having Aarons if you issue orders to him as to what he should and shouldn't do?

MR. PEHLE: That isn't what is happening here at all.

H.M.JR: That is what she said.

MR. PEHLE: No, she has a working relationship with people in Foreign Funds who handle this thing. She is the one who clears it with the State Department. You don't expect all that stuff to clear through Aarons personally.

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MR. DuBOIS: She did clear it.

MR. PEHLE: Subject to State's approval of the cable. The State Department hasn't approved it yet.

H.M.JR: Have you the cable?

MISS HODEL: It is not the cable--I am getting approval before the license is cleared at this time.

H.M.JR: What is the situation with regard to this million dollars? Let's have it.

MISS HODEL: Twelve hundred and ten refugees from Theresienstadt, a German concentration camp in Czechoslovakia, arrived in Switzerland on the night of February 7. The first news that we had was a press item with a Bern date-line announcing that these refugees had arrived in Switzerland as a result of negotiations conducted by a man named Musy and a man named Sternbuch, who is a Swiss citizen, and the representative in Switzerland of the Union of Orthodox Rabbis. That was followed by a cable which we had from our man McClelland advising us that the group had arrived in Switzerland and that he, McClelland, had been approached by Sternbuch for help in getting them admitted into Switzerland.

H.M.JR: Who is Sternbuch?

MISS HODEL: The representative in Switzerland of the rabbinical group in this country. McClelland asked Sternbuch for information concerning how they got in and whether there was Swiss quid pro quo involved, and Sternbuch advised McClelland that five million Swiss francs were to be deposited in the account of Musy in the Swiss National Bank and that it was the understanding between Musy and Sternbuch that Sternbuch would provide five million Swiss francs. The next thing we knew we were approached by the rabbis.

(Mr. Aarons enters the conference.)

H.M.JR: Has it been issued?

MR. AARONS: No, sir.

H.M.JR: Tell them to hold it up.

MR. AARONS: I told them to bring it to me before it is issued.

MISS HODEL: The next thing, we were approached by the rabbis for a license to remit four million Swiss francs. They said Sternbuch had a million on hand. They had had a communication through other channels asking for four million Swiss francs. They said they had been to the JDC and they didn't have the money themselves. They asked the JDC for the money, and the JDC was perfectly willing to put up nine hundred and thirty-seven dollars or lend them that if the rabbis got a license from the Government to make the remittance.

We cabled McClelland and advised him that the application for license had been filed, and we asked him if he would discuss the matter with Sternbuch and find out from him if it would be agreeable to Musy to have that money deposited in the account of the bank in the name of Musy and McClelland jointly with a proviso that no payments could be made from that account without the prior expressed approval of this Government.

H.M.JR: Of which Government?

MISS HODEL: The U. S. Government.

McClelland cabled back and said that wouldn't be satisfactory. He suggested it wouldn't be satisfactory either from his standpoint or from Musy's. And McClelland hesitated to be involved in an account with Musy, who is a man of questionable character, apparently, in Switzerland. He said that it would endanger him or would not be wise for him as a member of the staff of the U. S. Legation in Switzerland to have a joint account with Musy.

H.M.JR: Is he a member of the staff?

MISS HODEL: Mr. McClelland is a Special Attache with diplomatic status, and he is our representative. He has that additional status. He devotes all his time to that work. Before that he was with the American Friends. McClelland suggested that as an alternative we might consider authorizing the remittance to be made to an account in the name of Sternbuch and McClelland. Sternbuch is the representative of the American organization, and he is the man with whom McClelland deals. When that suggestion came through we discussed it with the rabbis, and General O'Dwyer stated that he would be unwilling to recommend the issuance of a license permitting the remittance directly to Sternbuch without any strings attached. He told them he would be willing to recommend that the money be remitted to an account in the name of Sternbuch and McClelland, and with full control of the account.

The rabbis didn't like it, but they were told that was the only kind of a license that General O'Dwyer would recommend. They finally agreed after consultation in New York that that type of a license would be agreeable to them, and we then recommended to the Treasury Department that such a license be issued, subject to the approval of the State Department. I cleared that with the Treasury, and we are waiting for State Department approval.

H.M.JR: Whom do you mean, with Treasury?

MISS HODEL: Foreign Funds Control, and Mr. Aarons cleared it with Mr. Coe.

H.M.JR: Are you thoroughly familiar with this? Did you clear this?

MR. AARONS: Yes.

H.M.JR: With Coe?

MR. AARONS: Yes.

MISS HODEL: I was present, too.

H.M.JR: Is there any written record?

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MISS HODEL: We have a written recommendation from General O'Dwyer on that.

H.M.JR: Sum up where the thing stands now.

MISS HODEL: We are now waiting for the State Department to approve that license.

H.M.JR: And when the license is approved, what happens?

MISS HODEL: It will permit the Vaad Hahatzala Committee of the Union of Orthodox Rabbis to admit the Swiss francs equivalent of nine hundred and thirty-seven dollars to a joint account in the name of Sternbuch and McClelland, provided that no payments or no commitments for payment of that amount may be made without the prior expressed approval of this Government.

H.M.JR: When you say this Government, what do you mean?

MISS HODEL: Another Treasury Department license, with the exact terminology of the release--

H.M.JR: How much of this was brought to the attention of either Mr. Stimson or Mr. Grew?

MISS HODEL: Mr. Grew is thoroughly familiar with it, and Mr. Warren informed me that he has discussed it in detail with him.

H.M.JR: Mr. Stimson and Mr. McCloy--

MISS HODEL: I don't know, but they have all the cables.

MR. PEHLE: And the Musy stuff has been called particularly to Gerhardt's attention, and Mr. McCloy has been on notice.

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MISS HODEL: He is in McCloy's office.

MR. PEHLE: He and McCloy handle this stuff normally. As I recall it, this was specifically called to Gerhardt's attention.

H.M.JR: The thing is this, Herbert: The Chicago Tribune has about got this, and the story they are talking of running is that Henry Morgenthau, the Jew, is dealing with Himmler to bring out Jews, and Jews only, see, that I am dealing with Himmler.

MR. PEHLE: There is another facet to that.

MR. GASTON: Yes.

H.M.JR: Suppose they print that story? I never could catch up to them.

MR. GASTON: There are a lot of intricate details, aren't there?

H.M.JR: I mean, the facts are known. (Reads letter concerning Himmler's wanting Jews, and Jews alone, to be released, so when they reach liberated countries the patriots would be struck by the fact that there were no Christians among them, and so forth.)

MR. PEHLE: These newspapermen once got in touch with George Warren about this same matter. You weren't involved personally at all, but they had gotten wind of some of these transactions in Switzerland, and Warren gave them a sort of general answer, and it seemed to stop it at that time.

H.M.JR: They got a lot about this. They know the JDC doesn't like it. They came to them and the rabbis only had seventy-five thousand dollars and needed the balance, which is close enough.

MR. PEHLE: That is, they have--

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MISS HODEL: The New York Post called the JDC yesterday on this story, too, I understand.

H.M.JR: And the War Department will just shrug their shoulders. O'Dwyer isn't very crazy about this, and neither is the State Department.

Now, what I think we ought to do is this: In view of this fight, because this is the kind of thing they print--I never can catch up to it, you see?

MR. PEHLE: That is right.

H.M.JR: If they print this thing, I think there ought to be a meeting of the War Refugee Board called, and let them pass on this particular license. I would like to have advice, but that is the way I feel.

MR. PEHLE: I think that makes good sense. Even that wouldn't be a protection totally, but it is the best you can do, I think.

H.M.JR: Well, I am trying--the people here advise me, but it seems there should be a meeting of the War Refugee Board, and with all due respect to you and General O'Dwyer, see, the fact that Gerhardt and Stimson can say, "My God, I never heard of it," and the chances are McCloy will say, "I never heard of it"--

MR. GASTON: Yes, yes. You are clearly right, it must be checked right back directly to Stimson and Grew.

H.M.JR: McCloy could say, "Morgenthau never talked to me about it."

MR. PEHLE: I think they ought to approve it. I agree you should have a Board meeting.

H.M.JR: When you mentioned this thing, if my memory is correct, I never could see why this fellow Musy would be satisfied to have the money put in the name of--

MISS HODEL: McClelland.

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H.M.JR: ...McClelland and himself, leaving the entire pressure with McClelland. And the story is, they are going to have pressure put on McClelland. Of course, this is just a phony, and McClelland is going to release it.

MR. PEHLE: Musy is fighting for other things, we don't know what.

H.M.JR: This thing here makes pretty good sense. If Himmler wanted to make trouble and they only brought Jews out--

MR. DuBOIS: This license would say that the money can't be released except by Treasury license, and I think there might be an understanding that would button the thing up, that the Treasury wouldn't issue such a license without the approval of the Board.

MR. O'CONNELL: What do we understand the money is to be used for?

MR. GASTON: For what purpose is this money being transmitted? I didn't--

MISS HODEL: The information isn't too clear. It appears that as a part of the negotiations between Sternbuch and Musy there was an agreement that this money would be deposited in Switzerland. Musy, according to McClelland, is trying to get back in the good graces of the Swiss Government and has appeared as a great humanitarian in this undertaking. He is trying at the same time to hide from the Swiss Government that he is demanding money from Sternbuch. That would--

MR. GASTON: This money is to go to Musy, I presume.

MISS HODEL: Eventually.

MR. GASTON: And presumably Musy divies with some German officials. Is that right? What else?

MR. PEHLE: It might be a personal pay-off to Musy.

MR. GASTON: What is Musy's status?

MR. PEHLE: He is the one that negotiated the escapes.

MR. GASTON: He made some bargain by which these men get out, and now he is to be paid for having gotten the people out? That is the same as negotiating with Himmler.

H.M.JR: Himmler's first deputy is the man with whom he has done his negotiating.

MR. GASTON: Why all the caution of paying after it gets to Switzerland, to make sure it goes to the right German, or what?

H.M.JR: That is a good question.

MR. PEHLE: If you mean by that, Herbert, that we would allow this money to be paid out now during the war-- it isn't at all clear that we would allow it ever to be paid out during the war, but it would be in Switzerland where Musy could look at it.

MISS HODEL: And in an attempt to continue negotiations, Sternbuch can say, "They sent me my money, five million dollars."

MR. GASTON: Are we swindling somebody over there?

MR. PEHLE: These negotiations are not handled by the United States Government, but by intermediaries, and we were never advised of the full facts. All we know is that some human lives are saved. Now, there are side currents, and people doing things for the worst motives, I have no doubt. I have no doubt Musy is a scoundrel.

MR. GASTON: I am trying to find out the salient facts so far as we can learn them. Why is money being sent over, and what are the criteria that we are going to use in deciding to whom we will license payments?

MR. AARONS: The money was mainly for enabling him to continue negotiations, as I understand it.

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MR. PEHLE: Five million dollars went over on the same basis. JDC sent it over to people that were negotiating that they had more faith in, like Saly Mayer.

MR. AARONS: May I make a suggestion, Mr. Secretary? Why not have the license provide that the money can be released only on the concurrence of both the War Refugee Board and the Treasury?

H.M.JR: No, just the War Refugee Board.

MR. DuBOIS: You can say just the War Refugee Board.

H.M.JR: At the direction of the War Refugee Board.

(Mr. Coe enters the conference.)

MR. AARONS: You suggested a separate understanding.

H.M.JR: I would make it, "Under the direction of the War Refugee Board."

I want to get you and Harry just a minute when Harry comes in--I want to know who is responsible for Foreign Funds around here, but I will wait until Harry comes in. But the thing isn't quite as simple as that, Herbert. What they have been doing is kind of playing around with these people hoping some would come out, and when they do come out--and I gather these Orthodox rabbis more or less did this on their own.

MR. PEHLE: And they have their own means of communicating not subject to censorship.

H.M.JR: They have, with the Germans?

MR. PEHLE: No, with Switzerland, and from there on.

H.M.JR: From here to Switzerland?

MR. PEHLE: Through the Polish Government. They have been doing it all along, and we have never seen fit ourselves to step in.

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MISS HODEL: General O'Dwyer last week told them they would have to carry on all future communications through this Government's facilities.

(Mr. White enters the conference.)

H.M.JR: Harry, I have just one question, a very serious proposition of a license to Switzerland. I want to know, with you as Assistant Secretary, who do you look to as being responsible for Foreign Funds?

MR. WHITE: Buzz Aarons and--no single person--Buzz Aarons and Mrs. Shwartz and some of our people. Whenever there have been any serious questions now, I have asked Frank Coe to look after them; and if they do have anything that is a policy question, why, they will have to agree among themselves. Schmidt is away.

H.M.JR: You better tie this up, because this is a very--you can find out afterwards. Somebody here--

MR. PEHLE: This was carefully cleared, Mr. Secretary.

H.M.JR: It is not as easy as that. I look to White, and most likely White doesn't know a darn thing about this thing, and shouldn't, about a million dollar license to Switzerland to some Jews.

MR. WHITE: I don't know anything about it.

H.M.JR: And he is responsible, and they write the story. It is White, Assistant Secretary--now, I want a clean-cut directive, if you please, to protect yourself and myself. Who is responsible until Schmidt gets back?

MR. WHITE: As far as I am concerned, Mr. Coe is.

H.M.JR: Will you please get out a directive through Charlie Bell in writing placing it on him?

MR. WHITE: I will be glad to.

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H.M.JR: And it is up to you to try to see who is responsible. Do you know anything about this license?

MR. COE: Yes. We had a--is this the Jewish rabbi thing? We had a session, Buzz and--

H.M.JR: Yes, but there are too many--it is my impression there are too many snort cuts.

MR. WHITE: I think, Mr. Secretary, whenever there is a policy question involved the important thing is that all the people who know about it and whom we have confidence in shall be in on the decision, and when there is a difference in the point of view, the matter is brought to your attention.

H.M.JR: Harry, please get out this morning a clean-cut directive to Charlie Bell's office placing it on Coe, if that is how you want it.

MR. WHITE: We will get out an advance notice that it is coming out.

H.M.JR: And it is up to you, Frank. I don't see where Buzz Aarons fits in.

MR. WHITE: Legal.

MR. PEHLE: He was designated officially by Schmidt as Acting Director.

H.M.JR: In writing?

MR. AARONS: Yes.

MR. PEHLE: The Federal Reserve Banks were advised.

MR. O'CONNELL: I didn't do it, but it's done. Harry White's office asked me if it would be agreeable with me.

H.M.JR: Supposing I wasn't the kind of fellow I am and I said, "All right, he is your Assistant General Counsel, and if this story breaks tomorrow, it is your fault."

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MR. O'CONNELL: I would not consider it was my fault.

MR. GASTON: I think he's been loaned by Joe to Foreign Funds, designated as Acting Head of Foreign Funds.

MR. O'CONNELL: And in that capacity he is on loan to Harry White.

MR. WHITE: We all agree. Buzz knows the most about it, and he wouldn't make any decision without consulting the important people, so that there is every effort being made to avoid an unwise decision. I don't see how else it could be approached. Designating Coe as head of it doesn't solve that problem, but it's done.

H.M.JR: Put it in writing, and I am going to send word. That is all; you can go back to Bretton Woods. But you make sure, Frank, that you are going to be designated. Who is your man? Who is going to be responsible for Foreign Funds?

MR. COE: Glasser.

H.M.JR: Where is this fellow Aaronson?

MR. AARONS: Do you mean he is to be Acting Director of Foreign Funds? I have been designated Acting Director of Foreign Funds.

H.M.JR: I want to say to somebody, with all due respect to Miss Hodel--Miss Hodel can't say she tells somebody in Foreign Funds--

MISS HODEL: I didn't mean to sound as though I were cutting around Mr. Aaronson. I advised him I was going to do that and also advised him that the license shouldn't be issued until it had been cleared with State.

MR. PEHLE: Everybody checked thoroughly. If there is anything here, the only question that can be raised is whether this ought to be cleared with you; that is the only question. As far as clearing with the Acting Director

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of Foreign Funds goes, it was cleared with him.

H.M.JR: Was it cleared with Charles Bell?

MR. PEHLE: Charles Bell?

H.M.JR: Why not Charles Bell? Isn't he my Administrative Assistant? How can I keep track of all this business, the question of who is responsible--

MR. PEHLE: This license business?

H.M.JR: No, how can I keep all these things straight? I spend half my time unraveling these things.

(Secretary holds a telephone conversation with Mr. C. S. Bell.)

H.M.JR: My Administrative Assistant is there to look after me and keep these things straight, and everybody overlooks him, and then something like this happens, and when the thing breaks, I get it. You know that, John. Now, the whole purpose is to get this thing straight. I get everybody in here, and then when you find a story like this breaks and I try to explain it as to who is responsible, I can't say that Miss Hodel told this person that, and you have been loaned to somebody and all this criss-cross business; it just doesn't make sense.

MR. PEHLE: No license has been issued, Mr. Secretary.

H.M.JR: This is good luck.

MR. PEHLE: Good luck knowing that was arranged for in advance, that no license would be issued until Mr. Grew cleared this thing personally. The lines of authority ought to be cleared.

H.M.JR: That is all I am saying. Are you in agreement with me?

MR. PEHLE: Certainly.

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H.M.JR: Wonderful. Put it through. I have got to get some kind of administrative procedure here.

Now, as a result of this, the thing that I would like you to do for me--and I brought these other people in that used to have something to do with it and whose hearts are still in it, like Pehle and DuBois, so they can advise us, although they have got other assignments; but that is why I brought them in. Please, Miss Hodel, get me up a dossier on this thing, will you? It looks to me like one of the reasons we are in this trouble is because these rabbis have completely gone around us. Now, am I right or wrong?

MR. PEHLE: They are very persistent. As you know, they have been driving Miss Hodel and General O'Dwyer crazy, and they certainly added some gray hairs to my bald head, but they do get around. But the idea is that that can be stopped. We have never wanted to stop it, because they get results. Is it risky? Sure it is risky; this whole thing is risky; it is fraught with difficulty.

H.M.JR: I agree it is risky; in fact, the story may break in the Chicago Tribune. All I am trying to do is tighten up my own lines so I know. The trouble is the personnel of the Treasury and War Refugee Board are so mixed up I don't know which is which, and I want to tighten up my own lines so I'll know what is happening within my own Department. And the trouble is that half the time they don't use my administrative office to make sure the procedure is correct, and that is all I am asking for. We are all overworked, but we have got to take time to get the red tape straightened out, and it is there to protect us; that is what it is there for.

I want to think this thing over and some of these questions of Gaston's, but after you get this thing, I want everybody in the room to have a look at this thing, and I am not sure that we shouldn't ask the State Department. I am just saying this: Stop this by-passing through the Polish Embassy.

MR. PEHLE: It is easy to stop, but it is a serious responsibility.

MRS. KLOTZ: It is a terrible thing to try to do.

MR. PEHLE: It is something--

H.M.JR: Mrs. Klotz, it has got to be done. They have so much information they are going to get that. Who is going to be blamed? Are they going to say, "These Orthodox people are going through non-censored avenues directly to Himmler," which is what they are going?

MR. PEHLE: In effect, and the person who would spread this all over is the Office of Censorship. The Office of Naval Censorship is very reactionary.

H.M.JR: Somebody has spread this plenty.

MR. PEHLE: They were responsible for leaks before, and they would do it now.

H.M.JR: What has happened is that some kind friend has come to warn me, but I give my word of honor I won't tell where--

MR. PEHLE: It is a very bad story.

H.M.JR: It is a terrific story, isn't it, Herbert?

MR. GASTON: They could make a bad thing out of it. This Polish thing worries me a little. If we get information officially that there is stuff in the pouch that doesn't belong in the pouch, it is our duty to stop that pouch and send it back to the State Department.

MRS. KLOTZ: You don't know definitely it is happening; you have heard gossip, but you haven't--

MR. PEHLE: We haven't any official information.

H.M.JR: But you made a direct statement, John, that they have a direct way of communicating with Switzerland.

MISS HODEL: They have admitted that.

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MR. DuBOIS: We know that.

MR. GASTON: If we are sitting on information that the State Department doesn't officially know, that the Poles are using this pouch to transmit unauthorized information, that is bad for us, too.

MRS. KLOTZ: It is being done all the time, one hundred different ways.

MR. DuBOIS: There is lots of that being done not alone for that purpose.

MR. GASTON: I know.

H.M.JR: That argument doesn't--the interpretation--I mean, the thing that you gave can be given an interpretation that will make it impossible to do anything more for any Jews.

MR. PEHLE: That is true, too.

H.M.JR: And because these people--I have had that argument of saving lives, and I don't have to defend my own position, but I think serious consideration should be given to formally telling the State Department please to look into this thing. Would that be all right, Herbert?

MR. GASTON: You mean State, using the channels of information? Oh, yes, it is their responsibility. They are supposed to be responsible for all foreign pouches.

MR. DuBOIS: Bear in mind that if you do it at this point, it has been going on for about a year.

H.M.JR: That doesn't make any difference.

Miss Hodel, I am not in any way censoring you.

MISS HODEL: That is all right.

H.M.JR: But I am not. It is just a combination of a lot of people, and you have nothing to do with the fact

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that the Foreign Funds thing isn't tightened up, so don't feel badly yourself; it is wholly in the Treasury War Refugee Board.

MR. AARONS: It was my mistake, Mr. Secretary, in not clearing it with you.

H.M.JR: No, no, no. It is not to be cleared with me. I have an Administrative Assistant whose job it is to do that, and I have been trying to drive that into everybody's head. The thing should be cleared with my Administrative Assistant, and if he has any doubts, he comes to see me.

MRS. KLOTZ: You are not talking about the issuing of the license.

MR. GASTON: You are talking about two different things; you are talking about organization, and he is talking about the question of the license.

MR. AARONS: I am talking about the license.

MISS HODEL: General O'Dwyer and I informed you of this, and I believe I told you what we were going to recommend.

H.M.JR: Not that you were going to issue the license. I don't know--I think it is important enough, at least it is today. I don't know what I would have said yesterday, but yesterday--I just don't know.

MR. AARONS: I had understood you knew about it.

H.M.JR: Up to the point you were going to put it in McClelland's name so Musy couldn't touch it; that was the last I heard about it. Is that right, Miss Hodel?

MISS HODEL: I thought we had advised you we were going to recommend that it be issued.

H.M.JR: If you say so, I will take your word, but I have too many things--

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MR. GASTON: What bothers me about the careful preparations for paying this money out is it seems to put us, the War Refugee Board, right in the middle of a transaction which probably we ought to turn our backs to-- I mean, the War Refugee Board and the Foreign Funds Control Division of the Treasury.

MR. PEHLE: You can't do it if the Treasury is going to issue a license.

H.M.JR: Two things happened. The Orthodox rabbis have gone and done this thing on their own. They get the people out. They don't have the money, and then they go to the JDC and say, "We want nine hundred and twenty-five thousand dollars," and this fellow Hymen -- is that his name--down there? He says, "Well, we don't like it, but what can we do?" Evidently he hasn't been too careful who he has told that to. And they don't tell us. But if the thing goes wrong--and not only the future treatment of Jews in Europe is at stake, but the whole question of anti-Semitism in this country--and I think that the people who are largely to blame are these Orthodox Jews that have gone ahead and not told us. They haven't the money, and then they go ahead and want the money.

MR. GASTON: My impulse would be to put it up to a Joint Distribution Committee, "Do you want to transfer some money to Switzerland for that general purpose?" All right, you do that, and we don't want to know what you do with it.

MR. DuBOIS: I would like to say this one thing, that if we were to be concerned every time--and that is within the last year--with what the refugees are about, issues like that, Mr. Secretary, we wouldn't have saved a single soul. You have got to take those risks. That is a terrific job. There has been danger in so many things we have done. This is just an example of it, one example.

H.M.JR: You can't have three top ranking members of the Government on the Board and not keep them informed.

MR. PEHLE: No, they ought to be kept informed. They ought to have carefully detailed reports of everything that is going on.

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H.M.JR: The only other thing is this--well, anyway, you bring this thing up to date. Is it the general opinion here that we should call a meeting of the War Refugee Board and put it up to them, this license?

MR. PEHLE: That is right.

MR. GASTON: I think so.

H.M.JR: Will you take care of that with General O'Dwyer?

MISS HODEL: Yes.

MR. PEHLE: I think at that meeting you ought to review this whole series of negotiations and put everybody officially on notice that the minutes show they know exactly what is going on.

MR. DuBOIS: Do it carefully. They have been advised of it; they get copies of everything.

H.M.JR: Is that the way it stands?

MISS HODEL: We will call a meeting.

H.M.JR: Do you have any answer?

MR. GASTON: No, just what Joe said, don't make it appear as though they are getting their first information about these transactions now.

H.M.JR: No. I will have a little meeting before we go over there with this same group again so I am thoroughly up to date as to what the situation is, see?

MISS HODEL: Yes.

H.M.JR: I have got a terrific week, but if you can find time, I can make time, but I have got an awful schedule this week. If you can get Stimson the first thing in the morning--

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MR. O'CONNELL: I don't see why we should have strings tied to the money, either. It seems dangerous to me.

H.M.JR: The other thing this informant told me is that the Russians were very much displeased with this.

MR. PEHLE: Generally speaking, they don't like it at all.

MR. DuBOIS: Does the Secretary know of that cable?

MISS HODEL: I sent him a cable which we received from Moscow advising the State Department that our Embassy there would not inform the Russians of this particular transaction.

H.M.JR: I haven't seen it. Where is it?

MISS HODEL: I sent it to you the other day. I will get another copy.

H.M.JR: This informant has got all that information.

MR. PEHLE: That sounds like something that came out of the State Department. Censorship wouldn't have that. Somebody at State that doesn't like it is trying to--

MRS. KLOTZ: Sure.

MR. DuBOIS: I can almost name the guy.

H.M.JR: Well, anyway, the only way the Board can do the job is to be sure that it moves, as far as the Administration is concerned, on a united front, both Mr. Stimson and the Secretary of State. Now, we will see.

February 27, 1945
3:00 p.m.

FINANCING

- Present: Mr. D. W. Bell
- Mr. Gamble
- Mr. Haas
- Mr. Tickton
- Mr. Kilby
- Mr. Flanders
- Mr. Sproul
- Mr. Williams
- Mr. Leach
- Mr. McLarin
- Mr. Gidney
- Mr. Young
- Mr. Peyton
- Mr. Davis
- Mr. Gilbert
- Mr. Leedy
- Mr. Clerk
- Mr. Kennedy
- Mr. Szymczak

H.M.JR: I hope you all brought your own cigarettes. If not, I will make a gesture.

Well, I don't know how you are organized or whether you all speak at the same time, but I had hoped you gentlemen would have a chance to meet with us here, and here we are. I will be glad to listen.

MR. BELL: I think Allan--

MR. SPROUL: In the absence of our Chairman, Mr. Day, of San Francisco, I will make the opening statement for the group, and I have a note here to help me, because in speaking for twelve people and trying to synchronize their reports, which they didn't do, Mr. Bell, I want to be sure that I speak what is their mind.

In our discussions prior to and subsequent to our talk with Mr. Bell yesterday we came to about the following conclusion on the general question of procedure with respect to the Seventh War Loan Drive ending up with some reference to the question of policing, which was perhaps the first question which initially suggested that we talk with you. We think, first, that unless and until changes are made in the drive procedure which in the past has involved speculative switching and indirect bank subscriptions because of the possibilities for the drive and ease in attaining quotas, the possibilities will be relatively ineffectual. We believe that the proposals for the Seventh War Loan Drive which the Treasury now has under consideration will be helpful in this respect, but their effectiveness will be greatly increased by a direct offering to the banks to be announced before the Drive, and to be made immediately after the Drive, to be accompanied by an equivalent reduction of quotas of non-banking investors. We also believe that under the conditions of the Sixth War Loan Drive the policing was not only relatively ineffectual, but it had other undesirable aspects. First it tended to penalize from a profit and customer good-will standpoint those banks which tried to cooperate with the Treasury and with the Federal Reserve Banks.

Second, it wasn't applied uniformly in all of the Federal Reserve Districts, and because of this combination of factors we think it was productive of ill-will as between the Federal Reserve Banks and the commercial banks and their customers, and that this in turn reacted upon the attitude of many bankers who are an important part of the Treasury sales organization.

Finally we believe that whatever the conditions of the Seventh War Loan Drive the Treasury policy of policing possibly should be decided on promptly and communicated to the Federal Reserve in such form that it can be made known and applied as nearly uniformly as possible in all Federal Reserve Districts.

Being doubtful of the efficacy of a policing program under drive conditions, it is our view that action should

be confined to, one, a statement to all banks by the Secretary of the Treasury similar to that which preceded the Sixth War Loan Drive; two, a certificate on the subscribing bank setting forth the fact that the bank placing the subscription had no direct or indirect interest in the securities being purchased; three, instructions to the selling organization which will reach down into the local community committees; and, four, such incidental inspections of the subscriptions as possible at the Federal Reserve Banks under drive conditions.

Now, that is a general synthesis of the views of the twelve Federal Reserve Banks as they have been reported to you in more detail in the reports on their experience in the Sixth War Loan Drive.

H.M.JR: Well, Allan, may I say this first? I don't think you do yourselves justice. I think by and large a good job was done on the policing. I think that there are some districts which didn't enforce it as stringently as others, but then nobody ever loves a policeman any more than they love the OPA Board.

MR. SPROUL: Or the tax collector.

H.M.JR: Or the tax collector, but the fact remains that with fifty million taxpayers my mail is almost entirely free from complaints. I think that is one of the great things of this American public, the way they are paying taxes. You might almost say they are cheerful when we do have to go out and enforce it. Well, we figure that is what we are hired to do. And I frankly feel that the Federal Reserve Banks as fiscal agents of the Treasury-- that is part of the job that we may expect of you to do in this very difficult task we have undertaken through the voluntary program for financing the war.

Now, on our part I think the offering should be of such a nature that we should make it as easy as possible for you. I don't know whether it came first in your report, but I don't take it that there is any question in the minds of you gentlemen that you are prepared again to cooperate with the Treasury to carry out a policing job. I question whether announcing a financing

for the banks in advance would ease the situation any if the piece of paper was sufficiently attractive to corporations and individuals that we wouldn't go through the same thing once more of having the holders of these securities sell out in advance and then go into the banks and then go in and buy during the loan. I am sure you have other things on your mind than what you have said because I have been hearing them for the last month. Some of the things I am saying are just an echo of what I have been hearing from some of you.

This question of direct and indirect financing--I think that the thing would be very nice if we could do it all directly through the banks with no indirect financing. By that I mean selling out in advance to the banks and then taking that money and going in for loans. But I think the thing that should count is when we look at what proportion of the securities each year the banks have been buying in proportion to the total amount sold--when you do look at that, the percentage has been going steadily down, which in itself is encouraging.

Now, whether we set out to sell a goodly amount to the banks in advance of the loan or immediately following the loan--just how much effect that would have on the ultimate amount the banks would have at the end of this calendar year, I frankly don't know. But what we do want with your help very much is to see that the public buys a maximum amount of the Government securities, and the banks a minimum. And I think if you look back over the last four years, the record for the fiscal agencies is pretty good. It could be better, but the proportion in relation to the total amount sold has been steadily going down. So just what the answer is, I don't know. I would like to discuss one thing here with you individually, and that is just what you had in mind, what the bank offering should be--direct bank offering. We might just go around the room. I would be curious to know what you people had in mind.

MR. GIDNEY: If I am to speak first, I want to say that I didn't think the exact amount was terribly important,

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but the round amount, which would take some pressure off that particular thing, would be desirable and useful.

MR. SPROUL: I might say, Mr. Secretary, that we hadn't discussed actual terms of issues at our meeting up to today. We will have a joint meeting with the Board tomorrow and also a meeting of the Open Market Committee tomorrow at which all of the Presidents will also be present, and the question of the makeup of the basket and the coupons on securities, and so forth, will be discussed preparatory to a meeting which we have with you on Thursday. In our preliminary discussions of the possible bank offering I think we had in mind the seven-eighths percent certificate, which is part of the whole drive program, plus one and one-half percent short-bond.

H.M.JR: Well, I think the kind--what you had in mind might make a difference. I frankly ~~am~~ going to have to be sold on this idea that the banks--bymaking the banks an offering it will lessen the total amount that they will hold at the end of the year and also will have any real influence on the corporations and individuals as to how much free-riding they will do. I mean, you have got a corporation, and they think they can make some money, and they are going to set out so many securities, and it is the decision of the corporation comptroller or the treasurer-- I think he is going to make that decision, and he is going to cover, and then the banks are going to buy, but I think the decision rests with the corporations rather than with banks. That is what I believe, and if I am wrong, I would be glad to be corrected.

MR. SPROUL: Just speaking for myself, I think if you and we say we don't want that sort of thing, that many corporation treasurers will not be so anxious to do it or so eager to do it, and at the same time the banks have a prospect of an issue direct to them, and they won't be out seeking that business as they have been in the past, encouraging corporation treasurers to do it.

We also have in mind as a subsidiary objective, perhaps-- you may not sell any more to non-bankers, although we think

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you will; but even if you didn't, we know you are going to have to sell a certain amount in one way or another to the banks, and it will make for better feeling, a direct operation, if a certain part of what you are going to have to sell to banks anyway will be sold to them at par at the time of issue.

MR. LEACH: On the part of the banks that have been playing ball with us as part of your sales organization--

H.M.JR: There is no argument about that. Let me get this thing straight at the beginning. I am against free-riding. I have been right straight along. And I would like to lessen it. I mean, we might as well call a spade a spade. We had all kinds of trouble in Atlanta. And this last time, if I have been informed correctly-- and if not, I would like to be told so--Atlanta goes to the other extreme and suddenly gets very tough.

MR. GAMBLE: Which was good.

MR. McLARIN: I wanted to see what kind of job could be done. While I don't have the figures, the subscriptions were turned down under one hundred and sixty-three million dollars, but I would guess ninety percent of those subscriptions were indirectly for the benefit of banks.

H.M.JR: Well, Mr. McLarin, for my benefit, are your banks in your district sore at you?

MR. McLARIN: They are sore to the extent their pocketbooks were hurt, and some of them were sore enough to write to Senators and complain that they are not going to buy any Government securities as long as they have to pay a premium for them, and we wouldn't sell them to them at par.

H.M.JR: Well, the answer is they are sore.

MR. McLARIN: But that is only a drop in the bucket. A few of them are sore; most of them saw the reason for

the Treasury's position and our position in the whole picture, and they rather sympathized with us.

H.M.JR: Then you are not personally disturbed?

MR. McLARIN: I am not what?

H.M.JR: Personally disturbed?

MR. McLARIN: I suppose I am; that is what I get paid for.

MR. DAVIS: I want to say, Mr. Secretary, that I don't think this is so much a question of member banks direction as it is a question of equity in our dealings with member banks. We get cooperation. The people we really brush off are those who tried in good faith to comply with the spirit of your letter and were doing what we asked them to do, but when the others who want to get by with something send in a list of subscriptions which perhaps the banker chairmen of these county committees or the State committees have worked up with the guarantee that if you don't want to hold them we will take them over, it is extremely difficult to get back of them in the case of individuals unless they are officers or directors of the bank, in which case you can detect it and put them on the spot.

Our thought was that we approved what we understand to be the Treasury's thinking as to keeping that short bond out of the corporation offer. I mean, without going into detail it was assumed that we did approve all of the good things the Treasury was doing and would make it easier. I think that would help a great deal. It reduces the problem to the individual. We thought that in handling the individual if we could say to our bankers, "Now, look, the Treasury isn't going to compel you to go in and pay a premium for the amount of financing you have to do directly, anyway," it wouldn't increase the amount of that bank's subscriptions because there isn't one of us that doesn't agree with you one hundred percent that the maximum amount of your financing must be done in non-banking circles, and we want to work with you in that way.

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H.M.JR: Chester, let me ask you a question. Could we sort of divide this thing up? We are going to have a direct bank financing according to size, I mean, favoring the smaller banks. I don't know just where the dividing line would be according to the size of their deposits.

MR. DAVIS: I think you could do it. You have in the past allowed each bank, say, a certain amount of these subscriptions that were going to be allowed. That will take care of the small banks straight across the board.

H.M.JR: I didn't mean it like that, pull a figure out of banks. Banks of five million or less deposits will be permitted to have up to five percent again, just pulling a figure, of their deposits they can invest in a security.

MR. DAVIS: At the market without premium?

H.M.JR: At par.

MR. DAVIS: Yes. That will take care of things nicely in our district. Other districts where they have larger banks, where the banks run larger, might not feel the same way about it. How do you feel in New York?

MR. SPROUL: I would have some question about your justification you could make for separating the sheep from the goats in an offering of Government securities through banks.

H.M.JR: I will give you the explanation that I have. The only explanation that I have is this: Again for argument's sake let's say we had a one and one-half percent security in mind, and say we are offering these to small banks, whatever the distinction of a small bank is, to help them meet the expenses that they are incurring due to handling these war bonds without charging the Government anything, and the big bank can take it in its stride and the small bank can't.

MR. SPROUL: Well, the big banks, of course, are doing a tremendous amount of work, too, for the Treasury

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in connection with war bond drives, and the earnings of the small banks are beginning to come up now, relatively, to show a favorable position as well as the big banks.

H.M.JR: Nothing like they should proportionately.

MR. SPROUL: In our figures for the last year the small banks showed up very well in connection with the big banks.

H.M.JR: In your district?

MR. SPROUL: Yes.

MR. DAVIS: Ours did, all except very small banks.

H.M.JR: What do you call a very small bank?

MR. DAVIS: Under five hundred thousand resources.

H.M.JR: Do you have many?

MR. DAVIS: There are a lot in the Eighth District, yes, sir.

H.M.JR: I realize that if a bank with one hundred million dollars of deposits puts two or three of their people to work on a thing like this, it takes a goodly portion of their bank clerks, and they don't get paid for it. It would help them. But those are some of the things I would like you people to think about, because that would influence me much more than saying, "We will stuff you full and then give you indigestion." I don't know whether it is apropos, but did you tell that story about the hogs?

MR. GAMBLE: That was in the American Banker, so you can repeat it. (Laughter)

H.M.JR: There was a farmer who was fattening a couple pigs for the market, and they wouldn't eat any more and they were pretty fat; one of them put on only a few more pounds. Then the farmer put two thin pigs

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in there with them, and, of course, they ate. The fat hogs couldn't see the thin ones eat, so they started to eat, too. (Laughter) You didn't tell me it was in the American Banker. It is all right.

MR. GAMBLE: That was apropos.

H.M.JR: But those are some of the things. The other thing is, I wish you people would talk about the insurance companies, how serious it is that they have two and one-half percent, and if we do that, we do it only up to the amount of visible cash that they have on hand plus possibly letting them subscribe for what they could prove would come in during the next three months, and the same for the mutual savings banks, and limit it in that way to those kinds of institutions that are really depositories of the people's savings, but the subscriptions would have to be within the amount of what money they had or they could prove would be coming in during the next three months. Those are some of the things that are bothering me.

Do you want to say something, Mr. Bell?

MR. BELL: The one thing that is bothering me on the bank proposal to have an offering to the banks-- wouldn't we get both the bank offering and also get the switching in the market? And we might get a good deal more than we got in the last drive. You seem to think we won't get any more, and we might get a lot less. I am afraid we would get a lot more. We would get all of the switching that took place, anyhow, plus whatever we offered to the banks, if that is three or four billion dollars. Instead of giving nine billion dollars bank participation, get twelve twelve or thirteen if that is possible.

MR. SPROUL: Our judgment was that it is a possibility, but a remote one, that the more likely thing is you would get much less switching than you had had before, and that the worst you could do would be to sell as much to the banks directly and indirectly as you have before, and you might sell less to them indirectly than you have before.

MR. BELL: That is on the assumption, I take it, that a great deal of the bank participation is done at

the suggestion from the banks that they sell their securities to them rather than coming from the holders of securities.

MR. SPROUL: Speaking for my own district, it came both ways in the last drive, banks suggesting to holders that they sell and buy, and on the other hand, some of the sharper holders making their first move.

MR. DAVIS: Dan, couldn't you meet that in part by your plan of what you have been considering, offering marketable bonds to the corporations?

MR. BELL: That would meet that end of it, but that still wouldn't keep, say, the insurance companies from selling out their two's and going into the two and one-quarter or--

MR. DAVIS: The banks couldn't come in any buy two and one-half's.

MR. BELL: They could buy the two's that they now own and take cash and subscribe for the two and one-quarter in the drive. I appreciate that if you keep up this plan, they would run out of two's and short securities. It is only a one-way street, but they could still do it for a large volume of securities.

MR. DAVIS: Wouldn't the Secretary's suggestion that you limit the insurance purchases to the amount of your money plug that gap?

MR. BELL: That would have a very good effect.

MR. SPROUL: It would take the steam out of the insurance companies' desire to sell and buy.

MR. BELL: But I think the Secretary's suggestion was more to the two and one-half's, as I understand it.

MR. SPROUL: If they could only get two and one-half with accumulated funds plus some future accumulations, they would have nothing to buy with the money they had received from selling the two's.

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MR. BELL: Unless we left the two and one-quarter open--we would put the same restrictions on the two and one-quarter, and then you would have control.

H.M.JR: I don't want too much credit for that idea. It came from the man on my right.

MR. SPROUL: We had some fairly substantial transactions where the insurance company wanted to sell and where the banks met them more than half way, and then they went out and made deals to pay off the market to get the securities and get the war loan account.

MR. BELL: Yes.

H.M.JR: This idea of sort of putting insurance companies, mutual savings banks, and other institutions of similar nature as depositories of people's savings on a quota basis and then giving them something attractive to buy so that they won't upset their structure too much-- I mean, I would be interested in exploring that.

MR. SPROUL: It strikes me as a bright idea.

MR. DAVIS: It would take away the opportunity and incentive to switch for the sake of getting your picture taken and handing over a big check. We had some cases like that out there where they were just switching money, but they made the papers every time.

MR. BELL: Will they get their pictures in the paper every time?

MR. DAVIS: That is right.

MR. GIDNEY: Savings and loan associations and everybody subscribing equal to the amount of their entire assets in some cases.

MR. BELL: This policing is not just a fiscal problem, is it? It is not so much a manpower problem at all. The objections you raised to it are largely ones Allan mentioned, ill-will, and so forth.

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MR. SPROUL: The manpower aspect enters into it in the midst of the drive when subscriptions are coming in in great volumes and they have to go over each one and check it thoroughly and carefully. That would require a considerable increase in staff.

MR. McLARIN: We had one last time.

H.M.JR: Mr. Gamble?

MR. GAMBLE: There are two things, Mr. Secretary. I gathered these gentlemen feel that their plans that we had under discussion are a definite step forward, the elimination of the intermediate bond from the corporate basket, the stepping up of individual sales plans for getting four billion dollars. And it is more than just a statement, because we have very tangible plans for getting that four billion, and I don't doubt but what we will get it, can get it.

With respect to the free-riding, what they have to say about it is not especially disturbing, Mr. Secretary, because there are problems that exist, and we recognize them. Indication of a willingness to meet those problems is encouraging because I think we have to, we did eliminate some. Whether that was just the idea that something was being done about it--four or five hundred million dollars were eliminated--or whether it was the actual policing that did it, there was that much pulled out last time. I don't know whether certification is the answer to it, but I think we ought to discuss that, presentation of a financial statement with the application, or whatever it is.

Some additional step should be taken and a uniform plan adopted which should ease most of the problems you have in policing a job.

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MR. McLARIN: I think the Secretary's letter had more to do with it than anything else. In the first place, that brought in eighty percent of the banks voluntarily. But it is the group outside of that that you have to watch closely.

MR. GAMBLE: That is all I have.

H.M.JR: Mr. Haas?

MR. HAAS: I have nothing to say.

H.M.JR: Tickton?

MR. TICKTON: No.

H.M.JR: I am not quite sure just what the schedule is as far as these gentlemen and ourselves are concerned for the next two days. When do we meet again?

MR. BELL: Thursday afternoon at three o'clock with the executive committee of the Open Market Committee. These twelve Presidents, I understand, and the Board will meet tomorrow, and they will have a meeting tomorrow afternoon of the executive committee or the Open Market Committee.

MR. SPROUL: It will be all mixed up; we will be meeting all of tomorrow and the next day.

MR. BELL: The committee that usually comes over to see you will be here Thursday and give you recommendations on the Seventh War Loan basket, as I understand it.

MR. SPROUL: If the electioneering I have done goes well, Marriner and I will be over representing the committee.
(Laughter)

H.M.JR: The two of you will be over?

MR. SPROUL: Representing the Open Market Committee and the Presidents of the banks who will have set in on discussions of the Open Market Committee tomorrow and Thursday morning.

H.M.JR: You and Marriner will be in agreement?

MR. SPROUL: I hope so. Sometimes we are, and sometimes we aren't.

H.M.JR: Isn't that a little different? Don't I usually meet with the executive committee of the Open Market Committee of the Federal Reserve Board?

MR. SPROUL: Beginning perhaps a year or so ago we suggested that Marriner and I be delegated to come over to speak for the committee.

H.M.JR: I am a year behind times.

MR. BELL: I think last spring, or sometime in there, it was suggested.

H.M.JR: When are you people meeting on Bretton Woods?

MR. SPROUL: We had it on our program this morning, not the idea of Bretton Woods, but legislation for implementing it and the possible effects on the Federal Reserve System, on our domestic credit policy. We were unable to stir up much discussion on those two aspects of the question.

H.M.JR: I see. Well, now, there is nothing more you want of me right away, is there? I think I will withdraw and leave you in control of the room here.

MR. SPROUL: If there is any individual President-- we don't often get a chance at the Secretary--if there is anything he wants to say to him, now this is his chance.

I guess no one has anything to say.

H.M.JR: I would like to say that I really appreciate what the Presidents are doing; I realize it is a tough job, and we lean very heavily on you during these war loans. Talking for myself, I am more than pleased with what the Presidents have been doing; I have no suggestions or criticisms. I only have praise. If I had anything, I would

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say so, but there is really nothing I want to say right now other than thank you.

MR. LEACH: I wouldn't want to leave the impression it was a widespread practice for banks to go in and buy war loan accounts. I saw nothing of it in our district. No bank in our district originated that. It was more of a spotty situation than a general situation.

H.M.JR: Spider?

MR. LEACH: Spotty. We saw nothing of it in our district.

MR. BELL: It was spread in the Sixth more than in the Fifth; it started in the Fifth, but spread more in the Sixth.

H.M.JR: I won't see you gentlemen again, is that it?

MR. BELL: You will see some of them.

MR. McLARIN: I would like to say one thing. We have been talking about all the reports you got that we didn't appreciate very much the feeling that was being aroused between the banks and the Federal Reserve Presidents--and the Federal Reserve organization. That is not the way most of us feel about it, and I know I don't. The thing that bothers me about the policing is that the people who cooperate with you don't need any policing, and a lot of the other people get by; so in the last analysis what bothers us is we penalize people who cooperate with us rather than people who do not cooperate with us.

MR. DAVIS: I don't know whether we can get the individuals unless their names are in the bank directory as officers or directors. Just when there is a bunch of individuals who come in and the bankers certify that they have, or tell you that they are people of means in the community who could afford to buy--there isn't much you can do, but the banks can pad their subscriptions that way and excuse it to me by saying they won't let us by them direct. They can just go into the market to buy and pay a premium for them. This is the only way out, that

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is why I thought direct financing--that is certainly not big enough to ease your pressure and your drive on individuals and corporations. That has to be kept up. It would take away that semblance of an excuse which the banks have to object to to defend their indirect purchases.

MR. BELL: It is pretty hard to turn them down when you know the man has assets with which to pay for subscriptions if he wants to regardless of where he gets his money.

MR. DAVIS: Last time we turned down the President of one of the National Banks just across the river whose subscription bobbed up in three or four of the outlying banks in St. Louis. He could give you a financial statement by counting in the bank stock he owned, maybe seventy-five thousand dollars, but the aggregate of the subscription in there was probably a couple hundred thousand dollars. He has been getting by with that all the way through, and it has been a nice little source of income to him.

MR. McLARIN: I will give you another example. We had a regular customer for ten years, and all his family, grandchildren, dog, and horse-- (Laughter) He was at home in bed and had been sick for a month or two. His broker came and said, "We have got one million dollars cash to this man's credit, and we want to buy some bonds."

I said, "Well, you have read the letter that was sent out."

He said, "How many will you sell me?"

I said, "I think we will take one hundred thousand dollars." He wanted one million dollars, but we said we would let him have one hundred thousand.

MR. BELL: He probably sold those, too.

MR. McLARIN: Oh, yes, they were sold.

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H.M.JR: If during the day or tomorrow anytime you gentlemen would like to meet with me, I will be available on short notice.

February 27, 1945
3:47 p.m.

HMJr: Hello.

Operator: Secretary Stimson.

HMJr: Hello.

Secretary Stimson: Hello.

HMJr: Henry talking.

S: Yes. I called you up some time ago because you said this was an important thing -- a hurry. I could have taken you on -- I can take you on until five o'clock, but I don't know whether I can get through.

HMJr: I'm afraid I don't know what it is, Harry.

S: Oh, I got a message from you

HMJr: Yes.

S: that your Miss Hodel of the War Refugee Board

HMJr: Oh, yes.

S: telephoned that you stated that a matter of the utmost importance had come up and thought that a meeting should be held this week.

HMJr: Yes, that's right.

S: Well, tomorrow I have got an engagement at twelve o'clock.

HMJr: Yes.

S: And I could -- I could

HMJr: Well

S: have a short meeting earlier, but I'd want to get away by half past eleven.

HMJr: Tomorrow?

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S: Tomorrow I mean.

HMJr: What time

S: Well, I could -- I have a meeting Thursday -- I'm pretty full because I've got two meetings -- I've got a press conference and another meeting right after it, so my morning is chuck full.

HMJr: What time do you start in the morning?

S: Well, I don't think you could -- I start with my other engagement at eleven-thirty.

HMJr: Well, I mean how early tomorrow morning -- you couldn't do

S: The trouble is about tomorrow is that Grew again, I think, is busy early.

HMJr: Grew?

S: Grew.

HMJr: Oh, with you?

S: What? No, not with me.

HMJr: Oh.

S: But I had another engagement before -- it's not on now -- which I was to have with him and he couldn't come on account of something else.

HMJr: Oh. One of the troubles is O'Dwyer is not here today. He doesn't get in until tomorrow. I could change mine. I could come this afternoon, but O'Dwyer wouldn't be there.

S: I see.

HMJr: I -- I

S: Well, there's no use doing that. Grew wouldn't be here either.

HMJr: He -- they tell me he's in bed, I think.

S: Yes, he's sick. Well, possibly tomorrow afternoon.

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HMJr: Tomorrow afternoon would be perfect for me, and he'll be here.

S: Well, I'll try that.

HMJr: What time would you suggest?

S: Well, three or three-fifteen.

HMJr: Either one.

S: All right. Well, I'll see if I can.

HMJr: Say three o'clock?

S: Three o'clock make it.

HMJr: Well

S: Yes, yes, make it three o'clock.

HMJr: Where would you like to meet?

S: Well, the -- I -- the message said that you would come here, but I'll go to you

HMJr: No

S: I'm perfectly willing.

HMJr: I'll be glad to come to you.

S: I was thinking of arranging it

HMJr: Hello?

S: Yes.

HMJr: I'll be -- now, should I try and get Grew?

S: Well, if you can -- if you can get Grew tomorrow, I'll come to you. You're right close together there. That's simpler. I can come -- make it about three-fifteen so I'll have time to get over there. I'm busy up until three o'clock.

HMJr: Well, let's see -- no, I'll be glad to come to you, Harry.

S: (Laughs)

HMJr: Those things are

S: Well, you see if you can get Grew then, and come here at that time.

HMJr: At three?

S: Yes.

HMJr: I'll -- I'll see if we can get Mr. Grew.

S: I don't know what it's about. Do you?

HMJr: Yes, it's a question of a license that we're very anxious to have the Board pass on itself. It's the whole -- it really is

S: Well, I wondered whether -- if it's a paper or something like that, whether we couldn't do it without a meeting.

HMJr: No. I -- I -- this is something that -- that I feel should be brought to the attention of the Board. I don't want them -- I don't want the staff to move on it unless you and Grew are satisfied. I'll be glad to have them prepare McCloy in advance if you'd like them to do that.

S: Well, if they would, it would be -- they could do that. That would save us a little time on it -- for me.

HMJr: I'll have them prepare McCloy.

S: Yes. I'll have him come in there too if he can. I don't know if he's free, but I guess he is.

HMJr: I'll have them contact him.

S: Yes. All right.

HMJr: Thank you.

S: Thank you.

February 27, 1945
4:17 p.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Marriner.

E: Yes, sir.

HMJr: How are you?

E: Pretty good, sir.

HMJr: Good. Marriner, I understand I'm going to meet with the Open Market Committee on Thursday afternoon.

E: Well, I thought it would be Sproul and I. We haven't met with the Committee yet. What we want to do is before the meeting we wanted a chance to meet with the Committee and have them indicate what they wanted to recommend, and then we would like to meet with you and convey to you the views of the Committee.

HMJr: Well, if you have no strong objection, I'd rather go back to the old system of -- for fairly obvious reasons, right now. If I'm not plain enough, I'll make myself plainer.

E: Yeah. You mean have the -- have the full executive committee come over?

HMJr: You used to have the executive committee.

E: That's right. Well, the reason for that, of course, there were so darned many of us there that we took -- you know.

HMJr: Well, I'll be frank. I just don't want Sproul to have all that power.

E: Well, he don't have it. What we'll do -- he won't have it -- what we will do is put it in writing. See? We'll come over as we did before

HMJr: Yeah.

E: and present to you a memorandum that will be -- that will be written and will be the action of the committee, and it won't necessarily express Sproul's views.

HMJr: Do you mind -- do you mind if the old group comes over?

E: Well, I don't mind it, but I -- that -- what we did before was what they preferred, of course.

HMJr: Which way -- which did they prefer?

E: They preferred to have -- write up the program -- see, it was the Executive Committee itself that objected to coming over.

HMJr: Oh.

E: They simply said, "We go over in a big group and we talk, and we would sooner discuss the thing and decide the program rather than go over and each of us talk and when we get through, why, some have expressed apparently different views; and what we would prefer to do is to put down the views of the Committee in our own records." See? Make a motion for whatever we do and write it up and then let Mr. Sproul, who the banks would want to represent them, and I would represent the Board, merely present to you the views -- the conclusions that the -- that the meeting had come to. And it doesn't -- it isn't necessarily our views at all. It may be compromised views.

HMJr: Well, let's get the rest of the country in on this thing. There's too much New York.

E: Well, the rest of the country -- the rest of the country is in on this one.

HMJr: Well, if I could see them face to face

E: Well, of course, on the Executive Committee, there's only -- there's only five.

HMJr: I know.

E: That's Sproul -- Sproul is always on.

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HMJr: Yeah.

E: And it's Hugh Leach this year, and then there will be two members of the Board and myself.

HMJr: Yeah.

E: That's the Executive Committee.

HMJr: Yeah.

E: And

HMJr: Well, if it would be just the same to you, I'd kind of like it to be the Executive Committee.

E: Well, I'll put it up to them and see if they want to do it. I'll tell them that you'd prefer

HMJr: Well

E: to have the Executive Committee come over.

HMJr: Well, don't put it up unless you can put it through I mean get two members of your Board with you. What?

E: Well, then I -- I don't like to do it in that way.

HMJr: Well, don't -- don't start something and then have it end up that Sproul and you come over. I wouldn't want to start something unless you could put it through.

E: Well, of course, it isn't Sproul and myself.

HMJr: I know.

E: It will largely be the other members of the Committee objecting to it more than anybody. They said, "We go over there, and we sit back and"

HMJr: Well, I'm going a little bit further if Sproul keeps up fighting the Treasury the way he is, I don't know whether I'm going to do business with him. See? And you might just as well know that.

E: Well, what trouble are you having now?

HMJr: Well, he's spearheading -- he's leading the fight against the Treasury and the whole business.

E: You mean on Bretton Woods?

HMJr: Yes.

E: Oh, well, yes, but he's -- he's getting nowhere on -- with the other bank presidents.

HMJr: No, but he's spearheading this whole thing. They are to have a meeting in New York over the week-end with the C.E.D., and they want to call in somebody to represent the opposition, and it's Alan Sproul.

E: You mean on the

HMJr: Report for the C.E.D.

E: You mean on the Bretton Woods?

HMJr: Yeah.

E: Well, of course, I -- I told Sproul what I thought, that I thought it was entirely inappropriate for Alan Sproul, as the President of that bank, to get out on this issue.

HMJr: Well, I'm frankly getting fed up with it, and for me to have to sit down with him and have him represent this whole group, and then -- I don't know how mixed up he is with the financing and Bretton Woods and everything else. I don't know when he's working for Bretton Woods against the Treasury, or whether he's working on the Open Market Committee for the Government.

E: Well, as far as the Open Market Committee is concerned, that isn't -- he doesn't determine that. That -- that

HMJr: Listen, old man, right now he is spending most of his time working against the Government.

E: Well, he's against the Bretton Woods program.

HMJr: He's against -- he's against the Administration. Now, he's

E: I don't think he's ever been any more against it than George Harrison was. He's not

HMJr: Well, he

E: He's more open than George. George was against -- George was a little smoother is the only difference.

HMJr: Well

E: But I'd trust Sproul before I would George because Sproul is honest and direct and he tells you exactly what his position is.

HMJr: But he's out -- George is out, so

E: George -- the trouble with George was, George -- you never knew where he was -- well, you knew where he was, but he made you think he was somewhere else.

HMJr: I'm not arguing.

E: (Laughs) That was the difference.

HMJr: I'm not arguing.

E: Now, of course, the difficulty with the Federal Reserve set-up is: it provides for -- it provides for these Reserve Banks to elect their own president, and -- and then if we can't do much about it.

HMJr: Well, I'm not saying

E: And it's

HMJr: But I don't want to start something and have you say, "Well, Morgenthau wants the Executive Committee to come over," and then find it just ends up by just you and Sproul coming over. In other words, if I'm going to start something, I want to know I'm going to win.

E: Well, I'll tell you, I think you'd better leave it then, because I -- the Committee itself, I'm sure from the discussions we had before, that they just don't want to come over and

HMJr: Well

E: discuss the thing as a Committee. They would prefer to have the discussions

HMJr: All right.

E: in the session, and then make their records, and if they agree, all right; if they don't, then they have a majority and a minority. We've always done that. We've -- they insist each member making their position, and we have a whole day session here tomorrow from ten in the morning until six at night, and everybody -- it's a damn ordeal for me to go through

HMJr: Well, I'll make another suggestion. Come over alone.

E: Well, I would -- as far as I'm concerned, I'd be glad to do it, but I would prefer to have someone else to come over for the reason that -- that they would always question the thing. The trouble is I'd like them to know exactly what I said so they wouldn't be suspicious of me.

HMJr: Well, they don't have to be....

E: Suspicious that I'm not presenting the

HMJr: if it's a written memorandum.

E: That's right.

HMJr: Come over alone.

E: Well, do you want me to tell that to Sproul?

HMJr: I don't care.

E: I think I ought to let Sproul know the way you feel, but I think you should tell him. Why don't you -- why don't you call him in, Henry, and sit down and say, "Now, Alan, this thing is just very, very disagreeable to me, and it's hard for me to do business with you here as a fiscal agent, and in connection with this Open Market Committee, and I feel that -- I don't expect you to -- I don't expect you to agree on Bretton Woods necessarily. If you can't agree, that's all right; but I don't like you to be the spearhead of the opposition here. Why should you -- why should you be the spearhead

E:
Cont'd.

of the opposition?" I mean I'd put it right up to him. Now, I have, as far as I'm concerned here, I've told Alan and told all these presidents that I felt that the Board had taken the position favorable to this legislation. We're on record now. That's our position.

HMJr: Yeah.

E: And -- and -- and we are the -- we are the public representatives of the System. We're the ones that are the -- that are confirmed by the Senate. We are required under the statutes to report to the Senate; that is, to report to the Congress, and to make our recommendations to the Congress.

HMJr: Yeah.

E: And not the Reserve Bank presidents.

HMJr: Yeah.

E: Now we're doing that as the public representatives of the System, and we -- and I felt it was entirely inappropriate for Reserve Bank presidents to get out -- when they had no public responsibility in the sense that we did, unless they were willing to be confirmed by the Senate; unless they were willing to have their salaries fixed by the Senate. Why should they have all the advantages and freedom and none of the obligations?

HMJr: Well, I'll tell you what we'll do

E: Now, that's exactly what I told these fellows and every president was all right on that thing except Alan, and I'm much -- I'm very surprised to hear that he is really going out of his way. If that -- when I made this statement, of course, Alan spoke up and he said, "Well," he said, "I don't intend to be -- I don't intend to be throttled." See? And he said, "If my position in the New York bank means that I'm going to be gagged from free speech and free expression, then as far as I am concerned, I'll resign."

HMJr: Yeah.

- E: "I'm willing to quit any time." And he said, "That's exactly what I'll do if -- if my position -- it falls upon me to not express my views." Well, I said, "Alan, nobody -- we couldn't gag you if we wanted. All I'm saying is that I think it's inappropriate. And it's bad taste for the President of the New York Bank to be taking one position and this Board another."
- HMJr: Yeah. Well, I'll tell you what we'll do; as long as you feel that way, you and he come over and I'll talk to him in your presence so there can be no misunderstanding on what I say.
- E: Well, I think that might be all right. I think you'd better talk to him about it and get it settled.
- HMJr: Well, I'll talk to him
- E: Don't talk to him until we've finished the Open Market. Let's finish that one and then you can talk to him after that.
- HMJr: Well
- E: Because if we talk that before, we won't get anywhere on the other.
- HMJr: Well, we'll see. Anyway, I'll do it in your presence.
- E: I'd just as soon be there, but I would think that you ought to just call him in and personally just see where his peeve is and see if you can't get him to -- I'd just as soon be there, but I think maybe -- I don't know whether Alan would like it or not.
- HMJr: Well, I think it would be much better if you're there. After all, I'm not his boss. You are.
- E: Well, I'm not his boss. He has a statutory position himself. The trouble is I'm not his boss, because he's elected by nine directors of that bank.
- HMJr: Well.....
- E: We only appoint three of them. There are six of those directors on that bank.

HMJr: Well, as long as you feel the way you do, I'll take it up when you're here.

E: Yeah. Well, you see I've told Alan exactly what I told you, so that -- so that there it is.

HMJr: And I -- I will think it over. I've got to the point that -- that I don't see how I can work with him.

E: Well, I'm perfectly sure that

HMJr: I mean, after all, the Federal Reserve Board, the Treasury, the President of the United States, and forty-four nations decide this is the way -- why the hell should Alan Sproul be out fighting us?

E: Well, of course, he's expressing what he says are the views of his board, and

HMJr: Well, I don't know

E: six of his damn board, of course, are elected by the banks.

HMJr: I don't know that he is. I don't know that Ruml goes along with him.

E: No, not Ruml -- it isn't -- I don't know that Ruml does either, but you see the trouble with Sproul is he's got -- of his board of nine -- now, I doubt if Ruml does -- you see, we appointed Bill Meyer, too.

HMJr: Yes.

E: Bill is the -- is another member on that board, and who the hell is the other? I forget, but anyway, there are six of them -- six of the board members that are elected by the banks -- the member banks.

HMJr: Yeah.

E: There -- there's two-thirds of them, and they're the boys that Alan -- elect Alan and whether -- I think John Williams is the boy that's done the influencing in this picture.

HMJr: Well, anyway, we'll have it out when he comes over.

E: Yeah. Okay then, Henry.

HMJr: Thank you.

E: All right.

February 27, 1945

Dear Mr. Yost:

Thank you for your letter of February 24th, with which you enclosed a telegram from Paris indicating that the French have approved the Lend-Lease agreements, and also copy of Harriman's latest review of the Soviet press. *- given to White*

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Charles W. Yost,
Executive Secretary,
Executive Staff Committees,
Department of State,
Washington, D.C.



DEPARTMENT OF STATE
WASHINGTON

SECRET

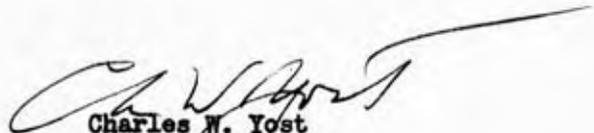
February 24, 1945

My dear Mr. Secretary:

If you have not already had this information, I believe you will be interested in the enclosed telegram from Paris indicating that the French have approved the Lend-Lease agreements.

I am also enclosing a copy of Harriman's latest review of the Soviet press.

Sincerely yours,



Charles W. Yost
Executive Secretary
Executive Staff Committees

Enclosures:

1. Copy of telegram no. 845 from Paris, February 23, 1945.
2. Paraphrase of telegram no. 462 from Moscow, February 19, 1945.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

Confidential
DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

DSH-1136
This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (SECRET-0)

Paris

Dated February 23, 1945

Rec'd 4:01 a.m., 24th

Secretary of State,
Washington.

US URGENT

845, February 23, 2 p.m.

FOR STATE AND FEA FROM LABOUISSÉ AND MACCHESNEY

From a conversation with Monnet yesterday after-
noon it appears that:

One. The Lend-Lease agreements were approved
yesterday by the Economic Council without any changes;

Two. De Gaulle has indicated his approval;

Three. Monnet expects the Government to give
its formal approval today;

Four. Monnet will leave over the week-end for
Washington and hopes that the agreements may be formalized
there next week.

CAFFERY

WMB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 27, 1945

TO Secretary Morgenthau
FROM Mr. Coe FC
Subject: French Lend-Lease

Monnet is back and ready to sign the lend-lease agreement and documents without any changes. Final arrangements will be made at a meeting with Mr. Monnet in Mr. Taft's office in the State Department at 3 o'clock today.

We intend to tell Taft orally that it would seem wise to wait for signature until the President returns; but that the decision on this is State's responsibility.

Unless you have any further instructions, we will let the arrangements take their course.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 27, 1945

TO Secretary Morgenthau

FROM Mr. Coe *TC*

The question of whether the French Lend-Lease Agreement should be cleared with the President before signing was raised at a meeting in the State Department by the Treasury representative. Mr. Taft of State said that Mr. James Dunn had advised that the agreement did not need to be cleared with the President. The signing will take place tomorrow in the office of Mr. Grew.

February 27, 1945
5:09 p.m.

Leo
Crowley: Yeah.

HMJr: Jean Monnet is here in my office and they've been going over these documents which, as you know, the French have accepted....

C: Yeah.

HMJr: cheerfully. And what would you think if we could get the President, maybe, to participate in the signing of the thing?

C: I think it would be very, very nice. That would be grand.

HMJr: Well, would you sort of carry the ball on that? Because I imagine you sign, don't you?

C: No, I think just State signs, Henry.

HMJr: Oh, you think State signs?

C: I think so but I think this, Henry, you'll see the President likely as soon as he gets in -- sooner than anyone else will.

HMJr: I don't know, but I -- I'll certainly mention it to him and I'm going to call some people over at State also.

C: I think this, if the President would sign it and be present, it would be a good thing.

HMJr: Yeah.

C: I think it would help everyone.

HMJr: Yeah. That's what I thought.

C: I'd be glad to join with you in requesting him to do it, you understand, but I'd like to have you do it.

HMJr: Well, I'll -- I'll get word over there....

C: Fine.

HMJr: and -- to them.

C: Fine. Then I'll be glad to go with you.

HMJr: Right. Well, I don't expect to be there myself, but, I mean, I'll try to get some kind of a message to him.

C: Fine. All right, Henry.

HMJr: Thank you.

C: Thank you.

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Read by Mr. Frank Coe.

February 27, 1945
5:14 p.m.

HMJr: Hello.

Joseph C.
Grew: Hello, Mr. Secretary.

HMJr: How are you?

G: Good evening. Well, I'm just fighting a cold but still up and about.

HMJr: Mr. Yost told me that you weren't feeling so well.

G: Well, I'm back at my desk today. I took one day in bed, that's all.

HMJr: Mr. Grew, I'm taking the liberty of making the suggestion that when that French Lend-Lease agreement is signed, I think it would be nice to sign in the President's office....

G: Yes.

HMJr: as a gesture on his part, you know, of good will.

G: Good.

HMJr: And I know that it's all finished and ready, but I'd just like to make that suggestion.

G: I think it's a very good idea -- in -- in the President's presence?

HMJr: Yes.

G: But has he been consulted?

HMJr: No, but the point is, you know when he gets back.

G: Yeah.

HMJr: And I just was afraid they might rush it through before he got here.

G: I think it's a good thing. Who signs it, the Ambassador?

HMJr: I suppose that Bonnet and Monnet sign it, and I don't know whether Crowley, and I suppose somebody from your place

G: Will you repeat that please? I don't quite hear.

HMJr: I suppose it's Crowley and I don't know who else signs besides Crowley.

G: Yeah. Well, I'll find out.

HMJr: And

G: The suggestion, I think, is very good.

HMJr: they had a meeting over there with Charles Taft today.

G: Yes.

HMJr: But I just thought I'd make this suggestion to you on account of what's happened the last couple of weeks.

G: Yeah.

HMJr: I thought it would be good.

G: It's a very good suggestion and I'll go into it at once.

HMJr: Thank you.

G: I -- did you get the message about the Refugee meeting tomorrow.

HMJr: Mrs. Klotz was talking to your secretary -- the last suggestion was 9:00 o'clock in the morning, but we haven't heard from Stimson yet.

G: I hadn't heard that but that's all right for me.

HMJr: Well, your office is handling it right now. I don't know what the last word is.

G: The last word I heard was 3:15.

HMJr: The last word was 3:15?

G: I would have to leave at 3:40. I have a Congressman coming here

HMJr: Well, somebody in your outer office knows about it.

G: All right; well, I'll look into it. Would 9:00 o'clock be all right for you.

HMJr: 9:00 o'clock would be all right, or 3:15 would be all right.

G: Just hold the line a minute -- here's my secretary -- just -- I'll tell you. (Talks aside.) Well, apparently Stimson would not be free at nine, so they set it for 3:15.

HMJr: Do you know where?

G: At the Pentagon Building, I think.

HMJr: At the Pentagon?

G: Yes. Is that all right for you?

HMJr: I'll -- I'll make it all right.

G: Well

HMJr: That's all right. Stimson would sort of -- a little bit rather have it over there, and I don't care.

G: Well, I'll go anywhere I'm wanted.

HMJr: At 3:15.

G: At 3:15 then, at Stimson's office.

HMJr: Well, we could get the thing through. Warren knows all about it anyway.

G: All right.

HMJr: So that that ought to help.

G: We can put it through quickly then.

HMJr: I'm sure we can.

G: All right. Fine. Thank you.

HMJr: I'll look -- thank you.

February 27, 1945
5:20 p.m.

Operator: Go ahead.

HMJr: Hello.

Wright
Patman: Hello, Mr. Secretary.

HMJr: Hello.

P: Yeah, this is Patman.

HMJr: Hello, Wright.

P: Fine. How are you doing?

HMJr: Oh, not too bad.

P: That's good.

HMJr: I got your letter about the banker down there.

P: Yes, sir.

HMJr: And we're going to plan to make some use of him.

P: That's fine. Now, listen, Mr. Secretary.

HMJr: Yeah.

P: The occasion of my call is there's some publicity down here that three Dallas bankers are considered for the Loan Agencies.

HMJr: Loan Agencies?

P: Yeah, for Mr. Jones' place.

HMJr: Well, that's all news to me.

P: It is news to you?

HMJr: Yeah.

P: And I thought maybe it might be inspired by the other side. Mr. Florence -- Fred Florence, who is all right

HMJr: Yeah.

P: He'd be the best one of them.

HMJr: Yeah.

P: And Nathan Adams, and also the -- and Bob Thornton.

HMJr: Yeah.

P: And, of course, for that particular place Fred Florence would be the top man.

HMJr: Yeah. Well, that's all news to me.

P: Yes, sir. And I wish you would also put Fred Florence on there for consideration for anything that might happen in the Southwest, too.

HMJr: Who?

P: Fred Florence.

HMJr: Fred Lawrence?

P: Fred Florence.

HMJr: How do you spell that?

P: F-l-o-r-e-n-c-e. Fred Florence.

HMJr: Right. Now, then let me ask you a question.

P: All right.

HMJr: You're down in Dallas?

P: Yes, u sir.

HMJr: Can you find out if either of these gentlemen are okay on Bretton Woods?

P: On Bretton Woods? I will find out.

HMJr: Will you do that?

P: Yes, sir. And if he is all right, I'd recommend Fred Florence on that.

HMJr: Well, I'll tell you, we -- I'd like some banker down in that part of the country, who was with the Government on that matter.

HMJr: Because they're organizing these bankers from -- the New York group of bankers -- and they've been organizing all over the country against us.

P: Yes, sir.

HMJr: And if there was somebody in Texas who was, you know

P: Yes, sir.

HMJr: would come out and work for the Government on the thing, it would be very helpful.

P: Well, I'll -- I'll find out which one is, and I'll recommend that one, and I'll send you a wire.

HMJr: Will you do that?

P: Yes, sir.

HMJr: And I'm going to count on you for help on Bretton Woods when you get back.

P: Well, you know you can always depend on me.

HMJr: I'm going to.

P: All right, sir.

HMJr: Take care of yourself.

P: Thanks. I'll be back with Speaker Rayburn Monday Morning.

HMJr: Wonderful.

P: We're leaving here Saturday night.

HMJr: Wonderful.

P: Well, thank you, Henry.

HMJr: Bye.

P: Bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1945

TO Secretary Morgenthau
 FROM Mr. Hass
 Subject Today's Decline in the Government Bond Market

As you probably know, the Government bond market went down rather sharply today.

The decline was greatest at the long end of the market. Each of the issues of the restricted 2-1/2's declined 8/32. Declines in the 2 percent area ranged up to 3/32; while notes were off 1/32 to 2/32.

The decline in the 2-1/2's today amounted to nearly half of the rise during last week and yesterday. It could easily have been merely a "technical reaction" following a rapid rise in the market. I should like to call your attention, however, to the possibility that it might have been caused, at least in part, by inferences drawn by the market from your prospective conference with the representatives of the life insurance companies.

ARMY AIR FORCES
AIR TECHNICAL SERVICE COMMAND
WRIGHT FIELD
DAYTON, OHIO

27 February 1945

Dear Mr. Morgenthau,

Thank you very much for your letter of February 24th regarding our participation on the "We the People" program of February 18th.

I considered it a great pleasure to be on the program and to have talked with you via the airwaves.

Sincerely yours,



A. E. WOLFE,
Major General, U.S.A.,
Chief of Engineering and
Procurement.

Mr. H. Morgenthau, Jr.
The Secretary of Treasury
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
February 27, 1945

TO Secretary Morgenthau
FROM Mr. Luxford

For your information

I thought you might be interested in the attached
which appeared in the rotogravure section of the St. Louis
Post Dispatch on Sunday.



Attach.



HENRY MORGENTHAU JR.

SECRETARY OF THE TREASURY HENRY MORGENTHAU JR., favors the Bretton Woods proposals for international monetary and financial co-operation as a means of ending the "economic isolationism" of the United States. He visited St. Louis recently to advocate adoption of the proposals without amendments, in an address before a meeting of business men and civic leaders sponsored by the St. Louis Chamber of Commerce. He declared the international monetary fund proposed at Bretton Woods, which has been opposed by some bankers, is "an instrument to prevent the disastrous outbreak of economic warfare" by stabilizing international currency. Morgenthau was chairman of the Bretton Woods conference last July, at which 44 United Nations were represented. Morgenthau, 53 years old, has been Secretary of the Treasury since January 1, 1934, previously served as Under Secretary. He formerly was a New York State farmer.



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date

Feb. 27, 1945

TO Secretary Morgenthau

FROM Mr. O'Connell

In an extension of his remarks in the Appendix, Representative Reed of New York yesterday commented on the Bretton Woods proposal. He stated that in the anxiety to get the proposal enacted with a minimum of questioning by Congress, they [apparently the sponsors of the bill] have worked out a method of financing the program that will by-pass not only the Ways and Means Committee, but also the Appropriations Committee of both the House and the Senate. He referred to the report of the bankers associations which stated that the Fund introduces a method of lending which is contrary to accepted credit principles and inquired what could be said of the statement by Secretary Morgenthau in his St. Louis broadcast to the effect that the Fund is not a scheme for lending money to debtor nations. He went on to say that Secretary Morgenthau either does not know that the Bretton Woods Fund is a scheme for lending American dollars to debtor nations, or he does not want the American people to know it. He added that that was the only interpretation he could make of the statement broadcast from St. Louis, and that the Bretton Woods scheme should have the most careful examination by Congress and the public before we take the Treasury's word for what it is.

In connection with his remarks, he had inserted an editorial from the New York Herald Tribune which criticized the so-called poll of economists. The article stated that only half of those polled replied, and that while the 33 members of the poll are identified in the press release by their universities, a checkup reveals that 18 of them either are or have been associated with the New Deal Administration. The article identified Paul T. Ellsworth and Jacob Viner among the 18 members. (Congressional Record, February 26, 1945, pages A911-13.)

John J. O'Connell

COLUMBIA BROADCASTING SYSTEM, INC.

485 MADISON AVENUE, NEW YORK 22, N.Y.

WICKERSHAM 2-2000

27 February 1945

Secretary Henry Morgenthau, Jr.
Treasury Department
Washington, D. C.

Dear Mr. Secretary:

Thank you very much for your nice letter of February 20th. commenting on a broadcast in which I mentioned the Bretton Woods Proposals.

As I said, the vote on these Proposals will be the first test of whether or not Congress is serious about having the United States play an active part in world affairs.

Any information you may send me, which will help in clarifying the issues at stake for the public will, of course, be very much appreciated.

Sincerely,

William L. Shirer

William L. Shirer

WLS:RSS

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Finished

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
February 27, 1945

TO Secretary Morgenthau
FROM Mr. Luxford

For Action

You wanted me to remind you to call Chester Davis this morning about a position for Bill Gregory in the event he lost his job as Vice President of one of the St. Louis banks.

As you know it is important that we get this assurance to Gregory at once, since we can not get Gregory, as President of the Independent Bankers, to release their report from St. Louis without protecting his position. We could offer him a job here in the Treasury but he would lose his effectiveness during the Bretton Woods campaign if he went into the pay of the Federal Government.

AL

3/3/45

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○ Told Mr. Gaston the Secy said he should use his own judgment about taking Smyth; Mr. Gaston should talk to Colonel Keller.

February 27, 1945.

Memorandum

TO: Secretary Morgenthau
FROM: Mr. Gaston

Senator Downey has inquired whether we would accept James Smyth if he were endorsed for the job of Collector of Internal Revenue at San Francisco, succeeding Harold Berliner, who has resigned. Smyth was formerly executive manager for the War Savings Committee in Northern California, having been chosen for that position by Colonel Heller, in whose investment banking house Smyth had been working. Smyth was retained for a time in the same capacity in the new War Finance organization set up in June of 1943, but could not get along with the bankers running the show and got out. He has been quite active in Democratic politics and is a good worker and an able fellow, except that he has been rather a heavy drinker. Our investigation of him for War Finance showed also that he had been slow in filing income tax returns.

I talked to Ted Gamble about him and Ted called up some of his people in San Francisco. They say that Smyth was recently married to a San Francisco girl of good family and that his habits of late have been good. Ted says that he would like to see Smyth get the job and thinks he deserves it. Based on his prior investigation, Ralph Read, Intelligence Unit Agent in Charge, and one of Irey's very good men, is not favorably inclined. I am inclined to override Read's judgment, however, and take a chance on Smyth. Would you like to talk to Colonel Heller about him, or would you suggest that I have someone talk to him? It would probably be best, however, not to talk to Heller if we intend to turn Smyth down.



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1945

TO Secretary Morgenthau
FROM Mr. Coe PC

This is to let you know that Hoffman has returned from Paris and is preparing a report for you.

0 I want to see
Hoffman + Coe

FEB 27 1945

My dear Mr. Marcantonio:

This is in reply to your letter of February 22.

Evidently, you have been misinformed with reference to the Italian Financial mission. I had the pleasure of meeting the mission on November 16, which was shortly after they arrived, and since then my staff has had many long discussions with the mission which were carried out in a spirit of harmony and sympathetic cooperation. I have personally been interested in and have been fully informed of the course of these discussions, and I hope to meet with the mission again before they leave.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Vito Marcantonio,
House of Representatives
Washington, D. C.

VITO MARCANTONIO
20th Dist. New York

Congress of the United States
House of Representatives
Washington, D. C.

February 22, 1945

Honorable Henry Morgenthau, Jr
Secretary of the Treasury
Washington 25, D.C.

My dear Mr Secretary:

I am informed that there arrived in the United States in the early part of November, 1944 an Italian Finance Commission, and that this Commission has been seeking an interview with you since then. My information is also to the effect that up to now you have not seen them, and that your refusal to do so is at the request of an allied country.

It seems tragically strange that a Commission from a liberated country should have been permitted to come to the United States for the purpose of negotiating financial aid, and then remain here for approximately four months without having been accorded an interview with our Secretary of the Treasury.

Very truly yours,



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Information

DATE February 27, 1945

TO Secretary Morgenthau
FROM Mr. Coe f.c.
Subject: Developments in German Policy.

Two bits of important information have just come in from Taylor in London:

1. It was decided at Yalta to set up a separate commission in London on the question of dismembering German territory. This, plus the decision to set up a reparations commission in Moscow, leads some British officials to believe that the European Advisory Commission will soon be wound up.

2. Winant did not put J.C.S. 1067 (revised) into the European Advisory Commission, because it did not square with a two-page document on American Government policy toward Germany which was shown him by the American delegates to Yalta who passed through London. Taylor thinks that this document provided for extensive control machinery of the German economy.

You might want to ask Yost to get you a copy of this important document, which we in the Treasury have not yet seen.

Miss Klatz next time
I see Yost. I want this
paper in hand
(M)

SECRET

SECRET

By Authority of
The Commanding General
Army Air Forces

27 February 1945

Date Initials

174

EFFECTS OF ALLIED BOMBINGS OF GERMAN TRANSPORTATION SYSTEM
SINCE 13 FEBRUARY 1945

SUMMARY:

The Allied Air Forces have been attacking the enemy's transport system in direct cooperation with the ground forces along the battle fronts since the first landings were made in Italy, but on 22 February a coordinated offensive was begun against the whole enemy transport system. This offensive is aimed at paralyzing the rail transport system which has become vital to continued enemy resistance since his motor transport has been virtually immobilized by a shortage of oil.

The present offensive is built upon the results of previous attacks on the rail system, key waterways and motor transport during 1944. Therefore, the results of the attacks since 13 February with the exception of the broad scale operation 'CLARION' begun on 22 February are not separable from the results of the whole series of transport attacks during the past year.

Attacks since 13 February have continued the long range programs as outlined in the following paragraphs and have been successful in maintaining or increasing the effectiveness of these programs. It is still too early to evaluate the long term effects of Operation 'CLARION' but the first four days were highly successful.

DISCUSSION:

1. Attacks on rail centers east of the Rhine were continued and attacks on enemy rail and highway movements west of the Rhine were increased and extended. Fighter sweeps covered rail lines as far east as Hannover, Fulda and the Black Forest area. Rail bridges on the west of the Rhine interdiction line were also attacked as well as bridges on the main rail lines paralleling the Rhine to the east and west between Koblenz and Wesel. This increased scale of attack in Western Germany has resulted in a steadily increasing total of claims against transportation. The following table compares claims for the five weeks since 21 January:

<u>Week of</u>	<u>MF</u>	<u>AFVs</u>	<u>Locos</u>	<u>RR Cars</u>	<u>Rail Cuts</u>	<u>Total Sorties</u>
21-27/1/45	8108	478	216	3737	225	11736
28/1-3/2/45	1891	131	112	2835	2011	9588
4-10/2/45	964	64	224	3391	282	11423
11-17/2/45	2022	68	900	10519	689	14814
18-24/2/45	3557	291	1103	10442	1150	19350

SECRET

Regraded Unclassified

- 2 -

The effect of this attack on rail targets and traffic west of the Rhine has been to deny the enemy the use of the rail system and to limit alternative movement by highway to the night hours. When the enemy has been forced to move, because of Allied offensives, he has had to move by road thus exposing himself to high daytime losses from Allied fighters. (Note week of 21-27 January in above table)

The attack east of the Rhine has continued to handicap movement through the principal rail centers serving the Western Front, supplemented recently by attention to a series of bridges and viaducts on main lines east of the Rhine and north and east of the Ruhr. As a result of these attacks, the enemy has been forced to limit rail movements to the most essential military traffic in Western Germany and the movement of such vital economic traffic as coal from the Ruhr has been very severely restricted.

2. This period included a number of attacks on important rail centers in Eastern Germany on lines serving the Eastern Front. On 14 and 15 February the 8th Air Force and RAF attacked Chemnitz, Magdeburg, Cottbus and Dresden, and on 26 February the heaviest attack ever made against Berlin was added to the list.

These attacks fell on important rail centers which were filled with military and economic traffic as well as refugees, and their effect has been to dislocate communications between the Eastern and Western fronts at a time when rapid military movements are essential to the enemy. In addition to the loss of materiel, the days or hours required to repair through lines and sidings can not easily be spared by the enemy.

3. Attacks on the three main rail lines from Italy and the Balkans has continued, with escorting fighters flying sweeps against rail movement in North Italy, Yugoslavia and Austria.

The effect of these attacks has been to restrict the enemy's capability to supply his forces in Italy or to withdraw his divisions for use elsewhere.

4. Attacks have also been continued against the enemy's system of inland waterways and coastal shipping. Within the period under review, the RAF dropped 939 sea mines in the Kattegat, Oslofjord, Cadet Channel and at ports along the North Sea and Baltic coasts of Germany. Better weather has permitted this program of attack to be increased, and it has the effect of limiting enemy troop movements from Norway to the Western or Eastern fronts.

In addition, the Mittelland Canal system was again attacked on 21/22 February at Gravenhorst. The results of this attack are not yet reported, but it probably succeeded in nullifying enemy efforts at repair of this vital waterway system, which has been constantly cut except for a few days at a time since September 1944.

5. In the combined air offensive against transportation beginning 22 February approximately 8,000 sorties were directed the first day against 150 bridges, rail centers and rail junctions; against rail lines and rolling stock; and against motor transport. On the succeeding days of "CLARION", the effort was maintained at a high level, though the attacks were directed at a smaller number of targets attacked by the heavy bombers, and the tactical air forces were largely used in the area west of the Rhine in cooperation with the Allied ground forces.

The objective of "CLARION" is to paralyze the entire German rail system by making attacks on a large number of targets on all the main rail lines, attacking minor targets and bridges as well as heavily defended main rail centers. In the first four days the rail lines of the Reich were out in over 1,200 places. More than 750 locomotives and 9,000 railroad cars were destroyed or damaged blocking many additional sections of line. The enemy's repair capacity cannot meet this scale of attack even though it may be reduced periodically due to weather conditions. Troop and supply movements were already restricted and delayed by the more limited attacks prior to 22 February, and the effects of "CLARION" must have nullified the enemy's expectations of at least restricted movements to counter the Allied offensives.

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE February 27, 1948

TO Secretary Morgenthau
FROM Alice Votel
Re: PM Articles on Oswego

As requested by you, I called these articles to the attention of General O'Dwyer yesterday morning. He immediately telephoned John P. Lewis, Vice President and Managing Editor of PM to arrange for an appointment for General O'Dwyer and myself. Mr. Lewis was not available until 4 o'clock in the afternoon. Since I was returning to Washington at 4:30, General O'Dwyer arranged to talk with Mr. Lewis alone.

General O'Dwyer has just advised me that his talk with Mr. Lewis was very satisfactory. The General gave Mr. Lewis all the background on the setting up of the camp and explained to him that articles such as those now appearing in PM might bring embarrassment to the President and endanger the whole program of the War Refugee Board at a time when we are trying so desperately to do something for the thousands still facing certain death inside German-controlled areas. He also advised Mr. Lewis that the problems involved in the specific cases which the PM articles mentioned are receiving careful study and consideration in Washington.

Mr. Lewis thanked the General for giving him this information and agreed with the General's statement of the possible bad effect of the PM articles. Mr. Lewis promised General O'Dwyer that he would look into the matter at once and arrange to have any future articles toned down or completely abandoned.

Flourence Hood

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE February 27, 1945

TO Secretary Morgenthau

FROM Miss Hodel

General O'Dwyer asked me to advise you that Morris Ernst would like to accompany General O'Dwyer on his trip to Switzerland and to help on the negotiations with the Swiss Government and the International Red Cross for a period of about three weeks. This is agreeable to General O'Dwyer. Morris Ernst has arranged for luncheon on Thursday for himself and General O'Dwyer and the Swiss Minister.

Gene Hodel

EDW-88
1945 FEB 28 AM 9 57
This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (RESTRICTED)

Chungking via Navy

Dated February 27, 1945

Rec'd 12:17 p.m.

Secretary of State

Washington

303, February 27, 8 a.m.

TO SECRETARY OF TREASURY FROM ADLER.

One. Army and FEA have consulted me on a plan for bartering cotton textiles to be imported from US for food which Army has undertaken to procure for approved Chinese divisions. Advantages of plan are that Army Procurement hopes to have facilities to acquire food from villages and will thus be able to get closer to ultimate producer of food and ultimate consumer of textiles; and that Army will therefore acquire food essential for approved divisions in an anti-inflationary manner. In existing situation where inflation gives signs of getting out of control, this latter is a most important consideration from point of view of our war effort in China, Chinese war effort, and Treasury interest in Chinese financial situation.

Two. If plan obtains War Department and FEA approval, it is hoped to start on experimental basis in limited area with 1600 tons of Chinese owned textiles now in India. If experiment successful Army hopes to import between one

and two

-2- #303, February 27, 8 a.m., from Chungking via Navy.

and two thousand tons per month from US. Chinese have agreed that transaction would be non-Lend-Leasable.

Three. It is agreed that plan is only palliative and that it will not remedy basic situation. However, since Army has undertaken to procure food (at Chinese Government's expense, of course) for approved Chinese divisions, there is good case for carrying out this procurement in as anti-inflationary a way as possible.

Four. Army feels that no publicity should be given plan. Further details in telegram from headquarters to War Department, which being repeated to Treasury, and in letter en route by pouch.

ATCHESON

DU

CABLE TO AMERICAN EMBASSY LONDON, FOR MANN, FROM WAR REFUGEE BOARD

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

QUOTE \$100,000 APPROPRIATION FOR EASTER BREAD FULLY COMMITTED AND SPENT. UNTIL JEWISH WELFARE BOARD ADVISES BREAKDOWN AMOUNTS VARIOUS COUNTRIES WE UNABLE GIVE YOU ALL DETAILS. PASSMAN CABLED URGENTLY REQUESTING APPROVAL EASTER BREAD APPROPRIATION 4,000 POUNDS FOR GREECE WHICH VIEW IMMINENCE HOLIDAYS WE AUTHORIZED AND INCLUDED IN OVERALL TOTAL \$200,000. AGREED APPROPRIATION MILLION AND HALF FRANCS EASTER BREAD FRANCE. UNQUOTE.

LL

11:45 a.m.
February 27, 1945

CABLE TO AMERICAN EMBASSY LONDON, FOR MANN, FROM WAR REFUGEE BOARD

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

QUOTE DEEPLY GRATEFUL YOUR CABLE AUTHORIZING \$300,000
RUMANIA, \$300,000 HUNGARY, \$50,000 NORTHERN ITALY
REPRESENTING ALLOTMENTS LAST QUARTER 1944 AND FIRST
QUARTER 1945. WE HAVE NOTIFIED SALY MAYER ACCORDINGLY
AND ADVISED HIM OF CONDITIONS CONCERNING METHODS WHEREBY
THESE FUNDS SHOULD BE EXPENDED. IN DUE COURSE WE SHALL
NOTIFY YOU OF EXPENDITURES AND REQUEST REIMBURSEMENT.
UNQUOTE.

THIS IS WRB LONDON CABLE NO. 52

11:45 a.m.
February 27, 1945

CABLE TO AMERICAN EMBASSY LONDON, FOR MANN, FROM WAR REFUGEE BOARD

Please deliver the following message to Dr. Schwartz from

M. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE WE CABLED EMERSON INNERQUOTE DEEPLY GRATEFUL YOUR
CABLE AUTHORIZING \$300,000 RUMANIA, \$300,000 HUNGARY,
\$50,000 NORTHERN ITALY REPRESENTING ALLOTMENTS LAST QUARTER
1944 AND FIRST QUARTER 1945. WE HAVE NOTIFIED SALLY MAYER
ACCORDINGLY AND ADVISED HIM OF CONDITIONS CONCERNING
METHODS WHEREBY THESE FUNDS SHOULD BE EXPENDED . IN DUE
COURSE WE SHALL NOTIFY YOU OF EXPENDITURES AND REQUEST
REIMBURSEMENT END INNERQUOTE ASSUME YOU MAKING APPEAL
FOR SUBSTANTIALLY LARGER ALLOTMENT SECOND QUARTER 1945
VIEW GREATLY EXPANDED NEEDS AND OUR DIFFICULT FINANCIAL
SITUATION. UNQUOTE

THIS IS WRB LONDON CABLE NO. 53.

11:45 a.m.
February 27, 1945

MS-290

PLAIN

London

Dated February 27, 1945

Rec'd 8:25 p.m.

Secretary of State,

Washington.

2019, Twenty-seventh

FOLLOWING FOR MARTHA BIEHLE, IGC, FROM MALIN, IGC

"Cable No. 11. We acknowledge receipt of your report through number 35. I have written McCormack with copy to you.

"2. Emerson and Beckelman have written you outlining for World Jewish Congress steps taken during the last three months on Balkans where we are also actively testing further possible moves. Beckelman has written you on Spain and Portugal relief enclosing text of proposals just submitted to British and American Governments and on possible cooperation with UNRRA in transfer of small group from Spain to Philippeville and larger groups from Switzerland to Philippeville or Italy or Middle East

"3. Kullman has been in France ten days Sillem joining him for visit to Belgium where resident representative has just been nominated. Kullman will probably also visit Switzerland where representative will begin work on April 1st Czech Government has been asked to suggest representative and same request will be made of Polish and Netherlands Governments as soon as possible. Yugoslav Government has again been approached about joining committee.

"4. Question of our attendance at San Francisco Conference has been raised with British and American Governments. SHAEF has asked us to assign someone during next several months to advise on planning for non-repatriables and I shall probably go. Afterwards they want permanent representatives with Allied Control Commission in Germany and we are beginning search for them at once.

"5. Further to cable number 10 operational expenditure during 1945 should read northern Italy 50,000 dollars instead of 300,000 Hungary 300,000 dollars instead of 50,000 dollars".

WINANT

CABLE TO OFFICER IN CHARGE OF PRINCIPAL AMERICAN MISSION IN GREECE.

Please deliver the following message to the President of the Jewish Community, Salonika, Greece from Arieh Tartakower of the World Jewish Congress:

QUOTE YOURS FEBRUARY 6TH TO WISE RECEIVED TRYING SECURE INFORMATION ABOUT JEWS FROM SALONIKA FREED IN HOLLAND BY ALLIED ARMIES WILL CABLE YOU RESULTS TRYING ALSO HELP THOSE IN CZECHOSLOVAKIA, POLAND, YUGOSLAVIA STOP CONCERNING CLOTHING FOR JEWISH SURVIVORS GREECE HAVE TRANSFERRED SO FAR FIVETHOUSAND POUNDS TO GREEK WAR RELIEF NEWYORK WHICH INSTRUCTED THEIR REPRESENTATIVES TO CONTACT ROBERT RAPHAEL AND ASCHEN MOISSIS ATHENS AND CONFIRM THAT JEWS ARE RECEIVING RELIEF RATIONS AND CLOTHING ACCORDING TO NEEDS. UNQUOTE

12:00 p.m. noon
February 27, 1945

CABLE TO AMERICAN CONSULATE GENERAL, JERUSALEM, FROM WAR REFUGEE BOARD

Please deliver the following message to Dr. Magnes from M. A.

Leavitt of American Jewish Joint Distribution Committee:

QUOTE SUGGEST YOU DISCUSS FISHZOHN MEMORANDUM FURNISHED HIM REGARDING ESTIMATED ADDITIONAL REQUIREMENTS BALKAN PROJECT WHICH REPRESENTS OUR UNDERSTANDING OBLIGATION INCURRED TO END 1944 PLEASE CABLE URGENTLY TOTAL SUM SPENT AND STILL UNPAID ALSO ESTIMATED ADDITIONAL REQUIREMENTS. UNQUOTE

11:30 a.m.
February 27, 1945

117

CABLE TO AMERICAN LEGATION, LISBON, FROM WAR REFUGEE BOARD

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

QUOTE ADVISE RESNIK WE PREPARED ACCEPT ADDITIONAL
LIRA CLEARANCES UP TO \$100,000. UNQUOTE

THIS IS WRB LISBON CABLE NO. 147.

11:30 a.m.
February 27, 1945

CABLE TO AMERICAN LEGATION, LISBON, FROM WAR REFUGEE BOARD

Please deliver the following message to Harold Trobe from M. A.

Leavitt of American Jewish Joint Distribution Committee:

QUOTE UNDER LICENSE 678708 REMITTED \$300,000 COMITS
NATIONAL DE DEFENSE DE JUIFS BRUSSELS PLEASE ADVISE
SCHWARTZ AND ALFRED GOLDSCHMIDT UNQUOTE

THIS IS WRB LISBON CABLE NO. 148

11:30 a.m.
February 27, 1945

100

CABLE TO AMERICAN LEGATION, LISBON, FROM WAR REFUGEE BOARD

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

QUOTE WROTE YOU FEBRUARY NINTH ALSO ADVISED RESNIK
WE SHIPPED FIFTYTHOUSAND POUNDS MATZOTH AND TENTHUSAND
POUNDS MATZOMEAL VIA AMERICAN RELIEF FOR ITALY. ALSO
SENT FIFTYTHOUSAND POUNDS MATZOTH AND TWENTYFIVE
THOUSAND PASSOVER PACKAGES VIA JEWISH WELFARE BOARD.
UNQUOTE

THIS IS WRB LISBON CABLE NO. 149

11:30 a.m.
February 27, 1945

WMS-301

PLAIN

Lisbon

Dated February 27, 1945

Rec'd 9:04 p.m.

Secretary of State

Washington

447, Twenty-seventh

WRB 344. UNITARIAN 421 FOR CHARLES JOY FROM MARTHA SHARP.

Joint here say their organization already borrowed back several personnel serving with UNRRA until active duty possible. Could you make such arrangements with them for Waitstill, thus protecting both committees.

CROCKER

RB

EMBASSY OF THE
UNITED STATES OF AMERICA

WAR REFUGEE BOARD
FEB 27 1945
DEPARTMENT OF STATE

CONFIDENTIAL

No. 4035 Madrid, Spain, February 10, 1945.
Subject: Transmitting Copy of Note Verbale from Ministry of
Foreign Affairs Concerning Whereabouts of Persons
Removed from Internment Camp at Vittel

The Honorable
The Secretary of State,
Washington.

Sir:

With reference to my despatch No. 3933 of January 30, 1945 transmitting to the Department a copy of the Embassy's Note Verbale No. 3731 of that date to the Ministry of Foreign Affairs setting forth certain additional information concerning the reported whereabouts of persons removed by German authorities in April and May 1944 from their place of internment at Vittel, with particular reference to persons in possession of Paraguayan documentation, I have the honor to enclose a copy and translation of the Ministry's Note Verbale No. 103 of February 7, 1945 in reply, in which it is stated that the information contained in the Embassy's Note Verbale has been transmitted to the Spanish Ambassador in Berlin together with a further expression of the Spanish Government's great interest in this matter.

Respectfully yours,

W. Walton Battersworth
Charge d'Affaires ad interim

Enclosure:

From Foreign Office, No. 103,
February 7, 1945 (copy and
translation)

File No. 704
NWR/jf
Original to Department
(for Oualid machine)
Copies to Embassy, Asuncion and Legation, Bern

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Enclosure to despatch No. 4035 dated February 10, 1945 from
W. Walton Butterworth, American Charge d'Affaires ad interim,
at Madrid, Spain on subject of Persons Removed from Internment
Camp at Vittel.

TRANSLATION

(SEAL)

MINISTRY OF FOREIGN AFFAIRS

b.2

No. 103

NOTE VERBALE

The Ministry of Foreign Affairs presents its compliments to the
Embassy of the United States of America and in acknowledging receipt
of the latter's kind Note No. 3731 of January 30, 1945 transmitting
data on the whereabouts of the groups of evacuees from the Concentra-
tion Camp at Vittel in possession of Paraguayan documents, has the
honor to advise that it has transmitted that interesting data to
the Ambassador in Berlin, reiterating to him the great interest of
the Spanish Government in the matter.

Madrid, February 7, 1945.

TO THE EMBASSY OF THE UNITED STATES OF AMERICA

JF:jf

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

Please deliver the following message to Gerhard Riegner,
37 Quai Wilson, Geneva, Switzerland, from Arieh Tartakower of the
World Jewish Congress:

QUOTE PLEASE INFORM ZISSU THAT BARLAS APPARENTLY HAVING
DIFFICULTIES WITH HIS VISA TO RUMANIA INTERVENTION MAY
BE NECESSARY WITH INTERALLIED CONTROL COMMISSION. UNQUOTE

THIS IS WRB BERN CABLE NO. 423.

12:15 p.m.
February 27, 1945

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

Please deliver the following message to Gerhard Riegner,
37 Quai Wilson, Geneva, Switzerland, from Jacob Robinson of the
World Jewish Congress:

QUOTE NEED URGENTLY FOR RESCUE REPORTED BOOK POGROMUL
DELA JASI BY MARUS MIRON WHICH APPEARED LATELY BUCHAREST.
UNQUOTE

THIS IS WRB BERN CABLE NO. 424

12:15 p.m.
February 27, 1945

5
CABLE TO AMERICAN LEGATION, BERN, FOR MCCLELLAND, FROM WAR REFUGEE BOARD

Please deliver the following message to Gerhard Riegner,
27 Quai Wilson, Geneva, Switzerland, from Kurt R. Grossman of the
World Jewish Congress:

QUOTE PLEASE MAKE EVERY EFFORT SEND US INFORMATION ABOUT
INMATES THERESIENSTADT IN ORDER INFORM RELATIVES HERE OF
NAMES OF THOSE LEFT BEHIND OUR CZECHOSLOVAK COMMITTEE
ESPECIALLY INTERESTED. . REMITTED FROM LEOPOLD LINDENBAUM
15000 SWISS FRANCS TO RIEGNER CREDITANSTALT ZURICH: PLEASE
INFORM WHETHER HE HAS BEEN ADMITTED SWITZERLAND. UNQUOTE

THIS IS WRB BERN CABLE NO. 425.

12:15 p.m.
February 27, 1945

SECRET

COPY NO. 4

OPTEL No. 62

Information received up to 10 a.m., 27th February, 1945.

NAVAL

1. HOME WATERS. 25th. A Cable ship sunk, probably by torpedo east of Ramsgate. No survivors reported.
2. EAST INDIES. Four of H.M. Destroyers have shelled Radar Station on Great Coco Island.
3. ENEMY ATTACK ON SHIPPING. 26th. A 6054 ton U.S. ship and 4571 ship in outward convoy sunk by mine or torpedo off Ostend.

MILITARY

4. WESTERN FRONT. South Central Sector: Good progress made and bridgeheads across Saar in area south Trier enlarged and linked up while further north River Prum reached on wide front and bridgehead established across it with our troops according to unconfirmed reports now in Bitburg. North Central Sector: On right troops 1st U.S. Army have cleared Duren and bridgehead across Roer now seven miles deep and 11 miles wide. To the north 9th U.S. Army made steady progress against moderate opposition and have reached area Erkelenz which according to unconfirmed reports has been entered. Northern Sector: On the 25th Canadians attacked to gain Calcar-Udem Ridge and have made substantial progress after very heavy fighting while U.K. troops have made limited gains S.W. Goch.
5. EASTERN FRONT. East Prussian or Northern Sector: Russians claim repulse of tank and infantry attacks in Samland and also some progress S.W. Konigsberg while Germans report strong Russian forces thrown back to northeast in Samland and communications restored with Konigsberg. Central Sector: Further blocks of houses in Breslau captured, Germans admit Russian progress N.W. between Chojnice and Neustettin but claim to have broken up two Russian bridgeheads over River Neisse in area opposite Guben and repulse of Russian attacks in area S.W. Liegnitz. Southern Sector: Germans report Russians thrown back from Hron bridgehead (east Komarno) to eastern bank with heavy casualties.
6. BURMA. Coastal Sector: Allied troops have broken out from Ruywa bridgehead and leading elements now 7 miles west An. Central Sector: Troops in Nyaungu bridgehead made good progress while further north another bridgehead established in area 5 miles east Myinmu in face some opposition. Northern Sector: Chinese troops have occupied village 6 miles S.E. Hsenwi.

AIR

7. WESTERN FRONT. 25th/26th (night). 6 Halifaxes (1 missing) attacking shipping off Norway hit two ships of 5,000 and 4,000 tons. 26th. 148 escorted Lancasters dropped 652 tons through cloud synthetic oil plant Dortmund where bombing concentrated. 112 escorted U.S. heavy bombers (23 bombers, 5 fighters outstanding of which 10 and 3 believed safe) dropped 2498 tons by Pathfinder technique three railway stations Berlin and 80 tons other targets. SHAEF (Air). Bombers 265 (1 missing) dropped 386 tons communications centres mainly Duren area while fighters and fighter bombers (296) (3 missing) operated battle areas. 104 Spitfires attacked rocket sites and communications Holland. 26th/27th (night). 85 Mosquitoes despatched without loss Berlin 38, Nuremburg 38 and other targets 9.
8. MEDITERRANEAN. 24th/25th (night). 74 heavy bombers dropped 168 tons railway centre Brescia causing fires. 25th. 494 escorted U.S. heavy bombers (9 bombers, 3 fighters missing) dropped 954 tons on four railway centres and one oil plant in South Austria with good results, while 785 tactical aircraft (8 missing) attacked communications and factories wide area cutting railway lines in 59 places.
9. BURMA. 24th. 54 Liberators dropped 225 tons stores area S.W. Mandalay and Jetties Mergui.

HOME SECURITY

10. ROCKETS. 26th. Four incidents reported. 26th/27th (night). Eight incidents reported.

OPTEL No. 66 not sent to Washington

Regraded Unclassified

February 28, 1945
9:27 a.m.

HMJr: Hello.

Sam
Rosenman: Say, the first thing I see is the clipping that you're a grandfather.

HMJr: That's right.

R: Congratulations.

HMJr: I thank you.

R: Henry, I just got back.

HMJr: Yes.

R: And I suppose you know the Boss sent for me to meet him in Algiers.

HMJr: Well, I didn't know what happened, but I knew that you had left. That's all.

R: Yes.

HMJr: I mean, I knew you left Taylor, but I didn't know what happened.

R: Yes. Well, what -- that's right. For security reasons, I'm glad he didn't say; but what happened was that as soon as I got to London -- the next day I got a message to please meet the ship in the Mediterranean.

HMJr: Oh.

R: And I met it at Algiers and came back, and the speech is all written.

HMJr: Good.

R: And apparently -- what I think he's going to do is go up tomorrow in person and deliver it. I saw your cable on that subject.

HMJr: Yes.

R: But what I'm calling you -- I told those boys that as soon as I landed I would call their offices and explain to them what happened.

HMJr: I see.

R: And that's what I'm doing, and I'm going to go back in a couple of days when the speech is over. I'll fly back.

HMJr: Oh, you're going back?

R: Yes.

HMJr: Oh, are you? I see. Well, while you're here, will I see you?

R: Why, yes, I'll be glad to see you. Really, nothing happened over there. As soon as I got there, practically, I got a message from Winant. You see, the message came to Winant.

HMJr: I see.

R: And he asked me to come over and he showed me this. Of course, it was very hush-hush. I told all the -- I told the men in the mission

HMJr: Yes.

R: but I asked them please not to say anything

HMJr: Yes.

R: that I would explain when I got back.

HMJr: I see.

R: Because I had said just where I should meet the Boss, and so forth.

HMJr: Oh, yes. Well, if you have any time, I'd love to see you.

R: I'll come over.

HMJr: All right.

R: All right. Taylor said that he had plenty to do in London anyway.

HMJr: Oh, yes.

R: But I wanted to explain to you just what delayed the trip; that I'm going back just as soon as I can get a plane.

HMJr: Good. Well, I hope to see you before you go back.

R: All right, Henry. How's Ellie?

HMJr: She's fine.

R: And the grandchild?

HMJr: Wonderful.

R: Good. All right, boy.

HMJr: Thank you.

R: Bye.

HMJr: Hello?

R: Yep.

HMJr: How's the President?

R: What did you say, Henry?

HMJr: I said, how's the President?

R: Oh, he's fine.

HMJr: Is he?

R: He's fine. I think "Pa's" death was quite a shock to him.

HMJr: Yes.

R: He was very upset, you know. He got sick at Yalta but he was all right again, and they got him on the ship and then he had the -- it's a strange thing, he got it practically the same place that "Missy" did.

HMJr: Is that right?

R: And if "Pa" had lived, he would have been in "Missy's" condition.

HMJr: Oh, my!

R: It's really fortunate that he didn't.

HMJr: Well, that's too bad.

R: He died about two days out at sea.

HMJr: I see. Well, that was

R: He was very sick. I never got a chance to talk to him. I just saw him in bed but I didn't get a chance to talk to him.

HMJr: Well

R: He went very fast.

HMJr: all right, Sam. Thank you for calling.

R: Bye.

HMJr: Bye.

February 28, 1945
9:30 a.m.

FINANCING

Present: Mr. D. W. Bell
Mr. Gamble
Mr. Haas
Mr. Murphy
Mrs. Klotz

H.M.JR: How do you do, gentlemen? Where are the other people?

MR. HAAS: They are putting on an act for the dealers.

H.M.JR: For the dealers?

MR. BELL: We thought we would give them the statistical background the boys give us, and it would be interesting for them to get it. We are going to give it to the insurance people tomorrow, too, before they come in to see you.

H.M.JR: Before I get started on this--it will only take me one minute--I would like to do this, if you think well of it. Will you just say to Eccles that I would like to meet with the Presidents of the Banks who are in sympathy with me, the Government's position on Bretton Woods, see?

MR. BELL: Yes.

H.M.JR: And that invitation is to be extended to each of them for nine-thirty tomorrow morning.

MR. BELL: Yes.

H.M.JR: Now, I first thought to say that the Government and Federal Reserve, but the Federal Reserve, the Treasury, and the President--that is the Government, isn't it? I mean, the President, the Treasury, and the Federal Reserve are certainly the Government.

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MR. BELL: The President of the Federal Reserve Bank?

H.M.JR: The President of the United States.

MR. BELL: Sure.

H.M.JR: And I would like them to meet, those who are in sympathy with the Government's position on Bretton Woods. Don't you think that is a good way to put it?

MR. BELL: Yes, that is a good way to put it, but I don't know--I was thinking about it being embarrassing to some of them in their relations to Allan Sproul, whom they know is very anti-Bretton Woods.

H.M.JR: Well, let's have them.

MR. BELL: I think some of them probably haven't taken a position at all on it and want to remain neutral because they have got banks in their district on both sides and they are staying on the line. I don't know, I haven't talked to them at all.

H.M.JR: The reason I wanted them in is that I want them to help.

MR. BELL: Mr. Eccles told you, I believe, that ten out of the twelve are behind it.

H.M.JR: I would like to meet with those who are in sympathy with the Government's position on Bretton Woods tomorrow at nine-thirty.

MR. BELL: We could announce that in a meeting.

H.M.JR: I don't know, but I haven't time to see each of them separately, and I would like to consult with them and see if they can't help in their districts and let those come who want to, and those who don't, don't. Nobody can say that I am putting any pressure on them.

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MR. BELL: Yes. I had better do this as soon as I get out of here, because I have an idea some of them are planning to leave tonight.

H.M.JR: Well, I have got to go over to this meeting. I mean, would you do it yourself, or would you have your secretary do it?

MR. BELL: I will do it myself. When I get on the phone with Marriner, I will be there the rest of the morning. I have to be at the Committee meeting at ten o'clock.

H.M.JR: What time?

MR. BELL: I have to leave here by ten of ten to be in the Committee by ten o'clock.

H.M.JR: Do you want to do it before then?

MR. BELL: Oh, yes, I think I should if you will let me go about twenty minutes to ten. I think it is all right for you to sit down and talk to those people. It was running through my mind whether it wouldn't be a good thing to have them all in and talk about Bretton Woods and let Allan sit and listen and observe.

H.M.JR: No, I would like them to declare themselves. I want to know those men I can go to and say, "Look, Mr. McLarin of Atlanta, I need your help." I have got so little time. I want to get down to brass tacks. I don't want to tip my hand as to what I want to do.

(Secretary holds a telephone conversation with Mr. Rosenman.)

H.M.JR: The President is going to deliver his message to Congress tomorrow.

MR. BELL: They are back? He must have landed when they announced--

H.M.JR: They landed at six o'clock last night

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MR. BELL: About the time they announced General Watson's death.

H.M.JR: About that time.

MR. BELL: He comes right back and goes right into it. I should think he would rest a few days.

H.M.JR: Who?

MR. BELL: The President.

H.M.JR: He must have been on the boat ten or twelve days altogether.

MR. BELL: He has probably written his speech on it, too.

H.M.JR: He had Rosenman with him, and the speech is finished. Rosenman said he is now heading back to London again, I mean, Rosenman, but the speech is finished.

Where were we?

MR. BELL: We were talking about Federal Reserve Presidents.

H.M.JR: I don't want to ask them all. We will just sit around and have an argument. I really want to ask them for their advice and help on what we can do in their district. I don't want to be here trying to sell anybody. I wouldn't get anywhere. I want to invite them in and consult with them and ask them which district would be a good district for me to go in and speak, and that sort of thing.

MR. BELL: I understand Day is the other President, and he isn't here. Clerk probably won't come because he--

H.M.JR: I want to know if I should go into Atlanta, and into Dallas, and where they think I should go and speak. In other words, I don't want anybody to come who isn't entirely in sympathy with the Bretton Woods program.

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MR. GAMBLE: Marriner ought to do a little selling job. You can invite them so they won't come, and you can invite them so they will come. If he feels that you are sort of expecting him to sell these fellows the idea--

MR. BELL: He ought to come with them, too.

H.M.JR: Invite him, anyway.

MR. BELL: I think I will sort of insist on his coming because he has told you the Board is behind this program.

H.M.JR: I want the help of the Board and their Presidents to assist me in the districts to sell this thing. The Government is committed to this thing, the President of the United States, the Federal Reserve Board, and the Treasury, and I want the help of these men in the district.

MR. BELL: I think most of them will come.

H.M.JR: Now, Dan, in the five minutes we have left let me talk to you. How do you feel about this drop in the market yesterday?

MR. BELL: Bob Rouse was in last night, and he left early in the day. It happened afterwards, and he thought as near as he could get it that somebody offered a block of securities and there weren't any takers so they went down, that is in the long market, and that affected the other. Most people are sitting around waiting for the announcement. The market has been rather thin the last two or three days. I asked Ben Levy, who was the only one I had a chance to talk to this morning, what happened in the market, and he said he really didn't know. He said somebody rumored around that they blocked securities they might sell. That is the way the market has been operating the last few weeks, more on rumors than anything else. There is some buying power in the two percent market. I don't know whether George had a chance to look it over.

MR. HAAS: We looked at the market, but don't know the cause yet.

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MR. BELL: Bob said he thinks somebody offered a block of the securities, five or ten million dollars' worth, in that long market yesterday.

MR. HAAS: One thing, if the market feels two and a half is going to be offered--it is to everybody's advantage to get the premium when it is there, and you bring it right down again. I thought maybe the fact that the insurance company people were invited down, that is sparring on the market, because they know you wouldn't invite them down unless you are favorable to them.

MR. BELL: I don't know why that should be the feeling. The rumor might have come out of that, that they were invited down and the Treasury is thinking about offering two and a half's.

MR. HAAS: Yes, I thought you were going to be nice to them.

H.M.JR: Well, of course, I saw Gamble. He picked me up this morning. Personally, I always like to see the market drop a little before financing. I think it is healthy.

If we do the two and one-half, does that mean the pattern of rates will not be changed? Is that the key to the whole thing, the long rate?

MR. HAAS: The situation is now that the two and one-half's are over one hundred and two, and probably the reason there is such strength there is they were thinking you weren't going to do two and one-half. And when you announce you are going to offer an unlimited amount, or thereabouts at par, then it will go down again. And in that way the price we could make on that probably would be very near what we had last time, and there would be no change in the pattern of rates at the long end, but still the intermediate area, two, may still hold its strength. That is a matter of conjecture and the pattern of rates would change. Isn't that the story, Henry?

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MR. MURPHY: Yes, it would change the intermediate.

H.M.JR: Is there any reason if by five minutes of one we decide Saturday what we want, we couldn't say it will be seven-eighths--I am just using anything, the one and one-half and two and one-half--and not give the yearage on it?

MR. HAAS: You shouldn't give the yearage, you should let the market settle down.

MR. BELL: I don't agree with that. I think if you want to put out '66-'71's and announce two and one-half without a year, that seems to be the way to get it.

MR. HAAS: It depends on what you want to do. If you want to put it back where it was, wouldn't you announce the yearage? You do it. If you don't announce it, there is a prospect you may be able to strengthen it a little bit.

MR. BELL: I think it would work just the other way.

MR. GAMBLE: I think if you don't tell them, the result would be that it would be where it was before.

MR. BELL: Put out a two and one-half percent bond and not give the maturity. The '66-'71 will be put back to their former price; the premium would be just about interest between now and June 1.

MR. HAAS: You will be sure if you put yearage--

MR. BELL: If you put it '66-'76, there will be a smaller drop in the market. It will be a different bond, and you won't lose all of the bloom. I think it will stop somewhere maybe between one hundred and one and one hundred and sixteen thirty-seconds.

H.M.JR: What we did before was announce the interest but not the yearage, and then waited.

MR. BELL: Generally, we have been a good deal closer to the opening date of the drive, and only once have we not announced the date of maturity. Yes, generally we have announced the maturity dates.

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MR. HAAS: Here is the difficulty. Even in the intermediate period you don't know when the market is sure, or when the two and a half is to be issued. The intermediate market may go up. You may find it settles down. The thing is too thin. It will really be difficult there.

MR. BELL: I should think if you announced there is not going to be a two, that you will have one and one-half, there will be purchasing in the two percent market, and that market ought to either stay where it is or go up.

MR. HAAS: If you could announce yearage and have agreement with the Fed that they have got to make it good, then you are all right.

H.M.JR: No, no, no.

MR. BELL: If you are going to leave off any yearage, I would be inclined to leave off one and one-half and not the two and one-half.

MR. HAAS: That is the speculative place.

MR. BELL: If I were going to leave off any maturity from any security, I would leave off the one and one-half.

H.M.JR: What else would you have? What securities would you have?

MR. BELL: One and one-half, but I would leave the maturity off the first announcement.

MR. HAAS: That is a sign of weakness.

MR. BELL: I think maybe it is a sign of weakness, but if I were going to leave it off any--

MR. GAMBLE: I would put the maturity on every security when it is announced. I would hold up the announcement until it is ready.

MR. BELL: I think that is right.

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MR. GAMBLE: I am just following the arguments, George, here that we have been using for two weeks.

(Mr. Bell leaves the conference.)

H.M.JR: Now look, boys, this is the way I feel: We have got time. I have been in a spot like this before, and there is no question. The amazing thing is that with stocks the way they have gone up the bonds have also gone up, which is natural, isn't it, Henry?

MR. MURPHY: It was considered so at one time, Mr. Secretary, but--

H.M.JR: I still think it is.

MR. MURPHY: Murphy thinks there are still plenty of questions for the--

H.M.JR: I still think it is, and I have never said anything here in this room that I am hell-bent to lower the rate of the structure. I mean, I don't want to give these people something which is too good, but on the other hand, this market has gone up greatly and I don't know if it is a result of certain action we took, but the thing sold off a couple of points, and we have erased--that is down to rock bottom, and if we gave these people securities at par, they could look forward to only going one way again, and that would be up. I mean, I don't know of anybody around here that is hell-bent on lowering the interest rates. Are you?

MR. HAAS: We know of a couple of fellows. (Laughter)

H.M.JR: There is a danger too, and that is that if you lower the interest rate structure, a year or two from now it will be much harder to maintain.

MR. HAAS: That is what they have told you for twelve years, you see.

H.M.JR: I know, because we haven't been fooling around with it.

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MR. HAAS: Not during the war period, but prior to that you have been lowering them always.

H.M.JR: I know, but it is like the price of gold. They never worry about it any more, they just take it perfectly for granted that it is fixed, but they don't realize I can get up in the morning and change it.

Would you fellows like to see it go lower?

MR. HAAS: That is the way we feel, that you have got a war financing and an enormous debt, and the burden of the debt would be less if the interest rates are lower. You made a big accomplishment so far as compared to World War I; the debt is of unprecedented size, and the burden of the debt would be less, and I think it would help post-war full employment if the interest rates are low.

H.M.JR: On the other hand, you have seen arguments that if you lower the rates it is inflationary.

MR. HAAS: Those are by people who are entrenched and have proprietary interest in higher rates, I would say.

MR. MURPHY: That argument was just as good coming down from five to four.

H.M.JR: When could we get into this two and a half? The rise since last December is terrific.

MR. HAAS: That is right. What bothers us a little, Mr. Secretary, is if we weren't going to lower the rates-- and I told this to Dan--then they should not have allowed them to go up so far, because to push them back now sharply-- I don't think it would be criticized by the press once because the press is controlled by the people who want high interest rates. Isn't that how you feel about it, Ted?

MR. GAMBLE: Yes.

H.M.JR: It gets down to half a dozen financial writers who are a lot of wet people and I wouldn't give that much for all of them.

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MR. HAAS: They like high interest rates. What bothers me is the delicate mechanism, the way it is kept and has to be handled very carefully. If you push it down, you may not be able to stop it.

H.M.JR: You are wrong there.

(Mrs. Klotz enters the conference.)

H.M.JR: If you are right in what you are thinking-- if the thing is put to any tremendous amount of idle funds, the funds will still be there; and if this market sells off one or two points, we will get it back again to actually their own. Then we go into this loan a month from now or two months from now and the money will be there and there will be a good healthy undercurrent. This way it seems to be kind of honeycombed.

MR. HAAS: It has got froth to it, and that is the expectation, that you are not going to issue two and one-half's, so they think there is scarcity value there.

H.M.JR: Look, boys, suppose I decide to issue two and a half's. You know the thing I keep all the time, this thing with February 13, on the plane. That is my Bible. They ought to give me a lot of statistics.

MR. HAAS: That is the only way he could understand it.

H.M.JR: If we had two and one-half's, we wouldn't want a two and one-quarter, would we?

MR. GAMBLE: If we restricted the sales of two and one-half, we would want a two and one-half.

H.M.JR: You would? I am right now for restricting sales.

MR. HAAS: It would have to be restricted more than was indicated to the Bank Presidents, because they never bought that much before of two and one-half's with all their idle funds. Last time they used only fifty percent.

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H.M.JR: Who else would come in on the two and one-half's?

MR. GAMBLE: Savings banks.

MR. HAAS: And individuals.

H.M.JR: And individuals! Then you would want a two and one-quarter.

MR. GAMBLE: You would, if, for example, insurance companies decided to give them fifty percent of their new cash and fifty percent on the cash they had accruing for the first three months. They would still be a big customer for two and one-quarters in that they couldn't satisfy all of their cash needs.

H.M.JR: We'll let them satisfy their cash needs.

MR. GAMBLE: They didn't in the last drive use all their cash to buy two and one-half's.

H.M.JR: If that is all we will say--if it is for insurance companies, then certainly I wouldn't have a two and one-quarter.

MR. GAMBLE: That would be for the insurance companies, but more specially for mutual savings banks that would like a two and one-quarter, Mr. Secretary. They bought only one hundred million dollars' worth.

H.M.JR: Let mutual savings banks have two and one-half?

MR. HAAS: They may not like to go out that far.

MR. GAMBLE: They would like two and one-quarter.

H.M.JR: I would then restrict the buying.

MR. HAAS: To the banks you mean?

H.M.JR: I am not going to give insurance companies a two and one-half and mutuals two and one-quarter. We did it before.

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MR. GAMBLE: That is all right; that is consistent.

H.M.JR: You didn't do it in the Sixth.

MR. MURPHY: We had a two in the Sixth.

MR. GAMBLE: If we had no intermediate bonds, '57, one and one-half, the two and one-half will have a market. There is nothing involved.

H.M.JR: Free rider.

MR. HAAS: No, restricted from that.

MR. GAMBLE: Restricted. It would be a sixteen, nineteen, or eighteen.

H.M.JR: Banks can't buy?

MR. GAMBLE: No.

H.M.JR: They could buy the two's.

MR. GAMBLE: They could in the Sixth. They cannot buy the two and one-quarters.

H.M.JR: We would offer two and one-half, two and one-quarter, and pay also--

MR. HAAS: One and one-half.

MR. GAMBLE: In the corporate basket.

(Mr. Bell re-enters the conference.)

MR. BELL: I called Ronald. Marriner wasn't in. He said he would go in and tell them you would see them, and he said he was sure ten of them would be here. He will call Fitz.

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H.M.JR: I think the old man has had a bad night and a good idea.

MR. BELL: I think that is a good idea.

(Mr. Bell leaves the conference.)

H.M.JR: (To Mrs. Klotz) We are having good luck. Those who are in sympathy with the Government's position on Bretton Woods will be in at nine-thirty tomorrow. Those who don't want to come are out of sympathy with the Government.

MRS. KLOTZ: You have got something there.

MR. HAAS: Who is the other besides Sproul, California?

H.M.JR: They will all come but Sproul. Do you want him?

MRS. KLOTZ : Yes.

H.M.JR: This is the counterpart.

MRS. KLOTZ: That is very smart. They will all come but Sproul. Who says he is not alone?

H.M.JR: Everybody will most likely come but Sproul. He is out of sympathy with the Government, that is all. I think it is going to work, too.

MRS. KLOTZ: Let's wait and see.

MR. HAAS: Ronald said there were going to be ten. He probably knows.

H.M.JR: Then you go to one and one-half.

MR. HAAS: That is what Eccles wants.

H.M.JR: Whom is that for?

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MR. GAMBLE: Individuals.

H.M.JR: Will that please Eccles?

MR. GAMBLE: That will please everybody because that hits an entire field. He thinks the banks ought to have it, anyway.

H.M.JR: Two and one-half's would be for special classes, and two and one-quarters also for the same class. Individuals would buy two and one-halves, and two and one-quarters, and then the one and one-half would be--

MR. HAAS: Individuals only.

H.M.JR:..individuals only, and the seven-eighths would be for everybody, including the banks.

MR. GAMBLE: Not directly, only through turn-over switching.

H.M.JR: Unless I decide to do what these fellows want me to do--

MR. HAAS: We have a little plan here, and I think it is pretty good.

MR. GAMBLE: We have a better plan, or George has.

H.M.JR: We have five minutes to go.

MR. MURPHY: I have it on one page now, Mr. Secretary. (Hands Secretary memo entitled "Criteria for An Offering of Securities to Banks Concurrently with the Seventh War Loan," attached.)

H.M.JR: (Reading from memo) "Of the total potential subscription of \$1.8 billions permitted by the formula just described, only about \$200 millions would be allowed to the approximately one thousand largest banks in the country, which hold over 75 percent of total deposits;

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while the remaining \$1.6 billions would be allowed to the smaller banks."

I see.

"The formula just described does not exclude the larger banks altogether. We do not believe that this would be wise, for the following reasons:

"(a) It would present a difficult 'notch' problem"-- you and your notches!

MR. MURPHY: You have those in connection with your taxes when you break them in the middle.

(Discussion off the record.)

H.M.JR: It is very interesting. What would you offer these people? You don't say what security you will offer them.

MR. GAMBLE: They would like anything from one and one-half to two and one-half. Probably we would offer them two and one-quarter.

H.M.JR: No, no.

MR. GAMBLE: We have in the past.

MR. HAAS: You did the little banks last time.

MR. GAMBLE: You have given them two and one quarter and two and one half.

MR. HAAS: F's and G's.

MR. GAMBLE: It expands the formula.

MR. MURPHY: They have subscribed almost entirely to the two's; they have passed up the two and one-half's and two and one quarters.

H.M.JR: Would you boys get me up a one-page memo like this--get started anyway--as to whom we would allow to buy if we are going to restrict the two and one-half's?

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Let's have one saying, "The two and one-half's would be available to the following classes," and how much you think you would get that way.

MR. GAMBLE: Or reverse it and say, "The two and one-half's are available to everybody unrestricted except mutual savings banks and insurance companies, who are restricted under the formula." That is the story, Mr. Secretary.

H.M.JR: You wouldn't let the banks have it?

MR. GAMBLE: They have never been able to buy it, so that is what actually happens. You don't restrict any trust funds or pension funds; and if you try to separate those people out, you deprive every fellow who ought to have it in order to control the sale.

H.M.JR: Who would get the two and one-quarters?

MR. GAMBLE: The same market. Everybody would get the two and one-quarters except commercial banks.

H.M.JR: Would there be a lot of free riding?

MR. GAMBLE: Never in two and one-quarters.

H.M.JR: Why not as much as two's?

MR. GAMBLE: They can't be sold in commercial banks. They could buy this eight years later.

H.M.JR: Class is adjourned for this morning.

Who is going to be here when we see these brokers?
Who is going to be here when we start at ten forty-five?

MR. HAAS: Whoever you want.

H.M.JR: I think George, and I definitely want Gamble, starting at ten forty-five.

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MR. GAMBLE: All right, sir.

H.M.JR: Let's have Henry Murphy, the three of you.

Just one second, that was a very good memo.

MR. HAAS: Thank you. On the insurance basis, Mr. Secretary, would you look with favor on not giving them two and one-halves to cover their new funds? In other words, I am trying to get a restriction which means something, like rationing, give the people all they want.

H.M.JR: Gentlemen, let's say on the first of May how much money are you going to have?

MR. GAMBLE: You can have your cake and eat it, too, on this ration thing. There is a possibility.

MR. HAAS: If you handle it a certain way--

MR. GAMBLE: You might still keep that point, cash needs.

H.M.JR: The way to do that would be to say they can't have any future money, only invest up to what they have.

MR. GAMBLE: That is impractical.

H.M.JR: Give me a memo.

**Criteria for An Offering of Securities
to Banks Concurrently with the Seventh War Loan**

You asked us to suggest a method by which an offering of long- or medium-term securities might be made to commercial banks concurrently with (but not as a part of) the Seventh War Loan, in such a manner as to favor distinctly the smaller banks and possibly to exclude the larger banks altogether.

If all commercial banks were permitted to subscribe for a new offering of Government securities in an amount equal to 10 percent of their total assets, but not in excess of \$200,000 for each bank, the total potential subscription would be about \$1.8 billions. This compares with an actual subscription of \$1.0 billion to the concurrent offering of securities to banks, based on their time deposits, made at the time of the Sixth War Loan.

Of the total potential subscription of \$1.8 billions permitted by the formula just described, only about \$200 millions would be allowed to the approximately one thousand largest banks in the country, which hold over 75 percent of total deposits; while the remaining \$1.6 billions would be allowed to the smaller banks.

The formula just described does not exclude the larger banks altogether. We do not believe that this would be wise, for the following reasons:

- (a) It would present a difficult "notch" problem -- i. e., a bank just over the limit would be substantially worse off than a bank just under it. This could be obviated only by an arbitrary and complicated "notch" provision.
- (b) Eliminating the larger banks would appear arbitrary and might very well be the target for significant criticism.
- (c) Substantially the same purpose can be achieved by means of a "ceiling" as here suggested, since a \$200,000 subscription means a great deal to a small bank and a very little to a large bank.

February 27, 1945

Fran, Henry Murphy

2/8/45 - 220

**Criteria for a Direct Offering of Securities
to Banks**

You asked us to suggest a method by which an offering of long- or medium-term securities might be made to commercial banks in such a manner as distinctly to favor the smaller banks and possibly to exclude the larger banks altogether.

1. You suggested that the criterion for such an offering might be the classification of the banks for the purpose of calling war loan deposits. We do not believe that such a criterion is practicable for the following reasons:

- (a) About three thousand of the smaller banks do not have war loan accounts at all and so would be excluded altogether from the offering.
- (b) The war loan deposits of a bank are related, not merely to its size, but also to the amount of business it does in Government bonds. To favor banks with small war loan deposit accounts, therefore, would be in part to penalize the banks that have done the best business for the Treasury.
- (c) Banks have been specifically urged by the Treasury and the Federal Reserve System to increase their war loan deposit accounts. They should not be penalized for following this advice.

2. It seems to us that total assets would be a better criterion than war loan accounts for differentiating the amount of subscription allowed to banks. The only available data on the size classification of banks are based on deposits. However, since deposits amount, on the average, to about 93 percent of the total assets of all banks, data classified by deposit-size class give a sufficiently accurate indication of asset-size class also.

3. In 1943, there were about 13,207 insured commercial banks in the country. Of these banks, 11,451 had deposits of less than \$5 millions, and 1,756 had deposits in excess

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of \$5 millions. The 11,451 banks with deposits of under \$5 millions had total deposits of \$15 billions, while the 1,756 banks with deposits of over \$5 millions had total deposits of \$79 billions.*

If all banks were permitted to subscribe to securities in an amount equal to 10 percent of their total deposits, but not over \$500,000 (i.e., 10 percent of \$5 millions), the total potential subscription would be (allowing for deposit growth since 1943) between \$2-1/2 and \$3 billions.

4. You suggested that it might be well to exclude the larger banks altogether. We do not believe that this would be wise, for the following reasons:

- (a) It would present a difficult "notch" problem -- i.e., a bank just over the limit would be substantially worse off than a bank just under it. This could be obviated only by an arbitrary and complicated "notch" provision.
- (b) Eliminating the larger banks would appear arbitrary and might very well be the target for significant criticism.
- (c) Substantially the same purpose can be achieved by means of a "ceiling" as here suggested, since a \$500,000 subscription means a great deal to a small bank and a very little to a large bank.

* The data in this paragraph are based on insured commercial banks examined during the year. The figures for each bank are as of the date of its examination. There were only 67 insured commercial banks not examined during the year.

(Feb 28, 1945)

Col. Pope

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says not to offer

$\frac{7}{8}$ to non-banking group.

suggest $1\frac{1}{2}\%$

offer to everybody

~~Bar~~ after ~~live~~ offer

Banks $\frac{7}{8}$ + $1\frac{1}{2}\%$

suggest $2\frac{1}{2}\%$ same pattern
as before

against $2\frac{1}{4}$

Chris Klevine

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$2\frac{1}{2}$ 72-77

~~4³/₄~~ $1\frac{1}{2}$

$\frac{7}{8}$

alternate Plan

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Ben Levy.

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should announce
whole program.

mills + Repp. 225

make direct loan to
Danko.

must be $2\frac{1}{2}$

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$2\frac{1}{4}$

13

February 28, 1945
10:40 a.m.

226

HMJr: Hello.

Frank C.
Walker: Hello.

HMJr: Henry talking.

W: Hello, Henry. This is Frank Walker.

HMJr: Good morning.

W: How are you?

HMJr: Okay.

W: Too bad about old "Pa" isn't it?

HMJr: It's a shame.

W: Say, Henry, Bob Hannegan's very anxious to have us all come to that meeting tonight at 5:45. Will you come if you can arrange it?

HMJr: Oh, I've notified him.

W: That you'll be there?

HMJr: Oh, yes.

W: Fine.

HMJr: Yeah.

W: All right, Henry.

HMJr: I've notified him -- 5:45 -- yeah, I've notified him.

W: Well, I'll see you later then.

HMJr: Right.

APPOINTMENTS WITH THE SECURITYDEALERS ON WEDNESDAY,FEBRUARY 28, 1945

- 10:45 Colonel Allan Pope, First Boston Corporation,
New York
- 11:15 C. J. Devine, C. J. Devine and Company, New
York
- 11:45 Benjamin Levy, Solomon Brothers and Hutzler,
New York
- 12:00 Dudley Mills and Herbert Repp, Discount Corporation,
New York

February 28, 1945
12:10 p.m.

HMJr: Hello.

Operator: Mr. Grew is at General Watson's funeral.

HMJr: See if James Dunn

Operator: All right.

(Pause)

Operator: Mr. Dunn is at the funeral, too.

HMJr: Give me somebody, whoever the ranking person is in Mr. Grew's office.

Operator: Right.

HMJr: His outer office -- there must be some secretary in his office. I want to talk to him.

Operator: All right.

HMJr: In Mr. Grew's office.

Operator: Right.

HMJr: Some secretary. It's urgent.

Operator: Right.

(Pause)

Operator: Mrs. Johnston.

HMJr: Hello.

Marion Johnston: Yes, Mr. Secretary.

HMJr: Mrs. Johnston.

J: Yes.

HMJr: Yesterday afternoon I talked to Mr. Grew about the signing of this French Lend-Lease.

J: Yes.

HMJr: Are you familiar with it?

J: Yes, I am.

HMJr: And I made the suggestion to Mr. Grew that the signing should take place in Mr. Roosevelt's office.

J: Yes.

HMJr: And Mr. Grew liked that very much.

J: Yes.

HMJr: And I gathered that that was what would be done.

J: Yes.

HMJr: Now, two things have happened. One, I've been told by Mr. Frank Coe, who is looking after this for me, that the signing is to take place in Mr. Grew's office this afternoon at 4:30.

J: Yes, that's right, Mr. Morgenthau, and I know that Mr. Grew intended to phone you before going, but he dashed out

HMJr: Yes.

J: and he was going to get in touch with you as soon as he got back.

HMJr: Well, what about the suggestion of having it in the President's office?

J: I believe that it's not going to be there.

HMJr: Oh.

J: He has talked to someone, and he wanted to call you and talk to you but he didn't have a minute before going to the service because he was called out of the office, and I'm going to have him call you just as soon as he comes back.

HMJr: Well, you see, I -- I don't want to bother him about calling me -- that doesn't bother me. I still think that it would be most useful as I explained to him yesterday, and he seemed to agree with me that -- if it could be done in the President's office.

J: Well, he evidently has spoken to someone over there about that.

HMJr: I see.

J: And he wanted to talk to you.

HMJr: I see.

J: So I'll call you as soon as he comes in. I'm expecting him back around 12:30 or a little after.

HMJr: All right. The other thing is this: they're including my name in the release and we haven't had a chance even to see it.

J: Oh, really?

HMJr: Yes. And I don't want a release to go out, and they've given us a deadline of one o'clock. I don't want a release to go out with my name on it unless Mr. Coe and our attorneys have ample time to look at it.

J: Well, I'll have Mr. Grew call you just as soon as he comes in.

HMJr: Yes.

J: Because I know he wants to talk to you about it.

HMJr: Well, there are two things, you see?

J: Yes.

HMJr: You've got it straight?

J: I have.

HMJr: Thank you.

J: All right.

February 28, 1945
12:33 p.m.

HMJr: Hello.

Operator: Mr. Grew. Go ahead.

HMJr: Hello.

Joseph C. Grew: Hello, Mr. Secretary.

HMJr: I didn't know there was a funeral. Were you notified this morning?

G: Well, I heard about it. It was "Pa" Watson's, you know.

HMJr: I know. I would have gone, but I didn't know there was one.

G: Well, I -- I happened to hear about it yesterday.

HMJr: I see.

G: But I don't think there was anything published about it.

HMJr: Oh, yes.

G: We just got back now. It was pretty wet out there. Well, I wanted to tell you that I took that matter up with the President, and he doesn't want it over there.

HMJr: I see.

G: So, we're having it here at four o'clock. Would you by any chance care to join us?

HMJr: I

G: No obligation unless you want to, but you, of course, would be welcome if you would feel like doing it.

HMJr: What time is it going to be?

G: Four o'clock.

HMJr: At four o'clock. Well, I'll -- I'll -- who all

G: Well, leave it -- leave it open. I don't know -- it's just an informal thing. I think -- I don't know just whether Bonnet or Monnet is going to sign. Do you know?

HMJr: No, I wouldn't know.

G: Well, I don't know, but I just -- we're just going to be ready at four o'clock and just sign it and that's all there is to it.

HMJr: I see.

G: If you feel like coming, you'll be welcome. Leave it open.

HMJr: The other thing that I mentioned was -- thank you very much, but I just don't know -- it's one of these crazy days.

G: Yeah, we'll leave it that way.

HMJr: Now, the other thing is, I told your secretary my -- I understand that my name is in the release, but we've not yet been shown the release.

G: Well, I -- Mike Mc -- I think, was clearing with your press man so far as I know. As I say, I've been out for the last hour. I'll check up on that. Would you like to

HMJr: Well, if they would just clear it with Frank Coe.

G: Frank Coe?

HMJr: Yes.

G: All right. I'll see that that's done.

HMJr: Will you please?

G: I'll do that right away.

HMJr: I thank you.

G: Thank you.

HMJr: Thank you for the invitation. I'll try to make it but I can't be sure.

G: Just as you please. Now, I'll see you at the Pentagon Building

HMJr: At 3:15.

G: at 3:15. You think we can get through in half an hour do you?

HMJr: I -- I -- we'll have to.

G: We'll have to. (Laughs)

HMJr: Yes. I thought you were going on the air at four.

G: Well, I -- no, this is -- I had something else which I put off at four.

HMJr: Oh.

G: It was a Congressman, but I managed to dodge that.

HMJr: Good.

G: Then I have the United Nations signing at 4:30 so there's plenty to do.

HMJr: You've got a busy day, too.

G: I have indeed. Press conference at 2:30, and just one thing after another.

HMJr: Well, thank you so much.

G: All right. I'll -- I'll Michael to clear with Coe right away.

HMJr: If you please.

G: What his first name?

HMJr: Frank.

G: Frank Coe. All right.

HMJr: Yes.

G: Good. Thank you. Bye.

February 28, 1945

MEMORANDUM FOR THE SECRETARY'S FILES:

Luncheon meeting held in the Secretary's dining room at 1:00 p.m., February 28, 1945.

Present: Secretary Morgenthau
Vice President Truman
Senator Barkley
Senator Wagner
Senator Hill
Mr. Acheson
Mr. Hannegan
Mr. White
Mr. O'Connell

Subject: Bretton Woods legislation.

The Secretary opened the discussion by asking for any advice or comments the group might care to make with respect to our handling of the Bretton Woods legislation. Senator Barkley felt that it was a little early to tell where the weak spots may be on the Democratic side of the aisle in the Senate, but felt that the situation would begin to be a little clearer as soon as the hearings get under way. He did suggest, however, that we should continue to do a number of things to arouse people's interest and to keep the interest of all the people on the Hill. Specifically he suggested that we could counter the A.B.A. report by distributing some of our own literature to members of the House and the Senate, and by having someone insert in the Record from time to time some of the more illuminating speeches and reports which take our side.

Senator Wagner indicated that he would be glad to insert whatever we wish him to in the Record, and Mr. O'Connell is to give him copies of the Secretary's speeches in St. Louis and Detroit for that purpose.

Senator Wagner indicated that he does not know as yet how the various members of his Committee stand, but expressed some slight doubt about Senator Radcliffe. On the other hand,

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he said he thought Senator Buck of Delaware (Republican) would probably be for both the Bank and the Fund.

The consensus seemed to be that things were going along pretty well but that we could not afford to overlook any bets. Senator Wagner indicated that he would be prepared to hold hearings before his Committee at any time we thought it desirable, but not, of course, until after the hearings before the House Committee have been concluded.

Joseph J. Starnes

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Copy to Miss Hodel.

February 28, 1945
2:40 p.m.

Re: WAR REFUGEE BOARD

Present: Mr. O'Connell
Mr. Gaston
Mr. DuBois
Mr. Pehle
Mr. Aarons
Mr. Coe
General O'Dwyer
Miss Hodel
Mrs. Klotz

H.M.JR: Hello. I haven't seen you all day. Where is the General?

GEN. O'DWYER: Right here, sir.

H.M.JR: General O'Dwyer, this is Mrs. Klotz.

MRS. KLOTZ: How do you do, General.

H.M.JR: Well, General, we have twenty minutes. Where do we stand now before we go over to the meeting on this license?

GEN. O'DWYER: I think you know the facts, don't you, sir?

H.M.JR: Yes, I know the facts. The only thing is that I am not up to date, and you mentioned a cable that came in yesterday from McClelland.

MISS HODEL: A last-minute cable.

H.M.JR: Some cable just came in.

MISS HODEL: In the last cable we received from McClelland, it was reported to us that Sternbuch, the Swiss representative of the rabbis, is pressing for a remittance directly to

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Sternbuch and to an account in his name only. McClelland said he would pass that information on to you.

H.M.JR: That's last?

MISS HODEL: That's last.

H.M.JR: Have you a digest of what has happened?

MISS HODEL: I have a summary here, including what I gave you yesterday.

(Hands Secretary memorandum, which is attached.)

GEN. O'DWYER: Would you like to state our position on that, from my level down, what we did?

H.M.JR: I want a rehearsal of what you are going to state to the War Refugee Board at three-fifteen, and how you are going to state it to them.

GEN. O'DWYER: This is the case: The Vaad Hahatzala succeeded in getting twelve hundred and fifty people across the line about two weeks ago. They had a man in Switzerland named Sternbuch who had been saying right along that through his friendship and work with Musy, the Swiss, that he could arrange to have people taken out of the land in large numbers and frequently, and no one believed him, apparently, but the twelve hundred and fifty came through. Then, Sternbuch asked people here to send him the nine hundred and thirty thousand dollars and that he had to have that to set it up in Musy's name in Switzerland. They procured that money; then they came to us for a license.

Now, it so happened that between the time that they got the money and came to us for the license that we had had some official communications from Switzerland, and we also had information we picked up here and there that there was something about the arrangements between Musy and Himmler and the generals under Himmler that might indicate ransom. We talked to Mr. Warren about that, Miss Hodel and I,

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and we searched all of the cables to find out what there was in the cables to tell us what was the nature of that understanding between Musy and the Germans, and the best we could get was a cable that came around sometime about two weeks ago from Mr. Huddle--isn't that the name--from the Legation, in which he went into great length to say that there were some dealings between Musy and the Germans, but also there were indications that the Germans wanted to let these people out anyhow, and that it didn't look like ransom.

Now, there are expenses that must be met in taking these people out, and Musy would be the one to have to pay these expenses. There is transportation, and many other things like that. Twelve hundred people being transported is an expensive proposition if you have to pay for it, so we felt that when this application for a license was made we were confronted with making a decision. That decision might well adversely affect the coming of others, and one of the things that we decided to do was not to do anything that would prevent people from crossing the line.

Now, the question of whether or not the money would be paid to Musy or how it would be paid to him was not the question before us. The question was would we say in a cable to Sternbuch, "You can't have any money," or would we say to him, "You can have money, but it must be under our control until we tell you to let it go." Now, we believe that that latter way would be an indication to Sternbuch and Musy that they wouldn't have to worry about the money if the deal was all right. Consequently, I recommended that the license be granted to send this money to Switzerland in the name of Sternbuch and McClelland. That would mean that this money would remain intact and could not be promised or let go until we had all the facts surrounding that deal to see whether or not he could justify the release of it. That's the way the case is today. There is no change in that.

Now, if we were to say, "You can't have any money," without having all the facts, that would not be a just decision,

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and it might have the effect of stopping the passage of these people through the lines to safety. We might very well, by doing it that way, have defeated the purpose for which this organization was set up. On the other hand, there is nothing to be feared from doing it the way we do it, because all we have done with this license is to send the money to ourselves. It hasn't left our control, and it won't until we give the word. We are not asking the Refugee Board to make a decision to release this money. All we are asking now is in view of the facts as they are stated we want an approval of what we have done up to the point we have gone, with the understanding that if we move beyond that point in the disbursement of that money, we come back to the Board for approval before that is done.

H.M.JR: Well, as I understand it, the license was drawn in the name of McClelland and Sternbuch.

GEN. O'DYWER: That's right.

H.M.JR: And was drawn to show that it only could be released on order of the Treasury.

MR. AARONS: It is now drawn so it can be--it's authorized by the War Refugee Board.

H.M.JR: That's the way I want it.

MR. PEHLE: Mr. Secretary, may I say something?

H.M.JR: Sure, you're not here for your looks.

MR. PEHLE: On the War Refugee Board's recommendation on this, I heartily agree with everything the General said. I want to be the devil's advocate from the Treasury's point of view. You sit on this thing as Secretary of the Treasury, and not as a private citizen, and part of your job is certainly in issuing a license to carry out the functions of the Foreign Funds Control in the Treasury.

Now, I want to raise a question as to whether a sound case has been made out for issuing this license. The rabbis

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aren't going to be satisfied with this license at all. They are only satisfied because this gets the money in Switzerland, one step nearer release. I would guess that once the money is sent there would be tremendous pressure for the actual release of the money so that that issue will have to be faced. This license and the sending of this money may be taken as a single--maybe all the critics of this thing are waiting for it to let loose a blast. The sending of the money takes you in with the Musy-Himmler negotiations, because that is what this money and this whole thing is a part of. Now, we are dealing with a guy--Musy--nobody trusts. We don't know what the deal is and we don't know why the money is being sent, and I am raising a question whether, as Secretary of the Treasury, you ought to take the position that this money should be sent.

I think it ought to be cleared. There will be criticism either way you act. If the money doesn't go, the rabbis are going to tear the town loose. If the money does go, other people will criticize. I have read the memo over. I don't think much of a case has to be had to show this will actually save lives. It is conceivable it might, I agree, but the case is somewhat dubious, to say the least. To say that you would be justified in saying you want to know more about it before you agree to issuing a license seems to me to be a sound motion. I wouldn't take it if I were sitting in General O'Dwyer's chair, because it is the job of the War Refugee Board to press for every action. This Government has been way behind all the way through. Somebody has to be appointed to stand up and say either we will do this, or not do this. Have you made a case? I am raising a question as to whether a case has been made.

H.M.JR: Well--

MR. PEHLE: I am worried about your personal position. I might say that I am really worried.

H.M.JR: I am glad somebody is worried.

MR. PEHLE: I don't mean to imply other people aren't too, Mr. Secretary. We all are.

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GEN. O'DWYER: That's right.

MR. PEHLE: It's a tough case.

GEN. O'DWYER: Could I break in on that point, Mr. Secretary? I disagree with Mr. Pehle on all the points. In the first place, it doesn't bring the Secretary into this picture at all. The Secretary up to now is a member of the Board only. He hasn't had any contact with the Board, and the Board hasn't had that contact. Everything that has been done up to this time has been my doing, as Executive Director.

H.M.JR: Look, General O'Dwyer. I don't know how, but believe me, I am posted, blow by blow, on what you and other people do from wholly outside sources. I know it before anybody in this room tells me.

GEN. O'DWYER: You can't miss on that.

H.M.JR: I know, blow by blow, what happened over the week end before you people got it to me, and from a source that is worrying me. I don't mean everybody here looks after me. I withdraw that remark, that was just a sarcastic remark--a stupid remark. But, your doing that doesn't help the situation at all, in the eyes of a paper like the Chicago Tribune. But I am not personally worrying about me. I mean, people that have worked with me for a long time--I crossed that bridge a long time ago--and if every time some of these things came up they would have asked if it was going to be good or bad for me, they never would have gotten anywhere.

MR. PEHLE: That's right. The whole Board started that way.

H.M.JR: They never would have gotten anywhere, and from the time it first came to me, the first information, I made up my mind that this is something I would have to do and put my neck out, and I have. These boys wouldn't have stayed on it, and Miss Hodel, as long as they have,

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if every time something came up I said, "My God, what's going to happen to me on this thing!" So, that isn't the thing that is motivating me. When you look at this thing coldly, see, as evidently the Russians do, and after all, the Russians have been more realistic on all of this, you just don't know what these devils are up to. I mean, nobody has been able to give a satisfactory answer to a mind like Himmler's. I mean, we haven't ever had a mind like that, and what is motivating that man, I don't think anybody in this room is smart enough to know-- I will talk for me--cool enough, devilish enough. So, what this man is really up to, I don't know, but the purpose of this meeting is this: Not to backtrack, see, but to make sure that the Board knows about it, which they didn't-- Mr. Stimson, Mr. McCloy I don't think--I mean, somebody down the line may have, but I don't think either Mr. Stimson or Mr. McCloy knew about this yesterday afternoon, did they Miss Hodel?

MISS HODEL: I don't think so.

H.M.JR: I don't think on a thing tricky as this--after all, the Board is a Presidential Board, and we can go along stalling and do these things. We did one thing without telling them and--

MR. PEHLE: The same thing applies to what you said about the other thing. A lot of things we have done without clearing because we wouldn't have gotten anywhere. Here is a good case.

H.M.JR: They didn't call you. They called me, didn't they?

MR. PEHLE: Sure.

H.M.JR: And I think that the thing should be put before the Board. Let them argue it, and then let them decide. After all, the thing was pending before the State, and let them see what they are going to do. Now, I think one other thing. I think the Board should--not the Board, but I will, if nobody else wants to, should bring to the attention of

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Mr. Stimson and Mr. Grew that these people are using the diplomatic pouch. Now, if Mr. Grew and Mr. Stimson said, "Well, we don't want to shut that off," all right, but I am not going to be satisfied. Now, that has been raised to my attention so forcibly that that isn't brought up and brought to their attention, because while this, supposedly, and most likely is used for good purposes, there is no guarantee that that pouch isn't used for--

MR. PEHLE: The Poles have the worst motives, I should say. The Polish Government has the worst motives. They are catering to Jews because they are the only group they think they can get support from.

H.M.JR: In the whole history of Poland for the last one hundred years when the Jews were there as their subjects, nobody treated them any worse.

MR. PEHLE: That's true.

H.M.JR: So why suddenly this Polish Government--and I know these people--why they--

MR. PEHLE: It's a political move.

H.M.JR: Why they suddenly should become the friend of the Jews, just doesn't make sense. There must be some ulterior motive. What else goes in that pouch, heaven only knows!

MR. PEHLE: Stopping them from using it for this purpose doesn't stop them from using it for worse purposes unless you stop the pouch.

H.M.JR: That's what I am going to suggest.

MR. DuBOIS: It seems to me that could be taken care of by the General mentioning the fact that it is going on, and by the General saying he has told them to cut it out.

H.M.JR: Who has?

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GEN. O'DWYER: I have.

MR. DuBOIS: He can tell them those facts, but I don't think you have to focus the issue on the Board to decide whether or not to cut it out.

H.M.JR: No, but it should be brought to their attention.

MR. DuBOIS: On the point John Pehle made, which I disagree with, taking care of some of them, you might want to consider this. On the record, to make a good record, the rabbis have asked for this money to be transmitted direct to Musy. What in effect you would do is write a letter to the rabbis, make a formal application denying it, saying, "Your application to transfer this money is denied to Musy. However, we are sending it to our man in Switzerland, where he is going to sit on it until we determine the facts," and that will protect you here on the record and at the same time--

MR. PEHLE: You mean McClelland and Sternbuch?

MR. DuBOIS: That will protect you on the record here. "We have denied you on the application, and we have done this."

H.M.JR: Denied what application?

MR. PEHLE: To send it to Musy.

MR. DuBOIS: "We have denied your request to send this money to Musy."

MISS HODEL: We have done that orally.

MR. DuBOIS: I want it on the record.

GEN. O'DWYER: I don't think it is clearly understood that this license never let that money out of the control--

MR. DuBOIS: I wanted that to be cleared on the record.

GEN. O'DWYER: This money never got out of the control of the Board under the license. It wouldn't be if--

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H.M.JR: The reference was back to the Treasury, and not back to the Board.

MR. DuBOIS: He didn't mean that.

GEN. O'DWYER: I mean that the money-that the license puts the money in the name of Sternbuch and McClelland, and that's the way it must stay.

H.M.JR: And it was as of yesterday that it should be referred back to the Treasury for release and not back to the Board.

GEN. O'DWYER: The point I was emphasizing was the two men's names.

H.M.JR: You put the thing up to them and we will see.

February 28, 1945
4:00 p.m.

WAR REFUGEE BOARD

Present: Mr. Gaston
Mr. O'Connell
Mr. Pehle
Gen. O'Dwyer
Mr. DuBois
Mr. Aarons
Miss Hodel
Mrs. Klotz

H.M.JR: The trouble with that is this: You are taking a man from one organization, and JDC can very well say, "This isn't a question of getting refugees out of Germany; it is confined to the Jewish problem," and then I think you get us in wrong with the World Jewish Congress and all these other Jewish organizations.

GEN. O'DWYER: All right.

H.M.JR: I tell you, if this bothers you, I would just as soon tell these people what we have done myself.

GEN. O'DWYER: It doesn't bother me at all.

(Mr. Aarons enters the conference.)

GEN. O'DWYER: They are troubled. They might have some trouble as to my understanding, my interest in this thing. I am new to them.

H.M.JR: You think it over. I have no hesitancy in telling them what happened.

Miss Hodel, you have got to practice your minutes, anyway; go ahead.

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MISS HODEL: We had a very successful meeting with the Board members in Mr. Stimson's office. Mr. Grew was present and Mr. McCloy, and Mr. Warren accompanied Mr. Grew.

General O'Dwyer presented the problem to the Board as it had been discussed here, and he asked for their approval on his recommendation that a license be issued permitting the remittance to Sternbuch and McClelland with a provision that no payment be made or commitment for payment be made except as authorized by the War Refugee Board. In presenting his case General O'Dwyer pointed out that the communications between Sternbuch and the rabbinical group in this country had not been through this Government's channels. He indicated that they might be through the Polish, and he indicated that in all probability the rest of our information--that the communications were coming through the Polish Government's diplomatic facilities.

H.M.JR: You said Polish channels. Isn't that what you said?

MISS HODEL: Yes, Polish channels.

Mr. Grew raised the question as to whether or not the granting of this license and the permission--

H.M.JR: Excuse me. Mr. Stimson first raised the question whether this was ransom or not?

MISS HODEL: Yes.

MR. GASTON: The question he raised was whether we were willing that ransom be paid.

H.M.JR: And we answered--

MR. PEHLE: ...whether the Treasury would license that.

H.M.JR: And we told them no.

MISS HODEL: Then Mr. Grew raised the question--Mr. Grew indicated that he was satisfied that we would not be

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benefiting the enemy by permitting remittance under these restrictions, but he raised the question as to whether or not the granting of this license might in any way be misleading from a psychological standpoint to any of the people who might be involved on the other side.

Then it was pointed out that the amount of money involved in this case probably would not be of any real interest to them as a ransom proposition, and the recent cables indicate that Himmler and the group in Berlin involved in this thing are really interested in good publicity in the U. S. press on the sudden great humanitarian gesture; that fact was brought out. That was probably one of the real motivating things behind this whole deal. It was brought out to show that we really don't know what the facts are with respect to the background on this whole deal. Mr. Stimson then agreed that we would not be benefiting the enemy. However, on that point--

H.M.JR: No, no, what Mr. Stimson said is, "I am sure nobody in any way wants to benefit the enemy."

MISS HODEL: All right, and then General O'Dwyer pointed out that there might be some legitimate expenditures that the Board could recommend for payment at a later date, and there was some discussion about the type of those expenditures, transportation costs, maintenance, some legitimate expenditures inside Germany itself for a trip across the country, and so forth.

H.M.JR: Then sort of speed it up. The other thing I think Pehle and the General can help you on.

Then Mr. Grew said--I don't know at what point he said it, but in the instructions that go to McClelland he said, "It should be cleared in issuing this license that, one, under no circumstances should any of the money be used for ransom, and two, make it perfectly clear that before any of the money could be expended it must be referred back to the War Refugee Board for action."

- 4 -

MISS HODEL: That is right.

H.M.JR: And we decided coming back in the car that we would inform the rabbis that, one, this money could not be used for ransom; two, that we take your suggestion, Joe, that we would turn down that first suggestion that it go directly to Sternbuch and McClelland, and that the matter must be in any case referred back to the War Refugee Board.

MR. GASTON: Mr. Grew said it must be made plain to McClelland and Sternbuch that if they request a release of license for the actual expenditure of any of these funds, they would have to explain precisely what the funds would be used for.

H.M.JR: That is right, and also Mr. Grew at first said yes, and then Stimson said yes, and I said that inasmuch as the two of them first said yes, I concurred.

MR. AARONS: Mr. Secretary, that information to the rabbis would be in writing--is that right?

MR. PEHLE: Over O'Dwyer's signature.

H.M.JR: Yes. And I told the General that if he is bothered about it at all, I am perfectly willing to see him.

GEN. O'DWYER: I don't think it will be necessary now. They will growl, of course. They will complain.

H.M.JR: But that very briefly is it, and I want to again say that Grew behaved himself beautifully in this thing.

MRS. KLOTZ: You mean--

H.M.JR: Grew behaved beautifully.

McCloy couldn't get to Stimson.

MR. PEHLE: The thing Stimson kept hesitating on, and Grew, was that we must not deceive even our enemies.

It was really ridiculous; we must not give them the impression--

H.M.JR: Must not try to mislead Himmler.

MR. PEHLE: Stimson said that himself. He said, "We must not be guilty of even trying to mislead Himmler, and, therefore, we must make it clear that this isn't the first step as to ransom."

H.M.JR: Then General O'Dwyer said something very pertinent, that if anybody is misled, it is the rabbis misleading the staff of the War Refugee Board, and instead of it being the other way around, they were to be misleading us, and they led us to believe this is not for ransom. And then you are going to put in the minutes the fact that this thing is going through official channels, Polish channels, so that without going through us--so in that way it comes officially to the attention of Mr. Grew, and whatever the action is, it is up to him to take.

MR. GASTON: Really the conditions of the license are now somewhat changed from what was planned heretofore, and that is that Foreign Funds is to make this license conditional on the approval of the War Refugee Board.

MR. AARONS: To make further transfers?

MR. GASTON: Yes.

H.M.JR: Is that the way it was drawn in the last twenty-four hours? I made the suggestion that the approval be a matter of the Board and not the Treasury.

MR. PEHLE: Both Stimson and--

H.M.JR: That is the change that has taken place in the last twenty-four hours? That is important; that was my suggestion.

MR. GASTON: Yes, it is, and that was by agreement, and not a vote of the Board, but it was agreed that any future transactions would be by action of the Board.

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MR. PEHLE: That is what General O'Dwyer recommended.

H.M.JR: As an accomplished fact in the agreement, not that there was any discussion about it, but Grew seemed to know that there had been a change in the last twenty-four hours in that.

MR. GASTON: But he repeated that.

MR. AARONS: "No part of the above sum shall be committed or expended for expenditures except as specifically authorized by the War Refugee Board."

H.M.JR: That isn't the way it was yesterday; it is the way it is today.

GEN. O'DWYER: Is there any communication from the Secretary to show that the change had been made?

H.M.JR: It is in these records. It must be there that yesterday I asked for that, and when you get through, be sure that my records show the various stages of the draft of this license. I am satisfied.

Now, if anyone--all they can say now is that we are sending this money over there on the representation of these rabbis to get the money over there and be helpful to get out these people that are already out and to get the other people out, to be used for legitimate expenses, but none of the money can be expended until it is referred back to the War Refugee Board, and details must be supplied for what use the money was put. Is that right?

GEN. O'DWYER: That is right.

H.M.JR: Incidentally, Mr. Gaston has a photographic memory on these things, so if there is anything left out, he can supply it. And we will let you have a copy of this to assist you. (To reporter) Make a copy for Miss Hodel.

I think the day's work is well done. Joe, are you satisfied?

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MR. DuBOIS: It sounds very good to me.

H.M.JR: Well, say so.

February 28, 1945

Joe O'Connell.

Secretary Morgenthau.

I'd just like to know what Buzz Aarons does.

What are his responsibilities anyway? *See O'Connell's memo*
4/2/28/45

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

✓ 256
AA
DATE

February 28, 1945

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr.

Buzz Aarons is the Assistant General Counsel in charge of the group of lawyers (some 20 odd in number) who work on foreign funds control and related matters, particularly occupation problems. He and his entire group work very closely with Harry White and his people, especially on occupation problems, and are constantly dealing with the War and State Departments as well as with F.E.A.

You will recall that Aarons returned from London only a couple of months ago, where he had spent the better part of a year on loan to Harry White. I am informed from several very reliable sources that he did an excellent job there.

He is admittedly somewhat diffident in manner, and sometimes gives too much the impression that he is not at all sure of himself or of the answers to simple questions. Be that as it may, I regard him as one of the very best that I have. Whatever he may lack in presence, he more than makes up for in ability, experience, and conscientiousness in applying himself wholeheartedly to his job.

Getting back to his regular responsibilities, his position in the scheme of things corresponds roughly to that formerly occupied by Luxford, and before him by Bernie Bernstein.

Joseph J. O'Connell Jr

February 28, 1945

Charles Bell.

Secretary Morgenthau.

I wish you would be sure that the various groups which are under Harry White are tied up with proper administrative procedure. It's up to you to see that they are.

Please make a report on it to me.

See Bell's memo of

2/28/45 -

257-A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
February 28, 1945

TO Secretary Morgenthau
FROM Charles S. Bell *Charles S. Bell*

Subject: Administrative organization of Foreign Funds
Control and the Division of Monetary Research

In response to your memorandum of February 28, I submit the following report:

I. Foreign Funds status

On September 22, 1942, you signed Treasury Department Order No. 47 (Exhibit 1) which gave Foreign Funds separate administrative status comparable to that of other bureaus and offices in the Department.

This order was proposed by Mr. Pehle and endorsed by Mr. Thompson because the Foreign Funds organization had expanded greatly and it was no longer administratively feasible to retain it as an integral part of the Office of the Secretary. Prior to this order your Administrative Assistant had carried a large share of the details incident to operating the organization. Also, Mr. Thompson and I had kept a constant check on their administrative affairs. (See Exhibits 2 and 3.) During the formative period it was necessary for this office to perform purchasing, budgetary, and personnel functions for Foreign Funds, and at the time of preparing the Order it seemed desirable to relieve this office of these detailed functions.

Order No. 47 made Foreign Funds technically responsible to Randolph Paul, then General Counsel. This arrangement was an outgrowth of an earlier period during which Mr. Foley had been actively engaged in the planning of the Foreign Funds organization. In point of practice Foreign Funds Control, by the nature of their work, came to be more closely associated with the Division of Monetary Research under Mr. Harry White. This arrangement, as you know, resulted in certain dissatisfactions with regard to the handling of personnel dually responsible to the General Counsel, to Foreign Funds, and in some instances to Monetary Research.

*Mr. Charles S. Bell
12/28/44*

II. Division of Monetary Research

The Division of Monetary Research was established by Treasury Department Order No. 18 signed by you on March 25, 1938. For purposes of general administration they have always been closely tied to the Office of the Secretary, and your Administrative Assistant has maintained general supervision over the administrative affairs of the Division.

Treasury Department Order No. 58 signed by you on February 17, 1945, placed both Foreign Funds Control and the Division of Monetary Research under the general supervision of Mr. White as Assistant Secretary. This Order represented a logical development flowing from the nature of the work being performed and the interlacing activities of the two organizations. This Order is now being held by Mr. White pending his working out of reporting procedures.

It is apparent that Mr. White, while carrying the extremely heavy technical burden and top policy-making job, cannot give sufficient attention to the immediate administrative supervision of the two organizations responsible to him. This fact has been in part recognized with the appointment of Mr. Frank Coe as the Director of Monetary Research. The recommendations which follow are aimed at tying together the two activities, and strengthening my relationship with them, as well as improving the administrative controls necessary for your protection and the orderly transaction of their business.

III. Recommendations

As stated in Treasury Department Order No. 58, direct supervisory responsibility for Foreign Funds Control and Monetary Research should be vested in Mr. Harry White as Assistant Secretary in charge of these operations.

Moreover, Mr. Coe should bear the full responsibility for serving as Mr. White's alternate on any matters concerning Foreign Funds Control. Specifically, this would mean that if Mr. Schmidt had an item that was of such importance as to require the Secretary's attention but which he could not, because of the pressure of other business, put before

Mr. White, he would take it up with Mr. Coe and Mr. Coe in turn, at his own discretion, would pose the problem either to Mr. White or directly to the Secretary.

To facilitate the making of administrative decisions necessary to the expeditious transaction of the business of these two organizations, I am recommending that Mr. Frank Coe be named as the Executive Officer to act for and in behalf of Mr. White in all matters requiring clearance with the Administrative Assistant.

I cannot over-emphasize the importance of having designated an executive upon whom I can rely for final and speedy decisions covering any administrative business in these two organizations. Quite frankly it has been my opinion that the important technical work of these organizations has on occasion been unnecessarily handicapped by the absence of effective administrative procedure. The chief reason for this weakness has been the fact that final lines of authority on such matters as personnel, budget, travel, etc., have not been clearly defined by the operating heads in charge.

I cannot discharge my responsibility to you or to them without a close and effective working relationship with someone high enough in the organization to make binding decisions from day to day. In asking that Mr. Coe assume this responsibility I am not forgetting that he has highly important technical responsibilities that make heavy demands on his time. Nevertheless, if we are to have effective coordination of the administrative affairs of the Department there must exist clear channels out of this office to all branches of the Treasury. Also, I feel obliged to insist, as indicated in my memorandum of February 12 to the 9:30 Group (See Exhibit 4.), that all matters covering administrative topics clear my office.

C O P Y

September 22, 1942

Treasury Department Order No. 47

By virtue of and pursuant to the authority vested in me by Executive Order No. 8389, as amended, by Executive Order No. 9095, as amended, by Section 161 of the Revised Statutes (U.S.C. title 5, sec. 22), and as Secretary of the Treasury, I hereby order that:

1. There is hereby established and created in the Treasury Department the Foreign Funds Control which shall have separate administrative status, subject to the usual departmental controls, and at the head of which shall be a Director of Foreign Funds Control. John W. Pehle, Assistant to the Secretary, is designated as Director of Foreign Funds Control.
2. The Director of Foreign Funds Control shall exercise and perform all authority, duties and functions which I am authorized or required to exercise or perform under Section 3 and 5(b) of the Trading with the enemy Act, as amended, and any proclamations, orders, regulations or rulings that have been or may be issued thereunder.
3. The Director of Foreign Funds Control shall exercise and perform such authority, duties and functions subject to the general supervision of Randolph Paul as Acting Secretary of the Treasury.

(signed) H. Morgenthau, Jr.,
Secretary of the Treasury

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251-E
Y

Mr. Thompson

Mr. Bell

On several occasions we have discussed the apparent need for a better administrative control over the Foreign Funds work of the Department, and at your suggestion several months ago I discussed this possibility with Mr. Fehle, suggesting that he consider the appointment of a competent administrator vested with enough authority to dictate all procedure relative to administrative matters, particularly recruitment and placement of personnel, organization and flow of work, and improved methods of office procedure generally. At that time Mr. Fehle indicated a willingness to consider the appointment of such a person, but up to this time has failed to make a move in this direction. As a consequence the affairs of the Foreign Funds Unit, in my opinion, are not being handled in a manner conducive to the best administrative results.

This criticism does not extend to the technical transactions incident to the licensing work, but relates only to the administrative phases; and, here again, it is not my purpose to be critical of Mr. Fehle or any of the members of his staff. To the contrary, I feel that they are doing a mammoth job and are anything but negligent in the performance of their tasks. On the other hand, I feel that it would be impossible for Mr. Fehle or any of his technical assistants to assume administrative responsibility along with the technical responsibility they are charged with. I further feel that too little importance has been attached to the office management phases of the work of this unit, with the result that the Secretary's administrative office has had to assume entirely too much responsibility for items too far removed from the course of its logical administrative observation and orderly control.

To be specific, my meaning can be more clearly understood by commenting on some current situations now before our office for consideration:

- (1) There is in this office a requisition for \$20,000 worth of Flexoline equipment. No justification supports this requisition, and I am not at all convinced that this particular equipment is the type needed in Foreign Funds for reference purposes. Upon inquiry I find that it will be used for recording names in connection with the census work, but can obtain no detailed information concerning the number of times reference will be made to the individual names, or what advantage such a system of record keeping has over one of the many other manual types of record keeping of the less expensive variety. The expenditure of so large a sum should be supported by an adequate justification and proof that it is an orderly and efficient manner of keeping such a record.

RETURN TO
R.M. 293

Mr. Thompson - 2

(2) Last week we were called upon to install two leased wires to New York and one teletype. No statistics to show the volume of calls were submitted to support the request for these items. The request was reduced by one leased line amounting to \$10,000 annually, and this reduction was more or less arbitrary.

(3) We are called upon to provide an additional 100,000 square feet of space in close proximity to the Park Road location at an estimated annual rental of from \$100,000 to \$200,000. This suggests an advanced office management problem of assembling working units in their proper sequence, using less desirable space for filing units, and getting the best results out of available space. While the request for more space is based on the volume of work present and contemplated, frankly there are no facts and figures to support such an item beyond the general statement that expansion is needed.

(4) The overtime problem in the Foreign Funds Unit is a serious one. The Secretary's orders in this respect have been brought to the attention of those in Foreign Funds on repeated occasions, and recently revised orders were sent Mr. Pehle, together with a proposed draft of office order for Mr. Pehle to sign. The employees are still required to work overtime, and I have seen no evidence of any check in this situation. When employees are required to work overtime month in and month out, their efficiency is unquestionably impaired, and in the final analysis, I think it is safe to say that the Government is not getting more than seven hours of work out of a person actually on duty for 14 hours.

(5) Delays have occurred in responding to mail, and in some instances such delays have gone into months. A simple system of record and tickler already suggested to Mr. Pehle would no doubt correct this situation and keep complaints to a minimum, if not eliminate them.

(6) Over the past few months this office has lifted out of the Foreign Funds Unit its entire classification problem and sought the assistance of investigators from the Civil Service Commission. All positions in Foreign Funds were classified by this office, in collaboration with the Commission, in an effort to develop uniformity of salary scales and classification of positions even though such positions are not subject to the classification principles. Since this work was undertaken, the Foreign Funds Unit has doubled in size, and we are still required to handle the meticulous details in connection with classification or permit the entire salary situation of the Foreign Funds Unit to merge into a state of chaos due to the lack of a well developed personnel unit.

(7) The need for the employment of 200 investigators arose during the summer, and again this office, with the aid of Mr. Ireys' office, was obliged to underwrite the entire job of recruitment. We have reviewed 1,600 applications and of this number have eliminated 1,100,

classifying 500 as eligible. We are now conducting personal interviews with a view to selecting from this latter number the 200 persons best suited for this work. This type of problem is one that might well be handled exclusively by Foreign Funds had they the personnel machinery.

In the above connection, arrangements might have been made to have this investigative work conducted by the Securities and Exchange Commission on a reimbursable basis, since that body already has in its employ investigators trained in the techniques of searching financial transactions, thus saving this office a sizable recruiting job.

(8) It has been very difficult at times to reconcile the advancement of certain persons in Foreign Funds with orderly, normal civil service requirements, and in all such cases this office has had to rely solely upon the judgment of Mr. Pehle and his staff of assistants with respect to the character of work performed by technical employees. Further, it is felt that Mr. Pehle's judgment in this respect should not be challenged by any one in this office or in the Personnel Division. It might be enlightening to mention a few specific instances:

George Holston E. L. Timmons was appointed August 16, 1940, at \$2,000 per annum. Mr. Timmons was fresh out of college and had had no experience, and it was I who made the original appointment. By August 16, 1941, one year later, Mr. Timmons' salary was and is now \$5,600. I do not question Mr. Timmons' ability or his usefulness to Mr. Pehle. On the other hand, it would have been impossible for Mr. Timmons to have been promoted at this rate had he entered the Government service in a strictly civil service position, for the Commission would not have cleared him for more than \$2,600 after his first year of experience.

Thomas Page Holston was appointed on January 16, 1941, at \$1,680 per annum, on the recommendation of Mr. Terwan. He completed no college course and is now but 22 years of age. At the present time, nine months later, he is receiving \$5,800 and has been sent to the Orient in charge of some of the Far Eastern transmissions.

Irwin A. Gelbel, who was appointed last November at \$1,440, is at present being recommended for \$5,800.

George L. Spencer was one of my emergency relief employees at \$1,680 per annum, with no particular training suitable for foreign exchange work. He was transferred to the Foreign Funds Unit at this same salary in July 1940, and has been promoted to \$2,600 within the last year.

251-G

Mr. Thompson - 4

Alexander P. Peden was appointed in July a year ago at \$1,440 per annum, as a Junior Clerk, and is now receiving \$3,200.

Raymond L. Jones was appointed in November 1940, at \$2,000 per annum, and now receives \$3,200.

Ellis K. Allison was appointed in July 1940, at \$1,620, and now receives \$2,600.

Charles H. DeZevallos worked for me at \$1,800 and was transferred to Foreign Funds in July 1940. He now receives \$3,200.

Samuel Clifford Dunn worked for me at \$1,620 and is now being proposed for \$3,200.

It is not my purpose to raise any question with respect to any of these salaries or the responsibility of the incumbents; however, the rapid advancement of persons such as the above has caused us to wonder how it is possible to train clerks who, in many cases, have had little or no college work and no experience applicable to the work of the Foreign Funds Unit into technical experts in less than a year.

(9) With the limited staff in this office, I have undertaken to have all of the positions in Foreign Funds looked into and the duties checked. Here I find a number of cases where the incumbents are receiving salaries which place them at the top of the grades indicated by their present responsibilities. It seems apparent that these persons are not performing the work for which they were recruited, or that their duties were not properly determined and salaries accordingly fixed before appointment. I will not attempt to enumerate these cases, but an attaching hereto a photostat showing the results of this survey. (not attached)

These items are typical of many others that could be mentioned here which impress me as being in need of correction, and since we are now considering the appointment, in addition to the investigators referred to above, of some 300 statistical clerks to manage the foreign property census and approximately 100 examiners for the Comptroller of the Currency, together with an expansion in Foreign Funds proper, I feel that the management of the Foreign Funds work might get completely out of hand unless there is appointed an executive who can assume entire responsibility for that program of work not relating to the technical transactions which apparently Mr. Pehle has well in hand, but to be coordinated with the technical program. I have in mind a business specialist who would be classified in the CAF-14 (\$6,500) range, with proved ability along office management lines. Such a person should rank next to Mr. Pehle and on equal footing with Mr. Towson, Mr. Towson heading the organization up in so far as the technical phases are concerned under Mr. Pehle, and the new appointee proposed to head up all other phases under Mr. Pehle.

Mr. Thompson - 5

It seems to me that we should know the answers to the following:

(1) Are too many specialists being hired in the Foreign Funds Unit?

(2) Are the staff assistants too numerous and do they have too much to say with respect to the administration of the work?

(3) Are persons being recruited outside of Foreign Funds at salaries higher than those being paid present employees who might be eligible for advancement?

(4) Are the staff officers attending too many conferences and could the conferences be broken down to bring into small conferences of those particularly interested in particular phases?

(5) In engaging technical personnel to perform particular or limited phases of the work, has the Unit shown a tendency to place too high an appraisal on the services of applicants whose training or experience, while covering a broader field, did not increase their fitness as compared with other applicants to perform the particular task for which employed?

(6) Are applications being handled by too many men and too many units before final action is taken?

(7) Are the higher salaried persons doing the same work as the lower salaried persons?

(8) Does the flow of authority downward follow a set course or pattern?

(9) What is the morale of the lower salaried employees?

(10) Have higher salaried employees proved unfit and been given positions as consultants in order to hold their pay?

(11) Are there non-productive employees in the personnel complement who are responsible for the long overtime hours of the more diligent employees?

(12) Are the organization and flow of work and procedure clearly stated to employees so as to hold down confusion and useless steps?

(13) Are the levels of organizational responsibility commensurate with the grade and salary levels?

(14) Are the leased wires to New York being used with discretion?

(15) Are the technical employees relieved of administrative functions?

Mr. Thompson - 6

(16) Is there a definite distinction made as between technical employees and administrative employees?

(17) Are there too many intra-section records kept causing unnecessary duplication and confusion?

(18) Are the stenographers engaged on stenographic work, or are they engaged in filing and making up card indexes?

The above matters, which involve advanced administrative technique, call for the services of a trained executive, thus assuring our office that the administrative functions of the Unit are being performed economically and efficiently.

When we consider the fact that this Unit will expend in excess of \$5,000,000 for operating charges during the fiscal year 1942, and perhaps a larger amount in subsequent years, it is important that the administrative work be raised to the same high level already attained by the Unit in the performance of its technical functions.

It is not to be understood from the above that Mr. Robert Evans, the Administrative Assistant, whose salary is \$5,400 per annum, has in any sense of the word fallen down on his job. To the contrary, with his limited administrative experience, it is felt that he has done remarkably well in holding the organization to its present level of administrative efficiency, and it is believed that he should be designated to assist in his same administrative capacity the executive later to be selected to manage for Mr. Pehle the broader field of administrative responsibility outlined above.

PERSONAL AND CONFIDENTIAL

August 5, 1942

Mr. Pehle

Mr. Thompson

In connection with the classification of Mr. Stewart's job, I notice that one of the important duties is indicated as liaison with the Bureau of the Budget and with the Civil Service Commission. Liaison with the Bureau of the Budget is through me as Departmental Budget Officer and with the Civil Service Commission through Ted Wilson, Director of Personnel. I would suggest, therefore, that Mr. Stewart establish working relations with Mr. Schoeneman, who works with me on budget matters, and, with Mr. Wilson on the Civil Service end.

While on this general subject, I think I should make a few general comments. As you know, authority over all of the personnel of the Treasury is vested by law in the Secretary. The Administrative Assistant to the Secretary acts for the Secretary in giving final approvals to personnel actions. Obviously, with a Departmental personnel of some 80,000 employees, it is impossible for the Administrative Assistant to handle all of the details with respect to such matters. As a practical operating procedure, therefore, Office heads are permitted to submit recommendations to the Secretary for personnel actions and usually such recommendations are approved.

There are occasions in rare instances where, for sound reasons, actions are required here without recommendation from or consultation with the head of an office concerned, and such actions necessarily are final. Occasionally also cases arise which we term "must" cases where actions are required but are taken only with the cooperation and upon the recommendation of the Office head concerned. As a rule we have no difficulties in these respects because experienced administrative officers in the various Bureaus and Offices work on a basis of complete cooperation with this office.

I know that you personally understand these matters, but I am not so certain that Mr. Stewart does, and I think they should be gone over with him and that he should maintain working relations with this office on administrative matters which will insure a completely cooperative operating basis. He has excellent scholastic attainments, but he has not had time to acquire the experience so essential for a top administrative executive. I know that in law and economics and other professions perhaps experience may not be so essential, but for administrative work it is essential and the best executives in top positions on such work give satisfactory performance because of their background of experience. The reason I am bringing all of this out is because there have

- 2 -

been occasions--the Herdman case for example, and one or two others that have come to my attention--where an experienced administrative officer would not have been likely to take the actions that were taken.

You will never find Schoeneman, Bell, or myself being arbitrary. Our sole purpose is to be helpful and it is desirable and in fact generally the practice for administrative officers in the various branches of the Department to consult with us freely on their administrative problems.

I think, furthermore, that Mr. Stewart should not issue over his own signature, or prepare for issuance over your signature, circulars or orders on administrative matters in your organization which might be subject to Departmental orders or policies without first clearing with this office, or at least making certain that there is no conflict with general regulations or policies.

We all want to work along in a cooperative way and I am making these observations only in order to be helpful and to assist in insuring a performance of administrative functions in Foreign Funds on the most efficient basis and as an important branch of the Department and not as an independent organization.

I am attaching a copy of a memorandum Mr. Bell has submitted to me on this general subject which I think you will be interested in reading. (not attached)

WNT:aja

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE
February 12, 1945

TO The 9:30 Staff Group

FROM Charles S. Bell

Handwritten signature and scribbles

The Secretary has recently brought to my attention a number of items covering administrative topics that had not cleared my office due to oversight on the part of those preparing and routing the material. This sometimes results in delay and embarrassment when the Administrative Assistant is called upon to act without knowledge of the earlier communications.

It is appreciated that under the pressure of daily business the details of channeling paper work may be easily overlooked, and moreover, it is sometimes imperative that short-cuts be taken. However, in the interest of coordinating the administrative affairs of the department I am urging that secretarial personnel, as well as staff officers, be on the alert to avoid by-passing this office.

Treasury Department
Division of Monetary Research

258

Date 2/28 1945

To: Files

From: Mr. Coe

The Secretary approved this press release at 2:30 today and Mr. Fitzgerald telephoned Mr. Byington of State to that effect.

Treasury Department
Division of Monetary Research

259

Date Feb. 28, 1945 19

To: Secretary Morgenthau

From: Mr. Coe FC

Subject: Press Release on Lend-Lease.

This was brought over from State at a quarter to one. They had planned to release it to the press at 1 o'clock but are holding it up until we give the O.K.

Mr. Aarons and I have been over it and believe it is satisfactory.

The Treasury saw an earlier version made suggestions as to changes and indicated that when the revised version was sent over we would attempt to clear it. Our changes have been incorporated in this draft. Apparently State was proceeding on the theory that we had cleared it and through an oversight neglected to send the revised version.

Is it O.K. by you?

Feb 28
OK FC
Kca
JM

30 ✓

DEPARTMENT OF STATE

FOR THE PRESS

FEBRUARY 28, 1945
No. 177

CONFIDENTIAL
FUTURE RELEASE
NOTE DATE

CONFIDENTIAL RELEASE FOR PUBLICATION AT 4:00 P.M., E.W.T.,
WEDNESDAY, FEBRUARY 28, 1945. NOT TO BE PREVIOUSLY
PUBLISHED, QUOTED FROM OR USED IN ANY WAY.

Joseph C. Grew, Acting Secretary of State, Henry Morgenthau, Jr., Secretary of the Treasury, and Leo T. Crowley, Foreign Economic Administrator, acting for the Government of the United States on lend-lease and reverse lend-lease discussions with Jean Monnet, representative of the Provisional Government of the French Republic, today made the following statement:

Three agreements relating to lend-lease and reverse lend-lease aid have been concluded with the French: (1) A Master Agreement identical with those entered into with the United Kingdom, China, the Soviet Union, and other countries; (2) A reciprocal aid agreement similar to those entered into with the United Kingdom, Australia, New Zealand, and others; and (3) An agreement under Section 3 (c) of the Lend-Lease Act.

The first two agreements with the French are based on the same principles as the lend-lease and reverse lend-lease agreements made by the United States with our other Allies. The third agreement is the first to be concluded with any of the United Nations. A similar agreement is in negotiation with the Soviet Union.

The underlying fundamental principle of the lend-lease agreements is the one previously laid down by the President of the United States: "Until the unconditional surrender of both Japan and Germany, we should continue the lend-lease program on whatever scale is necessary to make the combined striking power of all the United Nations against our enemies as overwhelming and as effective as we can make it."

All of the supplies, services and information covered by the agreements with the French Provisional Government are directly connected with the prosecution of the war. The basic purpose of the whole program is to enable all French resources and the whole French nation -- soldiers, workers, producers and farmers -- to be mobilized and used for the war against the common enemy. Supplies, services and information solely for reconstruction or rehabilitation purposes are excluded from these agreements. Supplies required by the French solely for post-war purposes will have to be handled by other means since the Lend-Lease Act is, and is being administered as, a war supply measure. Economic and financial cooperation by all the

the United Nations in many different ways will doubtless be required to meet such post-war problems. Effective action in this field will require both international and national action by the respective governments, including in many cases legislative action.

As in the case of other lend-lease countries, the amounts and types of materials, services, etc., which are to be supplied under these lend-lease agreements continue to be subject, as always, to adjustment from time to time in accordance with the changing conditions of the war. When finished munitions are produced and available for delivery, they are assigned by the Munitions Assignments Board under the direction of the Combined Chiefs of Staff in the light of the strategic considerations prevailing at the time of the assignment. Similar procedures are and will continue to be in effect for other war supplies that each country may make available to the other.

The United States has already furnished France, under lend-lease, with guns, ammunition, tanks and other finished munitions and supplies for eight French divisions, and 300 supporting units, aggregating in all zones 225,000 men, in addition to a French air force of about 15,000 men. In the words of Secretary of War Stimson, "During the past year of operations some of those French divisions fought superbly by the side of our American troops in the Fifth Army in the very difficult campaign up through the Italian peninsula. Thereafter, these French troops took an indispensable part in the landing in southern France in support of our invasion of Normandy, resulting in the capture of the ports of Marseille and Toulon, the triumphant march up the Rhone Valley through Lyons, and the successful junction with General Eisenhower's forces on the German frontier. It is proper to say 'indispensable' because without those French divisions the American forces alone could not have carried through that campaign with any comparable saving of losses on our side. As it was, those losses were at a minimum. Subsequently, as members of the French First Army, these same French troops have helped effectuate the rescue of the Province of Alsace including Strasbourg and the present holding of the upper Rhine boundary." Supplies to equip additional French divisions and units will be furnished under lend-lease pursuant to the terms of these agreements.

War production materials and other vital supplies and services will be furnished by the United States to the French under these agreements on lend-lease until a determination by the President that they are no longer necessary for the prosecution of the war. After this determination, the French may under the 3 (c) agreement continue to receive the undelivered balances of certain supplies in the program and to pay for them on specified credit terms, with the reserved right to have the programs or contracts cancelled upon paying the United States its out-of-pocket costs. The United States agrees to deliver the programmed supplies to the French, after this determination by the President, unless the President determines that is not in our national interest to do so.

The maximum aid to be furnished the French by the United States under the 3 (c) agreement is specified in two schedules. The

The articles and services in Schedule 1 and their estimated maximum cost are as follows:

Raw Materials For War Use and Essential Civilian Supply, (Cotton, Metals, Steel, Chemicals, Synthetic Rubber, Drugs, Medical Supplies, etc.)	\$ 840,000,000
Food (Milk, Pulses, Edible Oils, Oil Seed, Seeds)	185,000,000
Petroleum Supplies	132,000,000
French Prisoner of War Supplies	48,000,000
Short Life Manufacturing Equipment for War Production	250,000,000
Freight Charges (Rental and Charter of Vessels)	220,000,000
	<u>\$1,675,000,000</u>

The supplies and services to be furnished under Schedule 1 include such items as cotton for the production of cotton duck for tents and other textiles for the armed forces, rubber for the production of tires for military vehicles, and similar war production materials. They also include other vital supplies such as petroleum, handtools and trucks for war production and other essential operations, and food and medical supplies for war workers and others of the French people so that they can fight, produce and work most effectively in the winning of the war.

Supplies and services under Schedule 1 do not include finished armament, etc., for the use of French military forces. Up to the extent that they are not found to be necessary in the joint war effort by the President, any undelivered balances of Schedule 1 items may, subject to the reservation of the President to withhold in the national interest, be acquired by the French. Such items are to be paid for by the French in 30 annual installments beginning July 1, 1946 or on the first day of July following delivery with interest at 2 3/8 percent per annum.

In addition to these supplies and materials provided under Schedule 1, certain categories of long-life capital goods will be provided under Schedule 2 to enable France to produce and transport military equipment and other war goods for our combined forces. This will reduce the burden on our own output of such goods and will save vital shipping. These long-life capital goods which have a war-connected use are to be supplied to the French who agree to pay for them in full against 20 percent down payment on delivery and the balance in equal annual installments within not to exceed 30 years, with interest at 2 3/8 percent per annum.

The articles and services in Schedule 2 and their estimated maximum cost are as follows:

Locomotives	\$ 200,000,000
Railroad Cars	120,000,000
Merchant Marines	140,000,000
Harbor Watercraft	

Harbor Watercraft	\$ 32,000,000
Fishing Fleet	8,000,000
Inland Watercraft (Barges)	50,000,000
Metal Working Machinery	100,000,000
Industrial Equipment	150,000,000
Machinery for Mines, Arsenals, etc.	100,000,000
	<u>\$900,000,000</u>

These long-life articles are being furnished under Section 3 (c) of the Lend-Lease Act and are put on these terms because, while they have an important and useful part to play in the war, a large part of their usefulness may also serve post-war purposes. Under the agreement production and delivery will not have to stop on these goods even though the war should end before they were finished. The French agree to take and pay for such goods and the United States Government can proceed with an orderly liquidation of the lend-lease contracts in the manner provided for under Section 3 (c) of the Lend-Lease Act. The program for long-life equipment of this character is subject to substantially the same limitations as apply to Schedule 1.

Both of these programs are subject to periodic review in the light of the war conditions and particularly after the end of the European war. Such reviews will have as their central objective the carrying out of the intent of the Lend-Lease Act. From the beginning of the program in March of 1941, lend-lease aid has been extended for one purpose -- and for one purpose only -- the defense of the United States and to enable our Allies to bring the full weight of their men and resources to bear against our common enemies. Accordingly, it is understood between the two governments that the United States has a broad power to cancel or revoke procurement programs or contracts if the President determines that it is in our national interest to do so. Actual delivery will always be subject to the development of the military situation, and the changing demands of strategy, as well as to economic and financial factors which affect our national interest.

The reciprocal aid agreement -- the second of the agreements noted above -- has been made retroactive to D-Day in order to cover supplies and services provided to the armed forces of the United States by the French since that time and without payment by us.

The supplies and services being furnished to us by the French under reverse lend-lease include textiles, military vehicle tires, batteries, telephone wire, chemicals and other vital war materials, railroad and port facilities and services, hotels, warehouses, and other facilities and services. The French have placed their industrial production, insofar as it can be brought into operation, at the service of the common war effort.

The reciprocal aid agreement reaffirms the central principle that the French are to render us benefits on reverse lend-lease thus putting into effect the kind of combined war supply operations which have previously been so effective in aiding the United Nations to progress to victory over the common enemies.

* * *

FEB 28 1945

Dear Mr. Broekman:

Over a period of time I have had a high regard for the excellent work which you have performed on behalf of the War Bond program.

Please be assured that at no time have I issued instructions that you should be replaced as musical director of the "Treasury Salutes".

I understand, however, that the people in the War Finance Division do have reasons for feeling it advisable to at least explore the question at this particular time. Whatever decision is ultimately reached will be made by that Division, that is, by Mr. Gamble, Mr. Lane and their associates.

I have requested them to discuss the matter with you and to inform you immediately as soon as a definite decision has been reached. In any case, I want you to know that all of us here at the Treasury are truly appreciative of your outstanding cooperation.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. David Hendrines Broekman
410 East 57th Street
New York, New York

David Hendrines Broekman

Feb. 13th '45
1215 5th Ave

My dear Mr Secretary,

It was a great pleasure seeing you again but it was also a shock as less than six hours previously I had been told that you wished me replaced as Musical Director of the Treasury shows.

This statement was issued by Mr Levy.

I cannot believe it to be true that this is your wish, but if it is I want you to know that it has been a great inspiration to know you and to work with you on different occasions.

My respects to Mrs Morgenstern,
respectfully

My congratulations
on Nelson Woods! David Broekman

TREASURY DEPARTMENT

206

INTER OFFICE COMMUNICATION

DATE Feb. 28,
1945

TO Secretary Morgenthau
FROM J. W. Pehle

There is attached reply to Under Secretary Patterson's letter of February 26, concerning the establishment of surplus property disposal centers.

You will also be interested in reading General Hauseman's letter with respect to our disposal of surplus property during January 1945, a copy of which is attached for your information.



Attachments

February 28, 1945.

Dear Bob,

Thank you for calling my attention to the matter outlined in your letter of February 26, concerning the establishment of disposal centers for the purpose of concentrating War Department surplus property subject to Treasury Department disposal.

I am heartily in accord with the proposed plan and the Procurement Division will absorb the proposed responsibilities consistent with its ability to do so. As you know, the actual handling and storage of surpluses are new fields for this department and the problem of organization has been a serious one.

It is my understanding that Procurement Division representatives expect to be able to take some firm action at mutually agreed upon disposal centers within the next thirty days.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Robert P. Patterson
Under Secretary of War,
Washington, D. C.

WAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.

FEB 26 1945

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

During the calendar year 1944, the War Department reported to Procurement Division, Treasury Department, for disposal surplus property amounting to a little more than \$200,000,000 (in terms of cost new). At the end of January 1945, approximately \$140,000,000 of this property remained in the custody of the War Department.

Although the War Department recognizes, and is impressed by, the splendid job that Treasury Department has done in getting started on the exceedingly difficult and complicated task of surplus property disposal, the fact remains that occupancy of our live-issue depots with widely dispersed and ever-mounting stocks of declared surpluses not only presents a potential hazard to military operations, but also intensifies the problems of disposal with which Treasury Department is faced.

I am informed that this matter has been the subject of extensive discussions between representatives of the War Department and personnel of Procurement Division who are responsible for the disposal of surplus property, and that all concerned are in agreement that it would be decidedly to the advantage of both the War Department and Treasury Department to establish a system of storage and disposal centers in which surplus property reported by the War Department to Treasury Department could be concentrated for disposal. This would permit the clearance of surpluses from critical military storage points and would remove many of the obstacles to disposal inherent in the present system of selling surplus property directly from widely scattered military installations.

As a result of these discussions, General Hauseman has presented to Mr. Pehle a program for the establishment of a Treasury Department surplus property storage and disposal system. A copy of General Hauseman's letter to Mr. Pehle, dated 12 February 1945, outlining the principal features of the program, is inclosed. The War Department is prepared to proceed immediately to carry out its part of the program, and to lend all reasonable assistance to Treasury Department in carrying out its part.

Ltr. to The Honorable, The Secretary of the Treasury, Cont'd.

I am convinced that we should lose no time in putting the program into effect. If you agree with me, I suggest that you request the property disposal personnel of Treasury Department to expedite all necessary action.

Sincerely yours,

ROBERT P. PATTERSON,
Under Secretary of War.

1 Incl - Copy of ltr.
dated 2/12/45.

COPY

HEADQUARTERS, ARMY SERVICE FORCES
WASHINGTON 25, D. C.



12 February 1945

Treasury Department
Procurement Division,
Seventh and D Streets, N.W.,
Washington 25, D. C.

Attention: Mr. John W. Pehle,
Assistant to the Secretary.

Dear Mr. Pehle:

This is in further reply to your letter of 14 December 1944, regarding the establishment of a system of storage and disposal centers for surplus property under the jurisdiction of Procurement Division, Treasury Department. Since my interim reply of 9 January 1945, Storage Division and Readjustment Division, ASF, have given the matter intensive study and have had several informal discussions with representatives of Procurement Division.

The War Department is in accord with your estimate of the mutual benefits to be realized from the establishment of a storage and disposal center system for Treasury Department, and is in substantial agreement with the general plan which you propose. We are prepared to proceed immediately along the following lines:

1. Treasury Department will be provided with approximately 3,500,000 square feet of closed storage space in approximately 25 locations throughout the country as follows:

Space in RFC storage centers to be made available out of War Department space allotments	1,200,000 Sq.Ft.
Space in Army Service Forces Depots	500,000 "
Space in posts, camps and stations	<u>1,800,000</u> "
TOTAL	3,500,000 "

In addition to the foregoing, we are prepared to indicate several hundred thousand square feet of commercial space that could be obtained by Treasury Department.

2. The specific location of these installations is shown on a list inclosed herewith. Mr. Widmann has reviewed these installations and, it is believed, is of the view that they would be suitable for the purpose. The geographical location of the installations is shown on a map inclosed herewith. Possible locations for sales and display points are also indicated on the map for the purpose of illustrating the effectiveness of the storage installations as "back-up" points. It is possible that some additional storage installations now under the control of Army Air Forces can also be made available to

incl

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C O P Y

Ltr. to Mr. Pehle, cont'd.

Procurement Division, but the War Department is not in a position to make a commitment in this respect at this time.

3. Treasury Department would work out with RFC the details of operations at the RFC storage centers, including reimbursement to RFC for the use of such centers. Representatives of RFC have indicated that there will be no obstacles to such an arrangement.

4. The War Department would be responsible for storage operations in the storage space made available at depots, and at active posts, camps and stations.

5. Treasury Department would be responsible for all operations in any surplus space made available at War Department installations.

6. The space thus made available would be reserved for War Department surpluses, and the War Department would control the order of priority in which surpluses are removed to the storage installations.

7. Although Treasury Department would exercise traffic control over shipments into the storage installations, the War Department would expect to receive shipping instructions promptly upon making declaration of surplus. Provision would be made, however, for disposal from the original location upon express approval of the War Department in those cases where Treasury Department can give assurances of prompt disposal and where military operations would not be prejudiced.

8. Although it is contemplated that the storage system would be used primarily for surplus property under the jurisdiction of Treasury Department, the War Department would be permitted to ship into the storage points surpluses of types assigned to RFC for disposal in those cases where the War Department determines that it is impracticable to segregate depot surpluses as between RFC and Treasury types, and in those cases where the War Department deems it expedient to ship into the storage centers termination inventories of a predominantly Treasury type, but which may include some RFC type property. It is not anticipated that the aggregate of RFC type surpluses shipped into Treasury storage installations would exceed 5 to 10 percent of the total.

9. The War Department, upon request of Treasury Department, would use its best efforts to assist Treasury Department in establishing operations at those installations for the operation of which Treasury is responsible.

The foregoing is proposed as an initial step, and it is recognized that the storage system outlined above will probably have to be supplemented by additional space in the future. Although the War Department will be glad to cooperate with Treasury Department in obtaining additional facilities, it is intended that the primary responsibility for strengthening and supplementing the system will rest with the Treasury Department.

If you think it desirable, the War Department would be glad to provide representatives to work with your Washington and Regional offices in putting the plan into effect. This was done in connection with the establishment of the RFC storage system, and it proved very effective.

We would be glad to hear from you on the foregoing at your early convenience.

2 Incls-
1 Incl - Map
2 Incl - List

copy

/s/
D. N. HAUSEMAN,
Brigadier General, General Staff Corps,
Director, Readjustment Division.

Regraded Unclassified

LIST OF RFC DISPOSAL CENTER SPACE:

New York	500,000	sq ft
Akron	50,000	"
Detroit	500,000	"
Milwaukee	100,000	"
	<u>1,150,000</u>	"

LIST OF POSTS, CAMPS & STATIONS SPACE:

Camp Reynolds	100,000	sq ft
Camp Campbell	50,000	"
Camp Ellis	70,000	"
Camp Tyson	200,000	"
Camp McCain	100,000	"
Ft. Soreven	30,000	"
Camp Blanding	50,000	"
Camp Murphy	100,000	"
Camp Gruber	200,000	"
Camp Livingston	100,000	"
Camp Phillips	300,000	"
Camp Breckenridge	100,000	"
Camp Carson	100,000	"
Camp Hale	100,000	"
Camp Lockett	264,000	"
	<u>1,864,000</u>	"

LIST OF DEPOT AND COMMERCIAL SPACE:

San Antonio ASF Depot	100,000	Sqft
Auburn H&R Point	175,000	"
Sierra Ordnance Depot	100,000	"
Shreveport H&R Point	100,000	"
	<u>475,000</u>	"
Wool Exchange - Salt Lake City	65,000	sq ft
Glasgow Army Airfield - Billings	55,000	sq ft

COPY

273

S. ACS
CFM:hw
Ext. 73271

HEADQUARTERS, ARMY SERVICE FORCES
Washington 25, D. C.

Feb. 24, 1945

Mr. John W. Pehle,
Assistant to the Secretary,
Treasury Department,
Procurement Division,
Washington 25, D.C.

Dear Mr. Pehle:

Our reports of surplus property movement for the month of January 1945 show such outstanding performance by Treasury Department that I feel the matter should not go unremarked.

According to our records, the War Department reported to Treasury Department approximately \$22,000,000 (in terms of cost new) and withdrew approximately \$5,000,000, or a net total of \$17,000,000 reported during January. Treasury Department disposed or accepted transfer of approximately \$26,000,000, or approximately 50 percent more than the War Department reported. The resultant reduction of backlog from \$150,000,000 to \$141,000,000 represents a valuable contribution to the clearance of critical military storage space.

May I express to you and your surplus property organization the appreciation and congratulations of the War Department for these splendid results. I know all too well the many harassing difficulties, some of which have been imposed by the War Department, that you have had to overcome in bringing your operations to the stage where you can point to a decreasing backlog.

If at any time you feel the need of additional cooperation or assistance from the War Department, I hope you will call upon me and I will be glad to go into the matter with you personally.

Sincerely yours,

/s/ D. N. Hauseman
D. N. HAUSEMAN,
Brigadier General, General Staff Corps,
Director, Readjustment Division

Regraded Unclassified

FEB 28 1945

My dear Mr. Grew:

This is to acknowledge receipt of your letter of February 20, 1945, in which was enclosed a document by the Executive Committee on Economic Foreign Policy containing recommendations with respect to the relationship between the Inter-American Agricultural Conferences and the proposed Food and Agriculture Organization.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Joseph C. Grew,
Acting Secretary of State.

3/1/ - Signed by Sec., dated 2/28/45
cc. to May

AKM
HES: gsa
2/24/45

HES: gsa
FILE COPY

Treasury Department
Division of Monetary Research

275

Date February 23, 1945 19

To: Secretary Morgenthau

From: Mr. Coe (For Information)

Subject: Relation between Regional and
World-wide Organizations

The Executive Committee on Economic Foreign Policy has been concerned with the jurisdictional relationship between the Inter-American Agricultural Conference and the proposed Food and Agriculture Organization of the United Nations.

It has decided, however, to hold up a decision on this matter until the broad problem of the relation between regional and world-wide organizations is resolved. In the meantime, close liaison will be maintained between the two organizations.



DEPARTMENT OF STATE
WASHINGTON

In Reply refer to
A-C

SECRET

February 20, 1945

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith for his information a copy of a secret document, "Relationship of the Inter-American Agricultural Conferences to the Proposed Food and Agriculture Organization of the United Nations" (ECEFP D-24/45), which sets forth two recommendations as approved by the Executive Committee on Economic Foreign Policy.

The recommendations relate to the position which the United States should take at this time regarding the relationship between the Inter-American Agricultural Conferences and the proposed Food and Agriculture Organization. In brief, it is recommended that close liaison be maintained between the two groups, but that no provision therefor be made until the relationship between the Food and Agriculture Organization and the Pan American Union, which should continue to have ultimate responsibility for convening Inter-American Agricultural Conferences, has been determined. The Acting Secretary of State concurs in the recommendations.

Enclosure:
ECEFP D-24/45



SECRET

277

35

SECRET

ECEFP D-24/45
February 2', 1945

EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY

RELATIONSHIP OF THE INTER-AMERICAN AGRICULTURAL CONFERENCES
TO THE PROPOSED FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

(As approved by the Executive Committee on Economic Foreign Policy
at its meeting on February 2, 1945)

SECRET

SECRET

ECEFP D-24/45
February 2, 1945

EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY

RELATIONSHIP OF THE INTER-AMERICAN AGRICULTURAL CONFERENCES
TO THE PROPOSED FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

The inter-American agricultural conferences sponsored by the Pan American Union have considered, in the course of the conferences in Washington in 1930 and in Mexico City in 1942, and will consider, at the third conference to be held in Caracas in July 1945, agricultural matters principally technical in nature relating to the American region exclusive of Canada. The proposed Food and Agriculture Organization of the United Nations (FAO) would, as outlined by the Interim Commission, deal with similar matters for the world in general with provisions for work along regional lines.

Especially in view of the conference of the foreign ministers of the American republics to be held shortly at Mexico City a question was raised in the Executive Committee as to the position which the Government should take at this time regarding the relationship between the agricultural conferences and the proposed FAO.

After consideration of the subject, the Committee approved at its meeting on February 2, 1945 the following recommendations:

"1. The ultimate responsibility for convening future Inter-American Agricultural Conferences should remain with the Pan American Union; the part to be played by the Food and Agriculture Organization in the planning and conduct of these conferences should be determined in the light of relationships to be established between the Food and Agriculture Organization and the Pan American Union, although it is clear that close liaison must be maintained.

"2. The position of the United States concerning the foregoing recommendation should be determined in the light of general decisions made with respect to the relationship between inter-American and other regional systems and worldwide organizations, due regard being given to any differences which may exist between purely technical and advisory bodies on the one hand, and organizations with broader powers and responsibilities on the other."

SECRET

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 23, 1945

TO Secretary Morgenthau (For information)
FROM Mr. Coe F.C.
Subject: Gold Exports to China

1. Exports to China since September, 1943, when the Chinese began the sale of gold in the open market, total the equivalent of \$25,876,000. Monthly figures are given in attached table. It will be noted that there have been no exports since December, 1944.
2. In addition to the above exports, the Chinese were permitted to arrange with the Bank of England to swap 40,000 ounces of gold or the equivalent of \$1,420,000 held in New York by the Central Bank of China for the same amount of gold held by the Bank of England in Bombay, India. This swap took place in January, 1945, and it is understood that the gold has since been exported from India to China.
3. The most recent formal request for additional exports of gold was made in January, 1945 and amounted to \$30 million of bullion and \$100 million of gold tokens.
4. The present gold holdings here of the Government of China total \$30,601,000 of which about \$7 million is held for the account of the National Resources Commission of China as payment for tin exports to the United States. The last purchase of gold by the Government of China was made in October, 1944, to the amount of \$20 million. —

Gold Exports to China

Valued at \$35.00 per ounce

(In thousands of
U.S. dollars)

1943		\$ 10,487
1944	March	2,169
	August	4,493
	September	2,849
	November	2,949
	December	<u>2,927</u>

Total \$ 25,876

*copy did not
acc.*

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD
WASHINGTON 25, D. C.

OFFICE OF THE
EXECUTIVE DIRECTOR

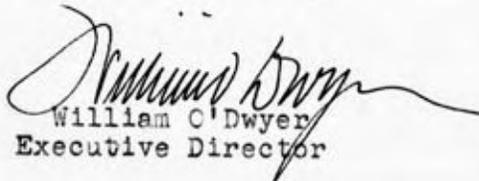
FEB 28 1945.

My dear Mr. Secretary:

I am forwarding to you herewith
the proposed minutes of the fifth meeting
of the War Refugee Board.

The approval of these minutes will
be on the agenda for the sixth meeting of
the Board.

Very truly yours,


William C. Dwyer
Executive Director

The Honorable
The Secretary of the Treasury

Enclosure

MINUTES OF THE FIFTH MEETING OF THE
WAR REFUGEE BOARD

Held in the Office of the Secretary of War, 11 A.M., Tuesday,
February 20, 1945.

Present: Secretary of the Treasury Morgenthau (acted as
Chairman)
Secretary of War Stimson
Acting Secretary of State Grew
Assistant Secretary of War McCloy
Assistant Secretary of State Dunn
William O'Dwyer, Executive Director, War Refugee
Board
George Warren, Special Advisor on Refugees to
Secretary of State
Florence Hodel, Assistant Executive Director, War
Refugee Board

The Board took the following action:

The minutes of the Fourth Meeting of the Board, held on
April 20, 1944, were approved.

The Executive Director outlined to the Board the new situa-
tion which has developed inside Germany as it appears from the
best information available. He pointed out that, while the Ger-
mans have abandoned the wholesale extermination of detainees as
a general policy, large numbers of physically unfit detainees
face imminent death from starvation, exposure or deliberate
neglect. To be saved, these people must receive food and medi-
cines and be removed, if possible, to Switzerland without delay.
It was pointed out that the International Red Cross is the only
channel through which any relief and rescue work for these de-
tainees could be accomplished and that operations could best be
conducted from Switzerland at this stage of the war.

The Board was requested to authorize the Executive Director
to proceed to Switzerland and to obtain the necessary cooperation
of the International Red Cross and the Swiss Government for such
a program. It was pointed out that the necessary food, medicines
and other relief supplies and transportation equipment could be
made available either by the Swiss Government against a promise
of repayment or replacement after the war or, if this is impossi-
ble, by this Government from existing stocks. The financing of
such a program would be from private funds provided by private
organizations, particularly the JDC.

- 2 -

The Board agreed that the action proposed by the Executive Director be taken and that the Executive Director should proceed to Switzerland to undertake the necessary negotiations. It was agreed that the requisite supplies and transportation equipment be made available to the International Red Cross by the Swiss Government against repayment or replenishment after the war. Careful consideration was given to the problem of providing such supplies and equipment from existing stocks of this Government, but it was decided that no commitment on this point could be made by the Board at this time.

The Board also approved the immediate acquisition in Switzerland of an adequate number of trucks for the delivery of the War Refugee Board food parcels now in the hands of the International Red Cross, distribution of which has been delayed several months because of lack of transportation facilities. Secretary Stimson asked Mr. McCloy to arrange for Mr. Patterson's clearance on this matter.

(Released for distribution March 3, 1945)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Political Adviser, Caserta
 TO: Secretary of State, Washington
 DATED: February 28, 1945
 NUMBER: 751

SECRET

The following message is in reference to my cable of February 27, No. 719.

McNarney was informed by General Key that position of Hungarian Government is that all citizens of Hungary are on equal basis and in the opinion of the Hungarian Prime Minister, to encourage intervention in behalf of only one group would be unwise.

In addition Key stated that since this probably reflected the Russian attitude he hesitated to request Jacobson's clearance.

It was Key's opinion that since war refugees as a general class obviously need relief, entrance of representatives of relief agencies not affiliated with one religious or racial group would be approved by both Hungarians and Russians.

KIRK

DC/LsMAS:MLM 3-3-45

JEC-698

PLAIN

Lisben

Dated February 28, 1945

Rec'd 8:41 p.m.

Secretary of State,

Washington.

450, Twenty-eighth

WRB 345. FOR HIAS 386 FOURTH AVENUE NEW YORK FROM
DAVID SCHWEITZER

Hicem Jacobson informs "While awaiting completion
very difficult formalities for proceeding Hungary have
delegated responsible member Jewish community Debrecin
to undertake research relatives there".

CROCKER

NMI-532
Distribution of true
reading only by special
arrangement. (SECRET W)

Stockholm

Dated February 29, 1945

Rec'd 1:50 p.m.

Secretary of State

Washington

757, February 28, 1 p.m.

This is our 126 for War Refugee Board in reply
to WRB 315 (Department's 319, February 19, 7 p.m.)

Have discussed thoroughly with Norwegian labor
group the problem of continued operations in Norway.
Olsen wishes to emphasize that a most serious situa-
tion confronts the program and that the problem is
not one of curtailment but of complete termination.
The group is at present entirely without funds and
actually owes somewhat over 100,000 kroner on our
standing commitments for food purchases. The
\$50,000 available between now and September from the
American labor group will have to be sent to Olsen
as he has loaned the equivalent amount to the local
group out of certain JDC funds at his disposal.

In view of the increasingly critical situation
in Norway, with more and more persons having been
forced into hiding because they are hunted by the
Gestapo, Olsen feels strongly that this is a most
unfortunate moment to terminate these rescue and
relief operations. Urgent inquiry is made whether
the War Refugee Board cannot arrange through any
other sources the transfer of \$100,000 immediately
required to continue the program.

JOHNSON

JP-792
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Stockholm
Dated February 28, 1945
Rec'd 3:02 a.m., March 1st.

Secretary of State,
Washington.

781, February 28, 10 p.m.

This our No. 1274, WRB Trammell—Evenson report for January operations in Norway indicates that approximately 160 packages were sent through regular licensing channels during month, containing 22,000 kilograms of food, 2200 kilograms of clothing and 360 pairs of shoes. Through underground channels were delivered an additional 13,000 kilograms of food, 1,100 pairs of shoes, considerable clothing and other articles. It is estimated that 1,100 refugees were brought to Sweden January on the evacuation routes financed in part with funds of American labor relief.

No funds remained at hand at the end of January and the local labor group reported themselves indebted to the extent of 50,000 Swedish Kronor and 34,000 Norwegian kronor. This latter problem has been raised with you separately.

JOHNSON

PARAPHRASE OF TELEGRAM SENT

FROM: Secretary of State, Washington
 TO: American Legation, Bern
 DATED: February 28, 1945
 NUMBER: 886

CONFIDENTIAL

In connection with the message which follows we refer to the proposal that Banque Populaire Suisse buy small amounts of United States currency brought by genuine refugees into Switzerland.

The Legation of Switzerland in Washington, the Treasury reports, is insisting on an early decision claiming that due to pressure from groups of influence who are interested in refugee matters in Switzerland, the failure to buy such currency is causing embarrassment to the Swiss. The Legation of Switzerland indicates that this problem came up as a result of the decision of the Swiss Bankers Association to prohibit dealings in dollar currency of the United States.

The War Refugee Board, this Department and the Treasury Department, in view of the humanitarian considerations involved, are in agreement that you should inform the Swiss that the Treasury is prepared, until further notice, to countenance the buying of United States dollar currency by Banque Populaire Suisse on the terms given below

cc: Miss Channoy (for the Sec'y) Akshin, Cohn, Drury, DuBois, Gaston, Hodel, McCormack, O'Dwyer, Files

(one) In an amount not to exceed \$100 for each person each month after the adoption of this plan, the Banque Populaire Suisse may buy from genuine refugees from the Axis countries in Switzerland, dollar currency of the United States.

(two) These purchases should be confined to such dollar currency as was surrendered, upon entry into Switzerland, to Customs Officials there and which, under control of the Swiss Federal Department of Justice and Police, has been deposited with BFS; and it is suggested that arrangements be made to indicate the amounts of money surrendered and the amounts purchased subsequently by BFS, on the passports or on other identity papers of those refugees who surrendered United States currency.

(three) It is believed to be desirable, in order to avoid the possibility that people fleeing from the United Nations may derive benefit from this proposal that you be furnished with such data regarding each refugee as you consider necessary (prior to purchase by BFS) so that you may give consideration to each case and indicate your decision to the Swiss. You need consider only the first monthly purchase. Please let us have your comments if such screening by you will involve an unreasonable quantity of work for the advantages secured. In any event, we feel that refugees who after January 1, 1945, enter Switzerland should be

screened by you in a careful manner. In this connection the Treasury would like to be informed as to the facts in any instance in which United States currency in denominations of \$500 or more, or a total of \$1,000 or more in any denominations is surrendered by refugees as well as any case in which you inform BPS that it should not buy currency from a certain refugee. Included in such information should be a description of such large bills, especially the series year and the serial number, but not by way of limitation. Should a refugee, in any particular instance, have sufficient other available means, in your opinion, and if the refusal of BPS to buy dollar currency would not inflict hardship, your approval should be withheld.

The Swiss may be informed by you that any currency which under these arrangements is purchased by BPS may be turned over to the Swiss National Bank and that, at the risk of the Swiss, you will forward it by pouch to the United States for deposit with the Federal Reserve Bank of New York to the Swiss National Bank's credit. As soon as normal facilities for shipments of currency are available the use of the pouch should be discontinued.

The above program has been discussed with the British who are not willing to enter into a similar arrangement with regard to sterling notes; however, they have indicated that they can justify their position to the Swiss even though the above plan is adopted

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by us in view of the different policies followed in the past in regard to currency. It should be emphasized in discussions with the Swiss that purely on humanitarian grounds the present action is being taken and that in no other light should it be considered.

Some of the refugees who have entered Switzerland or who may enter Switzerland may be fleeing from the United Nations rather than the Axis, it is recognized. This matter is of concern to the Treasury not only as it applies to the buying of dollar currency by BPS but also as it applies to the overall problem of preventing people who flee the United Nations from securing any benefits through the United States or from this country. A public ruling to the effect that nationals of enemy nations (as contrasted with nations occupied by the enemy) who leave such countries or who have left such countries after some specified time are still deemed to be enemy nationals and will not be entitled to the privileges, amongst other things, of General License 53 and General License 32, is under consideration by the Treasury. Receipt of your views with regard to this problem along with your suggestion as to a suitable cut-off date would be appreciated by the Treasury.

In order that London may advise the British of the action taken, this message is being repeated to London. In view of the fact that this matter has been discussed in London already, the Embassy is being asked to inform the Department if it is not in agreement with the procedure herein described and to repeat its

comments to Bern so that if necessary, action may be withheld.

GREW
(Acting)

NOTE:

The foregoing message as Department's 1542, has been repeated to London with an introduction as follows:

In view of the urgency of the matter discussed in the following message, it has been sent to Bern. Careful consideration has been given to the British comments set forth in your message of January 23, No. 814, and we have decided to proceed as outlined in the message to Bern in view of the special circumstances. From your message No. 813, we assume that no further objections will be interposed by the British. However, if the Embassy feels for any reason that this procedure is objectionable in any way or that it requires further discussion, please request Bern to withhold action until any points at issue have been resolved and please cable comments as promptly as possible. It would seem desirable to cable Bern that the Embassy is in agreement, if that is the case.

GREW
(Acting)

DC/LALCH:CVT

3-3-45

SECRET

COPY NO. 4

OPTEL No. 68

Information received up to 10 a.m., 28th February, 1945.

NAVAL

1. EAST INDIES. 17th. One of H.M. Submarines attacked coastal convoy off Sumatra and sank three ships and escorting trawler. Two remaining ships severely damaged and beached. On 20th she set on fire small tanker and damaged two coasters; also sank two junks.
2. ACADEMIC MARINE OPERATIONS. 27th. One of H.M. Submarines sank U-boat off Lizard. Two prisoners taken.
3. ENEMY ATTACK ON SHEPPING. 27th. A 1317 ton Norwegian ship in coastal convoy torpedoed off Lizard (possibly by above U-boat). A 7219 ship in homeward convoy mined off Ostend.

MILITARY4. WESTERN FRONT.

South Central Sector: South of Trier troops of 3rd U.S. Army enlarged bridgehead over Saar and held it against enemy counter attacks. It now extends some ten miles in breadth and five to six miles in depth. Enemy showing himself sensitive to this threat. Further North in sector between Echternach and Prum other troops of 3rd U.S. Army, having closed up to river Prum on broad front, have now crossed river and next small river to East, the Nims, in armoured thrust up to river Kyll. Among places taken are Wolsfeld, Messerich and Rittersdorf. Unconfirmed reports state fighting in progress in Bitburg.

North Central Sector: 27th. East of Duren 1st U.S. Army encountered strong enemy resistance and made little progress. Late reports state Heppendorf and Esldorf captured. 9th U.S. Army made excellent progress during 26th and 27th and front line now runs as follows: Konigshoven-Garzweiler-Keyenburg-Rheindahlen-across the lateral road from Munchen Gladbach to Roermond, thence again southwards through Wegburg to N.E. of Heinsberg (advance in places of up to ten miles).

Northern Sector: 1st Canadian Army made good progress, 3 Canadian Infantry Division cleared Udem and 2 Canadian Infantry Division reached Hochwald Forest where enemy resisting fiercely. On left U.K. troops extended hold on west bank of Rhine and captured Wissel Grieth and Calcar.

5. BURMA.

Central Sector: Our troops advanced eastwards along the east bank of Irrawaddy from bridgehead Nyaungu and made considerable progress.

Northern Sector: Chinese troops repulsed nine Japanese counter attacks south of Namtu and their forward troops now ten miles south of this town.

6. EASTERN FRONT.

Central Sector: N.W. of Chojnice Soviet troops advanced up to 44 miles in last four days capturing over 100 places including Publitz 13 miles N.W. of Neustettin.

AIR7. WESTERN FRONT.

27th. 435 Bomber Command aircraft (2 missing) attacked Mainz (1545 tons) and 146 (1 missing) attacked benzol plant Gelsenkirchen (641 tons). Results unobserved. Principal targets for escorted 1062 U.S. heavies were railway centres Leipzig (1724 tons) and Halle (646 tons), attack through cloud. Enemy air opposition negligible, but escorting fighters destroyed 81 aircraft on Wimer and Gotha airfields in addition to number of road and rail vehicles. 11 heavies and 3 fighters outstanding. 195 SHAEF (Air) bombers dropped 356 tons mainly on communication targets. 563 fighters and fighter bombers (7 missing) operated over battle areas.

27th/28th (night). 96 Mosquitoes attacked Berlin; other aircraft 196, including 23 Liberators on Wilhelmshaven, operated on bomber support and other missions. None missing.

8. MEDITERRANEAN. 25th/26th (night) and 26th. 1094 tactical aircraft (6 missing) attacked communications, industrial and other targets in Northern Italy, Austria and Yugoslavia.